

What Price Does Europe Pay for Climate Protection?

The European Union plans to continue to push forwards the use of environmentally friendly technology to drastically reduce greenhouse gas emissions. At the same time, the public debate is increasingly concerned with the economic risks of a unilateral climate policy – for example reduced competitiveness. Given that a global policy approach would be ideal, the European Union must ask itself how far it should go as “pioneer” in climate protection and what costs will arise as a result of this. A current ZEW study investigates, on the basis of existing simulation studies, the overall economic costs which arise from climate protection regulation in the European energy market.



The use of fossil fuels is one of the main causes of the man-made greenhouse effect. The production of electricity, the manufacture of industrial goods and traffic and transport, play a considerable role in greenhouse gas emissions. In the European energy market there are different tools which, through changes in energy prices, should provide incentives for the use of energy efficient and climate friendly technologies. The most important tools include European carbon dioxide (CO₂) emis-

sions trading, energy taxes, measures in the transport sector as well as the promotion of renewable energy sources.

The ZEW analysis (ZEW Discussion Paper No. 07-019) is based on economic simulation studies which examine the effects of the introduction of the above named climate protection tools on the economic development of the EU. The focus lies on equilibrium models and macro-econometric models. Both model types can quantify the di-

rect as well as indirect effects on the overall economy. The effects are primarily identified as a change in the common gross domestic product (GDP), employment, social services and export. The reference scenario is always the development which would have occurred if the climate policy measure had not been introduced. The identified costs, for example in the form of a lower GDP, can here be interpreted as the price that must be paid for climate protection. These take the form of macro-economic inefficiencies caused by taxation (“dead-weight welfare loss”).

The findings of the simulation studies for the most important political tools in the climate and energy sector are summarised below: emissions trading, energy taxes, the regulation in the transport sector and the promotion of renewable energy sources. This only

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concerns the macro-economic costs which arise as a result of the climate policy. There is no economic evaluation of the expected damage which climate change may cause.

Emissions trading was introduced in all European member states at the beginning of 2005. This sets maximum amounts of CO₂ emissions for energy intensive industry and allows, via the trading of CO₂ emission allowances, the minimal cost fulfilment of the maximum amounts. The initial allocation of the certificates lies with the member states. They determine what share of the emissions reduction the emissions trading sector and the remaining non-trading sectors must achieve.

Most studies examined show that the annual GDP decreases slightly due to the emissions trading. In 2010, the GDP decreased by 0.4 percent on average compared to the expected baseline development; export by 0.5 percent. The EU emissions reduction target outlined in the Kyoto Protocol is reached in all studies.

Decisive for the extent of costs is how the remaining inland emissions reduction is distributed between the emissions trading sector and the non-trading sectors. Costs are lowest if flexible mechanisms can be limitlessly used – they allow the emitters to generate certificates with investments in climate and environmental protection projects in other industrial and developing countries – and inland emissions reduction is optimally divided between the sectors according to limit avoidance costs.

Energy taxation

Energy taxes exist in all member states of the European Union. Typically electricity, heating and transport fuels are taxed whereby the extent of the taxes varies considerably from country to country. In 2003, an EU guideline on the harmonisation of energy taxation was adopted. In comparison to many national valid energy taxes, minimum taxes are, nevertheless, quite low. Addi-

tionally, the guideline envisages many, partly state-specific, transition and exception regulations. National energy taxation is, therefore, decisive for economic development. The ZEW analysis, therefore, includes simulations of national energy taxes and the European energy tax guideline.

In the scenarios, the GDP can fall as well as rise with the national energy taxation. This is due to a double dividend effect: With government spending held constant, energy taxes may replace more distorting taxation on, for example, labour. It is particularly the extent of the taxes and the emissions reduction achieved with this which are decisive as well as existing tax reductions and use of revenue.

Studies which assume, for example, a CO₂ reduction of around 3 percent as well as tax reductions for energy intensive sectors and the return distribution of revenue with a reduction of the ancillary labour costs, show an increase of the GDP of between 0 and 0.1 percent for 2010. In the same year, export falls by 0 to 0.1 percent. In these cases the decrease in demand from abroad is, therefore, compensated by lower labour costs. The studies on the EU energy taxation guideline show that this hardly has any effect on the economic development of the EU. The reduction of CO₂ emissions is, however, with only around 0.5 percent, also comparably low.

Other measures which influence costs on a national and European level include, for example, efficiency standards and road utilisation charges. Here, too, it is primarily the extent of the charges, the emissions reduction associated with this, and the use of the revenue, which is decisive for the overall economic costs. Overall, the measures for emissions reduction in the traffic and transport sector appear relatively expensive. The common GDP would, for example, fall by around 1.8 percent as a result of a road utilization charge which reduces CO₂ emissions by 1.8 percent, the revenue of which is used for a reduction of labour costs.

Renewable energy sources

The EU guideline introduced in 2001 to promote renewable energy sources envisages that, by 2010, around 22 percent of overall electricity consumption will come from renewable energy sources. The more long-term goal is that renewable energy sources will, by 2020, make up around 20 percent of primary energy consumption and around 30 percent of total electricity consumption.

