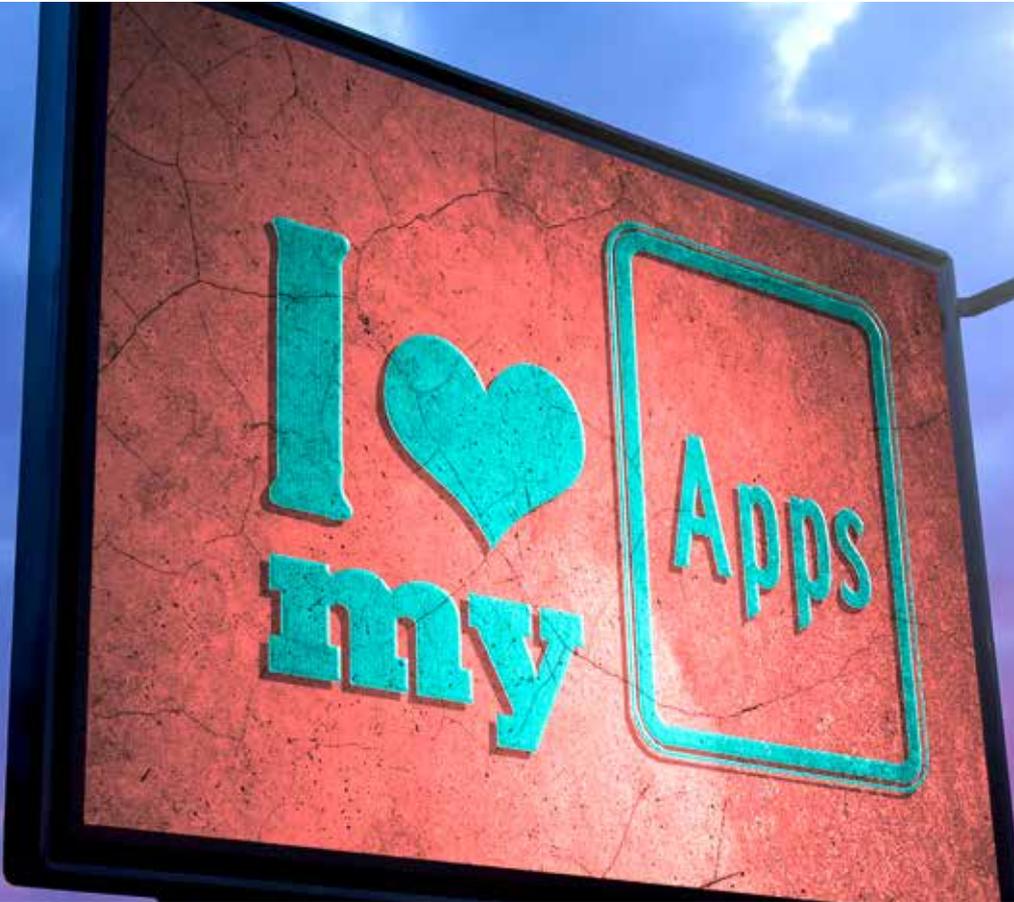


ZEW NEWS

Research Results · Conferences & Workshops · Publications

July/August 2016



Research Findings

A “Jobless Future” Due to Automatisa-tion?

Research Findings

Tax Planning via Trade- marks and Patents

Opinion

Brexit: A Watershed Moment for Europe

Photo: © istockphoto.com/Rasica

Goodbye Privacy? – Every Second Free App Has Access to Sensitive Data

Digital technologies offer a huge potential for increasing innovation, growth and prosperity. At the same time, however, they threaten the private sphere to an as yet unknown extent. A current study carried out by ZEW in the app market shows that every second free app available in the Google Play Store grants providers access to users’ sensitive data. In addition, a good 20 per cent of payable apps also grant providers the right to access such data. As such, it becomes clear that in return for gaining access rights to sensitive data, providers offer apps at a lower price.

Innovative digital technologies have the potential to help us achieve growth through increased efficiency and increased product diversity. These same technologies, however, also allow public bodies and businesses to invade users’ private sphere, thereby collecting information about their behaviours and in-

tentions to an as yet unknown extent. On the one hand, access to this information drives innovation as it enables, for example, the development of new and improved products and services. On the other hand, there are a number of individual economic risks, such as user-specific prices for the same products, which arise as a direct result of the erosion of the private sphere.

Balance Between “Too Little” and “Too Much” Privacy

Mobile technologies such as smartphones, tablets or other portable devices with integrated sensors are increasing the potentials of collecting information about users. One of the challenges of the digital age therefore consists in finding an “optimal” level of data protection which adequately preserves the private sphere whilst not overly inhibiting innovation. In order

to gain representative insights into the extent and impacts of user data collection via mobile apps, the ZEW study considered the majority of apps available in the Google Play Store in 2012. Information was collected regarding the number of installations of each app, as well as the price and the rights which users were asked to grant app providers on installation. It is these rights which enable app providers to collect information about users via their smartphone. They include permission to “send data over the internet”, to “identify the smartphone via a unique ID”, to “locate the user” or to “read SMS”. In total, 136 different rights were identified, 14 of which could be classified, on the basis of various external investigations, as posing a potential threat to the user’s private sphere.

Privacy-Sensitive Permissions Are Widespread

The results of the study show that around 40 per cent of all apps require that users grant providers at least one of these rights. Such apps can therefore be considered to be potentially detrimental to the user’s private sphere. Alongside the possibility of accurately identifying users via a specific user ID (28 per cent of all apps are able to do this), there are two further rights which seem to be particularly widespread. Firstly, apps may be able to identify the user’s location (24 per cent) and secondly, they might collect information about the user’s personal network via his or her contacts (8 per cent). Less costly apps tend to make use of such access rights more often, and to a greater extent than payable apps. Slightly more than 50 per cent of free apps require that users grant these rights. This figure is significantly higher than it is for payable apps (20 per cent). For the set of apps which require at least one of these questionable rights it appears also that free apps take advantage of such rights to a much greater extent. On average, free apps demand 2.3 rights, whilst payable apps require that users grant 1.7 rights. Moreover, each of the problematic rights is used more often by free apps than by payable apps.

