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ZEWnews

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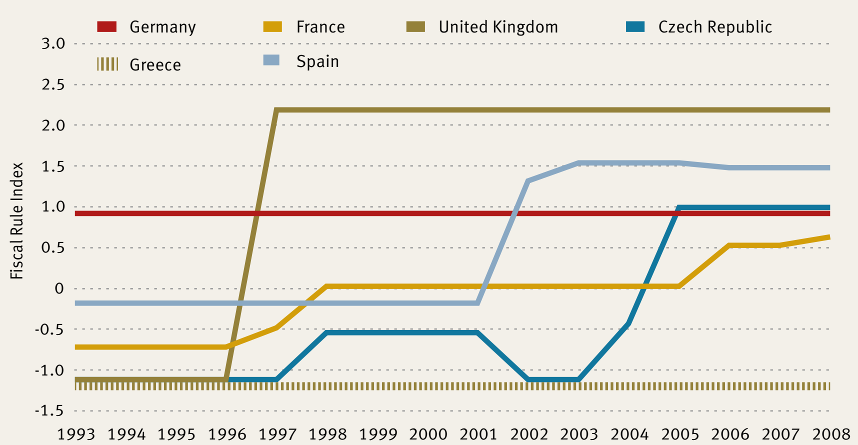
Research Results · Conferences · Publications

Strong National Fiscal Rules Help Keeping Risk Premiums for Government Bonds at Lower Levels

The crisis over the threat of default of highly indebted European countries has fanned the debate regarding sustainable fiscal institutions in Europe. A study conducted by the Centre for European Economic Research (ZEW) has investigated the extent to which national fiscal rules can help to restore financial market confidence in future public solvency.

Fiscal Rule Index of the European Commission for Selected Countries



The fiscal rule index combines quantitative and qualitative characteristics of a country's existing fiscal rules and measures their strength by the following criteria: Legal framework, nature of the bodies in charge of monitoring and enforcement, enforcement mechanisms and media visibility. The lowest value of minus 1.12 per cent means that no fiscal rules are in place (see for instance Greece). The constant value for Germany shows that the strength of German fiscal rules has not changed during this time. Source: European Commission fiscal rules database, ZEW calculations

A fiscal rule is a permanent restriction of budgetary policy whereby a specified limitation determines levels of the budget balance, debt, or public spending. A famous example is the German debt brake which, as of the 2016 financial year, will stop the Federation from borrowing more than 0.35 per cent of the GDP in a normal economic situation. In view of the European debt crisis and increased national refinancing costs, many member states are in serious discussions about the introduction of similar regulation in order to create a more sustainable future budget policy and thus regain the trust of the market. The ZEW has conducted a study of the connection between fiscal rules and the confidence of the capital markets on behalf of the Germany Federal Ministry of Finance.

Rising Interest Rate Differentials

The present crisis of confidence is especially well reflected in the sharply risen interest differentials between the European countries. Government bond yields converged strongly at the start of the monetary union because of the sudden absence of currency risk. When the financial crisis began, they showed very low values of sometimes less than 0.2 per cent compared to German bonds. From 2008 the first divergence of bond yields could be seen, leading in 2010 to a dramatic rise in risk premiums to as much as 9 per cent for some countries. The empirical literature on the determinants of bond yield differentials shows that their levels can mainly be explained by means of national fiscal indicators such as debt and deficits. Since the beginning of the crisis, fiscal imbalances have been penalised much more harshly in the form of higher risk premiums.

Impact of Fiscal Rules upon Market Confidence

The ZEW study investigated how far the increasing use of fiscal rules in the EU impacted upon the confidence of the markets and thus upon risk premiums. The strength of rules is measured using

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the European Commission's "Fiscal Rule Index" (see figure on the front page). As can be seen, numerous countries in the EU have introduced fiscal rules during the time period in question, to a degree whereby in the year 2008 nearly all surveyed countries have them – the only exception being Greece.

The ZEW's analyses show that in these countries stronger fiscal rules go hand in hand with more reasonable refinancing conditions, i.e. countries with comparably strict fiscal rules have had to pay lower premiums in the past fifteen years than countries which have none at all. A further study of the Swiss cantons shows even more pronounced effects due to comparably strict fiscal rules at the cantonal level. The very existence of a fiscal rule in a canton corresponds on average to a 0.18 percentage point reduction of the risk premium.

This evidence confirms that when numerical fiscal rules are implemented they can help fostering sustainable budget policy, and that the capital markets respond positively in turn. As far as the shaping of fiscal rules is concerned, further regression results point to the superiority of balanced budget rules. The Swiss and the German debt brakes have set a standard which ambitious national reforms can look to.

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Video Games Contribute to Crime Rate Reduction

Video games reduce crime rates because they keep potential criminal offenders glued to their computers or gaming consoles. Thus, less time remains to commit crimes. These are the findings of a joint study by ZEW, the Baylor University and the University of Texas at Arlington.

Photo: digitalstock

The time gamers spend playing video games can not be used to commit crimes.

Paradoxically, violent video games may reduce violence by drawing potentially violent criminals to the screen and keeping them away from alternative, conceivably violent activities. On the other hand, numerous psychology studies suggest that violent video games increase individuals' aggressiveness. Especially the gradual increase in the willingness to use violence, which is produced by violent video games, can cause severe damage to both individuals and society, and should henceforth not be underestimated.

The findings linking gameplay to an increase in aggressiveness are mainly based on psychological laboratory experiments. However, these experiments neither consider the excessive exposition of relatively violence-prone people to these games, nor the resulting time use effect, or voluntary incapacitation. This effect prevents gamers from engaging in any other form of violent activity during the time spent playing video games.