It is up to the European member states how to achieve these targets. The predominant tools which promote renewable energy sources are the fixed tariffs which are paid to renewable energy providers if they feed their electricity into the public electricity network. Some simulation studies also show that the promotion can have short-term effects on growth and employment. In the long term, though, the higher costs which arise through the production of renewable energy outweigh the benefits and the overall economic effects are negative. The reviewed studies suggest that the increase in the share of renewable energy to 30 percent of the overall electricity consumption by 2020 leads to a loss in the GDP of between 0.2 and 0.8 percent. Export falls to around 0.3 percent and employment by around 0.2 percent.

Implications for climate policy

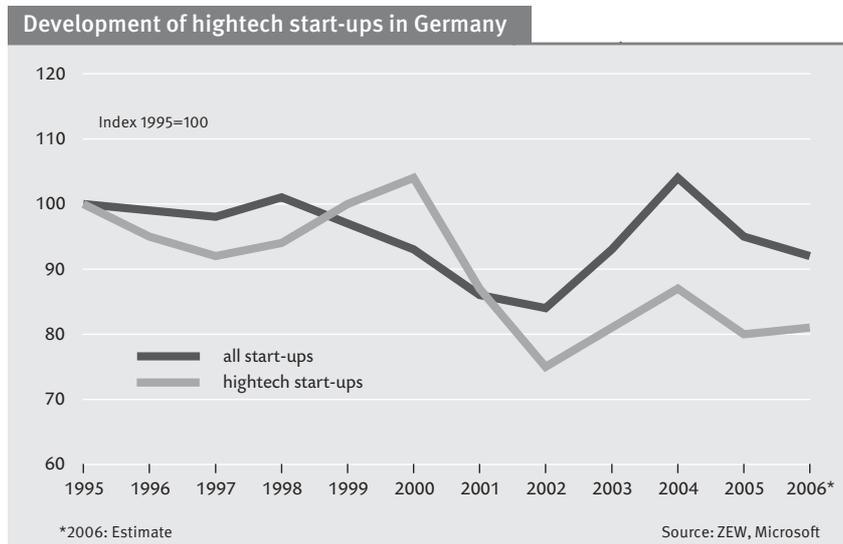
For future climate policy, the greater economic costs which can arise if ambitious climate targets are set by politicians need to be considered. Simulations with alternative scenarios show that overall economic costs clearly rise if emissions are to be drastically reduced using the existing tools. The more ambitious these reduction targets are, the more important it is to have an efficient design of the climate policy measures so that the economic development of the European Union is not held back unnecessarily.

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RESEARCH FINDINGS

Number of Start-ups in the Hightech Sector Stabilises

The number of start-ups in the hightech sector in Germany has stabilised in the past year. This is shown in a study which the ZEW carried out on behalf of Microsoft Germany. The study reveals that the number of start-ups in the hightech sector remained constant in 2006 compared to the previous year, all be it on a low level. The hightech sector has, nevertheless, developed against the overall trend as the number of start-ups across all economic sectors is still decreasing. The study also shows that a shortage of skilled employees and financing problems are hurdles which hightech start-ups need to take seriously and this also has a negative effect on the start-up figures.



In 2006, the number of start-ups in Germany decreased by four percent compared to the previous year. In the hightech sector the number has, nevertheless, stabilised, all be it on a low level (2006: 17,700 start-ups, 2005: 17,600 start-ups). A possible reason for this consolidation is particularly the increasingly positive economic climate in Germany.

Despite this careful optimism, the all clear cannot be sounded just yet – the quantity of the start-ups in the hightech sector may have stabilised but there is still room for improvement in certain qualitative aspects. The total number of hightech start-ups in Germany is still, as before, at its lowest level since 1995. Not only does the development in the hightech sector suffer from this but

there is, as a result, also a lack of important impetus for the overall economy if fewer highly innovative businesses are being founded.

In this context, the decrease in the number of new businesses by spin-offs from universities or other public scientific institutions is particularly noticeable. The percentage of university start-ups of the total number of new businesses has been continually decreasing since 2004. In 2005/2006, the average in the hightech sectors was only twelve percent compared to 18 percent in 2003 and 14 percent in 2004. A possible explanation for this is the shortage of natural scientists and engineers. With the upturn in the economy, young skilled employees are in increased demand. Against this

background, many potential business founders opt for a secure job with a company as opposed to the risk of a start-up. The study figures clearly show that 62 percent of university start-ups compared to 49 percent of other start-ups do their own research and development and use their own patents (25 percent compared to eleven percent). The share of employees with a university degree is, with around 60 percent, 20 percent points more than in other hightech companies.