Apps for Free in Exchange for Information

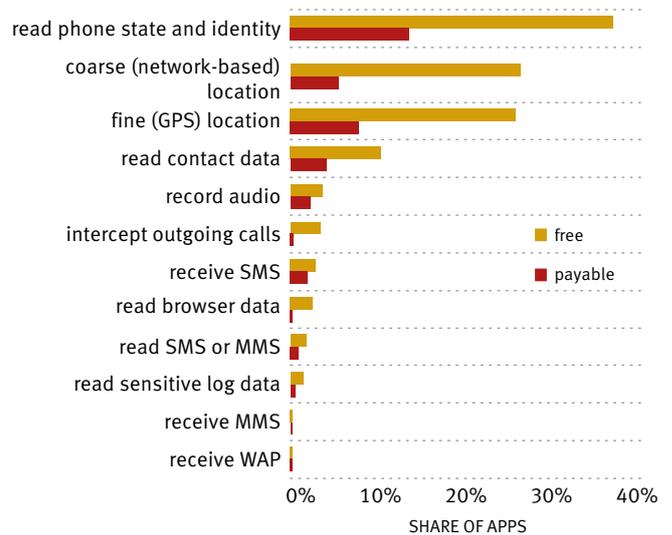
Further findings, which take the quality and functionality of apps into account, also suggest that the possibility of collecting information about users is of significant value to developers. One can indeed conclude that in exchange for access to users’ private information, app providers are willing to provide their apps for a lower price, or even for free. In such cases, turnover will be generated from the sale of products or services via the app, which may in part be offered at user-specific prices. Alternatively, turnover may be generated from adverts, which are tailored to individual users, or from trade with the collected data.

Alongside the behaviour of app providers, the ZEW study also investigated how far users consider such questionable access rights when deciding to buy and install apps. It was found that apps which demand such rights were less frequently installed by users. This effect is rather small, however, and becomes almost non-existent in the case that app providers are already

well-known, for a different product for example. This indicates a reputation effect which increases consumers’ willingness to share sensitive information.

By contrast, a more significant effect is seen if the possible risks posed by the access rights are explicitly indicated. In 2012, for example, Google explicitly warned users in rights descriptions of “potentially invasive rights”. The study indicates that users have a considerably stronger reaction to such explicit indications. It is not, however, possible to say whether this reaction, and the lower number of installations subsequently made, is simply a result of the fact that consumers have been made aware of the dangers associated with these rights, or whether

THE TWELVE MOST COMMON PRIVACY-SENSITIVE PERMISSIONS OF ANDROID-APPS IN 2012*



*Proportion of free and payable apps which make use of each permission Source: ZEW

users consider these particular rights to be inherently more invasive. If the former is the case, policy makers might want to consider the introduction of a “traffic light system” indicating the potential degree of danger posed to the private sphere by each app in order to inform consumers’ decision whether or not to download an app.

No “Free Lunch” for Consumers

The results of the study show that many of the allegedly free services provided by the app industry are strongly associated with potential costs to users, namely invasions of their private sphere. More generally, this illustrates the trade-off between offering lower monetary prices and achieving greater levels of protection for the private sphere – a conflict which seems to be of ever-increasing importance in online markets.

Download the study at: www.zew.de/PU77868

Patrick Schulte, schulte@zew.de

Crowdworking – Currently Only a Marginal Form of Employment in Germany

The last few years have seen the development of a market for paid work in the crowd. Crowdsourced labour enables firms to allocate tasks to an unlimited number of external workers, so-called crowdworkers, via online platforms. In view of controversy surrounding this new online division of labour, the socio-economic backgrounds and motives of crowdworkers in Germany have been investigated in a study carried out by ZEW.

To date, a highly heterogeneous field of crowdworking platforms has developed in Germany. The tasks allocated via such online platforms range from so-called microtasks, small tasks which can be completed in a very short period of time, to entire projects of a longer duration and with a considerable budget, such as the development of software modules for instance. Payment models also vary. Micro-jobs in particular are generally paid per task. An alternative to this are competition-based models, in which a pre-defined sum is paid only to a limited number of selected submissions.

Crowdworking Surrounded by Controversial Debate

As a form of employment, crowdworking entails a number of potentials and risks. From the point of view of businesses, crowdworking facilitates flexible access to external knowledge as well as the rapid execution of tasks at a low cost. At the same time, crowdworking is supposed to grant workers more control when it comes to determining the actual content of tasks, as well as to provide them with a greater degree of flexibility in terms of time and space. There are, however, a number of risks associated with crowdworking. As a result of income insecurity and the still unclear legal framework for crowdworking, crowdworkers are often considered to be subject to rather precarious conditions of employment. In particular, German employment law has no applicability to crowdsourced labour, and crowdworking remains unintegrated in social security systems.

But little is yet known about crowdworkers in Germany. In order to be able to better judge the situation of such workers, ZEW has carried out a study into the socio-economic background and

motivations of crowdworkers in Germany. The study was conducted on behalf of the Federal Ministry of Labour and Social Affairs (BMAS). Crowdworkers were surveyed on two online platforms used to distribute microtasks.

