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July/August 2021

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Emerging European countries such as Moldova saw a sharp decline in the number of correspondent banks.

Photo: ©frimufilms - stock.adobe.com

Withdrawal of Correspondent Banks Slows Down European Emerging Markets

Emerging European countries are less able to participate in global trade since correspondent banks are on the decline worldwide due to a change in the prosecution of financial crimes by US regulators. The lack of banks offering trade finance services and handling international transactions between exporters and importers makes trade with and for these countries much more difficult. This is shown in a recent study by ZEW Mannheim based on data from 17 Eastern European emerging markets, the so-called Emerging Europe.

According to the study, the number of correspondent banks in Emerging Europe was 14.4 per cent lower in 2016 than in 2011. However, the average value conceals a more differentiated picture: While the number of correspondent banks hardly changed in Bulgaria, the Czech Republic, Hungary and Slovakia, the decline was considerably more pronounced in countries such as Latvia and Moldova, at 14 and 56 per cent respectively. Those countries that saw a sharp decline in the number of correspondent banks also suffered greater economic losses. The growth rate of exports was on average six to eight percentage points lower than in countries where correspondent banks had hardly withdrawn at all. As the ZEW study further shows, geographical location also plays a role in this context. Export growth declined most in those countries that are furthest away from their trading partners. Accordingly, it is more difficult to establish and maintain correspondent banking relationships over greater distances.

A complementary ZEW survey among 131 banks from 28 countries confirms the negative economic consequences of this development for Emerging European countries. Access to correspondent bank services has become more difficult for local banks from Emerging Europe since US financial crime enforcement regulations were tightened in 2014: While only seven per cent of the banks surveyed reported problems accessing the US payment system in 2013, this share rose to 26 per cent by 2019.

The survey also indicates that the distribution of correspondent banks has changed in recent years. While US and German banks accounted for 75 per cent of all correspondent banks in 2013, their share declined to 54 per cent by 2019. According to the survey results, correspondent banks from Russia and Austria in particular are on the rise.

Correspondent banks as a fuel for emerging markets

Correspondent banks serve as a fuel for international trade. They are particularly important for exports to and imports from peripheral regions, as they process cross-border transactions for companies whose main bank does not have a branch there. This is especially true for emerging markets. Moreover, correspondent banks offer specific trade finance services.

The ZEW research team was the first to empirically investigate how the withdrawal of correspondent banks affects the economy and exports of the countries concerned. For this purpose, the study uses data from the 17 Eastern European emerging markets of Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Moldova, Montenegro, Northern Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia.

Download the ZEW policy brief at: *www.zew.de/WS93-1*

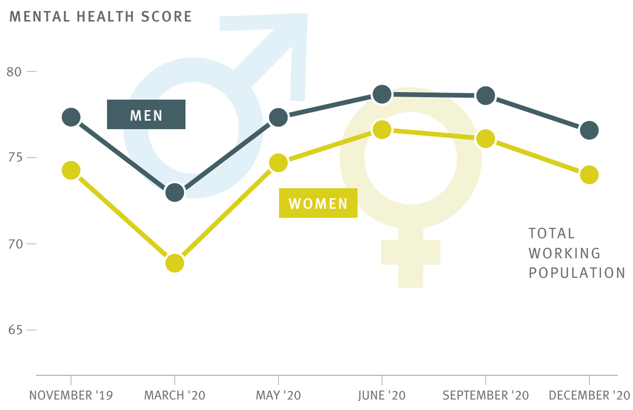
Dr. Karolin Kirschenmann, karolin.kirschenmann@zew.de

Parents Suffer from More Mental Stress Than Other Professionals

The mental health risks of COVID-19 and the pandemic-related measures have been a constant topic of public discussion, also in the Netherlands. There, mental health – measured on a scale of 0 to 100 (100 equals perfect health) – declined sharply among employees in the first lockdown, but recovered relatively quickly to levels similar to those before the coronavirus pandemic. The largest decrease in mental health was observed in March 2020, when the first lockdown was imposed.

A study by researchers from ZEW Mannheim and the universities of Mannheim, Bonn and Tilburg investigates which factors played a particularly important role in increasing mental stress during the pandemic and to what extent these factors changed over time. Based on data from the Dutch LISS Panel, the researchers analysed risk factors that lead to a deterioration of mental health among workers during the coronavirus pandemic. Risk factors examined included perceived risk of infection, emotional loneliness, labour market risk and marital status.

MENTAL HEALTH DEVELOPMENT WHEN TAKING ON ADDITIONAL CHILDCARE RESPONSIBILITIES DURING SCHOOL/DAYCARE CLOSURES



The graphic shows the mental health score for men and women. The mean values result from the sample of the working population from the months of March/April 2020. Source: ZEW

Parents are facing a double burden

According to the study, perceived job insecurity, fear of infection, and emotional loneliness have a negative impact on mental health, although there are differences between men and women. For men, the subjective perception of the risk of becoming unemployed has the strongest impact on mental health (1.5 per cent per standard deviation), followed by the feeling of loneliness during the lockdown (1.2 per cent). For women, on the other hand, emotional loneliness plays the biggest role (3.3 per cent per standard deviation), whereas labour market risks seem to be less relevant. The assessment of one's own risk of contracting COVID-19 plays a comparatively minor role for both genders (0.3 and 0.5 per cent per standard deviation for men and women, respectively).

Parents of children under the age of 12 experienced a particularly sharp decrease in mental health, namely by 4.3 per cent, between November 2019 and March 2020. In addition to the high level of uncertainty surrounding the pandemic and their job situation, parents have to cope with the double burden of managing childcare on top of their jobs during lockdowns. Parents did not reduce their working hours more than the average in society during the pandemic. However, their mental health developed differently depending on how many hours they looked after their children while working from home.

