

Difference in Life Satisfaction between Partners Increases Separation Risk

The probability that a couple will separate rises according to the degree of difference between each partner's level of life satisfaction. The separation risk for a couple increases most when the woman is more dissatisfied than the man. This was demonstrated in a recent study conducted by the Centre for European Economic Research (ZEW) in Mannheim.

In order to assess satisfaction and differences in satisfaction, the study evaluated long-term surveys of German, British, and Australian households.

In Germany alone, data was evaluated from more than 253,000 surveys. The survey population included individuals between 18 and 65 years of age



The risk of separation particularly increases if the woman is less content than the man.

Over a time period of nearly 25 years, the individuals surveyed recorded their life satisfaction every year on a point scale (0 points = totally dissatisfied, 10 points = totally satisfied). This made it possible to evaluate differences between the life satisfaction of partners. In addition, the household surveys provided information about partners' incomes, number of children, work status, division of labour within the household, and personal values.

who lived with a partner in the same household, and thus encompassed both married and unmarried couples.

It was shown that for all three countries, the risk of separation for dissatisfied couples was higher than for satisfied couples (as measured in terms of the sum of both partners' satisfaction). This finding was to be expected. However, divergence in satisfaction was also examined in the study, revealing that the probability of separation

increased the more the partners' satisfaction levels differed. This was true even when couples had the same combined satisfaction score.

High Differences in Satisfaction

For example, if the male partner scored his satisfaction level at three points and the woman scored hers at five points, then the couple had a joint satisfaction level of eight points. The difference in satisfaction between the partners amounted to two points. Examining another couple in which the man's satisfaction was rated at two points and the woman's at six points, a joint satisfaction level of eight points was also obtained. However, the second couple had a higher probability of separating than the first couple, as the difference in satisfaction levels between the partners was greater.

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The study additionally demonstrated that divergence in life satisfaction between partners has an asymmetrical effect. Therefore, the separation risk was especially high if the woman was more unsatisfied than the man.

Women Are Likelier to Initiate Separation

In fact, a number of different data sets (such as the data on couples in Australia) showed that it was predomi-

nantly the wife who initiated separation, and that these wives tended to be more dissatisfied than their partners. The calculations performed in the study show that the relationship between differences in life satisfaction and the risk of separation is also significant in magnitude. If the joint satisfaction level (husband's satisfaction plus wife's satisfaction) was the same, then the likelihood of separation rose by 0.5 percentage points when the wife was more dissatisfied than the husband.

This may seem like a small difference, but it must be considered in the context of the overall separation risk. Every year, about two percent of the couples examined in the study separated. In the case of relationships in which the woman was more dissatisfied with life than her male partner, the risk of separation was thus about 25 percent higher. The study reveals that the effect was somewhat greater for unmarried couples.

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Algorithmic Trading Poses Risks to Financial Market Stability

The automated trading of securities based on algorithmically defined rules, also known as "algo trading", is gaining increasing popularity on the world's stock exchanges. According to a survey of 193 financial market experts conducted by the Centre for European Economic Research (ZEW), such trading methods pose significant risks to the stability of financial markets.

More than two-thirds of the surveyed experts fear that automated trading could have a negative or very negative impact on financial market stability. The majority of experts thus endorse the regulation of such trading. Although new bonus system rules and the stricter regulation of derivatives in order to improve the stability of financial markets are issues of heated political discussion at present, algo trading has played virtually no role in the public debate. This is surprising considering the prevalence of algo trading. As early as 2007, for example, some 50 percent of transaction volumes on German stock exchanges were carried out using automated trading systems.

Algo trading involves the use of algorithm-driven computer systems to conduct financial transactions based on predefined trading strategies. The trading strategies are normally based on quantitative models that take historical as well as current market data

into account. Once up and running, algo trading systems are designed to run independently, without human intervention. The advantage of automated trading systems is that they can react to new information within fractions of a second and conduct buy and sell trades accordingly.

Causes for Concern

Several aspects of algo trading systems raise cause for concern, however. As many algo trading systems operate based on the same rules, a specific constellation of market forces could produce a dangerous domino effect. In an extremely short time frame, for example, a flood of sell orders could hit exchanges, thus potentially creating dangerous momentum to a falling market. This could seriously jeopardise the stability of the financial system.

