

## Fertility of Immigrants Influenced by Cultural Norms in Countries of Origin

*Immigrants in Germany tend to have more children than native Germans. A new ZEW study shows that the higher fertility in immigrant families is not just the result of socio-economic factors – cultural influences play a role as well. But the cultural effect is not uniform, and adaption to German fertility levels does occur across generations.*



Cultural norms in countries of origin influence immigrants' fertility behaviour in Germany – even in the second generation. But immigrants also adapt to German fertility norms.

Fertility rates differ significantly across both countries and time. Even among Western and industrialized countries notable differences exist. While Germany, Italy, and Spain for example exhibit fertility rates of about 1.4 children per women, this rate is around 2.0 for France, Ireland, and the US. These differences are driven by various factors including prevailing gender roles as well as the institutional set-up such as differences in government benefits and access to childcare.

A recent ZEW study examined whether cultural norms in immigrants' countries of origin influence fertility in the host country and to what extent this effect is transmitted from the first to the second

generation of immigrants in Germany (ZEW Discussion Paper No. 13-023).

### Disentangling Culture and Institutions

In order to distinguish between cultural and institutional factors, the paper applies a so-called epidemiological approach. As a proxy for cultural influence, the ZEW study draws on cohort fertility rates in the immigrant's country of origin as well as total fertility rates. Whereas the first proxy captures the average number of children actually born to women of a specific birth cohort, the latter indicator provides only a synthetic measure which is defined as the number of children a

woman would have if the probability of giving birth were always equal to the current age-specific fertility rates. In addition to these two indicators of fertility behaviour, the ZEW study relies on several direct measures of fertility norms based on data from the World Values Survey.

The ZEW study draws on data from the 2008 wave of the Microcensus, an annual survey carried out on a representative one per cent sample of German households. This wave allows the identification of naturalized immigrants and is currently the only wave that contains information on the overall number of children a woman has given birth to and not just on the number of children living in the household at the time of survey.

The analysis distinguishes between three generations of immigrants: (1) first-generation immigrants were born abroad and they migrated to Germany between the ages of 15 and 18; (2) immigrants from "generation 1.5" were born abroad and

### IN THIS ISSUE

Fertility of Immigrants Influenced by Cultural Norms in Countries of Origin . . . . .	1
The German ICT Sector is Highly Active Abroad . . . . .	2
The Employment Effects of Innovation Differ Between Domestic and Foreign Owned Firms . . . . .	3
Set-Up-Decision of Investment Funds . . . . .	4
Q&A: Youth Unemployment in the EU . . . . .	5
Effective Business Tax Rates, 1998 – 2012 . . . . .	6
International Conference on Innovation and Patent Research at ZEW in Mannheim . . . . .	8
Mannheim Energy Conference 2013 at ZEW . . . . .	8
Inside ZEW . . . . .	9
Facts and Figures . . . . .	10
Opinion . . . . .	12

## RESEARCH FINDINGS

they were younger than 15 at the time of migration; and (3) second-generation immigrants were born in Germany and they have at least one parent who immigrated. The sample consists of 529 women from the first-generation, 495 women from “generation 1.5” and 3,532 women from the second-generation. These women originate from 18 different countries.

### Immigrants Strongly Influenced by Cultural Norms in Countries of Origin

The ZEW study shows that cultural norms measured by fertility rates in the countries of origin influence individual fertility choices of migrants even under the common institutional setting in Germany. The effect is strongest in the first-generation and becomes weaker for “generation 1.5” and again weaker for the second-gen-

eration immigrants, but nevertheless the effect remains statistically significant. Furthermore, the influence of cultural norms from the country of origin is particularly strong among women with a partner from the same country of origin. In case of the second-generation, the effect is strongest if both parents migrated from the same country of origin. Moreover, the effect is also particularly pronounced for women with low educational attainment. In contrast, the effect is hardly measurable for women of the second-generation holding a university degree.

Concerning the different proxies for cultural influences, we find a positive effect not only for total fertility rates but also for cohort fertility rates. However, when fertility norms from World Values Survey are used as proxies instead, the relationship is instable and in most cases

no longer statistically significant. With respect to the debate on immigration, the results imply that foreign cultural norms certainly play a role for immigrants’ fertility choices, but their impact is not deterministic and uniform. Nor does their influence persist indefinitely; there is a clear tendency to adapt to the fertility behaviour of the host country. According to the results of this ZEW study, there is little empirical evidence for the claim that higher fertility rates among some first-generation immigrants will lead to a dramatic change in the composition of German society. Yet by the same token, the ZEW study suggests that low fertility rates in Germany and their demographic consequences cannot be addressed through immigration alone.

Dr. Holger Stichnoth, [stichnoth@zew.de](mailto:stichnoth@zew.de)  
Mustafa Yeter, [yeter@zew.de](mailto:yeter@zew.de)

## The German ICT Sector is Highly Active Abroad

*Around one third of all German companies in the information economy are currently active in foreign markets. Yet there are considerable differences between subsectors. Media service providers and companies in the ICT sector are particularly engaged in business abroad.*

The international competitiveness of German companies is strongly reflected in the high volume of goods they export, particularly in the manufacturing sector. Many firms from the “traditional” branch-

es of the German economy, such as the automotive, mechanical engineering as well as the chemical industries, are highly active in foreign markets. Yet the primarily service-oriented companies in the

German information economy also have a strong presence abroad. Within the information economy, the ICT sector and media service providers are particularly engaged in foreign markets.

### Export is the Prevailing Form of Internationalization

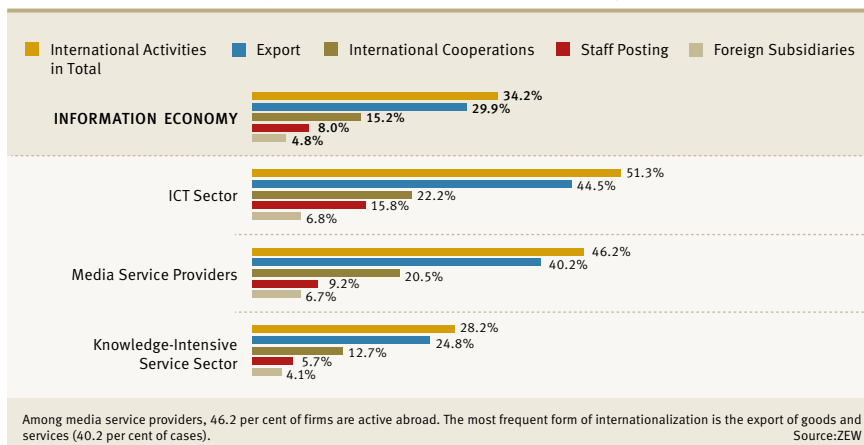
Within both of these groups around 50 per cent of companies conduct business abroad. By contrast, the knowledge-intensive service sector exhibits a relatively low proportion of companies active abroad. However, there is considerable fluctuation within the subsectors of the knowledge-intensive service sector.