Flexibility Highly Appreciated by Crowdworkers

The results show that the surveyed crowdworkers are often younger and more often single than other workers in Germany. They are generally highly educated. Over 40 per cent are university graduates, or are currently studying towards a degree. Alongside crowdworking, a large proportion of crowdworkers are in paid employment, or are completing vocational training or university studies. Therefore, completing microtasks is generally not a primary source of income for crowdworkers in Germany. This is also indicated by the fact that crowdworkers tend to source only a very limited amount of work from such online platforms. Over half of the respondents claimed to spend only up to an hour each week completing tasks sourced via an online platform. Around 13 per cent reported spending over three hours each week completing such tasks. Just about 70 per cent admitted that they generally earn a maximum average income of 4.99 euros per week. Only around three per cent said they earn in excess of 20 euros per week via online platforms. The most commonly cited motivations for crowdworking were flexibility in terms of time, place and content of work. The question as to whether the work found via the platforms matches the workers' qualifications was least agreed to. Only around seven per cent are not satisfied with the work they do via online platforms.

The results enable us to relativise some of the perceived risks of crowdworking. Completing microtasks is currently a very marginal source of income for crowdworkers in Germany. Non-financial motives appear to be more relevant for participation in crowdworking markets for microtasks.

The study is available for download here (in German only): http://ftp.zew.de/pub/zew-docs/gutachten/ZEWfb462_EndberichtCrowdworker2016.pdf

Steffen Viete, viete@zew.de

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Corporations such as the coffeehouse chain Starbucks strategically transfer patents and trademarks to subsidiaries in low-tax countries.

Photo: © istockphoto.com/Jut-Chi Chan

Among Businesses, Trademarks See More Use Than Patents for Tax Planning

Trademarks and patents are both forms of intangible goods whose country of registration can have sizeable effects on a company's tax base. This is why they are often deployed strategically for tax planning. A recent ZEW study has found that corporations use trademarks more than patents to this end.

Intangible goods can very easily be transferred within a corporation from a subsidiary based in one country to a subsidiary based in another. And because taxation differs from one country to the next, corporations strategically choose the location for developing and registering such goods. Subsidiaries pay their parent company license fees for the use of its patents, trademarks, copyrights, and concessions. If the subsidiary is located in a low-tax country, the license fees are subject to a low tax rate. Profits can be shifted within the corporation and in this way reduce the tax base. Some companies that have recently employed such strategies include Starbucks, Apple, and Microsoft. In 2013, 49 per cent of the license fees that were paid in Germany came from the use of patents. 51 per cent arose from the use of other intangible goods. In the US, the share of license fees for patents was considerably less, at 23 per cent.

Patents are rights granted by states for the exclusive use of an invention within a limited period of time. Trademarks are rights states grant over the use of a symbol, or logo that distinguishes the products of one company from those of another. Generally, patent registrations are more expensive than trademark registrations, and last longer, besides. Trademarks would thus seem a better option for shifting license fees within a corporation. And ZEW researchers have found evidence that corporations indeed handle these intangible goods in different ways.

The study was based on Bureau van Dijk's Orbis database, and data on trademark and patent registrations from 1996 to 2012 at the European Patent Agency, at the EU Intellectual Prop-

erty Office, and the US Patent and Trademark Office. The data comprises 31,682 companies across 17 countries: Belgium, Denmark, Germany, Finland, France, Great Britain, Ireland, Italy, Luxemburg, the Netherlands, Norway, Austria, Poland, Sweden, Switzerland, Spain, and the US. Researchers identified a negative correlation between the taxation of intangible goods and the selected location. In other words, countries that raised their taxes saw fewer patents and trademarks registrations than countries that didn't. The results also show that subsidiaries tend to register less patents and trademarks in case of an increasing tax difference between the subsidiary and the parent company.

Trademarks Show Stronger Reaction to Tax Hikes

The study also found that trademarks react more sensitively than patents to increasing tax rates. For the countries investigated, the tax elasticity of the selected location for patents spans from minus 0.05 per cent for Ireland to minus 0.85 per cent for Germany. That means that a one per cent tax hike decreased the number of patent registrations in Ireland by 0.05 per cent and in Germany by 0.85 per cent. The negative correlation with trademark registrations was stronger. Here the elasticity lay between minus 0.77 per cent for Switzerland and minus 3.14 per cent for Belgium. That is, a one per cent tax hike decreased trademarks registrations in Switzerland by 0.77 percent and in Belgium by 3.14 percent.

The findings show that corporations very much use trademarks and patents for shifting profits and lowering their tax bases, and that they use them in different ways. Accordingly, if regulations are to be effective, they must be designed so that various measures are stipulated for each type of intangible good.

The study is available for download at: www.zew.de/PU77467

Olena Pfeiffer, olena.pfeiffer@zew.de

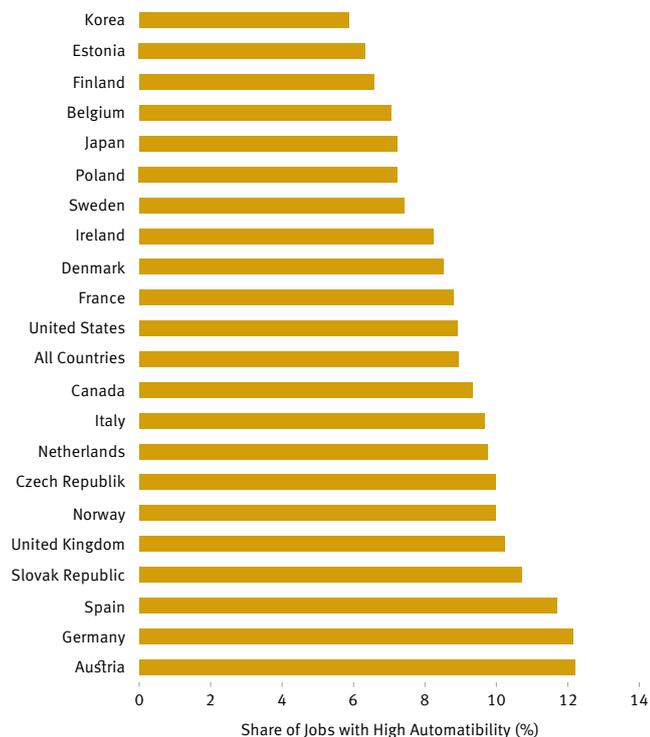
Digitisation Is Unlikely to Destroy Large Numbers of Jobs, But May Raise Inequality

