Centre for European
Economic Research
www.zew.de/en

English edition
ZEWnews

No. 5 · 2010

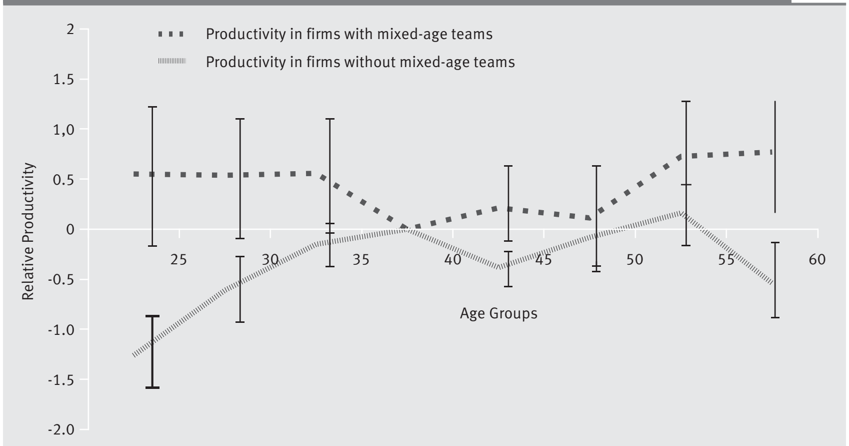
Research Results · Conferences · Publications

with M&A Report

Targeted Human Resource Measures for Older Employees Are Effective

Many companies are experiencing an ongoing increase in the age of their employees. Various studies have shown that productivity at many German companies will decrease as the proportion of older workers continues to rise. Yet targeted human resource measures may offer a solution to this problem. A recent study conducted by the Centre for European Economic Research (ZEW) shows for example that employees who are over 50 years old are more productive when they work in mixed teams together with younger colleagues.

Age-related Productivity Profile of Firms with and without Mixed-age Teams



Firms with mixed-age teams show higher relative productivity for employees in the 20-to-30 year-old group and the 55-to-60 year-old group when compared to firms without mixed-age teams. The vertical bands mark the area in which the relative productivity impact lies with a likelihood of 95 percent. Source: ZEW

Over the past 20 years, the average age of private-sector employees has risen by three years. The demographic development in Germany will lead to a continuation of this trend. For many firms, it is therefore of vital importance that older employees achieve levels of productivity comparable to that of their younger counterparts. While having a large share of older employees does not reduce average productivity, the relative productivity of older workers is below average in many firms. A new ZEW study (Discussion Paper No 10-069) investigates whether Human Resource (HR) measures specifically designed for older employees help to boost productivity. To this end, the relative productivity of older workers was compared in firms with and without such HR measures.

According to the study's findings, companies that offer age-specific workplace amenities (e.g. better lighting; high-contrast computer screens) and companies that offer age-specific workplaces (e.g. by assigning older employees less physically demanding tasks, or tasks which require greater experience) have significantly higher productivity of older employees than companies that do not undertake such measures. The same productivity impact was also found in enterprises where employees work together in mixed-age teams. At such firms, the relative productivity of older workers not only increases, the relative productivity of younger employees rises significantly as well. Younger employees thus clearly benefit from direct contact to the expertise of older employees (see figure).

However, two of the HR measures that were studied failed to increase the relative productivity of older employees – the participation of older

IN THIS ISSUE

RESEARCH FINDINGS

workers in continuing training programmes and working time reductions ("Altersteilzeit").

Failure Due to Flawed Implementation

Continuing training programmes for older individuals often fail to be accompanied by any changes in tasks. Earlier studies have shown that continuing training often leads to increased productivity specifically because it results in a change in tasks. With regard to working time reductions, the model used most frequently in Germany is the so-called "block model", which means that enterprises primarily offer working time reductions as a measure for early retirement rather than to facilitate a more gradual transition to retirement status. In this way, it appears these two HR measures fail to achieve the desired effect of increasing the productivity of older workers, primarily due to their flawed implementation.

The ZEW study is based upon publicly available representative and comprehensive linked company panel data for the years 1997 to 2005. These data were obtained from the Institute for Employment Research (IAB), and encompass almost seven million employees as well as 8,500 firms. At the employee level, the data contain information for example on gender, training, wages and work experience. For establishments, information is available on the branch, size, age and value creation for instance.

Dr. Christian Göbel, goebel@zew.de
Prof. Thomas Zwick, zwick@bwl.lmu.de

One-Euro-Jobs – Dead End for the Long-Term Unemployed?

A key element of the German labour market reforms has been that many of the long term unemployed on social welfare are now offered to work in low-paid public jobs. These so called One-Euro-Jobs are supposed to work as stepping stones to regular employment. According to a recent ZEW study (Discussion Paper No. 10-027), however, these jobs rather appear as a dead end.

One- Euro-Worker

The study provides evidence that after a one-year time-span, agents who do not enter this type of public employment are more frequently in regular employment than comparable agents who do. Significant negative regular employment effects appear throughout the population. The strongest estimate is a 3.1 percent disadvantage of men without a migration background. The study is based on the employment histories of 160,000 individuals who became eligible to receive means-tested long-term unemployment aid, the so-called "unemployment benefits II", in 2006. The treatment group consists of welfare recipients who began a One-Euro-Job within four months of receiving unemployment benefits II. The control group consists of individuals with observable characteristics that, apart from the treatment, match those of the treated.