Fathers taking over childcare while working from home particularly suffer from mental stress

The researchers also observed gender-specific effects. On average, men always had higher mental health scores than women. The greatest decline in mental health, however, was seen in fathers who, due to school and daycare closures, took on the additional childcare responsibility while working from home. Mothers' mental health was particularly affected when they worked from home while their partner was expected to take on the extra childcare hours. The fact that fathers suffer particularly from school and daycare closures came somewhat as a surprise. Studies on other countries such as the USA or Great Britain came to the opposite conclusion, namely that mothers are particularly affected by mental stress due to the extra burden of childcare. One reason for the heavier mental burden on fathers could be that they take on the additional childcare because their partners are unable to work from home and thus childcare cannot be shared. In fact, fathers in families where they are the main caregiver work more than 20 hours from home, while mothers in these families work less than four hours from home.

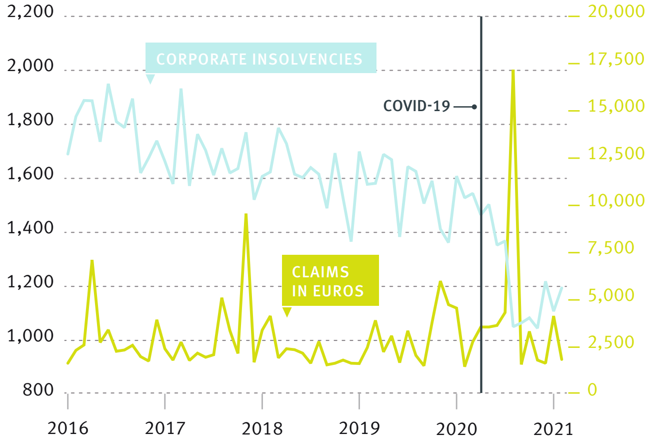
The study can be downloaded at: *www.zew.de/PU82618-1*

Michaela Paffenholz, michaela.paffenholz@zew.de
Sebastian Seitz, sebastian.seitz@zew.de

Sharp Increase in Insolvencies Expected Among Smaller Companies

Due to the suspended obligation to file for insolvency, the number of bankruptcies has fallen to a record low in 2020, despite poor business prospects. There is now a threat of a renewed rise in insolvencies in the coming months, mainly in the service and trade sectors. Smaller and older businesses as well as sole entrepreneurs will also record significantly more insolvencies again as the insolvency filing obligation is reinstated.

NUMBER OF CORPORATE INSOLVENCIES AND OUTSTANDING CLAIMS SINCE 2016



Source: ZEW and DESTATIS

These are the findings of a study conducted by ZEW Mannheim in cooperation with Creditreform, which examines the characteristics of insolvent companies and entrepreneurs before and after the COVID-19 crisis in Germany.

At the beginning of May 2021, the temporary suspension of the legal obligation for companies to file for insolvency expired. Using insolvency data from the Federal Statistical Office, the Association of German Chambers of Industry and Commerce, the Federal Ministry of Finance and the Federal Ministry of Justice and Consumer Protection between 2006 and December

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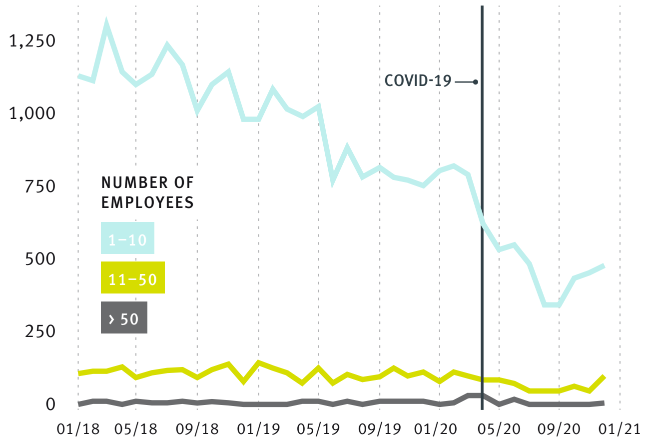
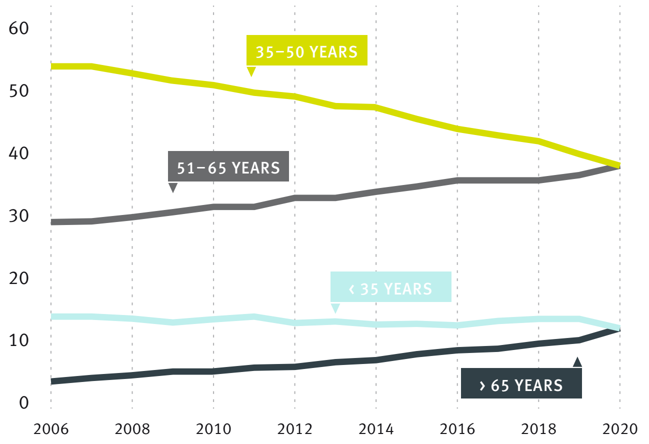
NUMBER OF CORPORATE INSOLVENCIES BY FIRM SIZE IN THE SHORT-RUN



Source: ZEW Mannheim Enterprise Panel (2021)

INSOLVENCY APPLICATIONS BY AGE OF THE ENTREPRENEURS IN PER CENT



Source: ZEW Mannheim Enterprise Panel (2021)

2020, ZEW researchers show that a strong increase in insolvencies can be expected in the coming months.

According to the study, the impact on the German economic sectors varies considerably: Especially in the four months after the start of the pandemic, a disproportionately strong decline in bankruptcies can be observed in the service and trade sectors. Since September 2020, when the suspension of the obligation to file for insolvency ended, slightly rising insolvency figures have been observed across all sectors, but they are still at a low level. The ZEW researchers expect that the number of corporate insolvencies in heavily affected sub-sectors such as the gastronomic sector, hotels, tourism and clothing will continue to rise in the coming months.