A study conducted by ZEW (Discussion Paper No 11-042) distinctly reveals the two contrary effects. On the one hand, the findings suggest an increased aggressiveness in the gamers. Video games can be related to a rise in the number of violent crimes. On the other hand, the study based on data collected in the United States reveals that gamers voluntarily spend a considerable proportion of time playing video games, which leads to a reduction of violent crimes. In the United States, this incapacitation effect outweighs the increase in aggressiveness. Therefore, playing both violent and non-violent video games leads to a decrease in criminal acts.

Cautiously Designed Regulations

The findings in the United States indicate that the time use effect dominates the aggression-promoting effect. Therefore, any regulation of violent content in video games should be carefully designed. In the long run, they may lead to reduction in aggressive tendencies. However, in the short-term, they would probably entail a rise in crime rates as gamers would spend less time playing games that may have lost their appeal after having been subjected to regulation.

The study is based on a data set compiled from different sources, such as the VGChartz-System, the National Incident Based Reporting System or the GameSpot website, providing weekly observations for the United States from 2005 to 2008.

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RESEARCH FINDINGS

Training of Older People Often less Effective

Compared to their younger colleagues, older employees in Germany consider their training to be less effective. Companies´ training investments could pay greater dividends if they were tailored more specifically to the requirements of the older workforce.

When it comes to training measures most companies do not pay enough attention to older employees' specific interests and requirements.

Older employees are becoming increasingly important to businesses in the wake of demographic change. A growing number of businesses recognises this development and these firms are prepared to invest in members of staff over fifty-five. However, training older people often yields less than training their younger colleagues. One reason is that only a fifth of businesses which include older staff in their training programmes take those employees' specific interests and requirements into account. Thus, older people are often markedly less ambitious in their training objectives and they are considerably less optimistic about their training's effectiveness than younger co-workers. These are the core findings of the new ZEW discussion paper 11-046.

Companies should take into consideration that older staff prefer training tailored to their practical work environment and leading to a faster application of newly acquired knowledge. Older employees´ preference for a practical emphasis in their training arises from the fact that they won't be in employment for much longer and have less scope for promotion and wage increases induced by training. Older people in addition take a rather sceptical view of formal and abstract forms of training. It takes them longer to put abstract skills into practice and these skills are considered only indirectly useful. Finally, older employees prefer more flexible training forms such as self-induced training and training on the job because autonomy over their working time is more dear to them.

Training on the Job Prefered

The study accordingly identifies training on the job and self-induced training as forms of learning which are significantly more successful with older employees. The study also shows that older workers prefer training content which draws on their experience and improves the standard of their working environment. Management and communication training are examples of this. Completely new and abstract content puts older employees on the back foot, which affects their motivation for this type of training content. This is the reason why abstract technical or computer training is considerably less effective with older staff than it is with younger colleagues.

So far, older employees get the same training efforts and more or less the same training contents and training forms. In addition, the employees´ overall assessment of training does not change by age. The paper therefore concludes that businesses must address the needs of older employees more strongly and offer them age-specific training contents and forms in order to increase training effectiveness.

The research evaluates a survey of over 6,000 trainees from around 150 companies in Germany. In addition to the form and content of the training, the regressions also consider, amongst other things, age, length of employment, health, qualifications, and labour market attachment.

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ZEW DISCUSSION PAPERS

No 11-058, Christian Göbel, Thomas Zwick: Age and Productivity – Sector Differences?
No 11-057, Andreas Sachs: Institutions and Unemployment: Do Interactions Matter?
No 11-056, Kim Hiang Liow, Felix Schindler: An Assessment of the Relationship Between Public Real Estate Markets and Stock Markets at the Local, Regional, and Global Levels.
No 11-055, Daniel Höwer, Tobias Schmidt, Wolfgang Sofka: An Information Economics Perspective on Main Bank Relationships and Firm R&D.
No 11-054, Konrad Stahl, Roland Strausz: Who Should Pay for Certification?
No 11-053, Dirk Czarnitzki, Cindy Lopes Bento: Innovation Subsidies: Does the Funding Source Matter for Innovation Intensity and Performance? Empirical Evidence from Germany
No 11-052, Kai Hüschelrath, Kathrin Müller, Volodymyr Bilotkach: The Construction of a Low Cost Airline Network.

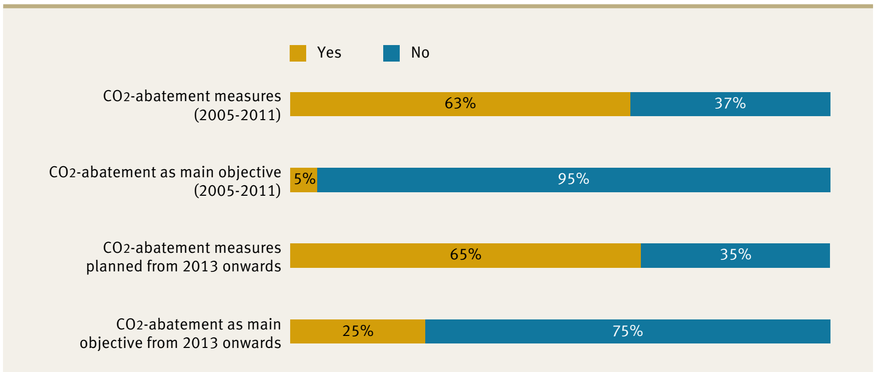
RESEARCH FINDINGS

Changes in the European Emissions Trading Scheme – A Challenge for Regulated Companies

The European Emission Trading Scheme (EU ETS) represents a key instrument of the European climate policy. From 2013 onwards, numerous changes to the EU ETS will be introduced. A survey conducted by ZEW reveals that many companies in Germany have to expect substantial additional expenditures due to the changes.