Foreign activity in the information economy primarily takes the form of export. Other forms of internationalization are considerably less prevalent, such as the establishment of foreign subsidiaries and cooperation with foreign partners, or the posting of workers internationally.

The information presented here was drawn from a survey of 1,000 companies conducted in March 2013 by the ZEW.

Dr. Jörg Ohnemus, [ohnemus@zew.de](mailto:ohnemus@zew.de)

### Foreign Activities of Companies in the Information Economy



## RESEARCH FINDINGS

# The Employment Effects of Innovation Differ Between Domestic and Foreign Owned Firms

*In many countries, subsidiaries of foreign parent companies play an important role in research, development and innovation. A recent ZEW study has shown that innovations – be they in products or processes – affect employment in foreign companies differently than they affect employment in domestic firms.*

ZEW Discussion Paper No. 13-019 analyses the causes of employment growth in domestic and foreign-owned firms. Specifically, it sought to determine how product and process innovation – in the form of new technologies or marked improvements – affect employment levels for each type of company. The empirical study is based on the EU's fourth innovation survey (CIS 4). Some 64,500 companies from 16 countries were surveyed from 2002 to 2004. The countries include eight Western European countries (Denmark, Spain, France, Greece, Italy, Luxembourg, Norway and Portugal) and eight Eastern European countries (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Romania, Slovenia and Slovakia). The CIS data includes figures on revenue, employment and innovation along with information about whether the respondent is part of a business group and the headquarters location of the parent company.

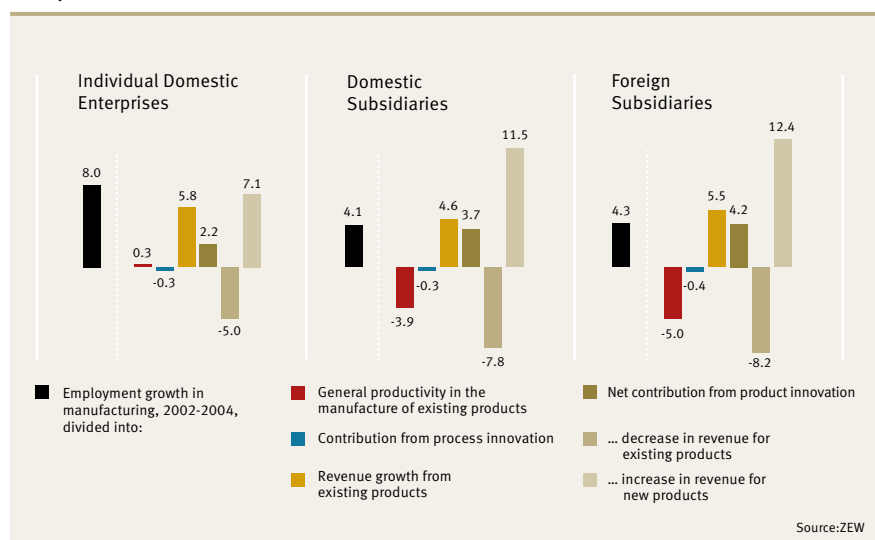
## Foreign Subsidiaries are Innovative

The majority of surveyed companies are domestic individual enterprises (83.1 in manufacturing and 73.3 per cent in the service sector), followed by companies that belong to a domestic business group (12.0 in manufacturing and 17.3 per cent in the service sector). Foreign subsidiaries account for a minority of companies, with 4.9 in manufacturing and 9.5 per cent in the service sector. Both domestic and foreign subsidiaries displayed greater levels of product and process innovation than individual enterprises. This suggests that the former benefitted from their business group's knowledge and technology. Interestingly, foreign subsidiaries generated greater sales growth with

new products (13.4 in manufacturing and 11.6 per cent in services) than domestic subsidiaries (11.7 and 8.8 per cent, respectively) and domestic individual enterprises (7.1 and 5.9 per cent, respec-

aries recorded larger productivity growth in the production of existing products (due, say, to better trained personnel or learning effects) associated with a stronger decrease in employment (minus 5 per cent). In addition, they realise stronger productivity gains through process innovations in manufacturing. With respect to new products, foreign subsidiaries manufactured them with a higher level of productivity than existing products, nurturing additional employment losses. If one takes into account the positive demand

## Partial Effects on Employment Growth in Manufacturing by Company Type in Per Cent, 2002-2004



tively). The ZEW study of these 16 countries showed that during the period under investigation average employment rose for all firm types. Generally, employment grew faster for service-sector companies than for manufacturing-sector companies. Average employment growth was the highest for domestic individual enterprises (8.0 in manufacturing and 14.5 per cent in the service sector), followed by domestic subsidiaries (4.1 and 11.5 per cent, respectively). The increase was weakest with foreign subsidiaries (4.3 and 9.7 per cent, respectively). The analysis of individual effects shaping employment growth shows that foreign subsidi-

associated with product innovation, however, then the net employment contribution of production innovation in foreign subsidiaries was positive (4.2 per cent), and even larger than that of domestic firms. This is due to the higher revenue growth generated by new products. Together with employment growth due to changes in demand for existing products (5.5 per cent), the sum of all partial effects yields a positive employment growth rate for foreign subsidiaries. But in the period under investigation at least, their employment growth rate remained behind that of domestic companies.