Legal form and company size as factors influencing insolvency

In addition, the researchers investigated whether the legal form of a company played a role in the decision to file for bankruptcy. They found that fully liable companies recorded a lower number of insolvency filings than those with limited liability. It is likely that the suspension of the insolvency obligation has been predominantly used by entrepreneurs which are liable with their entire assets as they are typically faced with far reaching consequences in case of insolvency proceedings. As soon as the obligation to file for insolvency is reintroduced, however, insolvencies of companies with this form of liability are likely to go up again.

Analysing the correlation between corporate insolvency and company size, it becomes apparent that especially small businesses with up to ten employees as well as self-employed persons and freelancers are vulnerable to the negative effects of the coronavirus crisis. The number of bankrupt companies with a small number of employees decreased significantly until September 2020, while insolvency filings experienced an increase again at the end of the year. Insolvencies among this type of company are also expected to continue to increase in the coming months. Small companies in particular, with limited cash reserves and low collateral for drawing on new credit lines, are exposed to a high risk of insolvency.

Older entrepreneurs more strongly affected

The study also shows that since the outbreak of the pandemic, the number of insolvencies filed by older entrepreneurs over the age of 65 is catching up with the insolvency figures of younger entrepreneurs under the age of 35. The coronavirus pandemic has likely depressed the value of many businesses, exacerbating the problem of business succession. Since the COVID-19 outbreak, many senior entrepreneurs are therefore considering giving up their businesses because there is no prospect of finding suitable successors. A similar trend of significant closures of businesses run by senior entrepreneurs has been observed in the USA since the beginning of the pandemic.

Due to the coronavirus crisis, insolvency filings by companies from western Germany decreased somewhat more strongly than those from eastern Germany. Since autumn 2020, a decline in insolvencies of sole proprietors has also been observed. In contrast to companies run by several people, sole-proprietor businesses are usually smaller.

The COVID-19 pandemic is hitting female and older entrepreneurs as well as sole proprietors harder. It is highly likely that, for example, sole proprietorships are part of the insolvency backlog that has been identified in a previous study by the authors. This is why insolvency filings by these entrepreneurs are also expected to increase in the coming months.

Download the ZEW expert brief at: *www.zew.de/PU82586-1*

Julian Dörr, julian.doerr@zew.de
Dr. Georg Licht, georg.licht@zew.de
Dr. Simona Murmann, simona.murmann@zew.de

FOCUS ON
EUROPE

Taxing the Digital Economy in the EU

Since the start of the year, the European Commission has once again been working on introducing a digital levy. As stressed by researchers at ZEW and the University of Mannheim in a new position paper, it is no doubt important to adapt the fiscal framework to the digital economy and new business models. However, they suggest considering the value-added tax for digital services rather than introducing measures that will distort competition.

In 2018, the EU Commission wanted to adopt a unified position in favour of a digital levy in order to overcome the challenges of taxing the digital economy. A consensus on this issue has not been reached to date. Since 2018, several EU Member States have used the proposal as a template for national reforms. At the beginning of 2021, the EU Commission once again took up the process to develop a stable regulatory and fiscal framework, proposing three options for taxing digital enterprises.

Revival of the digital levy

The EU Commission is currently considering a digital levy, that is, a tax on income gained from certain digital activities in the EU. This kind of tax on gross profits could increase the complexity of the tax system, distort competition, and impair the position of EU Member States in international tax competition. In addition, it is questionable whether a digital levy would contribute to sustainable public finances. The estimated annual additional tax income from the digital levy in the amount of about 3.9 to 5 billion euros would be a drop in the bucket compared to the total 2019 tax income in all 28 EU Member States of more than 6.6 trillion euros. According to the EU Commission, the digital levy will be concentrated on activities “where there is a large gap between the value created and Member States’ ability to tax it.” However, such selectivity will impair the development of innovative business models and deter firms from new forms of value creation.

The European Commission has also proposed a surcharge on the corporate income tax of all firms that conduct digital activities in the European Union. Such a surcharge would do little to ensure sustainable tax revenues in the EU. Furthermore, it would contradict current incentives for innovative activities. This is because an increase in the corporate tax rate would only be effective if it were assessed at the place of value creation. However, one of the greatest challenges in the digital economy is that taxes are paid in jurisdictions divergent from the place of value creation. Currently, only a small portion of the profits are declared by EU subsidiaries. Many EU Member States offer incentives for research and development activities by taxing profits from innovative activities at a lower rate, such as revenue from patents or licensing fees. Any increase in the corporate tax rate would reverse the impact of the patent-box regime.

Yet a third proposal by the European Commission is to tax digital transactions between firms inside the EU. However, differentiating transactions according to business partner, consumer, or firm would increase the complexity of corporate tax system while also raising the cost of digital services. In addition, a tax on digital transactions would resemble the digital levy if it is applied to the gross transaction price. Consequently, firms will try to avoid it by leaving the EU and serving European consumers from outside Europe. All three proposals are currently on hold as G20 members have reached agreement on global tax reform.

Alternatives to secure tax income from digital services

Notably, the value-added tax has been largely ignored in the current discussion as a means of taxation. Yet billions in tax revenues are at stake if excise taxes are improperly levied. In this way, an adjustment of the value-added tax framework and the application of the value-added tax to digital services could be a crucial factor for generating and ensuring tax revenues in EU Member States.

The ZEW policy brief can be downloaded at:
www.zew.de/PU82588-1

Christopher Ludwig, christopher.ludwig@zew.de
Prof. Dr. Christoph Spengel, spengel@uni-mannheim.de

Q&A: Is Climate Neutrality Possible Based on Carbon Pricing?

"Carbon Pricing Has the Potential to Influence Economic Behaviour"

Fighting climate change is an enormous challenge. To avert potentially catastrophic global warming the EU intends to become climate neutral by 2050. Among other measures, carbon pricing is anticipated to play a key role. In this interview, Professor Sebastian Rausch, head of the ZEW Research Department "Environmental and Ressource Economics, Environmental Management", explains how greenhouse gas emissions can be reduced in market economies.