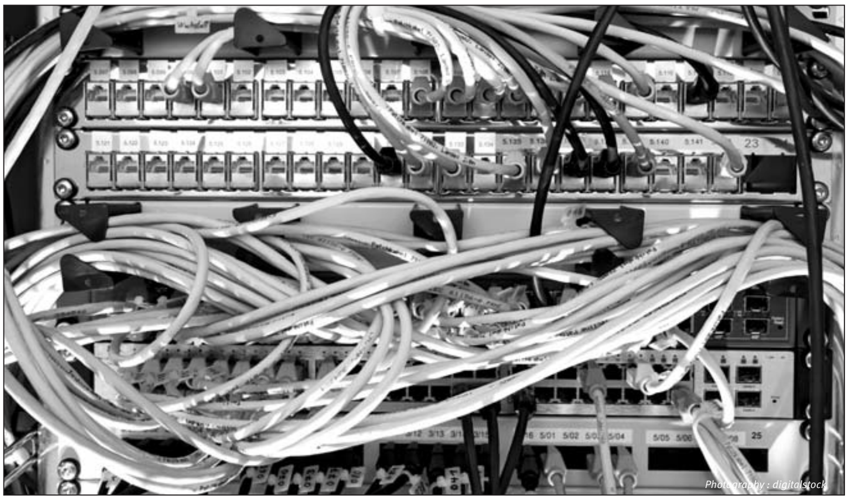
Several factors might contribute to the negative assessment of the cheap public jobs for the long-term unemployed. The qualifications obtained on these jobs may miss demand on regular labour markets, or a stigma effect could impede hiring if employers take participation as a signal of lacking employability. Agents threatened by a One-Euro-job might engage in more active search on the regular market in order to avoid the unappealing public job. In this were the case, the better regular employment outcome in the control group would reflect an indirect positive impact of a work requirement. As the data do not yet allow disentangling these distinct factors, it is too early to conclude that the offer of One-Euro-jobs is an unsuitable instrument of German labour market policy.

Dr. Holger Bonin, bonin@zew.de
Jun. Prof. Dr. Stephan Thomsen, thomsen@ovgu.de

RESEARCH FINDINGS

Broadband Drives Innovation

The efficient use of modern ICT solutions requires a high-performance broadband infrastructure. This recent study by the Centre for European Economic Research (ZEW) shows that broadband Internet is a significant driving force for innovation in German companies. In the early phase of DSL expansion (from 2001 to 2003), companies that used broadband Internet were significantly more likely to realise product or process innovations than they would have without broadband access. Broadband Internet has been a catalyst for innovation particularly in the service sector.



Companies using broadband infrastructure have been more innovative from 2001 to 2003.

A high-performance broadband infrastructure is essential for any company seeking to efficiently utilise the potential of the latest ICT solutions. Global networking allows products and services to be offered not just in the domestic market but also far beyond the borders of the home country. Networking also facilitates knowledge transfer and allows tasks to be distributed in ways that were not feasible until a few years ago. However, so far little empirical research has been conducted into the effects of broadband Internet on innovation in companies. With the support of Deutsche Telekom AG, ZEW has analysed the significance of broadband Internet for innovation activities in German companies. The study considered the early phase of DSL expansion in Germany from 2001 to 2003. The analysis is based on Deutsche Telekom's data on DSL availability in Germany and on data from two waves of the nationwide ICT survey conducted by ZEW in the years 2002 and 2004. In each wave the survey covered some 4,500 companies in manufacturing industry and selected service sectors that had five or more employees. In 2002, 61 percent of companies used broadband Internet (DSL or leased line). On average, companies with broadband had higher revenues and more employees as well as a higher proportion of employees who worked mainly on a computer. Among broadband users there was also a higher proportion of companies that between 2001 and 2003, had introduced at least one new or noticeably improved process (process innovations) or that had brought at least one new or noticeably improved product or service onto the market (product innovations).

Econometric analyses show that broadband Internet significantly stimulated the implementation of product and process innovations in the early phase of DSL expansion. Compared to the situation of having no broadband internet access, companies that used broadband Internet were on average 25 percentage points more likely to implement at least one process innovation. This effect is almost exactly as large for product innovations. Therefore, broadband Internet was a driving force for new and noticeably improved processes, products and services. This highlights the contribution that broadband Internet has made to the competitiveness of German companies. In the current debate on higher broadband speeds and the expansion of the broadband infrastructure, the question arises as to whether such improvements will result in positive effects similar to those seen with the introduction of DSL. New services such as cloud computing demand high bandwidths for fast access. It seems reasonable to assume that the move to higher bandwidths will give a further boost to innovation activities in companies, but this remains to be seen.

For more information, visit: www.zew.de/breitbandstudie2010

Dr. Irene Bertschek, bertschek@zew.de

ZEW CONFERENCE

Conference On Europe's Post-Crisis Stability

The Centre for European Economic Research (ZEW) is pleased to announce the first German ECSA Young Researcher Conference on "Europe's Post-Crisis Stability – An Interdisciplinary Approach" from 21 to 23 February 2011. The conference is jointly organised by the German ECSA Arbeitskreis Europäische Integration (AEI) and ZEW, Mannheim. Against the background of the financial, economic and debt crisis, the conference is devoted to a better understanding of the (in)stability of political and economic systems in a European context. For further information, please visit: *www.zew.de/aei-ecsa2011*

RESEARCH FINDINGS

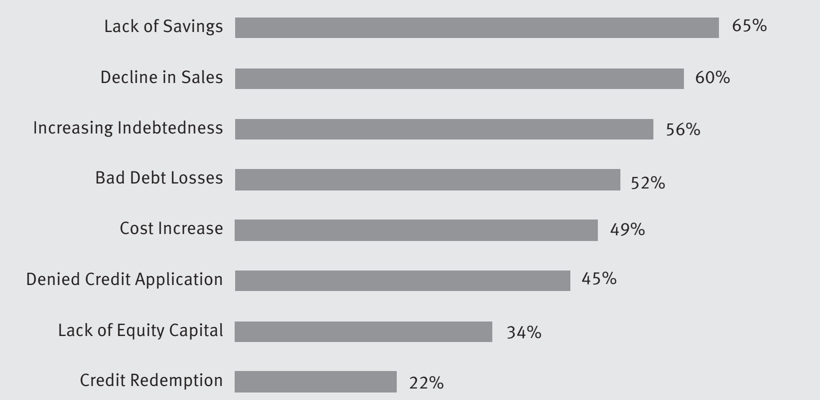
Despite Sound Business Ideas, Start-ups often Go out of Business