Since 2005, greenhouse gas emissions by energy suppliers and energy-intensive industrial installations are regulated by the EU ETS. For each tonne of CO_2, companies that fall under this regulation must surrender emission permits to the regulating authorities. The EU ETS represents a key instrument of the European climate policy. Its aim is to reduce the greenhouse gas emissions in Europe by 21 per cent until 2020 compared with the average emissions from 2008 to 2012. Since 2009, ZEW conducts an annual survey among all German companies regulated under the EU emissions trading scheme. The survey results are presented in the KfW/ZEW CO_2 Barometer.

An Overview of Taken and Planned Mitigation Activities



Source: KfW/ZEW CO2 Barometer 2011

Numerous Changes Ahead

From 2013 onwards, numerous changes to the EU ETS will be introduced. The most important change will be made with regard to the free allocation of emission allowances to regulated installations from 2013 onwards. Almost all companies will receive less free permits than currently. For power generation no more free permits will be handed out. As a consequence, most companies will have to buy additional permits which generates financial risks and partly considerable costs.

High Degree of Uncertainty

Some of the regulated companies are particularly struggling with the uncertainty of planning that stems from the lengthy drafting process of the actual reforms. Indeed, as many as 72 per cent of the surveyed companies in Germany have tried to estimate the volume of the new allocation from 2013 by march 2011. However, the information base for such estimations remains rather limited. Approximately 63 per cent of all surveyed companies expect an insufficient allocation of permits from 2013. To be compared, just 27 per cent of all respondents suffered from insufficient allocation in 2010. As a consequence, many companies will have to expect substantial additional expenditures from 2013 due to emissions trading. While the additional expenditures for smaller emitters will be limited, bigger emitters will face additional annual expenditures of several hundreds of thousands of euros. Very large emitters even have to expect additional annual costs amounting to millions of euros, especially in the energy sector where the most reductions to the free allocation will be made.

The altered allocation regulations from 2013 represent a notable break in the EU ETS. The reforms seem to enhance the incentive function of the trading system. For instance, almost two thirds of respondents already intend to introduce new CO_2 mitigation actions beginning with 2013. In the course of these actions, emissions abatement will become more important. In the past, greenhouse gas emissions abatement mostly was a side effect of process optimisations or investments which were made anyway. Only five per cent of respondents stated that they have taken actions with the primary goal of reducing emissions in the years 2005 to 2010 (see figure). This changes when the planned abatements from 2013 are concerned. One fourth said that from 2013, they would take actions with the primary goal of reducing CO_2. The most important option for reducing CO_2 will be the investment in energy efficiency technologies.

The companies regulated by the EU ETS have to adapt to the planned changes, and they also need long-term security in planning and investment if the market-based transformation towards a greenhouse gas extensive economic structure is to succeed. Conservation and innovative and productive economy constitute the basis for a sustainable development in Germany. For the success of the European trading system, it is crucial to clearly formulate any political changes, to communicate them consequently and also to mitigate against the unequal burdening of companies with transaction costs within the trading Scheme.

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POLITICO-ECONOMIC ANALYSIS

Q&A: How crisis-resistant are today's financial markets?

A Global Regulatory Regime for Financial Markets? That's Wishful Thinking

The Lehman Brothers bankruptcy three years ago precipitated a global financial crisis whose repercussions can be felt to this day. Michael Schröder, head of the research department of International Finance and Financial Management at ZEW, talks about the successes and failures of financial regulation in the wake of the Lehman Brothers collapse.

Have financial markets become more crisis-resistant since the collapse of Lehman Brothers?

The regulatory requirements instituted under Basel III are a step in the right direction. The most important change was to raise the minimum level of core capital banks must hold and to narrow the definition of what can be considered core capital. This should help protect banks from unforeseen lending losses. It remains to be seen, however, how well the new regulations will perform in a crisis. In particular, will the proposed capital buffers – the capital conservation buffer and the countercyclical buffer – be able to absorb the considerable procyclical effects of bank regulation? Another contested issue is the level of minimum equity capital. Research in multiple countries indicates that the costs associated with requiring additional equity capital are low. In light of the immense cost of the most recent financial crisis, this speaks for raising minimum equity capital levels significantly, perhaps to somewhere between 16 and 20 per cent.

What remains to be accomplished in the regulation of financial markets?

Numerous areas in financial market regulation need to be expanded and improved. One area yet to receive sufficient regulation is hedge funds, i.e. investment funds that speculate on share prices or sell securities they do not own. Another area is rating agencies. The central problem of biased incentives when rating agencies are paid by the institutions for which they provide ratings remains to be addressed. Still another concern is that few countries have regulations governing the restructuring and liquidation of systemic banks in crisis situations, and the regulations in place are limited and disparate. Restructuring and, if needed, liquidation are means to mitigate the "too big to fail" problem of large banks. It would also make sense for countries to adopt more or less unified regulations, at least within Europe, and ideally globally. Unfortunately, however, the likelihood of this happening – say, at the G-20 summit of government leaders this coming November – is, in my view, very low.

Prof. Dr. Michael Schröder is the head of the research department of International Finance and Financial Management at the Centre for European Economic Research (ZEW). His research focuses in particular on the empirical analysis of capital markets, expectation formation in financial markets, socially responsible investments, and the asset management activities of foundations. In 2009 he received his venia legendi in business administration from the University of Stuttgart. In addition to his work at ZEW, Schröder is professor of asset management at the Frankfurt School of Finance & Management.


Photo: ZEW

Does stricter financial market regulation threaten to shift speculation to unregulated sectors?