What is the potential impact of carbon pricing?

In market economies, prices have important coordinating and incentive functions. Prices provide information about scarcity and the value of goods and services. In the same way as any price, a carbon price has the potential to influence economic behaviour and guide decision-making. Carbon prices remind economic actors that the atmosphere is a scarce commodity, and they influence market behaviour accordingly.

How well does the current European Emissions Trading System (ETS) function?

Seen solely from the perspective of emissions reductions, the ETS has been a success story to date. The objectives set for reducing emission have been met and the cost burden for firms has stayed relatively small. From a long-term perspective, however, low certificate prices have been a target of criticism. To date, price levels have not been high enough to stimulate innovation and investment, which are necessary to meet long-term objectives. In the second trading phase, for example, prices remained quite low over many years. As a result, reforms were implemented to increase certificate prices. The current phase includes a Market Stability Reserve that uses a rules-based approach to keep the volume of emissions certificates within a predetermined range. This mechanism will need to be further developed in the future. Clearly, an emissions trading system must be able to respond to changing market conditions while also offering reliable price signals and a sound basis for long-term planning.

What is the aim of the carbon border adjustment?

Free trade between countries can thwart the effectiveness of ambitious climate policy if measures are only implemented in certain countries or regions. If the EU proceeds with climate protection and levies a high carbon price on European firms, in the long term, these firms will shift production to locations where emissions cost nothing.

For this reason, the European Union is considering underpinning its climate protection policy through a carbon border adjustment. The idea is that the EU could soon impose a carbon tax on the importation of certain goods to its economic area, specifically targeting importation from countries with less stringent climate policy standards.

Does introducing a border adjustment entail any problems?

On the one hand, a border adjustment only combats one part of the 'carbon leakage' problem that results from companies shifting their production of carbon-intensive goods abroad. Another shift in emissions occurs through changes in prices and the demand for fossil fuels in the global energy markets. If a large region reduces its demand for oil, gas, and coal, this lowers prices in global markets. Lower prices make it cheaper for other countries to burn fossil fuels. The resultant rise in foreign emissions may eat up any reductions in domestic emissions.

Another problem is that a carbon border adjustment must include a consideration of the differences in CO_2 prices between different countries that already have carbon pricing. Otherwise, there is the risk of assigning different prices to imported and domestic emissions. Differences of this kind would create disincentives for foreign firms while also distorting competition. A fundamental problem is that a carbon border adjustment would only reflect national differences in carbon pricing. As we know, climate policy is much more wide-ranging: even an optimally designed border adjustment mechanism would be incapable of levelling distortions to competition that might result from regulatory interventions, such as standards for renewable energy in the power sector.

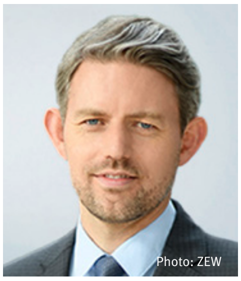


Photo: ZEW

Prof. Dr. Sebastian Rausch

heads the ZEW Research Department "Environmental and Resource Economics, Environmental Management" and is professor of economics at Heidelberg University. Prior to joining ZEW, he held positions at the Massachusetts Institute of Technology (MIT) and ETH Zurich. In his research, he focuses on the evaluation of economic policy measures and the design of emissions and energy markets to mitigate climate change and design sustainable energy systems. Rausch conducts research at the interface of environmental and energy economics, public economics, and computational economics, with interdisciplinary links to technology-oriented energy system analysis and environmental sciences.

sebastian.rausch@zew.de

How Can Corporate Tax Burdens Be Compared Internationally?

Public debt levels have skyrocketed as a result of the COVID-19 crisis. In order to bridge the massive financing gaps in public budgets, policymakers are shifting their focus of attention on corporate taxation. However, corporate tax rates differ greatly in international comparison. In this interview, Daniela Steinbrenner explains how the Mannheim Tax Index can be used to determine and compare the effective tax burden for companies across countries.

What does the Mannheim Tax Index do?

The Mannheim Tax Index is an indicator for the effective tax burden at company level. More specifically, it benchmarks various countries from a tax perspective. In doing so, it provides a comprehensive overview of the tax landscape by tracking two general strands, i.e. the taxation of domestic companies along with their shareholders, and cross-border corporate investment. Analysing the tax burden for companies is a traditional way of comparing the fiscal attractiveness of regions that compete with one another internationally. The Mannheim Tax Index includes all European Member States, the United Kingdom, Norway, Northern Macedonia, Turkey, Switzerland, Canada, the USA, and Japan. However, the index does not focus on a specific industry, but maps the country-specific tax burden for a model company whose fixed assets consist equally of industrial buildings, acquired intangible assets (patents), machinery, financial assets, and inventories.

How is the index calculated?

The Mannheim Tax Index maps the effective tax burden of a company for a hypothetical investment project, based on current tax regulations. Thereby, we take into account the most important national regulations that apply to the taxation of corporate profits in the respective location. In addition to the statutory corporate tax rates and their surcharges as well as special rates for certain types of income and expenses, these also include the most important types of taxes on assets, e.g. property taxes. The most important rules for determining the tax base, such as regulations on tax depreciations, the valuation of inventories as well as the deductibility of interest in the case of debt financing are also taken into account. At ZEW we have experts for the respective tax systems of each country and match our research with the auditing firm PWC. To obtain country-specific details, we send a questionnaire to all local PWC offices in the countries we map. Finally, all data are entered into a database and software developed at ZEW to calculate the results.