In recent years, concerns have reemerged that automation and digitisation may after all result in a “jobless future”. However, a recent OECD study by ZEW researchers shows that digitisation and automation are unlikely to destroy large numbers of jobs, but are likely to raise inequality as low-educated workers may well face deteriorating employment opportunities.

According to Carl Benedikt Frey and Michael A. Osborne, 47 per cent of jobs in the US are “at risk of computerisation”. These alarming figures spurred a series of studies that find similarly high proportions of jobs at risk of computerisation in a number of European countries. These studies therefore seem to confirm that automation and digitisation may destroy large numbers of jobs. However, machines do not tend to displace professions as

In a recent paper, ZEW researchers take account of the heterogeneity of tasks performed in workplaces in 21 OECD countries, in order to re-evaluate whether the tasks performed in these jobs could actually be done by machines in the near future. Their findings suggest that the automatibility of jobs is significantly lower when the range of tasks actually performed by workers in their individual jobs is taken into account. Overall, they find that, on average, only 9 per cent of all jobs across the 21 OECD countries are automatable. Moreover, the proportion of automatable jobs varies between countries, from 6 per cent in Korea to 12 per cent in Austria. These differences appear to result from general differences across countries; in workplace organisation, differences in previous investments in automation technologies, as well as differences in the education level of workers.

SHARE OF JOBS WITH HIGH AUTOMATIBILITY



Source: ZEW

such, but rather replace certain tasks in the workplace. Occupations consist of a variety of tasks and workers within the same occupation often perform different task bundles. These studies, therefore, may well overestimate job automatibility as they assume that whole occupations rather than only single tasks become automated.

Job Losses Are Not Engraved in Stone

The threat from technological advances thus seems to be much less pronounced than previously thought. Still, these figures would be worrisome if these jobs were actually fully replaced by machines. However, the estimated share of “jobs at risk” must not be equated with actual or expected employment losses from technological advances for three reasons. Firstly, the implementation of new technologies is a slow process, due to economic, legal and societal hurdles, so that technological substitution often does not take place at the rate expected. Secondly, even if new technologies are introduced, workers are often able to adjust to changing technological capacities by switching tasks, thus preventing technological unemployment. Thirdly, technological change also generates additional jobs by creating demand for new technologies and by increasing competitiveness.

Workers Will Have to Adjust Their Skills

Therefore, the main conclusion from the ZEW study is that automation and digitisation are unlikely to destroy large numbers of jobs. Nevertheless, they are likely to change the workplace organisation so that workers will be required to adjust to changing skill requirements in their workplaces. Low-qualified workers are likely to bear the brunt of these adjustment costs, as the automatibility of their jobs is often significantly higher compared to those of highly qualified workers. Therefore, the challenge in the future is likely to involve coping with rising inequality and ensuring sufficient (re-)training, especially for the group of low-qualified workers.

The complete study is available for download at:
<http://www.zew.de/PU78037-1>

Jun.-Prof. Dr. Melanie Arntz,
 Dr. Terry Gregory,
 Dr. Ulrich Zierahn, zierahn@zew.de



Photo: © istockphoto.com/Rawpixel Ltd

The Energiewende Doesn't Need Superheroes

Only superheroes can save the world single-handedly. Mere mortals require cooperation and compromise. This is especially true when it comes to mitigating climate change. Can individual efforts nevertheless help slow global warming? It's a definite "maybe", say ZEW researchers.

Ever since Germany embarked on its Energiewende – a national sea change towards renewables and increased energy efficiency – environmentally friendly lifestyles have become increasingly popular. Indeed, some even regard individual activities that minimise ecological harm as an instrument of climate policy.

In bringing about the Energiewende, Germany must balance economic strength with social justice and environmental concerns. Here compromises are inevitable. With any public good, the state plays a central role in coordination. The pressing question today is how far the state should encroach on the private sphere in fighting climate change. What is clear is that championing individual efforts as a political instrument in the fight against climate change is problematic. For it is uncertain whether the state can directly promote individual lifestyles without restricting personal freedoms. Even so, voluntary decisions to pursue pro-environmental behaviour at the individual level can generate social benefit – such behaviour serves as a role-model, encouraging others to use resources more conscientiously – and therefore should be welcomed.

Private Benefits of Environmentally Friendly Lifestyles

"Voluntary" does not mean that environmentally friendly lifestyles can be defined in whatever way one pleases. Simple calls for climate friendly behaviour don't go far enough. Clear standards are needed so that individual behaviours truly benefit the environment. And care must be taken in defining those standards. For instance, pointing to the low per-capita emissions in developmental countries as a reference for sustainability doesn't cut it. Many of these countries lack basic goods and services, and it should be plain to everyone that fundamental shortages are not a desirable solution to the problem.

The right kind of personally-initiated pro-environmental behaviour not only generates social benefit; it also brings person-

al benefit: the "warm glow" people may feel when doing something that is good for society and the public acknowledgment they receive in return. Behavioural economists see personal benefit as one of the most important incentives for environmentally friendly lifestyles. Indeed, in some cases, the environmental effect is less important than the fortification of one's own social status.