More than 66 percent of the financial market experts surveyed by ZEW

consider the regulation of automated trading necessary. According to 69 percent of the survey's participants, current provisions to suspend trading in the event of a market freefall are not sufficient as a means of intervention. Yet it will be difficult to institute regulations on automated trading: only 47 percent of questioned experts believe that effective regulation is technically feasible.

Promotion of Dark Pool Trading Arenas

And even if regulation is a viable option, there are fears that it could promote the growth of so-called "dark pool" trading arenas that are outside of any regulatory control. Nearly 70 percent of the surveyed financial market experts fear that information obtained from dark pools could then be used to conduct trading in regulated markets. Market participants operating outside of such dark pools would thus suffer considerable informational disadvantages, as they would not be privy to the "insider" information available to dark pool traders.

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RESEARCH FINDINGS

Government Training Programmes and Immigrant Employment Prospects

Only little research has been conducted on how government training programmes for the unemployed impact the employment opportunities of immigrants. A study by ZEW investigates the effects of short-term government training programmes on immigrant and non-immigrant recipients of long-term unemployment benefits.

While 34 percent of the individuals collecting long-term unemployment benefits in Germany in 2006 had an immigration background, immigrants represent just 19.5 percent of the general

population. As Germany's Federal Employment Agency has no programmes designed specifically for needs of unemployed immigrants aside from language courses, immigrants are treated in the same way as the native German population when it comes to labour market reintegration efforts.



German women as well as women with an immigrant background benefit from guidance programmes.

of the aforementioned labour market reintegration programmes. The reference group of native Germans allowed the effects on immigrants and non-immigrants to be compared.

The study found that the training programmes have heterogeneous effects on immigrants and non-immigrants. Guidance programmes to help the unemployed identify suitable career paths significantly enhanced employment opportunities. In the case of women with a migration background, for example, participation in such a programme increased the probability of employment one year after programme start by approximately five percentage points. This is a substantial effect, as

Heterogeneous Effects

the average probability of an individual leaving the ranks of the long-term unemployed after one year was approximately 20 to 25 percent. Women without a migration background enjoyed much higher gains, however – their probability of being employed one year later was up to ten percentage points higher. The employment effects for men following participation in a career guidance programme were equally as significant, with employment-probability increases of up to ten percentage points regardless of the migration background.

Partly Adverse Effects

Programmes that impart general workplace skills also improve chances for employment. Women with an immigrant background benefited in particular if they participated in such a programme immediately after they begin receiving long-term unemployment benefits. The probability of employment one year after the start of such a programme rose by nearly 13 percentage points. Women without a migration background only enjoyed a six percentage point gain. For men, this trend was reversed: native German recipients of unemployment benefits profited more than their immigrant counterparts. Job search training had no significant effect on men irrespective of immigrant status. Women without a migration background enjoyed positive benefits from such courses, whereas the probability of employment for immigrant women was actually reduced for the first six months following the start of participation. Combined training programmes had no impact on employment probabilities across all groups.

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INTERVIEW

Efforts to Consolidate Public Finances Are Abetted by the Crisis

Bare coffers aren't just a problem in Greece. Almost all EU countries will run higher deficits in 2010, and Germany is no exception. What can policy makers do to reduce the horrendous debt levels that burden so many EU member states? Dr. Friedrich Heinemann, head of the department of Corporate Taxation and Public Finance at ZEW, explains how Germany and other EU countries can sustainably consolidate their public finances.

It has been estimated that from 2010 to 2013, the German treasury will take in nearly 40 billion euros less than was anticipated just one year ago. The strict ceiling on deficit levels that has been introduced to the German constitution comes into effect for the Bund in 2016 and implies that already next year approximately six billion euros have to be saved. How can the government reduce spending?