In Germany on average, approximately 60,000 to 70,000 companies that are less than five years old went out of business during 2000 to 2008. Only about 15 percent of business closures involve bankruptcy proceedings. A remarkably large share of about 30 percent of the new businesses close without being forced to do so by economic necessity. These are the findings of a study that examined different causes for the closure of new firms between 2000 and 2008. The study was conducted by the Centre for European Economic Research (ZEW) in collaboration with the Centre for Insolvency and Restructuring (ZIS) at the University of Mannheim and Creditreform, a credit information agency.

Although insolvency is responsible for only a small share of all start-up closures, insolvency causes some 40,000 to 50,000 jobs to be lost each year. This is due first and foremost to the fact that companies involved in insolvency are on average larger than other closed firms. So approximately 50,000 to 60,000 jobs are lost each year because of firm closures not caused by insolvency, a figure that is only about 1.2 times greater than the number of jobs lost because of firm insolvency, despite four times as many closures in the latter group per year.

Most businesses cease operations without being compelled to do so by economic exigencies. They shut down, either because their founders could not earn satisfactory salaries for themselves, found themselves overwhelmed by the burdens of entrepreneurial work and its impact upon their families, were troubled by health problems or felt that pursuing the business had become too risky for them. Close to half of the jobs lost from closures of new firms without insolvency proceedings, totalling about 26,000 jobs each year during the period under study, were associated with business closures attributable to personal reasons of this kind.

Financial Difficulties of Closed Start-ups



Survey among closed start-ups, multiple answers are permitted. Source: ZEW

Ways to Leave the Market

Of the firms that were shut down for personal reasons, a significant proportion demonstrated prior to closure, at least temporarily, that they had a marketable business concept. Remarkably, 70 percent of the new firms that closed had surpassed the break-even point in their short existence. This must be interpreted as an indication that only a small number of these firms could have been founded on the basis of a fundamentally unrealistic business model. Thus, one has to conclude that the earnings they produced were sufficient to keep the firm afloat, but not sufficient to guarantee the entrepreneurs adequate compensation for their efforts when compared to alternative forms of employment.

Multiple Causes of Crisis

There is no single reason for why a firm exits the market. Instead, there are clusters of causes which may lead to a dead-end situation for a new company. However, it is possible to develop a ranking of causes according to their relative importance in firm closures. At the top of the list are problems related to the financing of the start-up. There is great deal of empirical evidence showing that new companies are often undercapitalised. An inability to create sufficient reserves for coping with temporary losses and the problem of rapidly rising indebtedness in such situations, which then results in the refusal of additional credit – these are the classic elements of a liquidity bottleneck, a situation that firms all too often face in their first years of existence.

In addition, losses on receivables, cutbacks in orders and unanticipated cost increases are frequently cited as significant reasons for going out of business (see figure). Finally, new entrepreneurs frequently lack “business savvy”, whether this involves making the right strategic business decisions, or establishing realistic strategies for tasting growth and investment.

Jürgen Egeln, egeln@zew.de

RESEARCH FINDINGS

Innovative Firms Are Better Able to Deal with Credit Denials

In order to realise their investment plans, small and medium-sized enterprises in Germany are particularly dependent on financing from banks, as they often don't have access to capital markets. A new study by the Centre for European Economic Research (ZEW), undertaken in collaboration with KfW Bankengruppe, investigated what alternative sources of funding SMEs use and how the amount of capital invested changes when a firm's credit application is denied. In this connection, innovative and non-innovative SMEs were compared.

According to the study (ZEW Discussion Paper No 10-025), a firm is considered innovative if it continuously or occasionally invests in R&D or if it has successfully brought a new product or process onto the market within the last three years. Data on innovation activities, credit histories, planned and realised investments as well as additional firm characteristics were taken from a representative annual survey of German SMEs conducted by KfW Bankengruppe. A total of 3,543 firms were analysed in the study. The data exhibited the following features: 64 percent of the surveyed firms could be considered innovative. With regard to R&D spending, 17.3 percent invested continuously in R&D, and 14 percent invested occasionally in R&D. On average, the firms had 69 employees, a profit rate of 3.8 percent, an equity capital ratio of 18 percent and a capital intensity of 37.1 percent.

When banks reject credit applications, innovative firms are more successful than their non-innovative counterparts in tapping alternative sources of financing.

Credit Denied More Often for Innovative Firms

The econometric calculations performed in the study show that when a firm's profit rate, equity capital ratio and capital intensity are high, the probability of credit denial is lower. On the whole, innovative firms have a much higher probability of being denied credit than non-innovative firms. This is likely attributable to the fact that banks view the investments of innovative firms as riskier, as they have difficulty assessing whether a firm's R&D activities will result in a profitable new product or process. However, the study's findings also make clear that innovative firms are better able to cope with loan denials. In the case of credit denial, innovative firms are ultimately able to realise ten percentage points more of planned investments than their non-innovative counterparts. It has to be remarked, however, that even though innovative companies can better cope with loan denials, a credit denial nevertheless implies a substantial reduction in the investment volume in absolute terms. The fact that innovative firms are able to invest despite credit denials is attributable to their ability to increase external equity financing as a share of total investment financing. Innovative firms meet 6.7 percent of their financing needs with external equity capital, while this figure for non-innovative firms which have been rejected credit is a mere 1.1 percent.