Little financing from third parties

Young start-ups also face problems in financing. Only five percent of all hightech start-ups have, since 2005, received capital contributions from third parties, i.e. private investors, “business angels” or venture capital investors. The most important source of financing for young start-ups in Germany remains their own money which 58 percent of those surveyed use. Besides their own private financing, many start-ups are also increasingly using cashflow as their business establishes itself. Start-ups which receive financial aid from third parties clearly differentiate themselves from the others. They are bigger, grow quicker, are more innovative and out-source R&D more often. The percentage of university spin-offs here is, with 42 percent, particularly high. Amongst the businesses which have received new capital from third parties, it is the financing from private investors (including “business angels”) which is considerably more significant than financing from venture capital companies. Here, the financial contribution from private investors is not only limited to financing the business founding alone (seed and start-up financing).

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RESEARCH FINDINGS

Relative Age in First Grade Influences Pupils' Long-Term Performance

Being among the eldest in the first grade of primary school yields an age premium at age 15 of about twenty percent of a standard deviation higher test scores in 10 out of 16 countries. This is the result of a new ZEW international comparative study. The study also shows that most of the effect of relative age comes from grade repetition and selection of pupils into different grades, as well as intra-class ability grouping.

In most countries there exists a compulsory school starting age, which obliges cohorts of e.g. 6 year old pupils to start school each year. If the admission rule into the first grade of primary school is respected, then pupils that vary in age up to twelve months end up in the same class.

There are several reasons why being the relatively younger at the start of primary school may affect pupils' performance. In the first grade of primary school, relative immaturity of the youngest pupils within their age cohort may disadvantage them, because they are less able to perform the same tasks, though they may also benefit from peer effects from their older classmates.

If the effects of relative age vanished over time, there would be little to worry about. However, relative age in the first grade of primary school may also have a more lasting effect on performance. Indeed, previous research argues that early childhood maturity can influence long-term cognitive performance through ability grouping. For example, Allen and Barnsley find out ("Streams and tiers: the interaction of

ability, maturity, and training systems with age-dependent recursive selection", 1993) that it might be difficult for teachers to differentiate between ability and maturity for children at school starting age. As a result, if children have different levels of maturity at the start of primary school and they are grouped according to observed ability, the youngest children may be more likely to end up in low-performing peer groups. Over time, they risk learning less and they may face a higher risk of repeating a grade in primary school. This effect can be expected to be stronger if a lot of ability grouping is going on for instance through grade repetition or skipping. The graph shows that the practice of spreading pupils over grades by ability varies considerably between countries.

The ZEW study provides causal evidence on the long-term effect of predicted relative age in the first grade of primary school on maths and reading test scores at age 15. Our measure of relative age is constructed using the arguably exogenous national rules for admission to primary school and birth month. We also try to assess through

which particular channels, for instance an increased risk of grade repetition, or selection into the vocational track, it occurs. This is done for 16 countries.

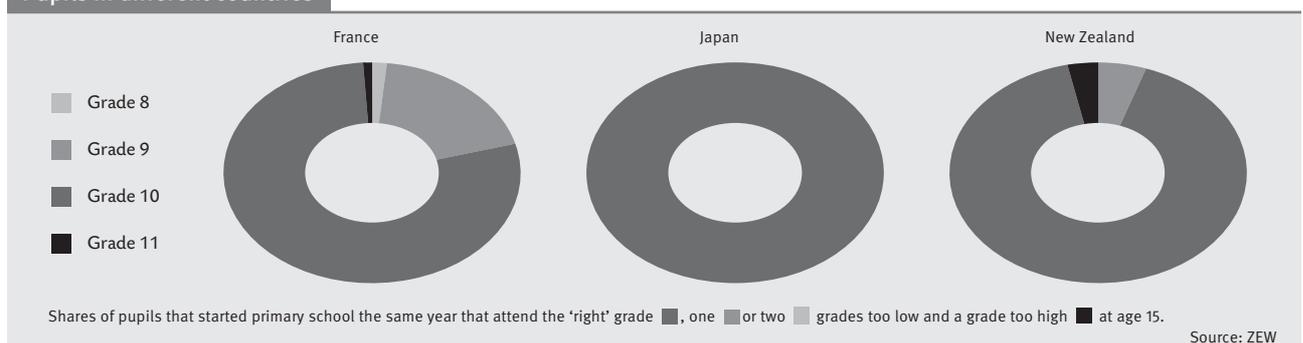
Spreading of pupils across grades plays an important role

The study finds that relative age when entering primary school has a positive effect of between 0.2 to 0.3 standard deviations in test scores in 10 out of the 16 studied countries. Moreover, in most countries the effect of relative age on long term test scores appears to work through the spreading of pupils across grades. In particular, increased grade retention and/or late start among the youngest pupils in an age cohort seem to play a role. Indeed, the coefficient of relative age becomes non significant or is importantly reduced when including these control variables. Furthermore, in Iceland, Poland and Serbia-Montenegro, relative age has no significant impact on test scores, and there is very little spreading across grades going on.

In Denmark, Japan and Korea, relative age has a significant positive effect but no spreading across grades is observed. In those countries, intra-class ability grouping and very early pupil competition could also play a role.

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Pupils in different countries



RESEARCH FINDINGS

Germany Faces New Competitors in Worldwide Technological Competition

The world economy is currently experiencing a phase of rapid change, also in the field of the development, production and exchange of technological goods. This change is being considerably pushed forwards by the rapid economic growth of the emerging countries, in particular China. The effect this has on the German economy is one of the subjects examined in a “technological performance” study which the ZEW conducted together with other research institutes.