The budget is heavily determined by the government's obligations to fund social security such as health care and the pension system. Proposals for the next round of health-care reform thus require concrete provisions to improve the financial viability of the system. The potential for increased efficiency in the health-care system must be exploited if we hope to reduce the burden on the federal budget. Furthermore, we must refrain from making additional gifts and guarantees to retirees. Efforts are also imperative to ensure that the favourable development of the labour market is not endangered by new regulations (e.g. in the areas of temporary employment and minimum wages). Market-friendly

labour policies will make an important, indirect contribution to budget consolidation. It is also necessary to examine all proposed budget cuts in order to identify and protect spending that represents an investment in future economic growth, for budget consolidation can't take place without economic expansion. Yet even in the case of investment-related spending, all projects need to be reviewed with regard to their macroeconomic benefits. Spending proposals labelled as an "investment measure" shouldn't simply receive an automatic free pass.

Don't taxes need to be increased in order to reduce deficit levels?

The reduction of tax exemptions would certainly bring significant gains. At first glance, there isn't a tremendous difference between tax increases and the abolishment of tax subsidies, as in both cases the burden placed on impacted tax payers rises. If one takes a closer look, however, the abolition of a tax exemption often has the advantage of eliminating harmful allocative distortions. This is true, for example, in the case of the reduced VAT rate on cer-

tain goods and services, which is simply applied too broadly. Extending the applicability of the standard VAT rate would bring a significant boost in tax revenues.

In what areas should tax increases be considered?

If we are unable to reduce spending and tax breaks to a sufficient degree, then additional revenues will need to be collected. Yet in the process of increasing existing taxes or implementing new ones, we should be careful not to create any new incentives for black market activity. From this perspective it would be ill advised to increase income taxes or social insurance contributions for employees with normal income levels. Care should also be taken not to damage Germany's competitiveness as a place for business. This means that we should refrain from increasing corporate taxes or income taxes on high wage earners. For this reason, a further increase of the VAT is a possible solution. In the area of inheritance taxes, a moderately higher tax burden is also conceivable.

Wouldn't a financial market transaction tax be the best way to relieve the pressure on highly indebted countries?

One shouldn't pin excessive hopes on the fiscal benefits of a financial market transaction tax. Financial transactions are a highly mobile tax base. For this reason, an extremely low tax on financial transactions is the only conceivable option if one hopes to prevent investors from simply conducting their business elsewhere.

Are there historical examples of countries that have successfully consolidated their finances? What can one learn from these examples?

In European post-war history there are intermittent examples of countries that have successfully carried out asto-



Dr. Friedrich Heinemann is head of ZEW's department of Corporate Taxation and Public Finance since 2005. Questions related to fiscal competition and federalism in Europe are his primary area of research. Alongside his involvement in various scientific working groups, Dr. Heinemann is a board member of the foundation "Arbeitskreis Europäische Integration e.V." as well as a member of the Academic Directorate of the Berlin-based Institute for European Politics.

RESEARCH FINDINGS

nishing consolidation efforts, such as the Scandinavian countries in the early 1990s. Countries that have pursued deficit reduction strategies based on cuts to consumptive spending have had the best success at achieving the sustained consolidation of their public finances. Slashing investment-related spending doesn't pay off, as this leads to slower growth rates or future costs that outweigh short-term savings.

Are stern austerity measures politically feasible?

Currently the chances of achieving political acceptance are more fortuitous than is normally the case. We know from European history that painful fiscal measures are most often

successful in times of crisis. The outbreak of a crisis sends a message that things simply can't continue as before. At such moments, it is suddenly unpopular to call for the preservation of the status quo, and the advocates of reform gain increasing influence. No one knows exactly whether Greece's austerity programme will restore the country's standing in the eyes of investors. One thing is clear, however: the Greek consolidation and reform programme is extremely wide-reaching, and it would never have been imaginable in the absence of the crisis.

In addition, throughout the EU the crisis of confidence over European debt levels has exposed the limits of public-

sector access to capital markets. Fiscal policy actors of all political shades were previously of the naive belief that bond markets would entertain all public debt auctions of any scope. This belief has been shattered – and that is actually not a bad thing.

The threat of losing access to the capital markets as an immediate consequence of ballooning deficits will spur the efforts to reduce spending, thus leading to behaviour that formal rules, such as that of the EU's stability pact, previously failed to sufficiently encourage.