External equity financing includes all funding received through business angels, venture capital and the equity stakes of additional owners. The credit applications of innovative firms might be rejected by banks due to the fact that credit does not represent an optimal form of financing for such firms. However, when investment projects are profitable, innovative firms may be able to attract equity investors.

In future research it would be worthwhile to extend this analysis in two directions. On the one hand, it would be interesting to investigate the long-term consequences of credit denials for the performance and survival of companies. On the other hand, it would be interesting to investigate the consequences of problems with access to other forms of external financing in addition to bank loans.

Dr. Elisabeth Müller, mueller@zew.de
Dr. Frank Reize, frank.reize@kfw.de

INTERVIEW

Questions & Answers: Disconnected Youths in Germany

Increased Educational Opportunities for Disadvantaged Children and Youths

According to a new ZEW study, some 13 percent of German teenagers aged 17 to 19 could be classified in recent years as disconnected, and the number of disconnected youths is on the rise. In the cohort of those born in 1990, this corresponded to approximately 130,000 individuals. These youths don't go to school, do not have regular employment and also lack solid, lasting friendships. We discuss causes and consequences of this unfortunate trend with Friedhelm Pfeiffer, educational economist at ZEW, who argues that government funding for disadvantaged children and youths should be spent in a more targeted fashion.

Germany is considered a country with high educational standards.

Does your study cast doubt on this perception?

Indeed, the scale of youths' disconnectedness surprised us: 13 percent of all children born in a given year – that is quite an alarming figure. It must be noted as a caveat, however, that this percentage was calculated based on a sample from the Socio-Economic Panel Study (SOEP). The actual figure could be somewhat larger or smaller. Yet a look at official educational statistics shows that the extent of youths' disconnectedness tends to be underestimated. In its most recent report, for example, the German Council of Economic Experts noted that eight percent of all youths in a given cohort never acquire a school leaving certificate of any kind. And the PISA study demonstrates that up to 20 percent of all youths cannot read or write with sufficient proficiency.

Why do so many children and youths have such problems in school?

Our analyses reveal deeper causes in the family environment. Educational institutions are unsuccessful in compensating for the enormous differences that are present in the quality of family environments. The basic skills needed to be successful in school are attained to a significant degree from the family. The early and very early life phases are particularly important for the development of these learning abilities. A stimulating and caring environment in the first months and years of life is highly beneficial. Familial situations marked by psycho-sociological dysfunction or socio-economic stress impair a child's development. In many cases children from such families fail to develop the stamina and self-discipline to keep up with other pupils, even when they are quite intelligent. For example, we've shown that low educational attainment on the part of parents as well as an instable family situation in the first 15 years of a child's upbringing increase the probability of youths' disconnectedness between the age of 17 and 19.

What does this trend mean for the welfare of our society?

For the economy the main problem is that disconnected youths do not fully exploit their cognitive potentials (e.g. logic, memory and associative abilities). The shortage of qualified employees that Germany is currently experiencing could therefore become more pronounced in the future, for cognitive abilities reach their maximum level of development in the age groups between 17 and 19. Lack of educational investment at this age – when knowledge and skill acquisition for later employment is associated with low costs and high effectiveness – leads to various secondary costs, not only for impacted youths, but also for the modern economy. A second main problem is that disconnected youths have a harder time integrating into society. At the age of 17 to 19, teenagers acquire school degrees, receive vocational training and learn important social rules and norms. There is significant shortfall in human capital investment in this area, and disconnected youths and society must make up for these deficits later at much greater expense.

How can this negative trend be stopped?

On the one hand, youths who are currently disconnected must be provided with an opportunity to make up for

Dr. Friedhelm Pfeiffer is vice head of the research department of "Labour Markets, Human Resources and Social Policy" at ZEW and a lecturer at the university of Mannheim. He studies the individual and macroeconomic returns of optimised educational investment as well as the acquisition of cognitive and non-cognitive skills in the life cycle. Dr. Pfeiffer coordinates funding provided by the Joint Initiative for Research and Innovation for the research network "Non-Cognitive Skills: Acquisition and Economic Consequences," a project being undertaken in collaboration with the Universities of Chicago and Konstanz, as well as with the Centre for Educational Economics in London, the Central Institute of Mental Health in Mannheim and the Socio-Economic Panel (SOEP) in Berlin.

INTERVIEW

the missing investments in their human capital. The government funding that is required for this catching-up process should be strictly concentrated on disadvantaged youths, so that the funding actually has an effect. On the other hand, more preventative measures should be taken in order to compensate for the disadvantages that originate much earlier in childhood. Funding in this area should be increased and concentrated as much as possible on the children who are most disadvantaged through their family environment. Research findings suggest that spending focussed on the most disadvantaged children leads to a high payback for both individuals and society over the long term.

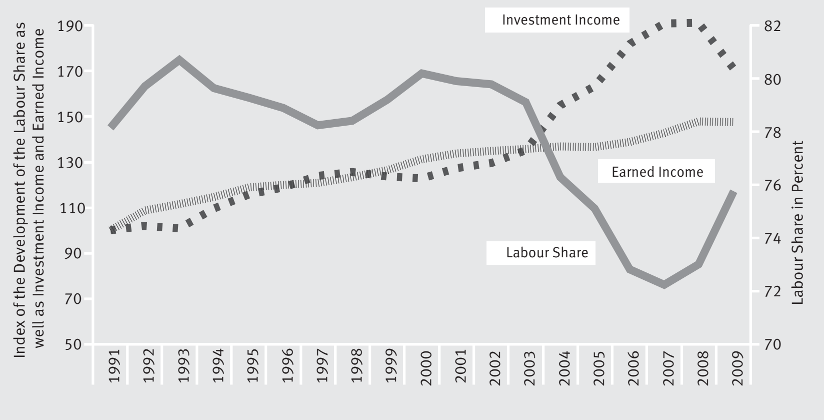
Dr. Friedhelm Pfeiffer, pfeiffer@zew.de
Kathrin Böhmer, boehmer@zew.de

POLITICO-ECONOMIC ANALYSIS

Falling Labour Share – Evidence of Increasing Income Inequality?