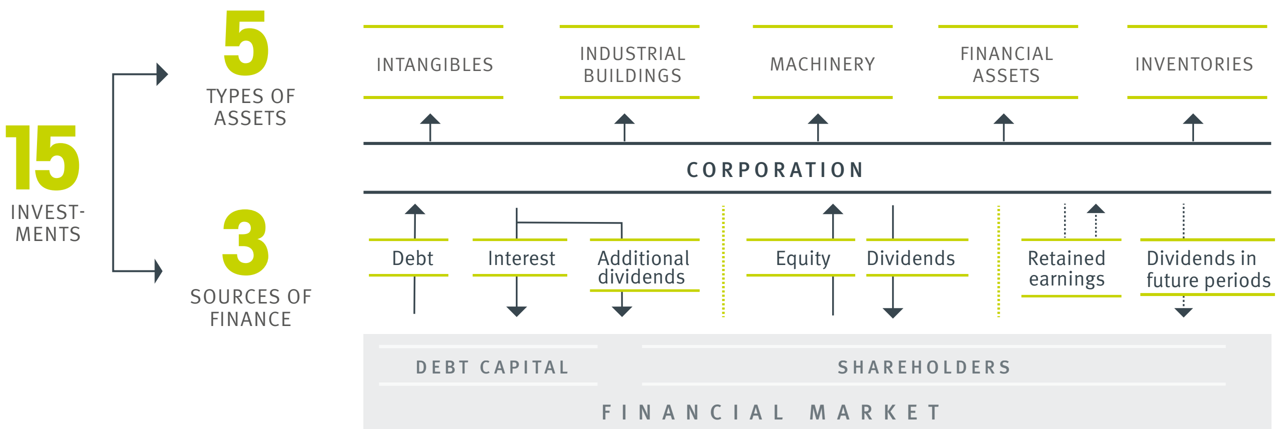
What are the key results of the latest index?

Germany as one of the most important European countries for foreign direct investment continues to lose ground in international tax competition. A comparison with France, Italy, the United Kingdom and the EU average shows that the tax burden for companies in Germany is relatively high. Only France has a slightly higher tax burden. However, if we take into account the tax reforms announced by its direct competitors, Germany will soon take over the top position in terms of taxing corporate profits. If tax reforms fail to materialise, this could exacerbate the persistently high burden on investments in Germany in the coming years and jeopardise its current midfield position in the ranking of tax burdens among comparable large industrialised nations, provided they continue to actively participate in tax competition.

Further information on the index: *www.zew.de/WS1475-1*

Daniela Steinbrenner, daniela.steinbrenner@zew.de

A MODEL ENTERPRISE AND INVESTMENT PROJECT ALLOWS FOR COUNTRY COMPARISONS



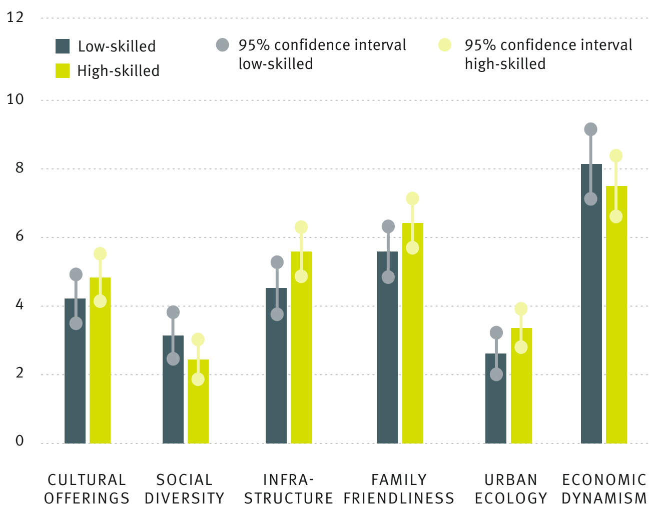
Source: ZEW

Low-Skilled Workers Are Less Able to Afford to Live in the City of Their Preferred Choice

Given a shortage of skilled labour, cities are increasingly vying for qualified workers. A higher quality of life is often said to give cities an advantage in this battle for talent. In fact, the amenities a city offers in terms of family friendliness, infrastructure, cultural offerings and regional economic dynamics play a major role in employees' decision to move to a particular city. A study by ZEW Mannheim comes to the conclusion that high- and low-skilled workers prefer very similar cities. The lower share of low-skilled workers in attractive urban areas thus mainly reflects the fact that low-wage earners are less able to afford to move to attractive cities due to the high cost of living.

The common assumption in research and politics is that cities can attract highly qualified people, for example, by improving their cultural amenities. However, there is no reliable evidence for this so far. A ZEW research team therefore used an experimental research design to investigate whether improving the amenities of a location really attracts more skilled workers.

AVERAGE SHARE OF INCOME INDIVIDUALS ARE WILLING TO PAY FOR URBAN AMENITIES, BY EDUCATION LEVEL



Low- and highly-skilled individuals are willing to sacrifice a similar share of their income for urban amenities. Workers would on average give up two to eight per cent of their income to live in a region that offers greater amenities.

Source: ZEW

The test persons were asked to choose between randomly generated job offers in two fictitious cities. These differed only in terms of earnings and a number of location-specific qualities, while all other factors such as relocation costs and rents remained the same.

The researchers found that workers would give up an average of two to eight per cent of their income to live in a region that offers greater amenities.

Strong economic regions are in high demand

Among a set of six major urban characteristics, the economic development of a region turns out to be the most important factor when choosing a location. Employees would give up about eight per cent of their income to live in a region with high employment growth and many new companies. Such regions raise the hope of being able to increase one's income in the future and to be better protected against unemployment.

Other location-specific factors also turned out to be relevant. For a good school education and sufficient childcare provision, employees would give up an average of six per cent of their wages. For a better infrastructure, i.e. good transport connections, and available housing, both higher and lower qualified people would accept on average six per cent less income. A rich cultural offer is also important to employees. Compared to a region with poor offerings, they would give up five per cent of their wages to have a greater cultural offer. The openness and tolerance of a city is considered less important by the respondents. According to the results of the survey, professionals would accept only two per cent less pay for a more socially diverse city.