Dr. Bettina Peters, b.peters@zew.de

## RESEARCH FINDINGS

## Set-Up-Decision of Investment Funds

*The competition among fund companies in the EU has provided incentives to relocate companies' activities and to domicile their investment funds in financial centers offering the most favourable regulatory environment. Therefore, factors like fund-specific legal provisions, approval processes, and the availability of qualified employees are important.*

As financial markets have become liberalised, investment fund companies have had more incentive to move their businesses to countries with better conditions and to launch new funds in countries with more favourable legal provisions. This has generated massive competition among countries, with each trying to offer the most attractive environment for investment funds. In the EU, the competition has been amplified by the EU directive Undertakings for Collective Investment in Transferable Securities (UCITS). UCITS funds are funds that invest in legally defined types of securities and

other financial instruments. This directive, by introducing a "European Passport", seeks to create a European market for investment funds. Thanks to the European Passport system, funds registered in a EU state can be sold in all other EU states without obtaining additional permission. This also applies to investment companies outside the EU looking for a corporate domicile from which to serve all of Europe. In a joint study with the University of Stuttgart, ZEW analysed the factors influencing domicile decisions made by investment fund companies (ZEW Discussion Paper Nr. 13-022). Researchers

designed sector-specific questionnaires for managers overseeing domicile decisions for investment fund companies. The questionnaires were distributed in July and August 2009; 47 completed forms – 78 per cent of the Germany UCITS market – were returned.

### ZEW Survey of 47 Managers

In the survey, managers were asked to rate factors such as regulatory framework, the costs of domiciling funds, cluster concentration and competition on a scale of one (not important) to five (very important). Respondents were also asked to rate the favourability of conditions for domicile in six countries, three with large market shares (Germany, France and the UK) and three acting as international financial centres (Luxembourg, Ireland and Switzerland). Some 84 per cent of Europe's capital assets and just fewer than 74 per cent of its investment funds are domiciled in these six countries.

### Relevance of Location Factors for Domiciliation

Location Factor	Mean	Standard Deviation
(1) Fund legislation	4.76	0.4346
(2) Approval process	4.51	0.5850
(3) Workforce: availability	4.47	0.6606
(4) Workforce: qualification	4.45	0.7299
(5) Business regulation	4.23	0.6982
(6) Alternative legal forms	4.00	0.8892
(7) Taxation	4.00	0.7868
(8) Government support	3.96	0.8516
(9) International reputation	3.95	0.8340
(10) Quality industry association	3.91	0.8577
(11) Investor protection	3.89	0.9454
(12) Custodian service, proximity/cooperation	3.70	1.0300
(13) Service companies, proximity/cooperation	3.68	0.9350
(14) Sales channels, proximity/cooperation	3.64	1.0478
(15) Labor costs	3.64	0.7640
(16) Approval process of mergers	3.54	1.0479
(17) Administrators, proximity/cooperation	3.51	1.0606
(18) Quality of life	3.38	1.0507
(19) Disclosure requirements	3.36	0.9190
(20) Authorisation costs	3.36	0.9806
(21) Partner fund companies, proximity/cooperation	3.24	0.9690
(22) Market authority, proximity/cooperation	3.04	1.3015
(23) Office expenses	2.96	0.9878
(24) Rival fund companies, proximity/cooperation	2.60	1.0966

Source: Own calculations; mean relevance scale 1 to 5, 1= very unimportant, 5= very important.

### Cost Factors are Not Most Important

According to the survey's findings, cost factors do not play the largest role in deciding where to domicile an investment fund company. The five most important factors are the long-term stability of legal provisions for funds (4.76), the approval process for launching new funds (4.51), the availability of personnel (4.47), the availability of qualified personnel (4.45) and the legal requirements for management companies (4.23). The standard deviations of responses were quite low, indicating that respondents all rated the importance of these factors equally highly. Luxembourg was the country perceived to offer the most attractive conditions for domicile, with Ireland a close second. Generally, Germany finished in the middle of the pack, placing behind Luxembourg and Ireland when it came to government support. These findings show that though the UCITS directive applies to all of Europe, differences in perception still exist between EU countries.

Dr. Gunnar Lang, lang@zew.de

Q&A: Youth Unemployment in the EU

## The European Youth Guarantee is Very Unlikely to be Effective in the Future

*The EU has decided to spend billions of euros to combat youth unemployment, a particularly acute problem in many Southern European countries. Prof. Dr. Holger Bonin, a labour economist at ZEW, raises doubts about the effectiveness of the initiative. He emphasizes the main responsibility to fight youth unemployment should be at the EU member state level.*

**The EU has adopted a European Youth Guarantee that promises to get young people into employment, further education or (re)training within four months of leaving school. What do you think of this initiative?**

We need to see how this guarantee will be put into practice, but I am sceptical. Many of the programme's resources are simply being shifted around within the European Structural Fund (ESF). So at the end of the day, this could be a case of "old wine in new skins".

Many of the EU countries with high youth unemployment are implementing strong austerity measures. They struggle hard to even meet the co-financing requirements associated with ESF programmes. In any event, I think it is problematic that the Youth Guarantee focuses on an input-oriented target.

This creates incentives to simply offer any kind of educational or employment opportunity, regardless of its suitability for the individuals in question. It would be much bolder to set output-oriented goals, such as improving the rate of suc-

cessful transition from government-supported employment or training under the Youth Guarantee to regular employment. But this would in all likelihood quickly expose the limitations of the programme.

**What limitations are you referring to?**

We know from evaluation studies that public training or employment programmes for the unemployed often do not significantly improve individual employment chances. When it comes to young people, let me refer to the experience in Germany with the so-called "transitional system", which does not exactly give cause for optimism.

This system is a complex set of measures that works as a safety net for those who have difficulties entering the regular labour market following completion of secondary education at school. While no systematic evaluation of this system has been conducted, it is quite obvious that many youths start programme careers leading them from one public support measure to the next.

**Still Germany is widely perceived to be a role model when it comes to youth**

**employment. Is this a wrong perception?**

In terms of bringing youths with weak cognitive or non-cognitive skills, who are not ready for vocational training, into regular employment, Germany is perhaps not a role model. But Germany's dual apprenticeship system, which combines tuition at the workplace with some general training in the classroom, remains a strong institution which keeps youth unemployment low. Unfortunately, such a system needs to evolve over a long time frame.

It is not possible to copy it as quickly as many politicians perhaps wish it was. Yet the German model does tell us that structured vocational training in which apprentices gain hands-on experience in real companies is a recipe for success. We must not forget that youths in Mediterranean countries are not just suffering from poor labour demand. As school-centred systems fail to provide agents with the kind of knowledge required at the workplace, skills mismatch is also a problem.

**If the Youth Guarantee is not the way forward, then what should the EU do?**

My first, provocative answer is – the EU should not act at all! We must not forget that responsibility for labour market policy resides with the individual member states. And there it belongs, according to the principle of subsidiarity.

Secondly, structural reforms facilitating youth employment should be a key element of the broad economic policy guidelines issued in connection with the EU Stability and Growth Pact or in connection with receiving bailout funds.