The labour share has been on the decline in Germany for more than 25 years. This decline accelerated in the early 2000s. The following article discusses the origins of this trend, and the extent to which the labour share can be seen as evidence of income stratification.

Development of the German Labour Share Since 1991



Source: Statistisches Bundesamt, ZEW calculations

The earned income share is the gross earned income of a country's workforce as a share of national income. National income, in turn, is the sum of earned income (compensation of employees), unearned income (interest, rents) and entrepreneurial income. In contrast to the standard calculation of the labour share – which does not factor in self-employment income, considering it instead to be a form of investment income – the labour share used here includes income from self-employment as earned labour income. This raises the labour share compared to its most basic version.

From the mid-1980s to 2007, the labour share in Germany fell around ten percentage points, to a low of 73 percent, and is currently about 75 percent. This development is attributable to both short-term influences and long-term trends. Over the short term, the earned income share is driven first and foremost by swings in the business cycle. In this regard, the movement of the earned income share is anti-cyclical. This is due to the fact that earned income and investment income have different levels of volatility. While the latter experiences strong and rapid growth in times of economic upturn, earned income tends to react much slower, and not as strongly. As the labour share is a relative figure, this pattern of volatility alone is sufficient to produce a falling labour share in times of economic growth; for as long as earned income increases slower than investment income, the labour share will fall. The exact opposite trend was witnessed during the crisis of 2008 and 2009. The labour share experienced a strong increase, due first and foremost to a massive decline in investment income while earned income remained relatively constant (see Figure). Among other things, this point is important when considering welfare effects.

Less Volatility

In terms of welfare economics, it is quite desirable when earned income is less volatile. In this way, a falling labour share in times of economic growth does

POLITICO-ECONOMIC ANALYSIS

not necessarily mean that earned income is declining in absolute terms.

Structural change is the primary factor that has led to a falling labour share in recent decades. This change has led to a contraction in the GDP contribution made by economic sectors with relatively high overall incomes. The labour share is the sum of each individual sector's labour shares, calculated according to the contribution made by each sector to GDP. The earned income share of a particularly large sector – such as machine building – thus has a larger weight in the labour share than a sector with lower output. The influence of structural change is underscored if we compare the actual labour share to a hypothetical labour share that assumes each sector's GDP contribution has remained unchanged since 1970. This hypothetical calculation illustrates that the labour share would not have experienced a long-term downward trend if the weight of each individual economic sector had remained unchanged. The falling labour share is thus not attributable to a decline in the labour share in all sectors, but rather to a change in the contribution made by each sector to GDP – in other words, to structural change.

Strong unions have a positive influence on the labour share.

Econometric analysis reveals additional factors that have contributed to the long-term decline of the labour share, including technological change, the international distribution of labour, world trade and labour market institutions. Of these factors, technological change has had the biggest impact. Trade openness, being of particular importance for Germany, has also had a measurable negative influence, albeit a smaller one.

Labour market institutions have various effects. Due to negative employment effects, higher unemployment benefits tend to depress the labour share. By contrast, when unions have a larger role, this has a positive effect on the labour share, at least over the short term.

Household Income Stems from Various Sources

Thus far, we've addressed the reasons for the observed shift in the functional distribution of income in Germany in recent decades. Yet, does the long-term evolution of the labour share allow us to draw conclusions concerning income stratification? First, it is important to recognise that the earned income in national accounting is not the only component of the disposable income of employees. In order to draw conclusions concerning the equitable distribution of income, we must first investigate whether a falling labour share is counterbalanced by an increase in the investment income collected by employees. Examples of investment income include compensation in the form of stock options as well as household income from interest, dividends or rents. A falling labour share thus does not necessarily mean that the disposable income of employees is also on the decline. Analyses conducted using household data confirm the importance of income from sources other than employment. For this reason, it is difficult to ascertain what income is attributable to labour and what to investment. As a compensating factor, however, investment income is not significant for all households. In this way, changes result in the distribution of income at the household level. Particularly households with high overall incomes witness an increase in the share of investment income. This is not the case for employees who earn average wages, however.

Thus, the following conclusion emerges: A falling labour share can be indicative of a change in income distribution, yet, it is not definitive evidence of such a change.

Jan Hogrefe, hogrefe@zew.de

ZEW CONFERENCE

Conference on „Post-Crisis Fiscal Consolidation Strategies for Europe“

The Centre for European Economic Research (ZEW) is pleased to announce the Conference on „Post-Crisis Fiscal Consolidation Strategies for Europe“ from 24 to 25 March 2011. The conference is jointly organised by Arbeitskreis Europäische Integration e.V. (AEI), Arbeitskreis Politische Ökonomie (APOE), Walter-Eucken-Institute, the University of Freiburg and ZEW, Mannheim. As a consequence of the economic and financial crisis, public deficits have reached record levels in EU countries. The conference is devoted to the analysis of the current fiscal development, its consequences and possible fiscal strategies for the EU member states. For further information, please visit:
http://www.wipo.uni-freiburg.de/Abteilungen/Neumaerker/tagungen/APOE2011

FIRST-HAND INFORMATION ON CURRENT ECONOMIC POLICY

Wolfgang Schäuble on Post-Crisis Fiscal and Financial Market Policy

Dr. Wolfgang Schäuble, the German Federal Minister of Finance, gave a talk at ZEW in September on fiscal and financial market policy in the wake of the crisis. Prof. Dr. Dr. h.c. mult. Wolfgang Franz, president of ZEW, welcomed 400 guests to the event, which was part of the lecture series "First-Hand Information on Current Economic Policy".