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More Information Encourages Generous Donations

Individuals who donate money for a good cause tend to be more generous when they can select the group of people who will benefit from their donation. This hypothesis was confirmed in a field experiment of 57,325 German households conducted by the Centre for European Economic Research (ZEW).

To perform the experiment, ZEW researchers cooperated with the University of Bonn and a German charity organisation that works to improve primary health care in five developing countries. Within the scope of the organisation's annual donation drive in the winter of 2007, two versions of a letter soliciting donations were sent to a total of 57,325 households. In the first version, the recipients were simply asked to make a donation to the organisation. In the second version, the recipients also had the option of making a donation for a specific country or several countries.

Greater Generosity

In the period from 3 December 2007 to 31 January 2008, the organisation

received 6,709 donations totalling at over one million euros. The response rate for both groups of recipients was 11.7 percent.

According to the results of the study, 3.4 percent of donors who could assign their donation to a specific country made use of this option. On average, they donated significantly more than those who did not specifically select a country (160 vs. 135 euros).

Donation Behaviour

The charity organisation also provided data from past donation drives in the winters of the years 2005 and 2006. This enabled us to investigate the donation behaviour of individual households over time. These data showed that households who donated money



Individuals tend to be more generous if they can select the recipients for their donation.

to a specific country in 2007 did not behave differently in past years from households who did not select a country in 2007. This supports the conclusion that the variation in donation amounts in 2007 was the result of the experiment and not the product of selection or random bias.

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ZEW CONFERENCE

Tapping Innovation to Escape the Crisis

ZEW hosted the first Mannheim Innovation Symposium at the end of April 2010. The symposium brought together experts from businesses, consulting firms, investment promotion agencies, and academia in order to discuss current issues in the field of innovation management.

In the first keynote speech, Dr. Georg Licht, head of the Department of Industrial Economics and International Management at ZEW, presented on the innovation research being conducted at the Institute. Licht emphasised that innovation represents an important source of business growth, and pointed to the evidence in this regard provided by the Mannheim Innovation Panel, a representative survey performed annually by ZEW on the innovation activities of firms in Germany. Licht explained that three main themes are evident from ZEW's extensive research on the factors that contribute to successful innovation: First,

an innovation management system that mobilizes internal resources and aborts less-promising projects; second, the adequate integration of customers into the innovation process; and third, cooperation with external partners, combined with the effective use of intellectual property rights.

Profitable Partnerships

Various workshops and presentations on these three themes took place in the afternoon session of the symposium. Topics of discussion included: How can companies active in global

markets take advantage of international impulses for innovation? How can SMEs realise innovations in a rapid and reliable manner? And how can partnerships between science and industry in innovation projects yield profitable results? Practitioners in the field kicked off each workshop with a keynote presentation. The discussions at the symposium showed that within both multinational companies as well as SMEs, various methods are used to identify and select innovative ideas. Today companies cannot afford to neglect the issue of innovation management. While partnerships between science and industry are already widespread, there are no generally applicable best practices in this regard, as the conditions within each branch are simply too diverse.

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Professor Bruno Frey Visits ZEW

In February 2010, Prof. Bruno Frey of the University of Zurich gave a lecture on the "Economics of Happiness" that proved to be a special highlight of this year's ZEW Research Seminars. The ZEW Research Seminars provide ZEW economists and guest speakers with the opportunity to share current findings in selected fields of study.

The idea of utility maximisation is a central concept in economics. Utility cannot be measured directly, but is typically inferred from the observed behaviour of actors. One strategy for measuring utility is to survey people about subjective life satisfaction – in other words, about happiness. In his lecture at ZEW, Bruno Frey classified the origins of happiness into three broad groups. Demographic factors represent one important group, within which individual health plays the biggest role. Frey explained that there is a systematic relationship between happiness and age: well-being declines slightly from youth into one's mid-thirties. Thereafter, it begins to rise. In his

research, Frey has also shown that couples are happier than single persons and that housewives are happier than employed persons.