E.g., there is a need to roll back the strong employment protection for regular workers in Italy and Spain. This norm has created a dual labour market where young labour market entrants are facing high hurdles. Finally it would be worthwhile to strengthen European programmes such as Leonardo da Vinci that are designed to encourage work-related training abroad.

Prof. Dr. Holger Bonin, bonin@zew.de

**Holger Bonin** has been head of ZEW's Research Department "Labour Markets, Human Resources and Social Policy" since 2007. He is also professor of Labour Economics and Social Policy at the University of Kassel. The focus of his work is applied empirical economics. Prof. Bonin is interested in the economic impact of demographic change and migration, the impact of family-related policy, behavioural microsimulation of labour supply, and wage and employment rigidities. He is a member of the German Economic Association and an IZA Research Fellow.



## Effective Business Tax Rates, 1998 – 2012

*This report provides a glimpse into the average effective business tax rates of various countries from 1998 until 2012. This rate is of particular interest for companies that want to assess the attractiveness of a particular investment location from a tax standpoint.*

ZEW, together with PricewaterhouseCoopers, was commissioned by the Directorate-General for Taxation and Customs Union of the European Commission to calculate effective business tax rates in the European Union (EU) as well as in other important industrial nations.

### Methods and Data Used in the Study

The study investigated the individual countries of the EU, selected EU candidate countries and the OECD states Canada, Japan, Norway, Switzerland and the United States during the period from 1998 to 2012. The long-running and regularly updated study produced a one-of-its-kind global database that not only records tax parameters but also provides investment model-based dimensions for tax incentives regarding the localisation and volume of domestic and cross-border

and marginal business tax rate following the established method of Devereux and Griffith. The collected data has been used for scientific publications and economic policy advice.

The newest figures for 2012, passed onto the EU commission in autumn, were recently released for publication. The following account gives a glimpse into the development of average effective business tax rates from 1998 to 2012. This is an important metric for assessing the attractiveness of a particular investment location from a tax policy perspective.

### Definition of the Average Effective Business Tax Rates

Unlike a pure tax rate comparison, the average effective tax rate measures the tax rate that is raised on a hypothetical highly profitable investment project. In

tion of interest on debt capital and any capital-based taxes on company assets. Specifically, the study considers an investment project that consists of five assets: an industrial building, a machine, an acquired patent, a financial asset and inventories. 65 per cent of the investment is financed with equity, 35 with debt.

### Calculations of the Average Effective Tax Rate in the Year 2012

The 2012 calculations show a total average effective tax rate of 20.9 per cent for EU member states. Of all the countries measured in 2012, Japan had the highest effective tax rate, at 40.1 per cent. Macedonia had the lowest rate, at 7.9 per cent. Within the EU, France had the highest effective tax rate, with 34.2 per cent, and Bulgaria the lowest, with only 9.0 per cent. Germany ranked 30th out of 35 countries. (First place went to the country with the lowest rate.)

The figure on this page shows the effective tax rates of a domestic investment from 1998 to 2012 for eight selected countries, including the United States (though calculations for the United States did not begin until 2005).

As the figure indicates, tax rates are generally decreasing. This trend is particularly apparent in European countries, which on account of the internal European market face stiff competition for capital investment.

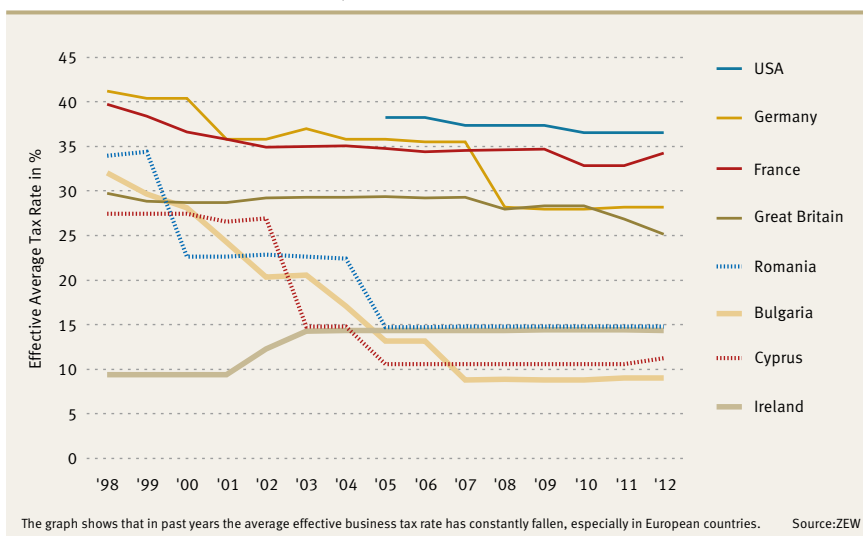
### Development of Tax Rates in Europe

By contrast, the tax rate in the United States has been the highest throughout the entire period. Within Europe, Germany and France have each occupied the spot for the highest tax rate.

For Germany, this changed in the year 2008, when it carried out a comprehensive tax reform, reducing its effective tax rate by 7.3 percentage points, to 28.2 per cent. The main cause for the decrease was the decision to lower the corporate tax rate from 25 to 15 per cent.

This improved Germany's ranking four places, moving it from 33rd to 29th. Ire-

### Tax Rates for Selected Locations, 1998–2012



investments. Based on the most important elements of tax law in each of the surveyed countries, the study measured the effective average business tax rate

in addition to the statutory tax rate, it takes into account regulations for the determination of the tax base, such as the depreciation allowances for assets, the deduc-