Federal Minister of Finance Wolfgang Schäuble argued at ZEW in favour of growth-friendly austerity policy.

Schäuble began his lecture by reminding the audience that the financial and economic crisis is not yet fully over. He noted that while Germany's 2010 budget deficit will only be 60 billion euros, as opposed to the 80 billion euros originally forecasted, the GDP growth of around 3 percent anticipated for this year won't make up for -4.7 percent GDP drop in 2009. Economic output will return to its pre-crisis level at the very earliest in 2012, Schäuble stated. This is one year sooner than anticipated by the German federal government and the Bundesbank. Nevertheless, Schäuble emphasized that budgetary policy must remain committed to austerity. In this connection, Schäuble said he is pursuing a fiscal consolidation strategy that would not impede the recovery.

Schäuble continued his talk by stating that while 60 percent of the federal government's austerity package is directed at reducing expenditures, 40 percent of the targeted savings must be achieved through "tax revenue gains". According to Schäuble, taxation of the energy sector will be especially helpful in generating additional revenues. In Schäuble's view, the air transport excise tax, which will be introduced in January 2011 for passenger flights by German airline carriers, is a fair trade-off for the preferential treatment that air transport has received historically in comparison to other transport carriers (due to tax exemptions on jet fuel, for example). With the new nuclear fuel rod tax, Schäuble noted, the additional profits gained by power companies as a result of the prolongation of nuclear-power-plant life spans will be partially skimmed off. In addition, power companies will be subject to a tax that will directly support the expansion of renewable energy. In this way, Schäuble concluded, the federal government is pursuing a fiscal consolidation strategy that is reasonable both from an economic and ecological perspective. For Schäuble, the financial market crisis has demonstrated that markets without functioning regulations will ultimately destroy themselves. Globalization and the relentless expansion of information and communication technologies are making it ever more difficult to impose regulations, Schäuble said. Policy makers should not delay important reforms with the argument that consensus must be reached at a global level first. If global solutions are not forthcoming then Europe must take the lead.

Optimism about Basel III

Schäuble went on to say that at this time, it is unclear whether an international financial transaction tax will be implemented to rein in speculative trading on stock exchanges. Schäuble expressed his support for the introduction of such a tax on every securities transaction, at least in Europe. He was confident that government and national leaders from the largest industrial nations will approve the new Basel III banking regulations at the G20 summit in November. If Basel III is ratified, banks will be required to set up a larger financial cushion against crises. Greece's debt problems have demonstrated that a crisis can rapidly spread to other countries, Schäuble stated, adding that Germany's citizens would be highly reluctant to foot the bill for other European nations beset by debt crisis. For Schäuble, however, the discussion concerning whether the EU is becoming a "transfer union" is counterproductive. Europe is a community of nations that are dependant on one another, and Germany in particular profits from this fact. Communicating this will be an important task for politicians in the future, Schäuble concluded.

Kathrin Böhmer, boehmer@zew.de

INSIDE ZEW

SEEK Kick-Off Conference "Going for Smart Growth with Knowledge and Innovations"

The Centre for European Economic Research (ZEW) is pleased to announce the kick-off conference of its recently launched research programme „Strengthening Efficiency and Competitiveness in the European Knowledge Economies (SEEK)". The conference takes place from 4 to 5 March 2011. It aims at bringing together politicians and academia to discuss the challenges of knowledge and innovation-based growth for the European economies. In addition, researchers from various economic disciplines are invited to present their research at the conference. Researchers are encouraged to submit contributions electronically. For further information on the Call for Papers, please visit: *http://seek.zew.eu*.

On 27 September 2010, the first round of project proposals within the SEEK programme was completed. Until the deadline, 23 project proposals were submitted by ZEW researchers in cooperation with internationally renowned researchers. The proposals were evaluated externally by the SEEK Scientific Board. Scientific Board members are Daron Acemoglu (MIT), Kai Konrad (MPI München), Josh Lerner (Harvard Business School), Pierre Mohnen (UNU-MERIT & Maastricht University), Bronwyn Hall (University of California at Berkeley and Maastricht University), Steve Machin (University College London), Fabrizio Zilibotti (University of Zurich), Georg Licht (ZEW) and Wolfgang Franz (ZEW). In the first funding period, the following nine projects will be funded within the SEEK research programme:

- Product Innovation under Uncertainty – The Effect of Dynamic Resource Allocation
- The Research Use Exemption from Patent Infringement – Boon or Bane?
- Interaction Between Innovation and Firm Dynamics and its Impact on Industry Structure and Economic Growth
- Patent Litigation in Europe
- How do Banks Screen Innovative Firms?
- Taxation and Corporate Innovation
- Firm Behavior Over the Product Life Cycle
- Anticipated Technology Shocks in the European Economies
- Induced Climate-related Innovations, Crowding out, and their Impacts on Competitiveness

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

Guests from Asia Visit Ministry of Finance of Baden-Württemberg

Within a professional training programme at ZEW, 19 employees at the Chinese Ministry of Finance and other state institutions in China and Vietnam visited the Ministry of Finance of the state Baden-Württemberg in Stuttgart. At the ministry, the guests from Asia were welcomed by Dr. Gisela Meister-Scheufelen, head of ministry department. Dr. Gisela Meister-Scheufelen and Reiner Moser, head of the department of budget, gave speeches on the topics "National Budget and Budget Planning in Germany" and "Budget of the State Baden-Württemberg".