We have little reliable information in this regard. But I think we can assume that Basel III's tighter capital regulations will motivate some people to operate in unregulated sectors. To prevent this, more must be done to regulate so-called shadow banks. I'm thinking particularly of hedge funds, which traditionally have low equity capital levels and speculate mostly using borrowed capital.

Photo: iStockphoto

Financial regulation in the wake of the Lehman collapse has achieved some progress.

How can the shadow banking sector be better regulated?

One place to start is commercial banks. When lending to, say, hedge funds, these banks should be subject to far stricter capital requirements. Banks should be permitted to provide hedge fund capital only if they disclose information about the fund's activities, so that regulatory agencies can properly assess the risks. In addition, countries must continue to push for global regulation requiring the registration of hedge funds, thus enabling direct oversight.

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POLITICO-ECONOMIC ANALYSIS

The Contribution of Wind Power Towards Germany's Future Electricity Supply

How great is the potential for wind power to supply Germany's electricity? What are the costs? The following article examines these questions and attempts to weigh up the possibilities and limitations of wind power supply in Germany.

The federal government has decreed that by 2020 at least 35 per cent of our electricity is to be produced by wind, sun, water and other regenerative power sources. According to a 2010 study by the federal ministry for the environment (BMU), wind power plays a key part in the development of renewable energy. Other renewable sources like geothermal energy and biomass are limited by geographical circumstances. Only solar power has similar potential, but is as expensive as ever, and given the funding cuts in the recent revision of the Renewable Energy Law (EEG), it is expected to show less growth than planned.

Other research studies also predict that wind power will play a dominant role in renewable energy, studies such as the 2009 energy prognosis which the Rhine-Westfalia Institute for Economic Research, the Institute for Energy Economy and Rational Energy Use and the Centre for European Economic Research (ZEW) put together for the Federal Ministry for Economics and Technology. According to this paper, wind power will rise from 43 per cent of all renewable electricity generated today to 56 per cent in 2020, and to 64 per cent in 2030.

The pilot study says that the wind power capacity will rise to a total of 79.3 gigawatts by the year 2050. By way of comparison, in 2009 the entire German power plant park generated a total of 155.5 gigawatts. Power plant capacities differ, however, in yield and capability.

Photo: digitalstock

Wind power will play an important part in renewable energy.

Unlike fossil fuel power, wind energy is subject to weather conditions. Until larger electricty storage exists, flexible supplementary power plant capacity will still be needed – gas power plants in particular come to mind. For this reason the federal network agency has to account not only for total capacity but for the net capacity of the power plant park, which is the minimum redundancy that should be permanently available. In 2009 this was around 92.8 gigawatts. The German Energy Agency (DENA) operates on the assumption that until 2030 Germany will require around 83 gigawatts of secure net capacity.

These figures show what the pilot study says the wind farms need to aim for. How does this compare with other research? Expert estimates diverge wildly, both for scenarios as well as potential. For example, the Institute for Energy Economics at the University of Cologne only reckons on a total of 38 gigawatts of installed capacity by 2030. The Fraunhofer Institute for Wind Power and Systems Engineering estimates the potential for wind power at 198 gigawatts for mainland wind power alone, while the BMU states 130 gigawatts for mainland and offshore capacity combined. These numbers reflect considerable uncertainty which is due to sluggish progress on offshore facilities where work is still at a pioneering stage. Long-term reliability and maintenance requirements in particular remain unclear.

Wind Power Cost Trends in Germany

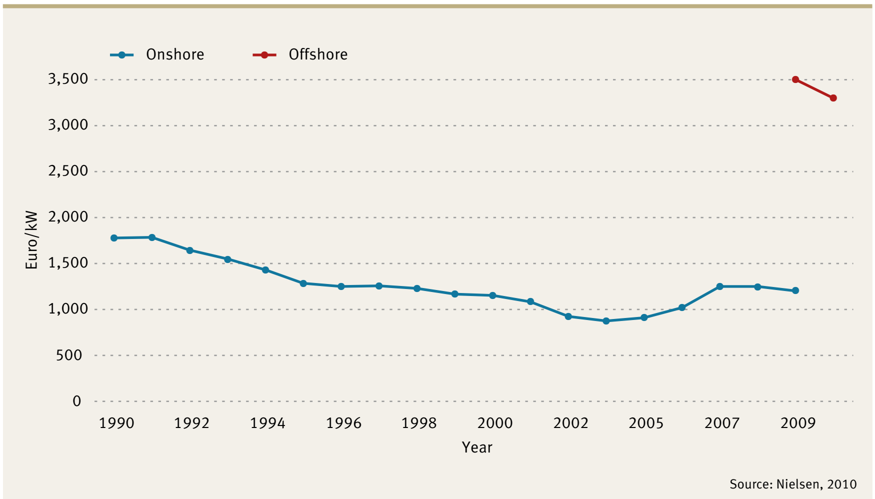
Around 75 per cent of the total cost of wind power usage is determined by investment costs. Market prices for wind power generation have undeniably dropped in the past decades. Investment costs for mainland facilities were approximately 1,800 Euros per kilowatt in 1990, but have more than halved to around 880 Euros per kilowatt in 2003. Yet the investment costs for wind farms still rose between the end of 2004 and 2008. This was in part due to higher raw material prices and increased debt resulting from steep economic growth during this period. It is also partly due to supply and demand. Production capacity has expanded since 2008, and raw material prices have fallen, the cost of installation falling in turn. The production costs of onshore wind power have decreased correspondingly over the years, and at today's 6 to 8 cents per kilowatt per hour (depending on yield) they are not far from marketabil-

POLITICO-ECONOMIC ANALYSIS

ity. The installation of offshore facilities, meanwhile, is notably more expensive than construction on the mainland. Because of the smaller number of installed offshore facilities there is not a great deal of investment cost data. The BMU's 2010 pilot study states 3,500 Euros per kilowatt, while in a recent study the International Energy Agency (IEA) states around 2,700 Euros per kilowatt. The investment costs increase in proporton with water depth and distance from the coast. Higher wind speeds place greater demands on the technology, and specialist equipment is required in the construction of offshore wind farms.