Asiatic countries such as India, South Korea, Taiwan, Singapore and China have, since the mid 1990s, worked very hard to catch up with Western industrial nations in research and development (R&D) as well as in innovation. With the development of their R&D capacity combined with investments in higher education, they have created the conditions for the transition from imitative innovations to original innovations. German companies must, therefore, reckon with an increased number of competitors in global technology in the future from the Asiatic emerging countries such as India and particularly China. These are the findings of an analysis of global technological competition as part of the extensive study on “Germany’s technological performance” which a consortium of institutes has conducted under the lead management of the ZEW on behalf of the Federal Ministry of Education and Research.

R&D investments in China

China’s share, for example, in worldwide R&D expenditure has risen from 4 percent in 1996 to 11 percent in 2004. China’s R&D expenditure, calculated as purchasing power parity, was almost double that of Germany in 2004 and the number of people working in R&D is around 2.5 times greater. These efforts are now bearing fruit. An increasing number of scientific publications is being compiled in the Asiatic emerging countries. With view to the product range offered on international markets

there is, on the other hand, hardly any evidence, until now, of the clear increase in investments in R&D. It is, nevertheless, only a matter of time until success will be seen also here.

Until now, Germany has largely benefited from the high demand from the emerging countries, particularly from China as it induced the export-driven boom. Germany’s specialisation in “sophisticated consumer goods”, for example engine and automobile construction, perfectly corresponded to demand from the emerging countries. Germany’s import demand also benefited from the more intensive worldwide competition in high end technology (particularly information and communications technology), bought about by the offer of these countries, and the price reductions which were a result of this. These increased opportunities in the international reorganisation of the value creation chain in conjunction with minor cost increases, product innovations and particularly cost cutting process innovations, created benefits in the international price competition. The path of growth on which the German economy currently finds itself, resulted from this.

Effects on R&D location Germany

What effect does the emergence of new R&D competitors, particularly in Asia but also in Central and South America as well as in Central and Eastern Europe, have in the long-term on the R&D location of Germany? With regards to the division of labour in

research it is less the fundamental and applied re-search which will be effected by the addition of new competitors – which is comparably important in Germany – but more so the market-orientated experimental development. Additionally, the extent to which Germany will be affected also depends on what level regional separation is possible between the production and the research locations. As long as innovation and production are dependent on high quality local services and system competence in the value creation chain, for example in machine and automobile construction, a migration of research and production will occur only to a limited extent.

A second aspect is the extent to which the R&D and innovation processes can be broken down. The easier this is, the easier it is to tap into the benefits of an international R&D labour division with the emerging countries. High value services such as R&D are increasingly easier to modularise with the increasing performance of the information and communication technology, they become “tradable”. This increases the pressure to be permanently innovative.

The German economy cannot compete with the up-and-coming emerging countries on the costs side, only on the innovation side. This requires greater efforts; in addition to this, the development of international labour division in R&D also puts pressure on the specialisation profile of highly-developed national economies. In some areas a continued loss of jobs in the R&D intensive industry is unavoidable. Increased specialisation in the initial phases of the innovation value creation chains which require high quality services, not only in R&D, should ease the necessary adjustment processes.

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RESEARCH FINDINGS

The Acquisition and Return of Skills in the Life Cycle

Human capital research studies indicate that early childhood plays a key role in the formation of cognitive and non-cognitive skills. To illustrate the significance of learning in early childhood compared to learning in school, the ZEW conducted a simulation study on the formation of human capital during the life cycle. It indicates that it may be important for future education policies to promote children as early as possible. Programmes for disadvantaged children are also welcomed whereby the support offered to children should be maintained over a long period for it to be successful.

In the model which the ZEW study (ZEW Discussion Paper No. 07-015) uses, cognitive skills such as intelligence, memory power and general problem solving skills and non-cognitive skills such as motivation, self-regulation and persistency are simply differentiated. These form the basis for success in school which is measured empirically with school performance tests (PISA studies) as well as for human capital which is measured with data on earned income from the socioeconomic panel, Berlin.

For the simulation, the new skills of a period are modelled as function of the same skills from the previous period, the investments in the current period as well as existing other skills. The parameters of the model are calibrated in a way that the PISA allocation of reading skills at age 16 for various assumptions follows heterogeneity of investments as

well as different individual learning skills. The disparity of human capital, on the other hand, is adapted to the empirical disparity of the earned income of the working population.

Cognitive and non-cognitive skills

The diagram shows the development of cognitive and non-cognitive skills for a person who has, aged 16, with these skills, a reading ability which equals the median reading ability level of the PISA data for 2000 for Germany. While intelligence reaches its peak at the age of 24 years, non-cognitive skills reach their peak later in the life cycle. By the age of 6 years, for example, 90 percent of cognitive capacity have been developed. In this phase children also learn the diversity of human forms of expression and behaviour patterns. Childhood can, therefore, be seen as a

critical phase in the formation of human capital.