Low educated workers disadvantaged

Contrary to previous assumptions, however, this study shows that both higher and lower qualified workers have very similar preferences when it comes to urban amenities and thus favor very similar cities. The majority of respondents are willing to sacrifice comparable shares of their income to move to a region with a higher quality of life, regardless of education level. Nevertheless, attractive urban centres usually have a significantly higher share of skilled professionals. Wages for high-skilled workers tend to be much higher in these cities, which offsets the higher cost of living. Less qualified workers, on the other hand, cannot fully compensate for the higher costs with a higher income. As a result, lower-income workers are often discouraged from moving to attractive cities, which ultimately exacerbates the differences in regional living conditions. To bridge this gap between higher and lower educated workers, the researchers propose a housing policy that creates affordable housing also in attractive urban areas.

The study is available to download at: *www.zew.de/PU82619-1*

Prof. Dr. Melanie Arntz, melanie.arntz@zew.de
Dr. Eduard Brüll, eduard.bruell@zew.de
Cäcilia Lipowski, caecilia.lipowski@zew.de

#ZEWBookTalk on Public Spending: Taking the Fiscal Risks of the Future into Account

Professor Friedrich Heinemann, research department head at ZEW, welcomed Ludger Schuknecht to the virtual #ZEWBookTalk on 6 July 2021. He discussed with him his current book "Public Spending and the Role of the State – History, Performance, Risk and Remedies". Schuknecht, who is currently a visiting professor at the Lee Kuan Yew School of Public Policy, previously held the positions of Deputy Secretary-General at the OECD and Chief Economist at the German Federal Ministry of Finance. For the #ZEWBookTalk, he was connected from Singapore.

Schuknecht opened his brief presentation by stating that citizens essentially expect a government to provide framework conditions that guarantee a good functioning of state and society. According to Schuknecht, whether the government is doing a good job can be seen in the trust that the population places in its actions and especially in its responsible handling and use of taxpayers' money. This is all the more true in view of the fact that the public spending ratio has increased dramatically over the last 150 years.

Development of the public spending ratio over the last 150 years

In a short review, Schuknecht illustrated the development of the public spending ratio over the past 150 years in the 22 countries he looked at. Overall, the ratio rose from eleven per cent in 1870 to 43 per cent in 2017 and, fuelled by the COVID-19 pandemic, reached 51 per cent in 2020. The main drivers of this development towards a modern state were the growing administration and the welfare state. While spending on the latter amounted to one per cent of GDP in 1870, it was already nine per cent in 1960 and 24 per cent in 2017.

The central question now, according to Schuknecht, is to what extent higher government spending and especially the strong growth in social expenditures actually have positive effects for citizens. He said that there was no clear correlation to be found, e.g. when looking at the Gini coefficient as a measure of income distribution. From his findings, Schuknecht concludes that countries with a high public spending ratio could potentially save a lot of money without significantly affecting the living conditions of their citizens for the worse.

In his book, Schuknecht also deals with future fiscal risks. It is important to provide sufficient state funds for the productive sectors and not to let the share of social spending grow too high. The experiences from the financial crisis show that the financial sector is also a risk factor that needs to be kept in mind. In addition, it must be possible to finance measures against climate change and geopolitical challenges. In order to be able to cope with these tasks, it is necessary to comply with fiscal and budgetary regulatory mechanisms as well as to maintain discipline in public debt and to reduce debt levels.

Against this backdrop, the coronavirus pandemic has not made things any easier for the industrialised countries. The big challenge is to bring government spending back to pre-pandemic levels in the coming years, as the crisis was largely financed by a further build-up of debt. For the G7 countries, the debt level is now 140 per cent of GDP. As long as interest rates are as low as they are at the moment, this is not a problem. But that can change. Therefore, the top priority in the coming years must be to reduce public debt to a sustainable level.

In order to reduce the risks outlined above, Schuknecht recommends using government spending in a more targeted and efficient way instead of just increasing it further and further. It is also important to return to a policy that adheres to clear rules in order to achieve healthy growth and financial stability, to open up opportunities for people and to promote trust in the government and its problem-solving competence.


Photo: ZEW

Friedrich Heinemann (on the left) discusses government spending with Ludger Schuknecht (on the right).

Schuknecht's subsequent discussion with Friedrich Heinemann focused on the further significant rise in government spending over the past twenty years and how social spending and the financial and economic crisis in particular have contributed to this. They agreed that low interest rates alone have so far prevented some states from becoming incapable of acting due to their debt burden. In Heinemann's view, however, a growth-oriented spending policy is indispensable for the future. Schuknecht added that after the crises the time had come to talk about which government expenditures were actually necessary and where savings could be made. Other questions raised at the talk were how to strike a better balance between costs and benefits in government spending to increase trust in government. Asked about the EU Recovery Fund, Schuknecht said that it does have a positive incentive function for some countries to start making changes and investments. However, he is very critical of the joint liability that has been introduced.

Gunter Grittmann, gunter.grittmann@zew.de

Vitali Gretschko and Simon Reif Among Outstanding Economists Under 40

WirtschaftsWoche names ZEW economists Reif (on the left) and Gretschko as two of the most promising young economists in Germany.

The German weekly business magazine WirtschaftsWoche ranks two researchers from ZEW Mannheim in their list of outstanding economists under the age of 40. According to WirtschaftsWoche, Professor Vitali Gretschko and Dr. Simon Reif are among those who are actively shaping the future by working on groundbreaking topics and providing valuable impulses for Germany.

The team of Vitali Gretschko, head of ZEW's "Market Design" Department, deals with practical issues such as the efficient design of auctions, e.g. in mobile telephony and procurement, or with so-called 'matching markets', e.g. the allocation of daycare places and food donations, which are not coordinated exclusively by price. The team is currently investigating the question of what energy markets of the future might look like.