The differences in the degrees of specific costs of wind capacity become clear by comparing the technical demands placed on onshore and offshore facilities. To take advantage of the stronger winds at sea, offshore facilities must be especially robust; additional components are required for foundations, network connections and protection from corrosion. The necessity to transport greater capacity via sub-sea cables to the mainlaind is another new issue, and the connection from sea to the distribution network incurs further costs still. In addition to this, maintenance and repair work at sea is far more difficult than on land. Work on offshore facilities is not possible in high weather, meaning that when facilities break down the supply may be face interruptions.

Onshore and Offshore Wind Power Capacity Costs



Conclusions to Draw

Wind power capacity in the german power plant park has increased five fold in the past ten years. Despite significant development there is undeniably still great potential, particularly in the offshore area which has barely been explored. But while electricity production costs from mainland wind farms have fallen significantly and have approached market viability in recent years, the costs for offshore facilities are currently more than double. In the long term these costs are expected to approach those of mainland production costs. However, this is fraught with uncertainty. It is therefore doubtful if wind power can become the backbone of all electricity production within the foreseeable future: for one thing it is unclear if its potential can suffice to account for the lion's share of electricity provision, for another the problem of fluctuating supply is still unsolved.

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PUBLICATIONS

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Common Corporate Tax Base in the EU

The European Commission envisages putting forward a proposal for a tax reform that would allow improving the efficiency and simplicity of the corporate income tax systems. This report assesses the impact of a common corporate tax base on the size of the corporate tax bases of EU companies. A common corporate tax base as a policy option would replace the current 27 different tax codes for the calculation of taxable income across EU member states with a single and common set of corresponding tax rules. This can help to eliminate the most important tax obstacles to cross-border EU-wide activities (compliance costs, denial of group wide consolidation of profits and losses, transfer pricing problems and double taxation caused by cross-border re-organisation and conflicting taxing rights for instance) stemming from the great diversity of the member states' tax systems.

The principle aim of the report is to provide an analysis of the consequences which an adoption of a common corporate tax base would have on the size of the corporate tax bases and tax burden of companies located in each of the 27 EU member states. The estimates are based on the European Tax Analyzer with data from the year 2006 and apply options specified by the European Commission's Steering Group.

ZEW Economic Studies, Volume 43, Physica Verlag Heidelberg/ New York, 2011, ISBN: 978-3-7908-2755-2

CONFERENCE

Conference on the Economics of Information and Communication Technology

At the end of June the Centre for European Economic Research (ZEW) hosted its ninth conference on "The Economics of Information and Communication Technology (ICT)", which was attended by 50 scientists from both Europe and North America. The two day conference was organised by ZEW's ICT research group with financial support from the German Research Foundation (DFG).

The opening keynote speech given by Avi Goldfarb (University of Toronto, Canada), was aimed at the question to what extent geographical distance may be rendered irrelevant through the use of the internet. Using a webpage for "crowdfunding" for aspiring bands and musicians as an example, Goldfarb illustrated whether or not the investment decision was made independent of geographical distance. His study, based on data supplied by the webpage "Sellaband", yielded two differing but significant insights. Primarily, the high average geographical distance of 5000 km between the investor and the recipient band indicates that geographical distance does not influence the investment decision. By contrast, local investors, a group often composed of friends and family members, still play a crucial role in the early funding stages.

Focus on Advertising and Marketing

In this year's conference much emphasis was laid on the topics marketing and advertisement. Along these lines, one presentation addressed the question of whether the introduction of performance-related reward schemes were to limit the variety of publications and opinions expressed by bloggers, given increased incentives to focus on subjects with considerable mass-appeal. The study was based on data from a Chinese webpage that compensated their bloggers with a share in their advertising revenue proportional to the number of their readers. It turns out that the rewards scheme reduces the variety in terms of topics, whereas the quality of the articles themselves improved. Another marketing lecture regarded viral marketing in form of strategically placed messages. Using data from a telecommunications company's marketing campaign, the study revealed the substantial importance of the individual network position for the success of viral marketing.

The participants of the conference on the economics of information and communication technology at ZEW.

Furthermore, another piece of research shed light on the connection between television ads and search engine queries. The results revealed that TV commercials advertising financial services would not lead to an elevated number of search engine queries on the matter, yet they would lead to an increase in queries concerning the actual company, thus exerting a positive effect on the company nonetheless.

Among various other areas which were included in the broad spectrum of topics covered by the conference, it also embraced the economics of innovation, labour and macroeconomics in the context of ICT. Moreover, both empirical and theoretical contributions were concerned with the economics of network infrastructure, online markets, computer games, search engines and news.

The closing keynote was given by Dina Mayzlin (Yale School of Management, USA) on companies' self-portrayal on product review websites. Her study explores the extent to which companies disseminate critiques and reviews of their products themselves and the motivating factors for this kind of manipulation. Using data from the hotel review websites "TripAdvisor" and "Expedia" she was able to demonstrate that this form of deception occurs, especially in an increasingly competitive environment. The conference benefited from the exceptional work done by the scientific committee, which had carefully selected the presentations at the conference from over 60 studies submitted in anticipation. The committee was composed of Ulrich Kaiser (University of Zurich and ZEW), Mary O'Mahony (University of Birmingham), Martin Peitz (University of Mannheim and ZEW), Catherine Tucker (Massachusetts Institute of Technology), Tommaso Valletti (Imperial College London) and Joel Waldvogel (University of Minnesota).