An important reason for this is that the ultimate effect of one's own individual actions are hard to gauge. Moreover, game theory has shown that the effect of such lifestyles is quite limited due to the free rider problem. The so-called rebound effect also presents a problem. Often, if resources are saved in one place, they are used again somewhere else or by someone else. Paradoxically, personal ecological ideals can sometimes impede the implementation of climate friendly policy.

From a practical standpoint, ecological lifestyles alone do not suffice as an instrument for reaching national climate policy targets. Large-scale coordination is needed at the same time. The foundation for effective climate protection lies in efficient climate policy that sets extrinsic incentives, is built on rational considerations of neoclassical economics, and factors in opportunity costs.

At the same time, climate policy should provide enough leeway to encourage individual action. To do this, however, it must first confront an inherent problem in current EU legislation: the Europe-wide limit on greenhouse gas emissions. Such a limit practically negates any extra efforts made to fight global warming at the individual level (or, for that matter, at the national level). For instance, cutting back electricity use or the consumption of green energy does not lead to an overall reduction in greenhouse gas emissions.

The result is a mixed bag. As important as individual actions are for climate protection, their effectiveness is debatable. At any rate, they cannot replace policy focused on effects, costs, and incentives for developing better and advanced technologies. Therefore, seen from this angle, the Energiewende does not need exhilarated superheroes who go it alone but sober team players who find long-term workable solutions and are willing to make compromises along the way.

Dr. Peter Heindl, heindl@zew.de

Q&A: Should the UK Response to Brexit Be Corporate Tax Relief?

Tax Breaks Cannot Offset the Downsides of Leaving the EU

In June, the majority of voters in the UK opted to exit the European Union. Now that the first companies have signalled their intent to leave the UK, the Chancellor of the Exchequer wants to offer them the lowest tax rate of any major economy. Christoph Spengel, a corporate tax expert at ZEW, thinks this is a misguided approach.

Great Britain is considering a corporate tax rate cut that would lower its current rate of 20 per cent to under 15 per cent. Will this entice businesses to stay?

To Germans, the UK's current corporate tax rate of 20 per cent already puts it among the lower-tax countries. But the disadvantages of leaving the EU would probably be worse than the revenue loss associated with a five percentage-point corporate tax rate cut. Outside the EU there is no parent-subsidiary directive, no VAT directive, and no interest&royalties directive. Not having these will significantly increase the bureaucratic costs of cross-border transactions.

What does that mean specifically?

The UK would no longer have unrestricted access to the EU internal market. Such access is eminently important for industrial companies. If I am, for example, a Japanese car manufacturer, I won't decide to stay in the UK for a lower tax rate if it means losing the large EU market, because the real sector needs markets for selling goods. Moreover, much of London's financial sector, including consulting services, is likely to move to Dublin (for the sake of language) or else to Frankfurt or Paris.

What fiscal disadvantages might Great Britain incur should Brexit happen?

If the UK does not manage to remain in the European Economic Area – maintaining the kind of close ties to the EU that

Norway has – then the country will become, for tax purposes, a non-EU, third country. EU member states have passed very tight legislation governing non-EU countries. The EU's instruments for limiting the use of tax havens, such as controlled foreign company rules, would then apply to the UK. Furthermore, the administrative burden of collecting VAT would increase considerably.

Will the UK become a tax haven?

I think this is fairly unlikely. Agreements on the automatic exchange of information and efforts against so-called tax dumping have already been passed by the OECD. The UK was always one of the first to implement these agreements. I don't believe that anything will change in this regard.

“



Photo: ZEW

Professor Christoph Spengel

is Research Associate at the Centre for European Economic Research (ZEW) and holds the chair in Business Administration and Taxation at the University of Mannheim. His main research areas include national and international company taxation, accounting as well as the impact of taxation on competition, particularly with regard to the European integration process. As an appointed member of the Scientific Advisory Council to the German Federal Ministry of Finance, he provides policy advice on European integration, tax reforms and prospects of fiscal consolidation.

spengel@zew.de



ZEW Economic Forum 2016 – Speed of Digitalisation Shapes Market Economy

The ongoing process of digitalisation is fast and complex, and encroaches on all economic sectors. In order to keep pace in this fast-growing sector, it is necessary to question long-standing values and business models. Therefore, the digital economy requires new approaches and creative ideas both on a national and international level. These were the central considerations addressed at the ZEW Economic Forum 2016, held under the title “New Rules for a Digital Economy?”. In their keynote speeches, ZEW President Professor Achim Wambach and ZEW research associate Professor Dietmar Harhoff, Director of the Max Planck Institute for Innovation and Competition, emphasised the need to bridge the gap between the traditional market economy and the new digital economy.



Photo: Thomas Tröster

ZEW President Achim Wambach emphasised that the principles of the social market economy are being called into question by new technologies.

“In this age of the digital revolution, marked by a high degree dynamism and permanently changing framework conditions, it is necessary to develop new rules,” explained Achim Wambach in his opening speech on “Social Market Economy: Challenges and Digitalisation”. Achim Wambach highlighted the particular characteristics of digital markets in front of the 250 guests who attended the event. “The long-standing principles and values of the social market economy are being called into question by new technologies.” Examples he brought forward included the Zero-price markets, the use of data as a form of currency, as well as the so-called Sharing Economy, which is typified by businesses such as the accommodation service provider Airbnb or the online transportation network company Uber.