The research of Simon Reif, who is responsible for the ZEW Project Group "Health Care Markets and Health Policy", deals with economic factors influencing the provision of medical services as well as determinants of individual health. This includes digital health applications prescribed by doctors and the evaluation of their benefits, as well as the design of hospital payment systems.

Congratulations to Vitali Gretschko and Simon Reif on representing the "Next Generation" in economics!

International ZEW Conference on Behavioural Public Economics

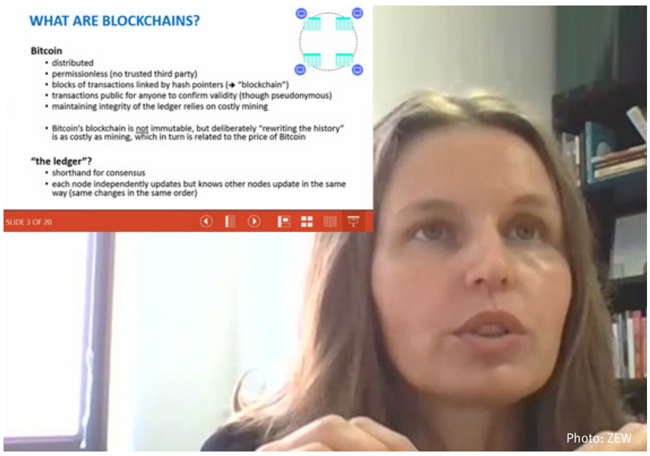
On 6 and 7 May 2021, ZEW Mannheim and the Collaborative Research Center SFB 884 "Political Economy of Reforms" of the University of Mannheim jointly organised the annual ZEW Public Finance Conference. For the second time, around 200 researchers from all over the world came together digitally. This year's main topic was "Behavioural Public Economics".

Keynote speakers at the event were Professor Oriana Bandiera from LSE, and Assistant Professor Dmitry Taubinsky from UC Berkeley. In her keynote, Oriana Bandiera presented her study on the participation and remuneration of women in the labour market. She showed that in developing and emerging countries, it is primarily the particularly well-educated women who are employed, thus creating a selection bias. In the labour markets considered, working women are thus on average better qualified than men. The results also suggest that conventional analyses tend to underestimate the wage gap as they do not sufficiently take into account the selection of women in employment.

The keynote by Dmitry Taubinsky addressed the still rather young research line of behavioural public economics. In his work, he examines how policy measures can best be designed given that consumers do not always make purchasing decisions that are in their best interest.

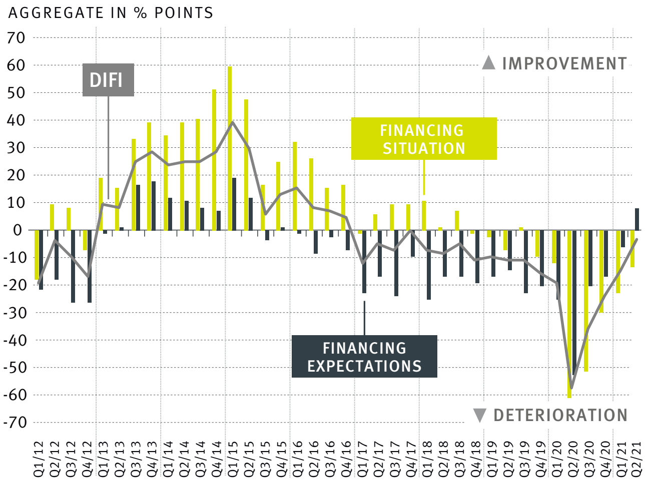
19th ZEW Conference on the Economics of Information and Communication Technologies

On 10 and 11 June 2021, ZEW organised the 19th Conference on the Economics of Information and Communication Technologies. The event has been one of the most important scientific conferences in the field of digital economy for years. This was once again demonstrated by the more than 100 papers submitted and around 300 participants who registered for this year's edition. This year's keynotes by leading digital economists were once again among the highlights of the conference. Associate Professor Hanna Halaburda from New York University spoke about digital platforms and blockchain technology, how both areas interact and how new platforms could be built on blockchain in the future. On the second day, Associate Professor Zsolt Katona from UC Berkeley spoke about the inefficiencies in digital marketing that arise when adblockers block advertising on end devices. Katona focused in particular on different pricing models and their effects on consumer surplus.



In her keynote, Hanna Balaburda, associate professor at New York University, spoke about digital platforms and blockchain technology.

Optimism in Commercial Real Estate Financing Continues



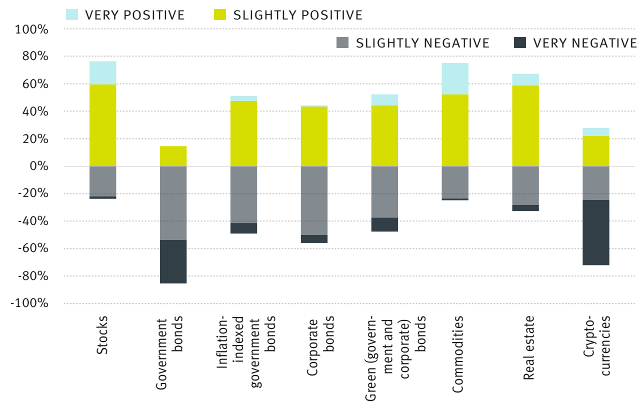
Average assessment of the current situation in and expectations for the following five real estate market segments: office, retail, logistics, residential, and hotels.
Source: JLL and ZEW

The German Real Estate Finance Index (DIFI) by ZEW Mannheim and JLL is picking up for the fourth time in a row and is only slightly in the negative range in the second quarter of 2021 at minus 3.3 points (plus 10.7 points compared to the previous quarter). The current market situation as well as the market expectations for the next six months have again improved significantly. The expectations indicator jumped into positive territory with a plus of 13.9 points, reaching its highest level since the end of 2015. The office, retail and hotel sectors in particular improved compared to the first quarter of 2021. This development can certainly also be attributed to the progressing COVID-19 vaccination campaign and expected re-openings. However, the indicators for all three asset classes remain in negative territory. The DIFI reflects survey participants' assessment of the current situation of and expectations for the commercial real estate financing market, and is conducted on a quarterly basis.