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INSIDE ZEW

Start of the Training Programme "Strengthening Macroeconomic Policies" (MPS+)

For the third time, employees from different Chinese and Vietnamese state institutions visit the Centre for European Economic Research (ZEW) in Mannheim. They take part in an advanced training course in the field of macroeconomics, organised by ZEW on behalf of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. This year, the group of Asian guests consists, among others, of employees at the State Bank of Vietnam, the Ministries of Finance of the different Chinese provinces, the Vietnamese Ministry of Finance, the Chinese Ministry of Commerce and the China Development Bank. The training programme "Strengthening Macroeconomic Policies" (MPS+) is held in English. In cooperation with external experts, ZEW researchers impart further knowledge in the fields of fiscal and monetary policy, labour and international financial markets. Moreover, the programme focuses on trade theory and policy as well as on development strategies of China and Vietnam. A new addition to the programme are presentations by experts at ZEW, for example from the German Federal Audit Office, the Federal Financial Supervisory Authority (BaFin) and the European Central Bank (ECB). Furthermore, the programme includes field trips to the Deutsche Bundesbank, the KfW Bankengruppe and the Deutsche Börse. For the first time, a trip to the Federal Court of Justice will be organised.

The ZEW service department "Knowledge Transfer and Qualification Programmes" manages and supervises the training programme. Apart from custom-tailored qualification measures for firms and institutions, this department also offers open seminars.


Photo: ZEW

The participants of the training programme "Strengthening Macroeconomic Policies" (MPS+), ZEW President Prof. Dr. Dr. h. c. mult. Wolfgang Franz and Thomas Kohl, Director of Business and Administration at ZEW.

Workshop: Behavioural Personnel Economics

Economists traditionally focus on wages, pay-for-performance, and other formal arrangements explaining workplace performance, job satisfaction, and worker turnover. Inspired by empirical findings, both in economics and the social sciences, recent studies have started to explore a wider set of motivators in the workplace such as non-financial rewards, self-image, social relations, and how these affect formal workplace arrangements.

On November 25th and 26th ZEW and the Tinbergen Institute, Netherlands are jointly organising an workshop on "Behavioural Personnel Economics" at ZEW in Mannheim, Germany. This workshop aims to bring together economists working on "non-standard" incentives in principal-agent relationships, theoretically as well as empirically, to present and discuss their work in progress.

For further information visit www.zew.de/persecon2011

ZEW Workshop: Spin-Off Entrepreneurship

On November 10th and 11th 2011 the Centre for European Economic Research is organising a workshop on "Spin-Off Entrepreneurship". The aim of this workshop is to discuss recent scientific contributions that deal with new firms founded as spin-offs. We want to consider both spin-offs from universities and other research institutions (academic spin-offs) and spin-offs from already established firms (corporate spin-offs, employee spin-offs, entrepreneurial spin-offs). This offers the possibility to compare the characteristics and the relevance of these different types of spin-offs. Topics of interest are among others the nature of knowledge and technology transfer of spin-offs, the performance of spin-offs, the influence of governmental support programmes on the formation and the development of academic spin-offs as well as similarities and differences between academic and corporate spin-offs.

For further information visit www.zew.de/veranstaltung1546

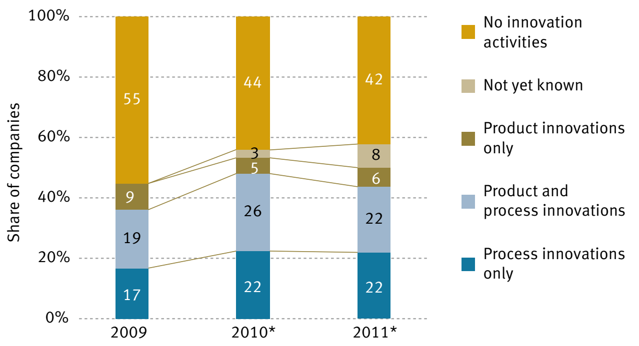
New ZEW Seminar Programme Published

The new seminar programme has been published by ZEW. From September 2011 to June 2012 the research institute is once again offering numerous expert-led seminars on current topics and issues, aimed at experts and managers. With over forty events a year the ZEW expert seminars cover topics ranging from econometrics, to financial market analysis and management, to business administration and organisation. The ZEW offers training in both German and English language.

See www.zew.de/professionaltraining for more information or contact Axel Braun, Tel. 0621/1235-241, E-Mail braun@zew.de

FACTS AND FIGURES

Financial Service Providers Focus on Process Innovations



* Forecast figures from spring/ summer 2010 Source: ZEW, Mannheim Innovation Panel

After the economic crisis in 2008/2009 the finacial service providers in Germany – banks, insurances and financial intermediaries – focused on cost cuts and efficiency improvements of their internal workflows. In 2010 almost every second company in the field wanted to move forward with process innovations, in 2009 this held true for only 36 per cent of the companies. Less emphasis is put on the development of new financial, insurance or consultancy products. Such product innovations were planned only by 31 per cent of surveyed companies in 2010.