Providing a telling example, the ZEW President asked his audience: “What was the most used app in Germany during the 2006 football World Cup?” The answer, of course, was that no

app was used. The fact that applications for mobile devices first came onto the market in 2008, illustrates the rapid growth of this development. At the same time, the amount of Big Data, or huge volumes of data, which is generated is unexpectedly large: 90 per cent of data doubles in quantity every two years. “There are several factors in the digital economy that influence market power. These factors also unfold when it comes to the handling of large amounts of data,” explained Achim Wambach. The social market economy is therefore facing a special challenge: “How exactly to handle this data is a vast topic area to be addressed by applied economists and microeconomists.” A further aspect to be taken into account is the presence of multi-sided platforms, with both direct and indirect network effects.

It is in terms of these features which we see a fault line emerge between the social and the digital market economy. “Data are shaping our economy. We need to address the influence which the collection and use of data has on competition and consumer policy,” concluded the ZEW President.

Internet-based Innovations Require New Standards

In the second keynote speech of the ZEW Economic Forum, Dietmar Harhoff emphasised the rapid speed of digitalisation in the recent past, and the challenges resulting from this process. “We need new economic systems in order to succeed in an internet-based economy. This new sector accounted for 90 per cent of the digital growth since 2007,” explained Harhoff in his speech on “Internet, Innovation and Competition.” “Particularly when it comes to assessing the effects on productivity, we’re seriously lagging behind.” Above all, it is necessary to address structural and security issues. Furthermore, it is crucial to ensure that the current legislation is in line with the demands of an internet-based economy.

“The regulatory framework for copyright needs yet to be adjusted to take into account digital products.” Users themselves are therefore taking action. Since the turn of the millennium, huge quantities of so-called “user-generated content” (UGC) is generated, which is then accessed by purchasers. “This is an unexpected, positive trend that still needs to be taken account of on a legislative level. We need to set standards, both in Germany and across Europe, in order to secure the copyright of UGC,” explains Harhoff, who also chairs the Federal government’s Expert Commission for Research and Innovation. Finally, it is necessary to improve the perception of the digitalisation process in the general public and in the economy. In particular, start-ups have so far only received adequate funding in large German cities. In order to remain competitive on an international level, Germany needs to increasingly promote venture capital financing.

Sabine Elbert, elbert@zew.de

Inauguration Ceremony of Achim Wambach

In a well-attended ceremony following the ZEW Economic Forum 2016, Professor Achim Wambach was officially inaugurated as the new ZEW President. Numerous decision-makers in the fields of politics, economics and research came to pay tribute to Achim Wambach and emphasised his aptitude for his new position at the ZEW.

“Since its foundation in 1990, ZEW has aimed to contribute to economic policy debates on the basis of thorough empirical research,” said Theresia Bauer, Minister of Science of Baden-Württemberg, at the official ceremony. In appointing Achim Wambach, the ZEW has chosen the right candidate to achieve this goal. “His research spectrum is perfectly in line with ZEW traditions.” From the beginning, Achim Wambach had a vision for ZEW, which acquired great practical relevance with the establishment of the new Research Group “Market Design”. Achim Wambach takes office in an institute that is already in good shape, said Theresia Bauer, recognising the accomplishments of his predecessor Professor Clemens Fuest, who left ZEW at the end of March 2016.

According to Professor Ernst-Ludwig von Thadden, President of the University of Mannheim, the interdisciplinary cooperation between researchers of different fields is an essential part of ZEW’s and the university’s philosophy. Examples of such collaborations include MaTax and MaCCI, two of the most successful

ScienceCampi of the Leibniz Association, which promote the exchange between researchers from the fields of economy and law. “We, and the ZEW are thankful to have found such an excellent researcher for our team,” said Ernst-Ludwig von Thadden.



Changeover at ZEW: Achim Wambach (left), Theresia Bauer and Clemens Fuest.

Dr. Alexander Selent, Chair of the ZEW Sponsors’ Association for Science and Practice, also named ZEW as “one of Europe’s most renowned think tanks”. As an outstanding researcher and established competition economist, Achim Wambach is a great addition to the ZEW team.

Felix Kretz, kretz@zew.de

Debate: Disputing Market Power

Who has the “Power in the Digital Economy?” And is Germany entering “uncharted territory” in terms of competition policy? These were the main issues addressed in the debate between Julia Holz, Competition Director of the US internet giant Google, Andreas Mundt, President of the Federal Cartel Office, Christoph Weigler, General Manager of the online transport provider Uber in Munich, and ZEW President Achim Wambach on the potentials and risks arising from the growing market power of several large internet corporations and the role of the government.

All of the participants in the discussion, moderated by Professor Thomas Fetzer, professor for public law, regulatory law and taxation law at the University of Mannheim, agreed on one point: In order to keep pace with the high degree of dynamism in the digital economy, it is crucial to take advantage of the diversity of possibilities and address the challenges as efficiently as possible. Since the digital revolution is overturning long-standing business models, competition law proceedings need to be adjusted. As a result of the diversity of cases, previously effective competition law does not apply to all cases and largely relies on precedents.

Discussion became somewhat controversial as participants debated whether interventions by the Federal Cartel Office would actually improve the situation in terms of competition. As com-



Absorbed in the debate (f.l.t.r.): moderator Thomas Fetzer, Julia Holz, Andreas Mundt, Achim Wambach and Christoph Weigler.

petition law proceedings are still too cumbersome for the dynamism of the digital competition, quick reactions in the form of legally binding decisions are needed.

Sabine Elbert, elbert@zew.de

Two Young Researchers Receive 2016 Heinz König Young Scholar Award



Jan Tilly (middle) and Nick Frazier (right) together with ZEW economist Andreas Peichl.

The Mannheim Centre for European Economic Research (ZEW) has awarded two young researchers with the Heinz König Young Scholar Award. The winners are Nicholas Patrick Frazier of the Rice University in Houston, Texas, and Jan Tilly of the University of Pennsylvania in Philadelphia.

Due to the enormous amount of high-quality papers submitted, the jury decided to hand the award to two young researchers.