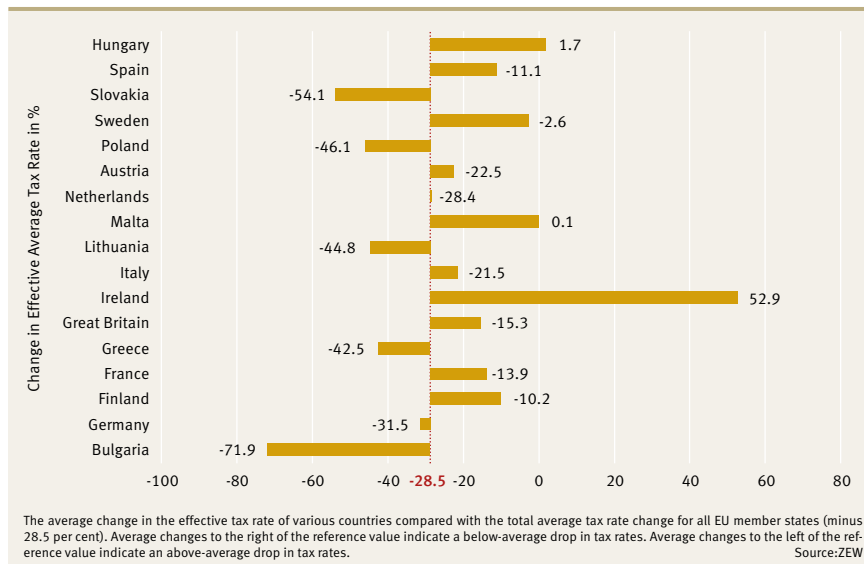
## POLITICO-ECONOMIC ANALYSIS

## ZEW DISCUSSION PAPERS

land has shown one of the consistently lowest rates, remaining at 14.4 per cent since 2003. Starting from 2010, Great Brit-

the right of this value, by contrast, have lowered their tax rates by more than the EU average.

## Relative Tax Rate Change, 1998–2012



ain has implemented a series of tax rate cuts which have brought about a stepwise reduction of the effective average tax rate from 28.2 in 2010 to 25.2 per cent in the year 2012.

## The Run-Up to EU Accession

A particularly interesting development can be observed for the rather recent EU member states in the study – Bulgaria, Slovakia and Cyprus. Before accession to the EU (2004 for Slovakia and Cyprus 2004, 2007 for Bulgaria), their tax rates each decreased drastically; since becoming members, however, their rates have remained the same. Relatively speaking, these states have shown low average effective business tax rates for the EU.

The figure on this page shows the deviation of relative tax rate change for selected EU member states from 1998 to 2012 compared with the average tax rate change for all EU member states. The average tax rate change for the EU is minus 28.5 per cent.

Countries in which the average business tax rate change lies to the left of this value lowered their tax rates by less than the EU average. Countries in which the average business tax rate change lies to

The figures on tax rate changes indicate that the effective business tax rate in the Netherlands decreased by 28.4 per cent, which corresponds almost exactly to the EU average. In comparison, Bulgaria has adjusted its tax policy the most, lowering its effective average tax rate by almost 72 per cent since 1998, or more than 2.5 times the EU average.

Countries such as Slovakia, Poland, Lithuania, Greece, Bulgaria, and (just barely) Germany have decreased their average effective business taxes at an above-average rate. All other EU member states were behind the average level. An absolute increase of the tax rate can only be seen in two countries: Ireland and Hungary.

## General European Downward Trend

All in all, most of the countries in Europe have shared in the general downward trend for the effective business tax rate. But yet with the financial and economic crisis that began in the year 2008 the trend has slowed visibly. It remains to be seen whether this spells the end of tax competition.

Katharina Richter, richter@zew.de  
Dr. Jost Heckemeyer, heckemeyer@uni-mannheim.de

No 13-039, Clemens Fuest, Andreas Peichl, Sebastian Siegloch: Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany.

No 13-038, Zareh Asatryan, Thushyanthan Baskaran, Theocharis Grigoriadis, Friedrich Heinemann: Direct Democracy and Local Public Finances under Cooperative Federalism.

No 13-037, Jens Mohrenweiser, Thomas Zwick, Uschi Backes-Gellner: Poaching and Firm-sponsored Training: First Clean Evidence.

No 13-036, Kai Hüschelrath, Florian Smuda: Do Cartel Breakdowns Induce Mergers? Evidence From EC Cartel Cases.

No 13-035, Sven Heim, Georg Götz: Do Pay-as-bid Auctions Favor Collusion? Evidence from Germany's Market for Reserve Power.

No 13-034, Lars Feld, Alexander Kalb, Marc-Daniel Moessinger, Steffen Osterloh: Sovereign Bond Market Reactions to Fiscal Rules and No-Bailout Clauses – The Swiss Experience.

## UPCOMING EVENTS

## Workshop on Family Economics and Family Policy

ZEW is pleased to announce a workshop on family economics and family policy in Mannheim on November 27-28, 2013. The objective of the workshop is to bring together 15-20 economists and scholars in related fields of research from Europe and overseas. One focus of the workshop is the design and impact of family policies, in particular with respect to family choices (e.g. fertility, family structure). Empirical and theoretical contributions addressing topics related to the family are welcome. The deadline for submission of full papers or extended abstracts is September 1.

Interested participants (non-presenters) are also invited to register no later than November 1, 2013. Please note that only a limited number of non-presenters will be able to attend. The conference fee for non-presenters is EUR 110. Travel expenses and accommodation will be covered for participants presenting a paper. For further information go to:

[www.zew.de/family2013-workshop](http://www.zew.de/family2013-workshop)

## CONFERENCES

## International Conference on Innovation and Patent Research at ZEW in Mannheim

*On 3-4 June the 5th Conference on the Economics of Innovation and Patenting was held at ZEW. The Conference was hosted in cooperation with the Mannheim Centre for Competition and Innovation (MaCCI). Some 100 scholars from Europe, North America, Asia, and Australia took part.*



Diego Comin explains the link between the adoption of new technologies and income.

The international conference at ZEW addressed a wide range of topics. Five worldwide leading scholars presented their latest research findings in a series of plenary lectures.

Diego Comin (Harvard Business School) illuminated time trends in the introduction of new technologies in poor and rich countries. Xielin Liu (Graduate University of the Chinese Academy of Sci-

ence in Beijing) shed light on the particularities of the Chinese innovation model. Mark Roberts (Pennsylvania State University) presented econometric models for estimating the structural parameters of dynamic innovation models. Brian Wright (UC Berkeley) lectured on the licencing strategies of university technology transfer offices. Dietmar Harhoff (Max Planck Institute for Intellectual Property and Competition Law in Munich) argued that the reliable estimation of the value of a patent requires the explicit consideration of other patents.

In a panel discussion Dominique Foray (École Polytechnique Fédérale de Lausanne), Engelbert Beyer (Federal Ministry of Education and Research), Stuart Graham (Georgia State University) and Jochen Maas (Sanofi-Aventis) – representatives from academia, politics, and business – discussed potentials for mission-oriented versus horizontal R&D policies in order to strengthen competitiveness. The Fritz Thyssen Foundation provided financial support for the conference, enabling many young researchers to attend.