Frank Brückbauer, frank.brueckbauer@zew.de

Stocks and Commodities Are Attractive Investments, Cryptocurrencies Less So

SPECIAL QUESTION: With a view to the next six months, how do you assess the risk-return profile of the following asset classes? Please use widely diversified, global (= all countries) indices as a basis.



According to the survey results.
Source: JLL and ZEW

Against the background of rising inflation expectations and low interest rates, financial market experts were asked to assess the attractiveness of various asset classes for the next six months in the June 2021 ZEW Financial Market Survey. While investments in stocks, commodities and real estate are currently considered attractive, the outlook for cryptocurrencies and conventional government bonds is clearly negative. Inflation-indexed bonds and green bonds are rated slightly positively. The experts currently assess the risk-return profile of investments that offer some protection against inflation more positively than of those that offer little or no protection. Overall, the financial analysts give green government and corporate bonds a better rating than conventional bonds. From the experts' point of view, the demand for green bonds is likely to grow much faster than the supply in the short term. In this case, their prices would develop more favourably than those of comparable conventional bonds.

Frank Brückbauer, frank.brueckbauer@zew.de

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8th Annual MannheimTaxation Conference

The eight edition of the Annual MannheimTaxation Conference will take place on 9 and 10 September 2021 as a virtual event. The conference focuses particularly on applied and empirical papers related to business taxation, tax avoidance and evasion, behavioural responses to taxation, tax harmonisation in the EU, political economy of taxation, international taxation, and tax law. We are happy to announce that Florian Scheuer (University of Zurich) and Wolfgang Schön (Max Planck Institute for Tax Law and Public Finance, Munich) will be this year's keynote speakers. More information: *www.zew.de/VA3549-1*

MIFE Conference & Early Career Workshop

ZEW is pleased to announce a scientific event on "Financial Literacy Across the Disciplines", scheduled to take place from 29 November to 2 December 2021. While the first two days will be dedicated to the Inaugural Conference of the newly founded Mannheim Institute for Financial Education (MIFE) with renowned keynote speakers, the last two days will feature a workshop for early career researchers to present and discuss their work. If you are interested in participating in the workshop, please send your paper to MIFEconference@zew.de no later than 1 September 2021. More information: *www.zew.de/VA3577-1*

The Crux of the Patent Debate

US President Biden's push to waive patent rights for coronavirus vaccines has provoked a heated debate about ways to improve the vaccine supply, especially in developing countries. But would waiving patent rights actually be an appropriate instrument?

Proponents argue that exclusive patent rights are partially responsible for the catastrophic lack of coronavirus vaccine in many countries. By contrast, opponents of a patent protection waiver insist that the vaccine shortage has nothing to do with patents, but has instead resulted from inadequate production capacity.

Which argument is more persuasive? To be sure, the crux of the debate relates to the business model of the pharmaceutical industry. Since the research and development of new vaccines and drugs is laborious, risky, and expensive, current practice has the successful firm retain a monopoly right to the marketing of products for a limited period of time. In the case of COVID-19, though, the prospect of large profits in combination with government support led to the development of multiple vaccines using various techniques – thus undermining the notion that these firms are actual monopolists.

With respect to the desire to expand production capacity, there is already considerable competition between vaccine manufacturers. In addition, pharmaceutical firms cannot set textbook monopolist prices for their vaccines because they must negotiate the price with each country. This limits the power of the monopolists. Furthermore, there are options for increasing vaccine production without waiving patent protection. One example is the World Health Organisation's COVAX initiative, which aims to enable more rapid access to vaccines for poorer nations. The COVAX budget could be expanded not only to purchase vaccines but also to increase production capacities. Yet another proposal is to forbid export bans on vaccines and other major precursor products, in order to prevent 'vaccine nationalism'. Opening the market in this way could become part of an international agreement that would supplement the COVAX initiative.

Nevertheless, patent rights are not unproblematic in the current pandemic situation: given the risk of multiple virus variants, it might be crucial to promote further research on coronavirus vaccines and drugs. Also, research to develop new vaccines with a longer period of immunity protection would be an important step to preventing COVID-19 flare-ups in coming years. The temporary suspension of patent rights with the option of deploying proprietary knowledge across a broad front for such research purposes could provide a forceful impetus for such vaccines. The suspension would relieve research institutions and private firms from fears of patent infringement lawsuits.

A suspension of patent rights for research purposes extends beyond a waiver of proprietary rights and could be problematic with regard to its incentive effect for future research. Nevertheless, given the global threat of new virus variants, it would appear to be an appropriate instrument in the current situation. This is especially true given the fact that current patent holders would obtain access to patents held by other vaccine manufacturers for research purposes. Such an exemption clause would increase competition between patent holders and firms whose research was previously unsuccessful – and thereby contribute to better preparing the world for new virus variants.

President of ZEW, Prof. Achim Wambach, PhD

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L 7, 1 · 68161 Mannheim · Germany · www.zew.de
President: Prof. Achim Wambach, PhD · Managing Director: Thomas Kohl
Editors: Ruprecht Hammerschmidt (V.i.S.d.P.) · Phone +49 621 1235-132 · ruprecht.hammerschmidt@zew.de
Sarah Tiedemann · Phone +49 621 1235-135 · sarah.tiedemann@zew.de
Lisa Rath, Phone +49 621 1235-316 · lisa.rath@zew.de