The ZEW award honoured the work of Nick Frazier on uncertainty effects in the working schedules of employees, as well as Jan Tilly's study on employment and welfare effects of short-time work in Germany during the recession from 2008 to 2010.

The annual Heinz König Young Scholar Award of ZEW comes with an endowment of 5,000 euros and includes the opportunity to spend an extended research visit at ZEW. This year, the research award was donated by Professor Wolfgang Franz, former ZEW President and former chairman of the German Council of Economic Experts.

Due to this year's selection of two winners, the endowment was shared equally among Nick Frazier and Jan Tilly. Professor Andreas Peichl, head of the ZEW Research Group "International Distribution and Redistribution", handed over the Heinz König Young Scholar Award 2016 at the end of the 18th Summer Workshop for Young Economists.

The Heinz König Young Scholar Award is named after the late founding director of ZEW, Professor Heinz König, who died in 2002. The award recognises excellent empirical papers written by up-and-coming researchers.

ZEW Alumni Meet at the 2016 Economic Forum

Numerous alumni of the Centre for European Economic Research (ZEW) have high-level positions in companies, research institutions, ministries and administration. After leaving ZEW, they stay connected to the institute and share experience with current ZEW staff members. This is exactly what the alumni meeting at the 2016 ZEW Economic Forum was about. Three presentations by alumni, which were held under the theme "Professional Experience at ZEW: Reviews and Prospects", looked back on the speakers' time at ZEW and addressed the individual benefits of working at the institute.

Professor Heidi Bergmann from the Engineering and Management Department of the Mannheim University of Applied Sciences, Dr. Jenny Meyer, founder of the company "fit4consulting", and Professor Alfred Spielkamp from the Business Studies Department of the Gelsenkirchen University of Applied Sciences talked about their early career stages and rigorous scientific training at ZEW, as well as the professional steps that followed. Their presentations provided food for thought and were met with great interest by the 25 alumni who accepted the invitation to come to the Economic Forum, and by many visitors.

ZEW Hosts Trans-Atlantic Public Economics Seminar 2016

From June 13 to 15, 2016, the Trans-Atlantic Public Economics Seminar (TAPES) was hosted in Mannheim by ZEW. The conference, initiated by one of the most important associations of American economists, the National Bureau of Economic Research (NBER), is one of the largest events held in the field of public finance in the world.

Over three days, around 30 participants discussed their findings from current research on social insurance programmes. The presented research contributions dealt with topics such as the optimal design for health and disability insurance, the incentive effect associated with unemployment and social insurance, the role played by the complexity and salience of pension systems in savings decisions, as well as the impact of family policy on birth rates. The presented research contributions were both theoretical as well as empirical. Owing to a rigorous selection procedure prior to the seminar hosted by ZEW, the quality of the research presented was extremely high.



Amy Finkelstein (MIT) gave a presentation on the effect of health insurance on spending on medication.

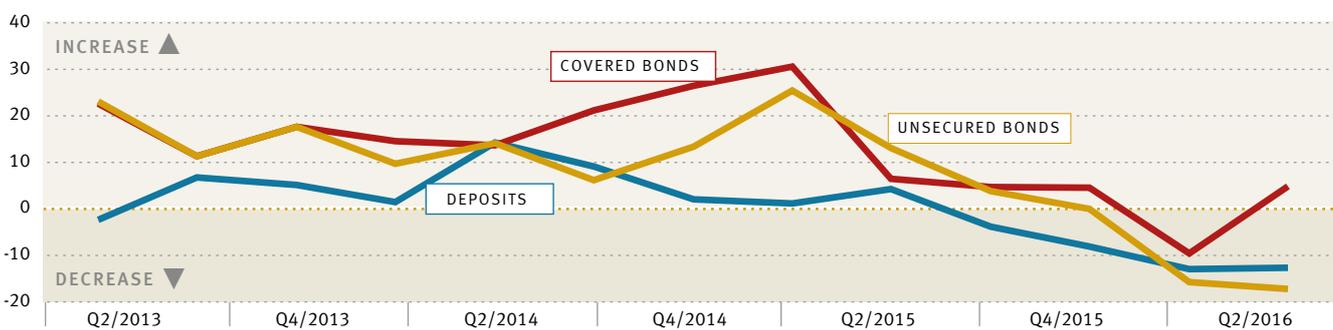
Real Estate Market: Refinancing Markets See End of the Downward Trend

The May 2016 DIFI survey reveals that the respondents' assessment of the development of commercial real estate financing through banks has stabilised. While the indicator for unsecured bonds fell by 1.4 points, the indicators for deposits and covered bonds increased by 0.2 points and 14.5 points, respectively. The fact that covered bonds have increased in attractiveness

is mainly due to the surveyed experts' significantly more positive assessment of the market situation for this refinancing instrument over the last six months. One of the main reasons for this development is the increase in purchases of covered bonds by the European Central Bank (ECB).

Dr. Oliver Lerbs, lerbs@zew.de

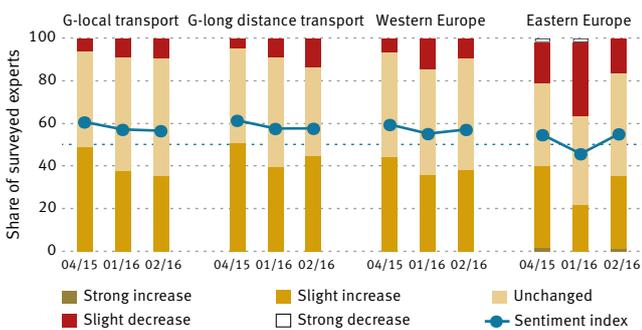
Development of the Real Estate Refinancing Markets



Balance of the assessment of the current situation and expected development in percentage points.