Dr. Birgit Aschhoff, [aschhoff@zew.de](mailto:aschhoff@zew.de)  
Paula Schliessler, [schliessler@zew.de](mailto:schliessler@zew.de)

## Mannheim Energy Conference 2013 at ZEW

*Some 80 energy experts met at the Mannheim Energy Conference 2013 hosted by the ZEW in Mannheim from June 24-25, 2013. The international conference was organised within the scope of the Leibniz Science-Campus “Mannheim Centre for Competition and Innovation” (MaCCI).*

During the two-day conference, researchers and experts from different firms and organisations discussed topics like competition and demand in the electricity market as well as innovation and investment in the energy sector. The international conference was organised within the cooperation of MaCCI – a joint inter-

disciplinary project of ZEW and the School of Law and Economics at the University of Mannheim. Keynote speakers were Ulla Engelmann (European Commission Joint Research Centre), Peter Cramton (University of Maryland and Market Design Inc.), Jean-Michel Glachant (European University Institute and Loyola de Palacio Ener-

gy Policy Programme), and Paul Ekins (University College London). The conference also featured numerous workshops focusing on the different developments in energy markets.

The main event was a panel discussion hosted by Andreas Löschel (ZEW). Under the title “Challenges of the Promotion of Renewable Energies”, Joachim Goldbeck (Goldbeck Solar), Georg Müller (MVV Energie) and Bernd-Michael Zinow (EnBW) discussed the outcomes of political support to renewable energies.

Elisa Jendrusch, [jendrusch@zew.de](mailto:jendrusch@zew.de)



## INSIDE ZEW

## Wikimedia Expert for Open Science Spoke at ZEW Research Seminar

Dr. Daniel Mietchen, Germany's "Wikimedian in Residence for Open Science" held an exceptional ZEW Research Seminar at the institute on June 12, 2013. He presented and discussed possible ways to enhance interaction of scientists in the Wikimedia community. His visit at ZEW is the first result of joint activities in the Leibniz research network "Science 2.0", where ZEW is one of the project partners. Mietchen first gave a general introduction to Wikipedia and its sister projects. He focused on the role these projects play in opening up the research work conducted

at ZEW for the public and in integrating the public into academic discourse. Wikipedia and its sister projects, particularly Wikimedia Commons, are one of the most popular sources of information, including information on science and research topics. It is in the interest of researchers to familiarise themselves with the way these platforms work, and to get acquainted with the culture of openness embedded in them – a culture already started to spread into academia. Furthermore Mietchen showed clearly his view on Wikimedia especially as a plat-

form or tool for communicating scientific content to the general public audience. In the following discussion, Mietchen addressed several possibilities to increase exchange between researchers within the various Wikimedia projects, such as Wikipedia or the Wiktionaries. True to Wikipedia's principles and the spirit of openness, his talk was made available on his Wikipedia page. Dr. Daniel Mietchen is a freelance scientist and currently working for the Open Knowledge Foundation Germany as "Wikimedian in Residence for Open Science".

## ZEW and Fudan University Launch First Monthly Survey of Economic and Financial Data on China

ZEW and Fudan University have launched the "China Economic Panel" (CEP) in July 2013. The objective of the panel is to investigate China's growing weight in the world economy on the basis of a monthly survey of economic data. In cooperation with the Financial Research Center of Fudan University, China experts from financial, research, and economics departments of banks, insurance and investment companies, as well as industrial enterprises located in China, Germany, and further countries are surveyed. The experts share their assessments of China's current economic situation as well as of the expected economic development on a one year time horizon.

The experts also assess selected financial and fundamental economic data of the People's Republic, i.e. GDP growth, inflation, interest rates, various stock market indices, and real estate prices. CEP participants deliver in part point forecasts, in part directional forecasts. The co-operation partner of ZEW, Fudan University, is one of China's leading universities. "Collaborating with our partners in China further ensures that assessments from Chinese experts are included in the survey", says Dr. Gunnar Lang, deputy head of ZEW's Research Department of International Finance and Financial Management.

## Researcher from the University of Bonn Receives 2013 ZEW Research Award

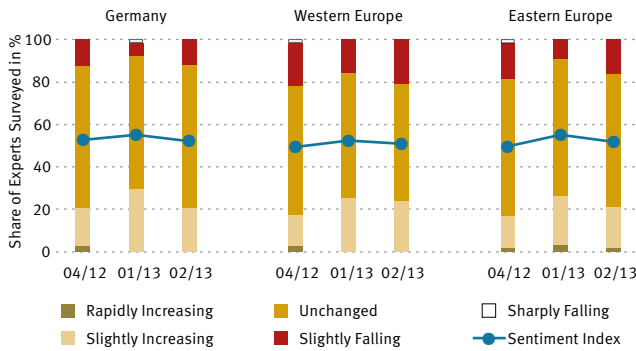
Patrick Hürtgen from the University of Bonn received the Heinz König Young Scholar Award. ZEW honours Hürtgen's research on the relationship between current account deficits and budget deficits. The Heinz König Young Scholar Award award was presented to Hürtgen at the ZEW Summer Workshop focussed on current challenges to fiscal policy in Europe, funded by the Monetary Stability Foundation. Altogether 15 researchers were invited to ZEW. The award is named after the late founding director of ZEW, Prof. Dr. Dr. h.c. Heinz König, who died in 2002. It recognises annually excellent empirical papers by up-and-coming researchers. The annual award comes with an endowment of 5,000 euros and the opportunity to spend an extended research visit.



From the left: Florian Misch, Fridolin Scheuerle, Patrick Hürtgen the winner of the award, and Doris Brettar.

**FACTS AND FIGURES**

**Demand for Transport in Combined Traffic Broadly Stable**

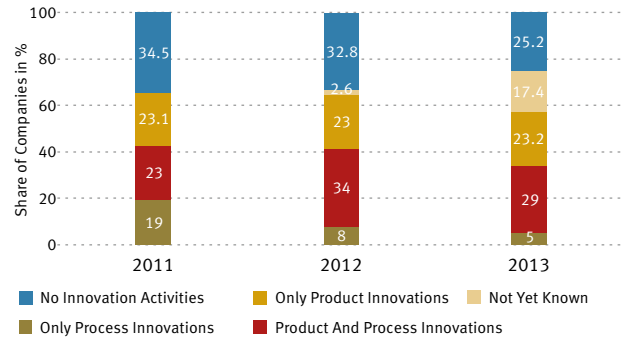


Source: ZEW

Over the last years, the development of transport volumes in combined traffic has mostly been driven by foreign trade. This driving force started abating in 2009, and 2012 also was not a successful year for container and lorry traffic on rails. Accordingly, the current assessment of the coming six months given by the experts who participated in the Transport Market Barometer by Prograns/ZEW is restrained. About 50 per cent (regarding Western European traffic) to two thirds (regarding domestic traffic) expect unchanged volumes.