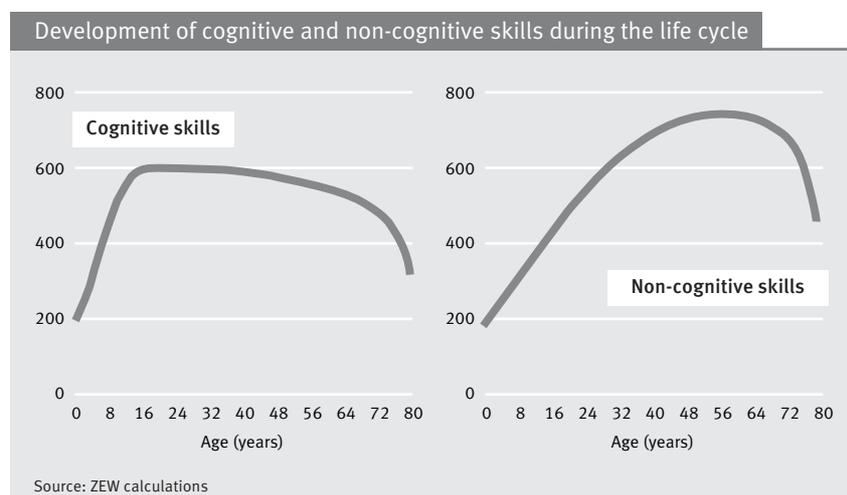
With the aid of the simulation model, the ZEW study estimates the return of age-related investment strategies in human capital for children who differentiate from each other in the development of their skills due to differences in their environment or in their abilities of converting investments into new skills. The findings reveal that promoting skills in early childhood brings with it a greater expectancy of a higher return than investments later in life. The earlier the promotion begins, the greater the return during the life cycle will be. Non-cognitive skills can be influenced longer than cognitive skills.

Invest in disadvantaged children

The ZEW study also examines how so-called compensating interventions influence the formation of human capital. It was examined whether existing resources should be used to invest in children who are at a disadvantage because of their environment or in children who acquire a higher level of skills due to the favourable environment in which they grow up.

The answer lies in the social goal of such programmes. If the goal is the maximisation of the sum of society's human capital it is most effective to invest in children who are already at an advantage as skills and further investments in education mutually benefit each other. If the goal is the maximisation of the individual human capital growth, relative to existing capital, then it is more effective to invest in children who are at a greater disadvantage because of their environment. If reducing inequality is the goal, then disadvantaged children should be promoted.

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RESEARCH FINDINGS

Psychology, Growth and Reforms

Politics is often confronted with the problem that reforms recommended by experts are met with rejection from a large part of the population. The resistance against reforms which are seen as essential by the experts, for example raising the age of retirement, often appears irrational. Against this background, a ZEW study on behalf of the German Federal Ministry of Finance has investigated the resistance to reforms based on a psychological approach taking account of deviations from the assumptions of the strict rationality of the homo oeconomicus.

Together with psychologists from the University of Salzburg and the LMU Munich, the ZEW has conducted an extensive review of behavioural-economic insights in relation to reform problems. With econometric and experimental approaches, a series of aspects was also empirically investigated which are important for the acceptance or refusal of reforms.

Several characteristics of human judgement which are well documented in the behavioural-economic literature are shown to be of direct relevance for reform acceptancy. Here the phenomena of “status quo bias”, the “loss aversion” and also the “framing effects” can be named. The status quo bias means that people give one option of many preference only because this has become, due to historic coincidence, the status quo. The loss aversion describes the pattern of people experiencing clearly stronger (negative) feelings with, for example, the loss of 100 euros than the reverse – the (positive) feelings in the case of winning the same amount. Framing effects, lastly, describe the fact that the synonymous representation of one and the same circumstances can lead to differing decisions. Typically in medicine, for example, a therapy with a “90 percent probability of survival” is chosen more often than a therapy with a “10 percent death probability” although both therapies deal with an identical risk profile.

The theoretical and empirical findings of the study show that these and other psychological phenomena are directly relevant for the context of reform. The status quo bias explains why, for example, many people in this country

are so attached to the health system which is the product of historic development but, with its many shortcomings, would never be constructed in this form today. The loss aversion can lead to even reforms with a positive expectancy value, with regards to income and employment growth, being met with rejection because the losers of these reforms perceive these losses considerably more intensively than the



reverse, with regards to the benefits of the winners. The framing effects offer helpful insights with view to a communications policy to accompany the reform: A reduction in contributions for parents, for example, for long-term care insurance, has clearly better prospects of being met with general acceptancy than an extra contribution for people without children even though both concepts amount to identical distribution of costs.

With regard to reforms of the welfare state, the conducted experiments confirm a series of theoretically estab-

lished expectations. The perception of the inevitability of a reform appears to promote acceptancy. It appears that with the insight of the unavoidable of change, the “loyalty” to the status quo is lost. This also fits in with evidence found in international country comparisons that bigger reforms are usually at an advantage with an economic crisis.