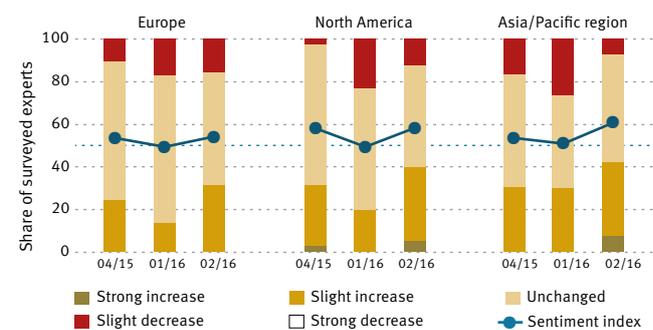
Source: ZEW

Road Freight Records Slowing Downward Trend in Transport Volumes



Source: ZEW

Rising Expectations for Prices and Volume in Air Freight



Source: ZEW

Following the rather negative expectations in the previous quarter, the surveyed experts of the Transport Market Barometer have become slightly more optimistic regarding road freight volumes in the coming six months. The expected decrease in transport volumes seems to have come to an end, with the sentiment index showing a more positive trend again. Short-term expectations for Eastern Europe even show a more pronounced upward trend. In the long-run, however, it must be noted that expectations remain stable on an already low level. The surveyed transport market experts also expect to see prices rise across all markets. A possible explanation for the expected price recovery could be that the commodity market shows first signs of the crude oil prices having apparently bottomed out.

Dr. Martin Kesternich, kesternich@zew.de

After the sentiment regarding the important North American and Asian/Pacific transport markets had reached a historical low in the previous quarter, experts are now significantly more optimistic again. The proportion of experts expecting increasing volumes for North America have doubled from 20 per cent to 40 per cent compared to the previous quarter. The exception is Europe, whose market expectations are comparably subdued. Nevertheless, forecasts for Europe also reveal a positive trend. On the whole, the sentiment index slopes upwards. Following significant falls in the previous quarter, prices for air freight are now pointing upwards again. A possible explanation for this upward trend in the North American market could be that interest rates are expected to increase in the future.

Dr. Martin Kesternich, kesternich@zew.de



Brexit: A Watershed Moment for Europe

On June 23, 2016, the British voted to depart from the European Union. Some 70 per cent of voters took to the polls, passing the referendum with a 51.9 per cent majority. Article 50 of the Treaty on European Union, which

governs departure, foresees a two-year negotiation period that can be extended if necessary. However, both the UK and the EU are not interested in drawing out negotiations, for uncertainty about the outcomes is harmful to both sides.

Numerous questions remain to be answered: Will British banks be able to operate as before in continental Europe? Will British universities be able to participate in European research projects as before? And to what extent will the free movement of people be restricted? For good reason, economic commentators were nearly unanimous in their recommendation that Britain should remain within the EU. Indeed, one would recommend that the British should use current treaties as the basis for negotiating their future relationship with Europe, if this wasn't so absurd.

The British vote, fuelled by unhappiness with decisions made in Brussels, means the EU is losing an important member state. Following this watershed moment in the EU's history, a "business as usual" attitude would be wholly inappropriate. Discontent with the EU, which is now visible in many European countries, is driven by the feeling that Brussels is an entity imposing decisions from without. Even though the Council of Ministers is usually involved in making decisions, national governments are all too eager to pass blame to Brussels in order to sidestep conflict with domestic interest groups.

Current debates surrounding the CETA and TTIP are illustrative of this fact. The EU is responsible for negotiating and ratifying such treaties. This makes it easy for politicians within member states to use criticism of the treaties as a tool for rabble rousing and catering to their power base. National parliaments need to take a more active role in the debate if this negative dy-

namic is to be avoided. Indeed, in the case of CETA, precisely this has occurred: Recent events have compelled the EU Commission to declare that CETA is a "mixed agreement", meaning that national governments must also debate and ratify it.

The usual and compelling argument against allowing national governments to play a role in decision-making is that it enables individual member states to play an obstructionist role, thus paralysing all of Europe. Such obstructionism could be prevented if it was possible to make exceptions with respect to the unanimity rule, but this could fan the flames of resentment against Brussels. Another option would be to allow treaties that are not ratified by all member states. The result would be a Europe that operates at different speeds, or – somewhat more neutrally formulated – a Europe with a "variable geometry".

This idea definitely has an allure. Currently, a rejection of CETA at the national level will call the entire treaty into question, and could thus be instrumentalised as a protest against the EU project. But if instead ratifications by individual states were possible, national leaders would think twice before deciding to join the ranks of outsiders not part of the treaty. Non-ratifying countries would have a distinct competitive disadvantage against member states who had decided to sign.

Britain's decision to leave the EU is a watershed moment in Europe's history. Great Britain will change, and the EU will be forced to change as well. Clearly, national parliaments must play a greater role in deciding Europe's future. A step in this direction was taken during the parliamentary meeting in London on the Monday following the Brexit vote, when British MPs discussed the consequences of departure. In the Houses of Parliament, one had rarely heard so much discussion of the advantages of European unity before.

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President: Prof. Achim Wambach, Ph.D. · **Business and Administration Director:** Thomas Kohl

Editors: Kathrin Böhrer · Phone +49 621 1235-128 · Telefax +49 621 1235-255 · E-mail boehmer@zew.de
Gunter Grittmann (V.i.S.d.P.) · Phone +49 621 1235-132 · Telefax +49 621 1235-255 · E-mail grittmann@zew.de
Sarah Tiedemann · Phone +49 621 1235-135 · Telefax +49 621 1235-255 · E-mail tiedemann@zew.de

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