Dr. Claudia Hermeling, hermeling@zew.de

**Automotive: Uncertainty about Innovation Activities in 2013**

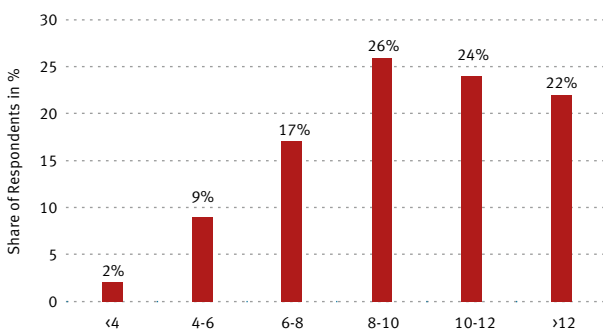


Source: ZEW, Mannheim Innovation Panel

Many companies of the German automobile industry are still uncertain about investing in innovation projects in 2013. Only 57 per cent of the companies firmly intend to realise product or process innovations, and 17 per cent have not yet decided on innovation projects. This may be linked to the shift towards electromobility. Car manufacturers are particularly reluctant to invest in process innovations. Given the uncertain future technological development, many companies avoid early decisions which would tie new production facilities to one specific technology.

Dr. Christian Rammer, rammer@zew.de

**Thresholds for Assessing Energy Poverty**

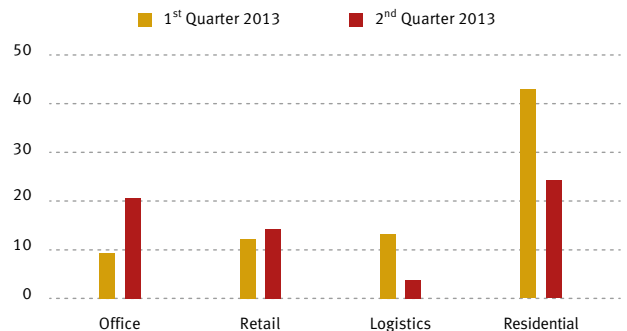


Energy costs in % of disposable household income Source: ZEW

Rising energy prices put pressure on low income households. According to the findings of the semi-annual ZEW Energy Market Barometer, energy costs reach a critical level when they eat up about ten per cent of the disposable household income. A majority of about 54 per cent of the experts surveyed assess that total costs for electricity, gas, hot water and heating of up to ten per cent of the disposable income are financially troublesome for low income households. About 46 per cent of the experts consider the critical threshold to be above ten per cent.

Dr. Florens Flues, flues@zew.de

**Commercial and Residential Real Estate Financing Markets**



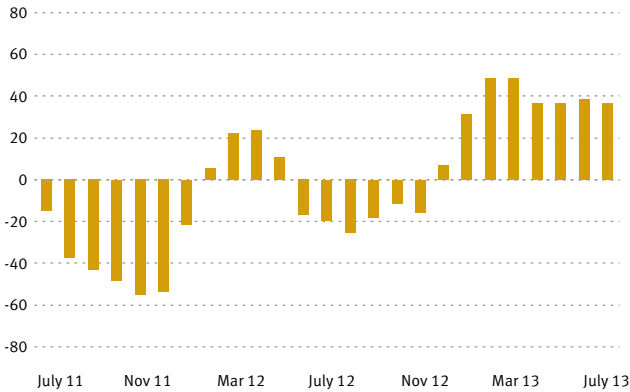
The balance of positive and negative evaluations refers to the conditions on German real estate financing markets in the past six months. Source: ZEW

The indicator of the current financing conditions for residential properties fell by 18.7 points. Nonetheless, the balance between experts estimating an improvement and experts expecting a deterioration of the current financing situation is reaching 24.2 points. The most significant improvement was recorded in the office segment (11.4 points), followed by the retail segment (2.0 points). The corresponding logistics indicator decreased by 4.7 points. All three commercial segments still display positive indicator balances.

Dr. Tim-Alexander Kröncke, kröncke@zew.de

## FACTS AND FIGURES

## ZEW Financial Market Test July 2013

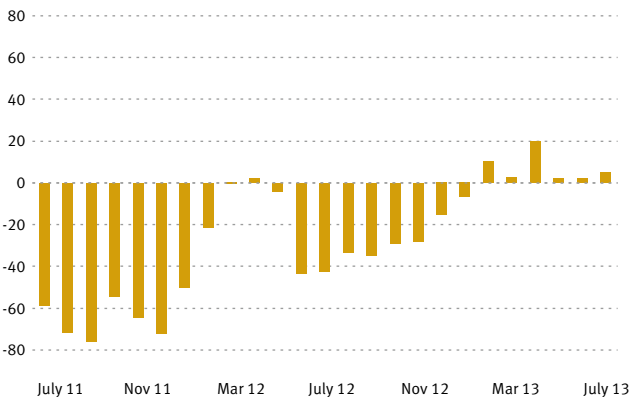


Balance of positive and negative assessments concerning economic development in Germany on a six-months time-frame.  
Source: ZEW

## Germany: ZEW Indicator Slightly Weaker

The ZEW Indicator of Economic Sentiment for Germany slightly declined in July 2013. The indicator fell by 2.2 points compared to the previous month and is now hovering at the 36.3-points-mark. "The financial market experts stick to their overall positive forecast. This illustrates their confidence in the robustness of the German economy despite the rather weak figures concerning industrial production and foreign trade released recently", says ZEW President Prof. Dr. Clemens Fuest. The assessment of the current economic situation for Germany improved slightly in July. The respective indicator increased by 2.0 points and now stands at the 10.6-pointsmark. Economic expectations for the Eurozone slightly improved in July. The respective indicator increased by 2.2 points to 32.8 points.