The group of financial experts from China and Vietnam consists of employees at the Ministries of Finance in both countries, the State Bank of Vietnam, the Ministry of Planning and Investment in Vietnam and the Chinese Ministry of Commerce. From September to November 2010, the experts participate in a ZEW professional training programme on macroeconomics. The programme imparts knowledge on fiscal and monetary policy, labour and financial markets as well as trade policy.

The course at ZEW is part of the training programme "Strengthening Macroeconomic Policies", which is organised by Inwent – Capacity Building International, Germany, on behalf of the German Federal Ministry for Economic Development and Cooperation.

ZEW DISCUSSION PAPERS

No 10-079, Katja Coneus, C. Katharina Spiess: Pollution Exposure and Infant Health: Evidence from Germany.

No 10-078, Dirk Czarnitzki, Bernd Ebersberger: Do Direct R&D Subsidies Lead to the Monopolization of R&D in the Economy?

No 10-077, Bernd Fitzenberger, Aderonke Osikominu, Marie Paul: The Heterogeneous Effects of Training Incidence and Duration on Labor Market Transitions.

No 10-076, Martin Bohl, Judith Lischewski, Svitlana Voronkova: Pension Funds' Performance in Strongly Regulated Industries in Central Europe: Evidence from Poland and Hungary.

No 10-075, Friedrich Heinemann: Voluntary Giving and Economic Growth: Time Series Evidence for the US.

No 10-074, Klaus Rennings, Sascha Rexhäuser: Long-Term Impacts of Environmental Policy and Eco-Innovative Activities of Firms.

No 10-073, Dirk Czarnitzki, Cindy Lopes Bento: Evaluation of Public R&D Policies: A Cross-country Comparison.

No 10-072, Astrid Dannenberg: Voting in International Environmental Agreements - Experimental Evidence from the Lab.

No 10-071, Dirk Czarnitzki, Annelies Wastyn: Competing internationally: On the Importance of R&D for Export Activity.

No 10-070, Judith Lischewski, Svitlana Voronkova: Size, Value and Liquidity. Do They Really Matter on an Emerging Stock Market?

No 10-069, Christian Göbel, Thomas Zwick: Which Personnel Measures are Effective in Increasing Productivity of Old Workers?

No 10-068, Andreas Löschel, Bodo Sturm, Carsten Vogt: The Demand for Climate Protection – An Empirical Assessment for Germany.

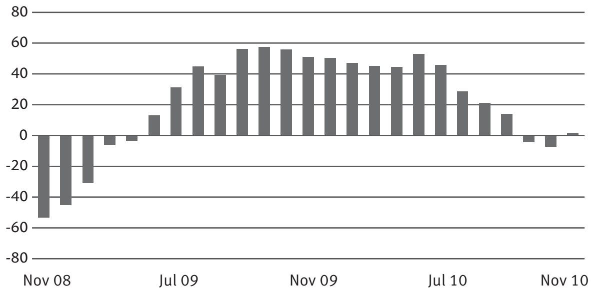
No 10-067, Frank Pothen: Industrial Ecology in Policy Making: What is Achievable and what is not?

No 10-066, Katrin Hussinger: Absorptive Capacity and Post-Acquisition Inventor Productivity.

No 10-065, Klaus Rennings, Christian Rammer: The Impact of Regulation-driven Environmental Innovation on Innovation Success and Firm Performance.

FACTS AND FIGURES

ZEW Financial Market Test November 2010

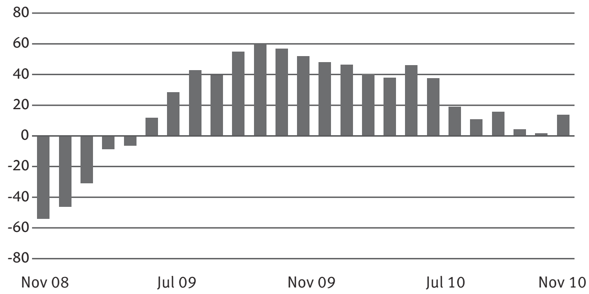


Balance of positive and negative assesments concerning short-term interest rates.
Source: ZEW

ECB: Interest Rate Hike Seems More Likely

The majority of financial market experts surveyed by ZEW are still not expecting a change in short-term interest rates in the eurozone in the next six months. However, the percentage of experts expecting an increase of short-term interests has increased to 38.9 percent in November. This indicates that, according to the ZEW financial market experts, an increase of interest rates by the European Central Bank (ECB) has become more likely. A reason for this could be that the ECB is trusted to take action against inflation.

Christian D. Dick, dick@zew.de



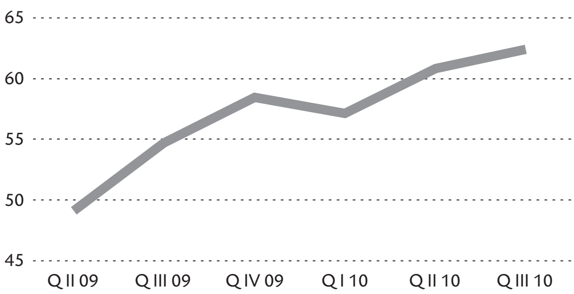
Balance of positive and negative assesments concerning economic expectations for the Eurozone. Source: ZEW

Eurozone: Expectations Improved

In November, the economic sentiment for the eurozone has increased by 12.0 points to 13.8 points. This increase is larger than the economic sentiment for Germany (increase of 9.0 points). A growing number of experts seem to hold the opinion that the economic situation in other eurozone countries is also going to improve. The indicator reflecting the current economic situation in the eurozone now stands at minus 1.0 points. The respective indicator for the current economic situation in Germany stands at 81.5 points.