Experiments confirm theory

Experiments on tax reform projects confirm the high relevance of fairness categories for the acceptancy question. Particularly interesting here is that international comparisons appear to influence domestic judgements of fairness. This is remarkable but reveals

that judgements of fairness have, by no means, an absolute and unchangeable nature but can be strongly influenced by the environment.

Finally, the experiments conducted on communications policy reveal that it is of significance which type communicates the reforms. Experts as communicators were viewed as surprisingly poor. On the other hand, transparency, but also the message of the irrefutability of a reform, improve acceptancy significantly.

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ZEW SUMMER WORKSHOP

The Economics of Information and Communication Technology

Economic aspects of the diffusion and use of information and communication technology (ICT) were at the centre of this year's ZEW Summer Workshop. The event, which was held between 12th and 15th June 2007 at the ZEW and which was financially supported by the Fritz Thyssen Foundation, offered 13 junior researchers the opportunity to present and discuss their research and receive advice on their work from experienced researchers.

On the first day of the ZEW Summer Workshop 2007, the junior researchers' presentations looked at the effects of ICT on economic growth and work organisation. On the second day, empirical investigations on a micro-economic level were presented that dealt with topics such as knowledge-management and the pattern of offers on "name-your-own-price" online markets. Theoretical models of ICT industries were at the centre of discussion on the third day of the summer workshop.

Overview lectures

Besides the presentations given by junior researchers, several overview lectures on the different economic aspects of ICT formed the second pillar of the event. Professor Lex Borghans of the University of Maastricht examined the relationship between wages and the increase of ICT use at the workplace. He critically examined the much-discussed hypothesis of the complementarity between computers and qualified employees.

Professor Michael Baye of the University of Indiana in Bloomington, USA, theoretically and empirically examined the supply and demand of consumer goods on digital markets. In particular he investigated why different providers offer identical goods at different prices on price comparison websites.

Martin Peitz, Professor at the International University in Germany and at the University of Mannheim, gave an overview on models of ICT industries within the theory of two-sided markets in his lecture. Afterwards, he presented an extract from his current research on

communication and business platforms in ICT industries. His model demonstrates how compatibility and competition between different platforms on a market result in sellers' incentives to innovate.

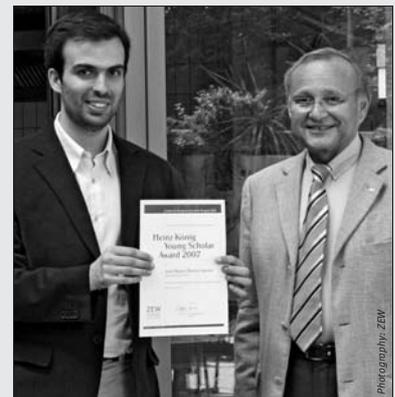
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Joao Vareda receives the Heinz König Young Scholar Award

The ZEW has awarded the Heinz König Young Scholar Award for the fourth time. This year the Portuguese Joao Vareda received the research award. Mr. Vareda is an economist currently finishing his Ph.D in economics at the New University of Lisbon (Universidade Nova). He received the Heinz König Young Scholar Award for a paper that studies how the obligation of former monopolists in telecommunication markets to grant their competitors access to the network infrastructure affects their investment behaviour.

The annual ZEW award is endowed with 5,000 Euros and an invitation for a research stay at the ZEW. This year's prize is sponsored by BASFAG.

Mr. Vareda analyzes whether in telecommunication markets the obligation to grant competitors access to the own network affects the investments of former monopolists in quality improvements and in cost reductions. For this purpose, he developed a model that describes competition between an incumbent and a new entrant in a telecommunication market. Mr. Vareda shows that a reduction in the price for the entrant to access the network reduces the incentives for the former monopolist to invest in quality improvements. On the other hand, it increases its incentives to invest in cost reductions.



The laureate, Joao Vareda, and ZEW's president, Wolfgang Franz, at the award ceremony.

ZEW's president, Prof. Dr. Dr. h.c. mult. Wolfgang Franz, awarded the prize on behalf of the sponsor, BASF AG, and honoured Mr. Vareda's paper in his speech: "With the paper presented at this year's Summer Workshop, Joao Vareda contributes significantly to the current debate about the effects of economic policies to improve competition and investment incentives in telecommunication markets. This issue also concerns Germany notably."

The Heinz König Young Scholar Award, named after ZEW's late founding director, Prof. Dr. Dr. h.c. Heinz König, is always awarded at ZEW's Summer Workshop that takes place in Mannheim every year. The best submission is awarded with the Heinz König Young Scholar Award.

ZEW CONFERENCE

International Tax Conference as Part of EU Council Presidency

On 15th and 16th May 2007, the ZEW, together with the Federal Ministry of Finance and the Max-Planck Institute for Intellectual Property, Competition and Tax Law (Munich), held the international tax conference in Berlin. The conference examined the current work on a Common Consolidated Corporate Tax

market on the other and argued for a balancing out of the differing interests. EU Commissioner László Kovács then spoke on the current status of work on the CCCTB. Christoph Spengel (University of Mannheim and guest professor at the ZEW) highlighted the deficits of current tax conditions for European

nesses or whether it should be compulsory was also controversially debated.