Frieder Mokinski, mokinski@zew.de

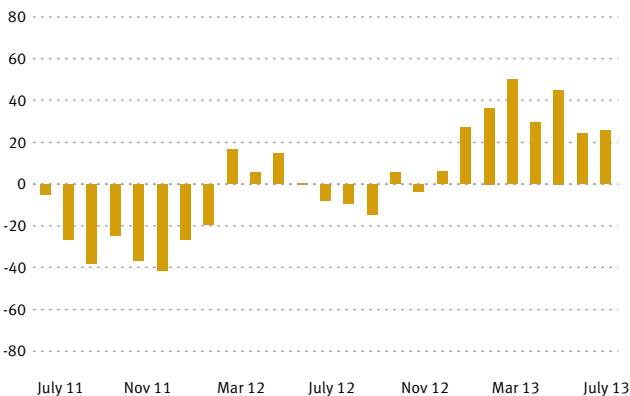


Balance of positive and negative assessments concerning economic development in Switzerland on a six-months time-frame.  
Source: ZEW, Credit Suisse

## Switzerland: Expectations Remain Stable

In July 2013 economic expectations for Switzerland increased slightly by 2.6 points. The ZEW-CS-Indicator of economic expectations reached the 4.8-point-smark. The economic sentiment indicator for Switzerland has thus remained at a low level for the last three months. The ZEW-CS Indicator is calculated monthly by ZEW in cooperation with Credit Suisse (CS) surveying financial market experts regarding the economic development in Switzerland on a six-month time horizon. The assessment of the current economic situation in Switzerland improved by 4.5 points to a level of 26.2 points. The assessment of the current economic situation for Switzerland stands in contrast to the evaluation for the Eurozone, as 80.5 per cent of experts assess the Eurozone's economic situation as "bad".

Lena Jaroszek (ZEW), jaroszek@zew.de



Balance of positive and negative assessments concerning economic development in the CEE region on a six-months time-frame.  
Source: ZEW

## CEE Region: Economic Sentiment Unchanged

In July 2013 economic expectations for Central and Eastern Europe including Turkey (CEE) remain almost unchanged. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region increases very slightly by 1.7 points. The indicator now stands at a level of 25.7 points. Experts' assessment of the current economic situation for the CEE region has also remained largely unchanged in July 2013. The respective indicator has decreased slightly by 1.8 points to a total level of minus 14.2 points. The CEE region consists of Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia and, since October 2010 as well as Turkey. The Financial Market Survey CEE is carried out among financial market experts by ZEW and Erste Group Bank AG, Vienna.

Zwetelina Iliewa, iliewa@zew.de



## A Grand Coalition of Folly: The Rental Price Cap

The fact that politicians put forth populist and economically irrational proposals just prior to elections to garner a few extra votes is apparently an evil

we must learn to live with. The most recent example of this phenomenon is the “rental price cap”, a proposal motivated by the rapid rise in rental prices that has been witnessed in urban centres over the past few years. In Berlin, for example, the cost of new rentals has risen by around 40 per cent since 2007. For individuals with low or moderate incomes, it is becoming more and more difficult to reside in desirable neighbourhoods. To counter this trend, the SPD wants to stop the rise in rental prices through new legislation, and the CDU has indicated its willingness to go along with such measures.

Currently increases in rental prices in Germany are capped at 20 per cent over a three-year period, for new rental contracts prices are freely negotiable. The SPD favours capping rent price increases at 15 per cent over a four-year period, but their proposal would also include limitations on price increases when tenants change. The CDU would exempt newly constructed buildings from the rental price ceilings so as to preserve incentives for construction investment. However, rental price increases for existing properties would be capped under the CDU proposal. These measures would, in fact, curb the rise in rental prices. Those individuals fortunate enough to already be renting an apartment in a sought-after neighbourhood or able to find a new apartment despite the rental regulations would be relieved of the burdens of higher prices at the landlord’s expense. This outcome is deliberate, as renters apparently enjoy more public sympathy than landlords.

However, these proposed measures would have devastating side effects. Above all, they would aggravate the housing shortage problem, and this effect would be immediate, occurring even before any observable decrease in building activity. More rental properties will be converted into condominiums, or, alternatively, leased as commercial real estate. In addition, the new regulations would make it preferable to leave dwellings unoccupied in anticipation of an increase in their value. Anyone with a larger rented apartment who, in fact, no longer needed as much space, say, because their children had grown up and left home, would

not want to move into a smaller apartment. The rental cost for the old apartment would be relatively low, and new apartments would be virtually unobtainable. The rate of owners using their rental properties as personal residences would also increase. In the medium term, the decreased availability of rental apartments would be further accelerated due to the lack of new investment. Refurbishing and modernisation measures would be cut back and fewer new apartments would be built. New construction would be affected even if new rental contracts were exempted from the rental price cap, because investors take into consideration that apartments will be leased multiple times.

The rental price cap would also alter the market for the few remaining rental apartments. Since with lower rental prices, demand would vastly exceed supply, arbitrary discrimination would become more widespread in the rental market and the pressure would increase on renters to circumvent the price cap through payments “under the table” to brokers or property owners. The consequences would be corruption and tax evasion. The disruption in price formation for rental apartments would have adverse effects throughout the real estate market. Since it would become more difficult to find a rental apartment, mobility would decrease, with negative secondary effects, such as greater unwillingness to take on a job in a new location.

It would clearly be more effective to attack the root of the problem and develop new models. However, this would require a level of expenditure that government budgets are currently in no position to undertake. Imagining that this deficiency could be eliminated for once and for all for through price regulations is an illusion. The government has to focus on its core mission. In the housing market, this is to assure that needy households can find suitable housing. To accomplish this, transfer payments such as housing allowances need to be adjusted as necessary to match changes in rental costs. By contrast, across-the-board rental price caps would only serve to undermine the functioning of markets and intensify the housing shortage.

# ZEW

Zentrum für Europäische  
Wirtschaftsforschung GmbH  
Centre for European  
Economic Research

ZEWnews 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](http://www.zew.de) · [www.zew.eu](http://www.zew.eu)  
President: Prof. Dr. Clemens Fuest · Business and Administration Director: Thomas Kohl

**Editors:** Elisa Jendrusch, Phone +49/621/1235-133, Telefax +49/621/1235-255, E-mail [jendrusch@zew.de](mailto:jendrusch@zew.de)  
Gunter Grittmann, Phone +49/621/1235-132, Telefax +49/621/1235-255, E-Mail [grittmann@zew.de](mailto:grittmann@zew.de)

**Reprint and further distribution:** only with mention of reference and sending of a voucher copy  
© Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW), Mannheim, 2013