Christian D. Dick, dick@zew.de

Positive Sentiment among Service Providers of the Information Society

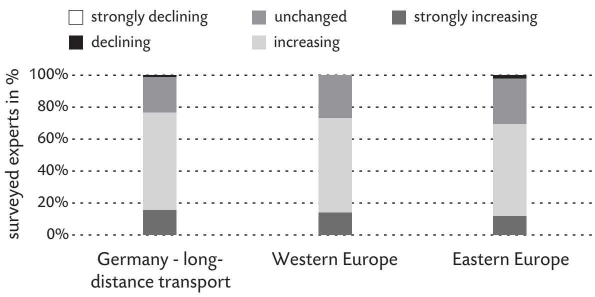


Source: ZEW

In the third quarter of 2010, business sentiment in the economic branch “service providers of the information society” slightly improved. The ZEW-IDI, which measures economic sentiment across the entire branch, increased by 1.6 points to 62.4 points. An indicator value of over 50 points means that business sentiment in the branch has improved in comparison to the previous quarter. The economic branch of “service providers of the information society” includes the branches of software, IT services, ICT trade, telecommunication services, tax consulting and accounting, management consulting, architectural services, technical consulting and planning, research and development and advertising.

Dr. Jenny Meyer, meyer@zew.de

Positive Expectations for Road Freight Volumes



Source: ZEW

Road freight volumes are gradually recovering. Over three-quarters of the experts surveyed for the ProgTrans/ZEW Transport Market Barometer expect that truck freight volumes in Germany will increase in the coming six months. For West European routes, over 70 percent of the experts foresee increasing road freight volumes. This figure is just under 70 percent for Eastern European routes. Some 300 transport and logistics companies take part in the quarterly Transport Market Barometer, which surveys expectations for freight volumes and prices in inner-German and cross-border transport. The results presented above are based on data gathered in the third quarter of 2010.

Dr. Claudia Hermeling, hermeling@zew.de

OPINION

The Academic Hit Parade

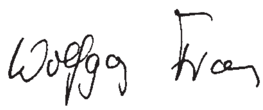
It's just a typical Monday morning in the year 2015. At universities across the land economists are sitting with anticipation at their computers, counting the minutes until 10:00 a.m., when the latest weekly rankings will be available at the Financial Times. As usual, the server is overloaded and initially breaks down under the storm of requests. But after several minutes of excruciating delay, the hit parade is finally online. For each researcher and faculty, an exhaustive list of peer-reviewed publications and citations can be viewed, precisely subdivided into A, B and – *horribile dictum* – C journals, along with a competitive ranking, updated for the week.

The economics faculty at University X is alarmed. It has slipped from 11th to 13th place; the embarrassment is intolerable. Professor Y is responsible once again, of course. For the second consecutive week he hasn't been cited or published in any big name journals. The dean promptly convenes an emergency meeting of the faculty board. After begging for forgiveness, Professor Y musters a few words in his defence. The importance of his recently submitted article, which will have a profound impact on the field, has simply not yet been recognised, he says, and the editor of the A Journal who rejected the article is, as everyone knows, an ignoramus par excellence. All of which demonstrates, Professor Y argues, that the ranking is seriously flawed. But Professor Y has apparently gone too far. "The ranking? Flawed?" the faculty chair guffaws, excusing Professor Y from the room.

But the faculty isn't satisfied with merely chastising Professor Y. In its funding negotiations with the administration, it had promised a ranking of at least 10th place. Thus, to save the faculty's reputation, a new chair for economic policy is promptly established, and a search committee formed. It is argued that the new chair will need to overcompensate for existing deficits, and for this reason only Professor Z from Ivy League college H could possibly fit the bill. Objections are cast aside. One dissenting faculty member notes that Professor Z only studies economic theory and has no interest in applied economics. Another protests that Professor Z always writes the same thing, just with a different title. Yet a third states that Professor Z is a notorious introvert, virtually incapable of communication with humans and totally inappropriate for such a key position. Yet to no avail. Professor Z is appointed and freed of all teaching requirements, undergrad or otherwise. As a punishment Professor Y is shouldered with additional teaching responsibilities – the students will just have to grin and bear it, the faculty decides.

Back to the year 2010. Caricatures such as the above are of course exaggerations. Thus, no faculty should feel it is being directly described. Yet caricatures do normally possess a kernel of truth. Here, this truth is the fear that too much importance is being given to publication output in the assessment of academic performance, with the result that a faculty might seek in its hiring policy to simply buy a better ranking, no matter what the cost. By the same token, there is fear that many activities are often overlooked or undervalued – particularly teaching, but also responsibilities in faculty administration or in economic policy advising.

There are certainly many academics who are both successful researchers and teachers. Such individuals are a benefit to every faculty. The problem begins with academics who are true talents at research, but who refuse to make the effort required to give good lectures. Such individuals help to boost a faculty's ranking, but the quality of teaching suffers as a consequence. Freeing such individuals from teaching responsibilities creates bad blood in the faculty, as others must pick up the slack. Yet creating a general division of labour between researchers and teachers is also a poor option, as this would establish a two-tiered society, in turn undermining faculty solidarity.



ZEW
Zentrum für Europäische Wirtschaftsforschung GmbH

IMPRINT

ZEW news English edition – published quarterly
Publisher: Centre for European Economic Research (ZEW) Mannheim
L 7, 1 · 68161 Mannheim · P. O. Box 10 34 43 · 68034 Mannheim · Germany · Internet: www.zew.de · www.zew.eu
President: Prof. Dr. Dr. h.c. mult. Wolfgang Franz · Business and Administration Director: Thomas Kohl
Editors: Kathrin Böhmer, Phone +49/621/1235-103, Telefax +49/621/1235-222, E-Mail: boehmer@zew.de
Gunter Grittmann, Phone +49/621/1235-132, Telefax +49/621/1235-222, E-Mail: grittmann@zew.de
Reprint and further distribution: only with mention of reference and sending of a voucher copy