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ZEWnews

Research Results · Conferences · Publications

with CO_2 Barometer

A Good Professional Training Enterprise Pays Off

German employers often assume that young applicants who leave the company they have been trained at will be below-average performers – and offer them low starting salaries in turn. Apprenticeship with a large company that possesses a works council and pays high trainee salaries can help skilled workers overcome these prejudices.

In Germany, only around two out of three students remain at the company that provided their vocational training. Many employers believe that trainees who go on to switch companies are below-average performers.

A new ZEW study (Discussion Paper No. 12-014) confirms what has been shown many times before: training quality in Germany widely differs between occupations and training enterprises. A good training gives employees a financial advantage when they stay at the company with which they apprenticed. But the ZEW study also finds something new: even workers who switch employers right after their training period profit from having worked at a firm that rigorously selects candidates and offers high-quality training. German employers usually assume that applicants who have just finished an apprenticeship and are seeking to switch companies are below-average performers. As a result, trainees who switch to a new employer following their training period are paid considerably less than trainees who decide to stay on. However, the ZEW study discovers that financial penalties like these can be avoided when applicants are able to demonstrate having received high-quality professional training.

Negatively Selected

In Germany's dual education system, which combines apprenticeship training at a firm with vocational education at a state-run vocational school, only around two out of three trainees remain at the company with which they apprenticed. And of those who do remain, less than half are still employed at the same firm a year after their training. While many are forced to leave directly after training because they do not receive a job offer, others leave of their own free will. Generally, though, the labour market regards young workers with suspicion when they switch companies directly after training. This is because employers assume that the companies doing the training retain their best trainees and that workers who seek employment elsewhere must be second rate, even if they were highly productive and the choice to leave was theirs. Productive workers who change companies immediately after training must overcome such prejudices if they are to receive salaries comparable with trainees who remain.

According to the findings of the ZEW study, employers that hire workers trained at other companies pay close attention to the quality of their apprenticeship and set starting salaries accordingly. Moreover, workers who were well paid during their training receive significant salary bumps when switching jobs. The reason is that companies know that high-paying ap-

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prenticeship programmes usually attract the best applicants.

Bigger Company, Better Training

Typically, bigger companies offer better training, which translates into extra wages. New employers offer applicants trained at companies with over 1,000 employees starting salaries that are eight per cent higher than those they offer applicants trained at companies with under 250 employees. And those who were trained at companies with a works council can expect to receive a little more than four per cent extra when they switch to a new firm, as employers believe works councils guarantee higher training standards. Ultimately, the starting salaries of workers who switch jobs after training are significantly higher when relatively few trainees remain at the companies with which they apprenticed. A low trainee retention rate means that even well trained workers seek work elsewhere, even if the company providing the apprenticeship can win over the best trainees.

The study relies on employer-employee panel data from the Institute for Employment and Research (IAB). It analyses the determinants of starting salaries for more than 4,000 apprenticeship graduates in Germany who changed companies immediately after training between the years 2000 and 2002.

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Low Additional Costs Expected from Emissions Trading in Maritime Shipping

In 2007 international maritime shipping emitted 870 million tons of CO_2, and experts expect that emissions from ships will continue to rise. Officials at the International Maritime Organization are currently discussing different approaches to reduce emissions in the maritime sector, among other things the introduction of an emissions trading scheme.

The introduction of an emissions trading scheme on the maritime sector is investigated by a joint research project of ZEW and Fraunhofer Institute for Systems and Innovation Research.

In a joint study commissioned by Germany's Ministry of Transport, ZEW and the Fraunhofer Institute for Systems and Innovation Research assessed potential implications of an emissions trading scheme (ETS) on the maritime sector.

In theory, regulating maritime emissions by means of an ETS allows to secure two main advantages. First, the environmental effectiveness of the scheme is guaranteed. In an ETS, the cap defines the overall amount of permitted emissions. Hence, the total amount of pollution can be controlled effectively. Second, it achieves a given environmental benefit at least cost. By constraining the allowed amount of emissions, a scarcity is created and a price for emissions develops. As a consequence, the cap ensures that regulated entities treat their emissions like a factor of production and deploy it rationally in their production process. The ability to trade emission allowances provides for the equalisation of marginal emission abatement costs across all involved entities. Emitters with low abatement costs will sell their allowances, whereas emitters with high abatement costs can buy allowances at a comparatively low price.

Low Overhead Costs Expected

Relying primarily on interviews of international ship operators, the study found that costs associated with ETS monitoring and reporting are likely to be low, since companies in the maritime sector already collect much of the needed data as part of standard business practice. The study also predicts low overhead costs for emissions trading when compared with other operational expenses, such as fuel. The issues associated to a fixed cap cannot be ruled out as easily and are also identified by the interviewed experts as potentially significant problems. However, such difficulties may be alleviated by adequate linking and/or banking provisions. All in all, there is no reason why an ETS should not work in the shipping sector. In fact, the findings suggest that a maritime ETS will encourage international shipping companies to undertake cost-efficient emission reductions, provided the sector's idiosyncrasies are taken into account.

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RESEARCH FINDINGS

Long-Term Consequences of Childhood Hunger Are Systematically Underestimated

According to a recent empirical study the long-term health consequences of hunger in childhood are worse than commonly thought. The study links data on the health of adults who were children in times of famine with information on individual experiences of hunger.

Children who spend their day hungry are frequently affected by various illnesses in adulthood.