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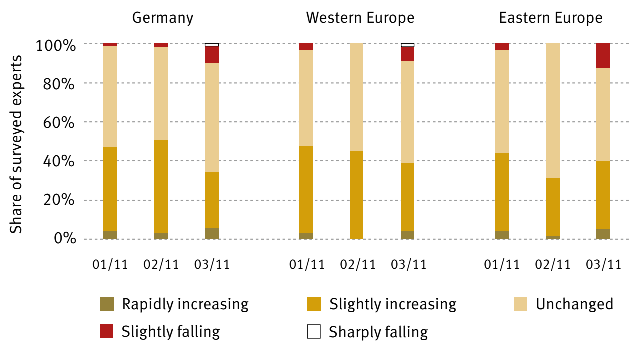
Experts Carefully Optimistic with Regard to Rail Cargo



Source: ZEW

After the strong decline of rail freight volumes in 2009, the rail cargo transport sector has recovered. The majority of experts surveyed by the ZEW/ Progtrans Transport Market Barometer are currently expecting transport volumes in the sector to remain largely unchanged up to the first quarter of 2012. With regard to domestic transport about 55 per cent of the surveyd analysts expect no significant changes. 29 per cent foresee a slow and and 5.5 per cent expect a strong increase of rail cargo volumes. Cross boarder transport is seen more optimistic.

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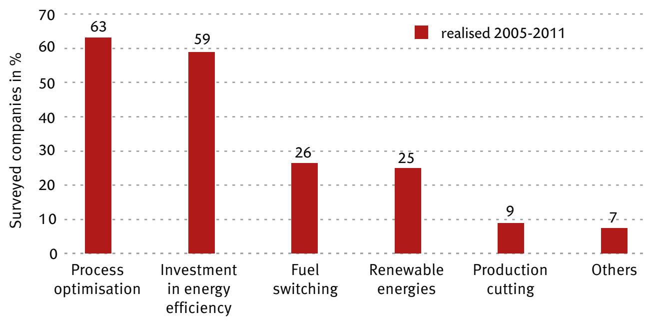
Process Optimisation Most Important CO2 Mitigation Measure



Source: KfW/ZEW CO2 Barometer 2011

Since the introduction of the European Emission Trading System (EU ETS) in 2005 63 per cent of the companies surveyd by the KFW/ ZEW Barometer implemented CO2 mitigation activities. Process optimisation proved to be the most important mitigation measure, enforced practically by all respondents. Innovation activities aiming at the improvement of energy efficiency had been carried out by 59 per cent. Fuel switching, the employment of gas instead of coal for instance, and the use of renewable energies is implemented by about one quarter of the respondents.

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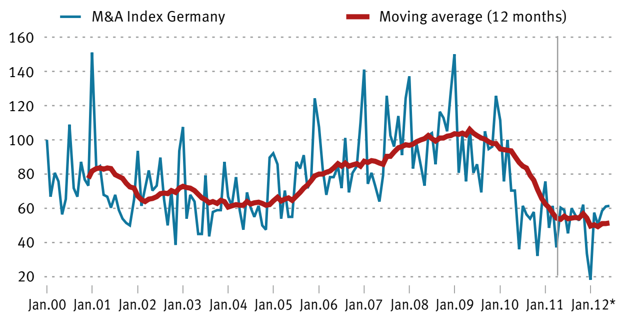
M&A Activities in Germany Remain Stable



* July 2011 to June 2012 forecast Source: BvD Zephyr Datenbank, ZEW

Until the beginning of 2012 the positive and negative signals for the development of mergers and acquisitions (M&A) in Germany are quite balanced. Thus, M&A activities in Germany are likely to remain quite stable for the months to come, despite a temporary down-movement at the beginning of 2012. This is the result of a forecast by ZEW in Mannheim. Based on the Zephyr database by Bureau van Dijk (BvD), ZEW developed an M&A Index for Germany. It tracks the development of mergers and acquisitions since 2000 and projects its future trend until mid-2012.

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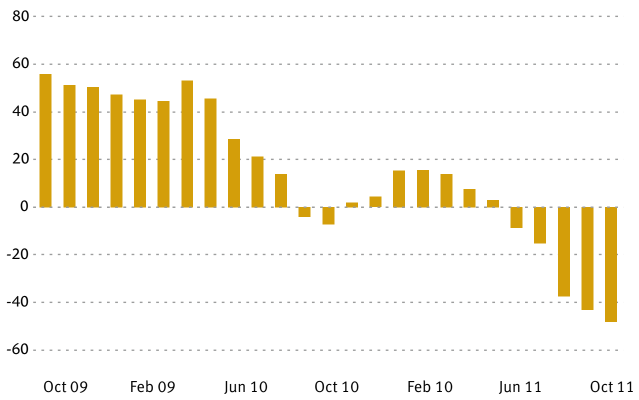
FACTS AND FIGURES

ZEW Financial Market Test October 2011



Balance of positive and negative assessments concerning economic development in Germany. Source: ZEW

Germany: Economic Expectations Weaken

The ZEW Indicator of Economic Sentiment for Germany has decreased by 5.0 points in October 2011. This is the eighth decline in a row. The indicator now stands at minus 48.3 points. This value is below the indicator's historical average of 25.3 points. A lower value of the indicator was seen last in November 2008. Weak data concerning Germany's domestic economic activity have contributed to the indicator's decline. Due to the decrease of retail sales and industrial new orders the financial market experts may see their fears come true that the current government debt crisis might cause German companies and consumers to postpone investments and consumption spending. The assessment of the current economic situation in Germany has lost ground as well. The indicator dropped by 5.2 points in October.