Among economic factors, unemployment is a dominant "happiness squelcher". Contrary to popular belief, additional income only slightly increases happiness. More important than absolute income, according to Frey, is how one stacks up against to others. Frey and his colleagues have also demonstrated that institutional factors play a role for happiness. The more developed the institutions of direct democracy, the happier people are. When citizens are able to participate directly in politics through initiatives and refer-

enda, Frey contends, politicians are compelled to accede to their wishes.

Contrary to many assumptions, happiness is not solely determined in a narrow private space, but is also the product of economic and institutional circumstances. In this way, Frey argues, human happiness is also dependent upon the political sphere. For Frey, knowledge about the economics of happiness represents an important input for the political discourse. However, defining the maximization of happiness as a political goal is something he would strongly discourage. For one thing, there are no benevolent dictators who would actually strive for this goal. For another, instrumentalising happiness would only lead to distortions and strategic response behaviour among those polled in happiness surveys.

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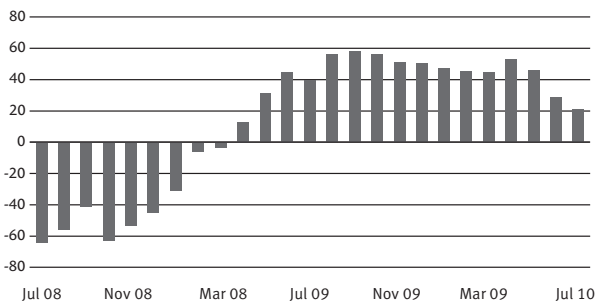
ZEW FINANCIAL MARKET DATA

ZEW Financial Market Surveys July 2010

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

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

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



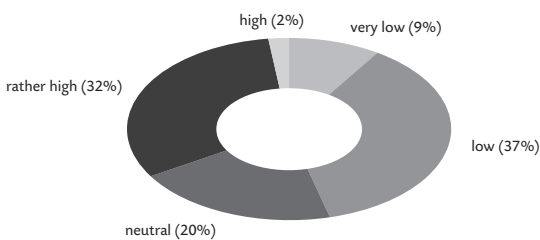
Balance of positive and negative assessment of the expected economic development in six months' time. Source: ZEW

Germany: Economic Expectations

The ZEW Indicator of Economic Sentiment for Germany drops by 7.5 points in July 2010. It now stands at 21.2 points. This value is below the indicator's historical average of 27.4 points. The decline in expectations signals that – until the end of this year – the potential for further improvements of the German economy seems to be widely used up. Particularly the crisis in sovereign debt and the resulting need for consolidation of budgets in various countries seem to have contributed to the subdued economic expectations.

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How high is the deflationary risk in the near future?

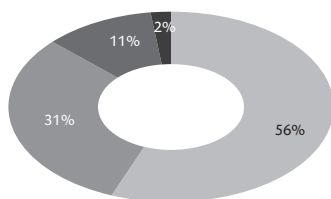


Source: ZEW, Credit Suisse

Switzerland: Deflationary Risk

How high is the deflationary risk for Switzerland in the near future? Merely two percent of the surveyed financial market experts said that there was a high risk of deflation. According to the analysts' opinions, 32 percent believe that deflation posed a risk, but not a very significant one, while 20 percent gave a neutral reply. The largest share of survey participants (37 percent) assess the risk of deflation as low, while nine percent of the polled financial market experts regard the risk as very low.

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Expectations of analysts in %

Source: ZEW

CEE Region: Turkey's Entry into EU

Turkey's appliance for its entry into the EU has been a topic of controversy for years. 56 percent of the financial market analysts favour a privileged partnership with Turkey instead of granting full membership into the EU. 11 percent of the experts disapprove of a privileged partnership and support Turkey's EU accession. However, 31 percent are neutral between an EU accession and a privileged partnership. Two percent of the surveyed analysts support the opinion that neither a privileged partnership nor an EU accession is reasonable.

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INSIDE ZEW

■ The State of Baden-Württemberg Promotes Cutting-Edge Research at ZEW with a Three Million Euro Project Grant

In order to strengthen cutting-edge economic research, the state government of Baden-Württemberg is financing a “lighthouse project” at the Centre for European Economic Research (ZEW) in Mannheim. In 2010 to 2011, a total of three million euros will be invested in the project, titled “Strengthening Efficiency and Competitiveness in the European Knowledge Economies” (SEEK).