The second panel of the conference dealt with consolidation and apportionment as well as international aspects. This is still in the early stages; it must first be established on what premises businesses should apply the CCCTB. The aggregation, strived for by the CCCTB concept, of individual tax bases forming the consolidated tax base and the apportionment between the affected members states using a formula, was viewed as a far-reaching change of current international taxation practice. This concerns an area with far-reaching consequences for the tax revenue of the member states. International aspects affect relationships between member states and nations outside the EU. In particular, the question of whether the existing tax treaties of the members states can be maintained was also discussed.



The second panel of the International Tax Conference in Berlin.

Base (CCCTB) for EU businesses. Internationally renowned representatives from politics, academia, business and administration, discussed various issues related to the CCCTB. Here it became evident that the CCCTB project, prompted by the European Commission, could contribute to strengthening competitiveness of the European Union. Before a legislature proposal can be made, though, an intensive discussion on the different related issues is, nevertheless, needed.

A total of 233 participants from 27 member states participated in the conference which was opened by the Federal Minister of Finance, Peer Steinbrück. In his speech he highlighted the relationship of differing interests between national sovereignty, on the one hand, and the demands of the internal

businesses and explained the benefits as well as the approach and open questions of a CCCTB. These questions were then examined in three panels of internationally renowned experts from politics, academia, business and administration.

Taxable business profit

The first panel examined the common structural features of taxable income. The EU Commission's work in this field is at an advanced stage and points to an agreement being reached in the fields of, for example, depreciation and amortisation and provisions. There still remains, nevertheless, a need for clarification in many areas. The question of whether a common tax base should exist as an option for busi-

Reducing administrative hurdles

The conference's third panel was dedicated to the administrative matters of the CCCTB. Conference participants emphasised that the introduction of a CCCTB is also especially concerned with reducing administrative hurdles which companies currently face with the different national tax systems within the EU. Uniform administrative regulations and corresponding adjustments of the structures in administrative and court procedures were, therefore, seen as necessary.

The conference revealed how diverse the questions concerning a CCCTB are and offered an extensive range of opinions and expertise which the EU Commission can use in its further work.

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ZEW CONFERENCE

Conference of the Research Network on Innovation and Competition Policy

The first conference of the Research Network on Innovation and Competition Policy (RNIC) was held on 4th and 5th May 2007 in the ZEW. Around 60 academics attended who presented a selection of 22 papers. The selection of the presentations put a focus on merger control and abuse of dominant positions, and all papers were required to offer applications to actual competition policy. These included works by renowned academics such as Stephen Martin (Purdue University), Wernhard Möschel (University of Tübingen) and Giancarlo Spagnolo (University of Rome "Tor Vergata") as well as junior researchers. There were also two plenary lectures.

Lars-Hendrik Röller (President of the European School of Management and Technology, esmt) began the conference with a lecture on the work of the competition directorate general of the European Commission whom he advised, as chief economist, between 2003 and 2006. Röller spoke of the use of economic models in the decisions of the European Commission and about open research questions. He particularly attributed research work on the dynamic aspects of competition policy and for recognising the misuse of market power, with increased significance. At the end of the conference, Joseph Harrington (Johns Hopkins University) spoke on the exposure and prevention of cartels. With the use of several spectacular cases from the past months, he highlighted the topicality and relevance of this area of research. Harrington showed possible indicators for the existence of cartels and spoke on the optimal structuring of leniency policies which could reduce any incentives to form cartels.

The many positive responses at the end of the conference promise that contact between the ZEW and its guests will

be established and strengthened in the future. This will be reflected in research projects and participation in further workshops and conferences which will take place as part of the RNIC.

The RNIC is a research network which was founded at the beginning of 2007 as part of the pact for research and innovation of the Gottfried Wilhelm Leibniz e.V. scientific organisation. It aims to promote, with juristic and economic expertise, academic, application-oriented research on European competition policy. The key emphasis lies on the development of analytical methods which could be used in legal disputes and in the investigation of dynamic aspects of competition policy. Of particular interest is also the effect competition policy regulations and decisions has on the innovation level of businesses. The network includes, besides the ZEW, also the Social Science Research Centre Berlin, the universities



Lars-Hendrik Röller giving his lecture.

of Tübingen, KU Leuven, UNU-MERIT (Maastricht), Mannheim and Vienna, as well as the Institut d'Économie Industrielle (Toulouse). Detailed information on the network is available on the Internet at: www.zew.de/RNIC

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INSIDE ZEW

New ZEW Financial Market Survey for Central and Eastern Europe and Austria in Co-operation with Erste Bank, Vienna

The ZEW carried out a Financial Market Survey for Central and Eastern Europe and Austria in co-operation with Erste Bank, Vienna, for the first time in June 2007. The ZEW has been conducting an analogue monthly survey for Germany since 1991, and in Switzerland there is a survey of this type since June 2006. The new survey offers insights into the assessment of the current economic situation, and the financial market experts' expectations of financial market experts for the next six months concerning the general economic situation, inflation rates, interest rates, exchange rates and stock market indices for Central and Eastern Europe (CEE), Austria

and the Eurozone. The CEE region observed in the survey consists of Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia and Slovenia.