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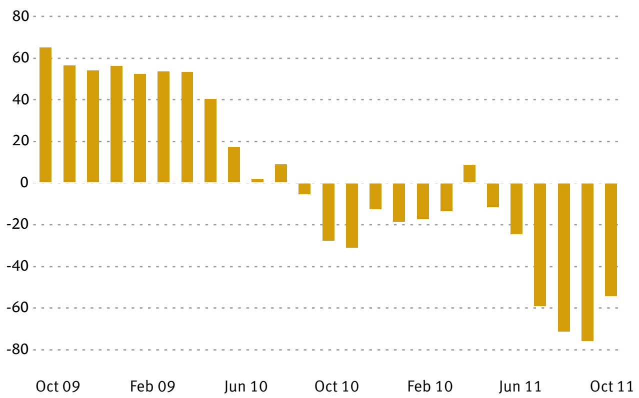

Balance of positive and negative assessments concerning economic development in Switzerland. Source: ZEW, Credit Suisse

Switzerland: Economic Expectations Improve

After the setbacks recorded in recent months, the ZEW-CS Indicator of economic expectations brightened up again somewhat in October. However, the indicator still remains deep in negative territory at the minus 54.4 mark, even following this month's strong increase (up 21.3 points). Of the financial market experts surveyed this month, merely 8.5 per cent forecast an improvement in economic prospects, while a majority of 62.9 per cent (down 12.8 percentage points) continue to foresee a deterioration of the Swiss economy on the horizon. The assessment of the present state of the economy has continued to follow the downward trend exhibited in past months. The relevant balance now stands at the 11.4 level (down 7.5 points), with only 20.0 per cent viewing today's economic picture in a "good" light.

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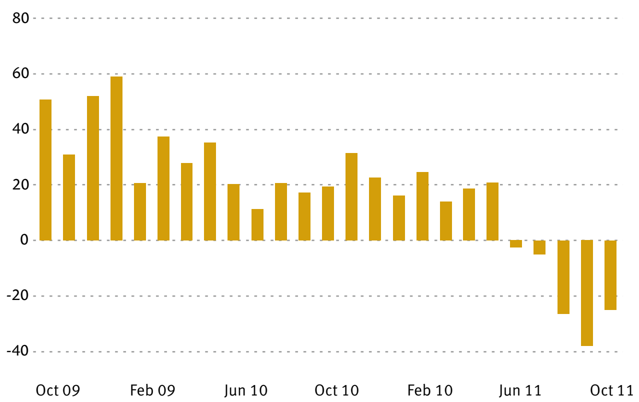

Balance of positive and negative assessments concerning economic development in the CEE region. Source: ZEW

CEE Region: Economic Expectations Brigthen Up

The ZEW-Erste Group Bank Economic Sentiment Indicator for Central and Eastern Europe including Turkey (CEE) has increased by 13.0 points in October 2011 for the first time in the last five months. The indicator has climbed up to the minus 25.0 points mark. Economic Expectations for the Eurozone have also increased by 18.3 points to a level of minus 49.1 points. The economic sentiment indicator for the CEE region and further financial market data are surveyed monthly by the Centre for European Economic Research (ZEW), Mannheim, with the support of Erste Group Bank, Vienna. Increasing optimism for the CEE region is mainly due to an improvement of the experts' economic sentiments for Poland and Turkey. Rising industrial production figures in both countries may have brightened up expectations.

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OPINION

ECB

It's not long since the European Central Bank (ECB) enjoyed great respectability on account of its credible independence and stability-orientated monetary politics. Now, however, the ECB is in choppy waters because precisely this independence of (financial) politics could be lost. What is more, its rejection of Greek goverment bond refinancing is as disconcerting as its disproportionately heavy reliance on the verdicts of rating agencies.

Since its unprecedented May 2010 decision to purchase Greek government bonds, the ECB is on perilously thin ice. This policy reached a premature climax with its purchase of Spanish and Italian government bonds since the beginning of August 2011. All in all the ECB has around 115 billion Euros worth of sovereign papers from both these countries as well as Greece, Ireland and Portugal on its books.

Criticism of these purchases arises not so much from fear of inflation which would have resulted in a corresponding increase of this sum. The ECB operated a programme of monetary sterilisation by extracting money back from the financial system in the form of loans to commercial banks. The principal concern is more that the ECB has become entangled in financial politics. The financing of national budgets has historically been a deadly sin of central banks. Political independence represents the most important constitutional characteristic of a viable reserve bank, and cracks are appearing in the ECB. Its May 2010 bond purchases could still be justified as an exceptional emergency measure, but since it gave its support to Italy the same excuse does not hold water. The risk premiums on government bonds send out clear signals of finance policy misconduct, and in this respect at least the financial markets serve their intended purpose. Of course, higher interest rates would force Italy to tighten its financial belt. But there are no grounds for conjuring up economic worst-case scenarios, because Italy paid high interest on bonds even before the monetary union, with no sign of collapse.

This is why the ECB needs to be relieved of its (probably unwilling) role as a financial substitute player. The EFSF stabilisation fund could take on the bond holdings in question.

The ECB's conduct in discussions about Greek sovereign debt rescheduling poses questions, too. It is well-known that as soon as the rating agencies downgraded these papers to D, the ECB announced that it would no longer be accepting Greek government bonds. The president of the German Bundesbank may have explained how sensible and correct the participation of the private sector may be, however in the event of forcibly imposed refinancing and a consequent credit event the risk of contagion is too great.

This in turn raises the question of why the ECB sets so much store by the rating agencies' verdicts. When one considers how poorly these organisations rated the creditworthiness of structured papers at the start of the financial crisis in 2008, the ECB would have done better also to rely on its own judgment, as it did when the „troika" group of lenders evaluated Greece. Besides, at a later date the ECB accepted Portugese bonds, despite the fact that one rating agency downgraded them to junk status. A transparent and comprehensible strategy would look somewhat different.

Wolfgang Franz

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