The SEEK lighthouse project will bolster ZEW’s standing in the research community, enhancing its international visibility as one of Europe’s leading economic research institutes. Within the SEEK project, the state of Baden-Württemberg will help ZEW to further strengthen its political advisory expertise as well as to establish a research and mentorship programme of an international scope for highly qualified young researchers. Thanks to the SEEK project, applied research will receive a strong boost at ZEW in coming years. With the insights obtained through the SEEK project, ZEW hopes to enhance the competitiveness of Europe’s increasingly knowledge-based economies. The Institute will thus make a contribution to the EU’s 2020 strategy, which aims to raise productivity and employment levels in the EU member states.

More information on the SEEK project is available under www.seek.zew.eu



■ Release of the 2009 Annual Report

Against the backdrop of the global financial and economic crisis, the Centre for European Economic Research (ZEW) was able to maintain stable revenues in the 2009 financial year. According to the Institute’s newly released 2009 Annual Report, total revenues declined slightly last year to 15.09 million euros. The share of revenues from third parties, however, accounted for just over 40 percent of all funding, as in the year prior.

A total of 5.82 million euros in third-party funding was obtained by ZEW in the 2009 financial year. 2009 was thus a good year for the Institute. ZEW was able to excel in the national and international competition for third-party funding, acquiring numerous research and advisory projects. The institute also strengthened its position as one of the leading research institutes in Germany and Europe.

In 2009 ZEW prevailed in numerous calls for tender for projects funded by federal and state ministries in Germany, as well as by foreign departments of government. Projects funded by the public sector accounted for 45 percent of ZEW’s third-party funding. This shows that alongside research, political advisory work plays an important role at ZEW. The remaining sources of third-party funding were companies and associations (22 percent), the European Commission (13 percent), German Research Foundation (13 percent), as well as non-profit organisations (seven percent). In 2009 a total of 117 projects for national and international clients were completed.

The 2009 Annual Report is available in English under www.zew.eu/annualreport

ZEW DISCUSSION PAPERS

No 10-046, Daniel Osberghaus, Christiane Reif: Total Costs and Budgetary Effects of Adaptation to Climate Change: An Assessment for the European Union.
No 10-045, Sandra Schmidt, Dieter Nautz: Why Do Financial Market Experts Misperceive Future Monetary Policy Decisions?

No 10-044, Ulrich Oberndorfer, Victoria Alexeeva-Talebi, Andreas Löschel: Understanding the Competitiveness Implications of Future Phases of EU ETS on the Industrial Sectors.

No 10-043, Anja Heinze: Beyond the Mean Gender Wage Gap: Decomposition of Differences in Wage Distributions Using Quantile Regression.

No 10-042, Katja Coneus, Katrin Schleife: Online But Still Divided - Inequality in Private Internet Use in Germany.

No 10-040, Andrea Mühlenweg: Teaching, Organization, and Personal Problems - Evidence from Reforming Tertiary Education in Germany.

No 10-039, Martin Wörter, Christian Rammer, Spyros Arvanitis: Innovation, Competition and Incentives for R&D.

No 10-038, Christian Conrad, Daniel Rittler, Waldemar Rotfuß: Modeling and Explaining the Dynamics of European Union Allowance Prices at High-Frequency.

No 10-037, Astrid Dannenberg, Andreas Lange, Bodo Sturm: On the Formation of Coalitions to Provide Public Goods – Experimental Evidence from the Lab.

No 10-036, Katharina Finke, Jost Heinrich Heckemeyer, Timo Reister, Christoph Spengel: Impact of Tax Rate Cut Cum Base Broadening Reforms on Heterogeneous Firms – Learning from the German Tax Reform 2008.

No 10-035, Stefan Boeters: Optimal Tax Progressivity in Unionised Labour Markets: Simulation Results for Germany.

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Zentrum für Europäische
Wirtschaftsforschung GmbH

I M P R I N T

ZEW news English edition – published quarterly

Publisher: Centre for European Economic Research (ZEW) Mannheim

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