The indicators reflect the difference between the percentage of analysts who are optimistic and the percentage of analysts who are pessimistic. Positive values of the balance indicate that the number of participants expecting a rise in the respective variable outweigh the number of participants with negative expectations.

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ZEW FINANCIAL MARKET SURVEY

Results of the Survey in July 2007

The Financial Market Test conducted by the ZEW is a monthly business survey of German financial market experts which started in December 1991. The survey asks for the predominant expectations about the development in six international financial markets.

As a whole around 350 experts take part in the survey. 280 of them work in banks, 50 in insurance companies and

investment companies and 20 in other industries. Participants in the survey are financial experts of the finance departments, the research departments and the economic departments as well as the investment and securities departments of the firms. The experts are questioned on their medium term expectations about the development of important international financial markets with respect to

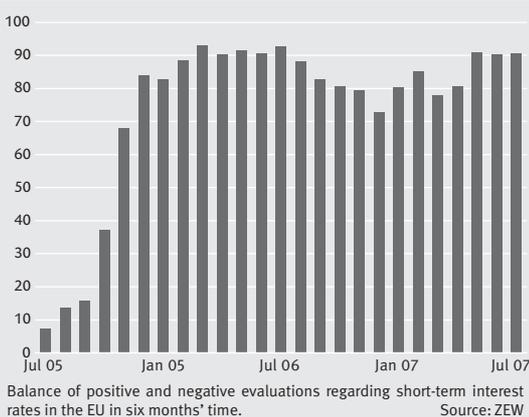
the business cycle, the inflation rate, short term and long term interest rates, the exchange rate and share prices.

Information on the applied procedure is available as an abridged version published by the ZEW. The present survey was conducted between 2 July and 16 July, 2007. All calculations are termed to 20 July, 2007.

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ECB: Experts' Attitude Unchanged

Expectations regarding short-term interest rates

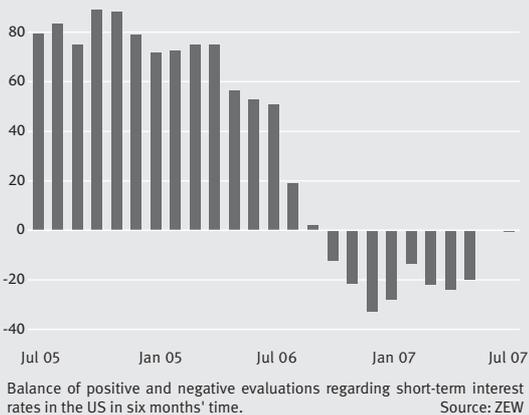


The European Central Bank (ECB) has left the interest rates at 4 percent in their latest monetary policy meeting and confirms that it wants to leave the expectations of the market participants, who expect another interest increase in September or October, unchanged. ECB president Trichet emphasised the continuing risk of inflation resulting from the credit demand which is still high and the re-accelerated growth of the money supply M3. Furthermore the firms' capacity utilisation is high and the labour market improves constantly. This can result in a higher than expected growth of the firms' profit margins and the employees' salaries and after that in an increased pricing pressure. Moreover the oil price's continuing upward movement is another risk to the inflation rate which stands at 1.9 percent in June and so is near the threshold of 2 percent defined by the ECB. For this reason the analysts expect another interest rate move almost unchanged.

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United States: Interest rate break will continue

Expectations regarding short-term interest rates



The number of financial market experts who expect a continuation of the interest rate break in the United States increased again this month. One reason is the declining inflationary pressure in the United States. Personal consumption expenditures fell below the FED's upper limit of 2 percentage points again. The last time this was the case was in April 2005. Another reason for the expected interest break is the lower growth rate of the US-economy. Though business cycle indicators signalled faster growth in the United States in the past weeks, the recovery does not seem become very strong. This is also reflected by the economic expectations indicator for the US-economy, which dropped again in July. In the moment, only one quarter of all experts reckons with faster growth in the United States. More than half of all experts, however, thinks that growth performance in the world's largest economy will remain unchanged in the next six months.

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PUBLICATIONS

■ ZEW Economic Studies

Anja Kuckulenz

Studies on Continuing Vocational Training in Germany – An Empirical Assessment

This book offers a comprehensive empirical analysis of continuing vocational training in Germany. Specific issues concerning continuing training that are debated in academia as well as in public are discussed. Wage and productivity effects of training are analysed, explicitly accounting for the heterogeneity of training participants. Additionally, different types of training that vary in the degree of firm specificity are considered. Wage and productivity effects of training are compared to examine how the training rent is shared between employer and employee. Finally, evidence is given on whether positive externalities of continuing training exist.

Volume 37, Physica Verlag, Heidelberg/New York, 2007, ISBN 978-3-7908-1967-0

■ ZEW Discussion Papers

No. 07-024, AbdelRahmen El Lahga, Nicolas Moreau: Would you Marry me? The Effects of Marriage on German Couples' Allocation of Time.

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