Children who suffer from hunger and malnutrition do not only live in many parts of poor, underdeveloped nations. Even in wealthy industrial countries there is a shockingly high number of children who spend much of their days with an empty stomach. For instance, the charity organization Feeding America reports that in the United States alone almost four million children and youths under 18 years regularly experience hunger.

This finding is all the more alarming because many studies have shown that adults are more likely to suffer from health problems if they experienced hunger as a child.

Distribution Problem

From an economic perspective, hunger is first and foremost a distribution problem that can be eliminated by various means, including government intervention. But in order to take effective steps against hunger and its long-term consequences, political leaders should know in which age undernutrition and hunger are especially harmful to later health in adulthood.

Great Food Shortages in Europe During the 1940s

A new ZEW Discussion Paper (No 12-019) investigates at what age hunger is particularly harmful. The study investigated the effects of childhood hunger on health in adulthood using a sample of Greek, German, and Dutch generational cohorts who were exposed to the famines of the 1940s as children.

An individual's food situation is difficult to measure, as it is both endogenous and often unobserved. Living through a famine in childhood does not automatically mean experiencing hunger, and vice versa. Hence, the usual practice of comparing the health of those who lived during famines with those who came of age in other times can at best provide a qualitative statement about the causal effects of individual malnutrition. This approach considerably underestimates the actual effect of hunger and malnutrition during childhood. The ZEW study is the first-ever investigation to connect famines with personal information on phases of food shortages, isolating the causal effect of famine during childhood. Specifically, the paper estimates the local average treatment effect of hunger during childhood on health outcomes later in life, using instrumental variable estimation with famines as instruments.

Problem of Partial Recollection

Drawing in data collected by the Survey of Health, Aging and Retirement in Europe (SHARE), a Europe-wide longitudinal study of people over 50, the researchers examined 5,750 people who were born between 1920 and 1955 in Germany, Greece, and the Netherlands. Along with general information on famines in childhood, participants in the SHARE survey were explicitly asked when and to what extent they experienced hunger as children. The study uses two sample estimation techniques to compensate for the problem of partial recollection of conditions at very early stages of life. The results indicate that the effects of undernutrition on adult health are heterogeneous by gender.

The findings show that women exposed to hunger caused by famine between the ages of six and sixteen are at increased risk for obesity in later adulthood, and men who experienced hunger between the same ages suffer more frequently from high blood pressure. Hunger experienced by children in utero up to four years of age increases the risk of high blood pressure in women by 42 per cent and reduces the average body size of men by three centimetres. As a by-product, the findings also show that the famine effect normally estimated by researchers underestimates the causal effect of malnutrition by more than threefold.

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RESEARCH FINDINGS

Effects of Passive Ownership on Competition

A recent study conducted by ZEW shows how a company's acquisition of passive ownership interests in a supplier can increase consumer prices. The findings help us to better understand the effects of partial backwards ownership on competition.

When downstream firms acquire shares in upstream firms without any control, consumer prices may rise.

In the business world, companies frequently acquire passive ownership interests in a supplier. As ownership is passive, that is without any control of the supplier's decisions, the vertical relation is not considered to be a problem for competition. A current ZEW study (Discussion Paper No 12-022), however, has found that passive ownership of a supplier might very well raise consumer prices.

Industrial Organization Model

The discussion paper relies on an industrial organization model applicable to markets in which large companies buy from small suppliers. The model starts with the premise that multiple buyers compete to offer the best price to a supplier. Yet a supplier's prices may be no higher than those on the global market, as companies who need its products can also source elsewhere.

If a buyer acquires non-controlling ownership of the supplier (passive backwards integration), then the resulting profit sharing has two effects. The first is the so-called rebate effect. The buyer recoups a part of the price it pays for upstream products from profit-sharing. Yet the supplier compensates for this effect by raising prices for the buyer, keeping the effective purchase price equal to global market price. The second effect is the so-called coordination effect. The company that acquires shares in the supplier internalizes some of its profits, which includes sales to competitors in downstream markets. When the company raises its price, however, some customers begin to shop at competing buyers. The backwards acquisition makes price increases for the involved buyer more profitable, thus raising its prices and setting off a price spiral, as other buyers receive leeway for a price increase.

Consumer Price Decrease

By contrast, the merger of the buyer with the supplier into a single company lowers consumer prices. The integrated company continues to supply independent buyers at the global market rate and considers their sales when setting its own consumer price. Nevertheless, the double markup on the final product of the integrated company is eliminated as the consumer price is based on the actual manufacturing costs of the upstream product, not its purchase price. With mergers like these, the overall effect is that consumer prices decrease. Hence, when a downstream company acquires shares in an upstream company, consumer prices increase; when vertical integration takes places, consumer prices decrease. For consumers, integration is better than a passive acquisition. Accordingly, when competition regulators recommend that a controlling downstream acquisition be converted into a passive downstream acquisition for competition's sake, we should be cautious.

Nevertheless, this effect is only one of many possible effects in a vertical acquisition. Others include investment incentives and foreclosure. The authors believe that the study sheds light on fundamental relationships that have up to now gone unexamined.

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INSIDE ZEW

ZEW President Wolfgang Franz Honoured with Gustav Stolper Award

Prof. Dr. Dr. h.c. mult. Wolfgang Franz received the Gustav Stolper Award 2012. Bestowed by the Verein für Socialpolitik (VfS), the award honours economists who considerably influence public debates with their research results. The award is named after the Austrian economist Gustav Stolper (1888-1947), who developed a reputation as economist, journalist and political advisor.

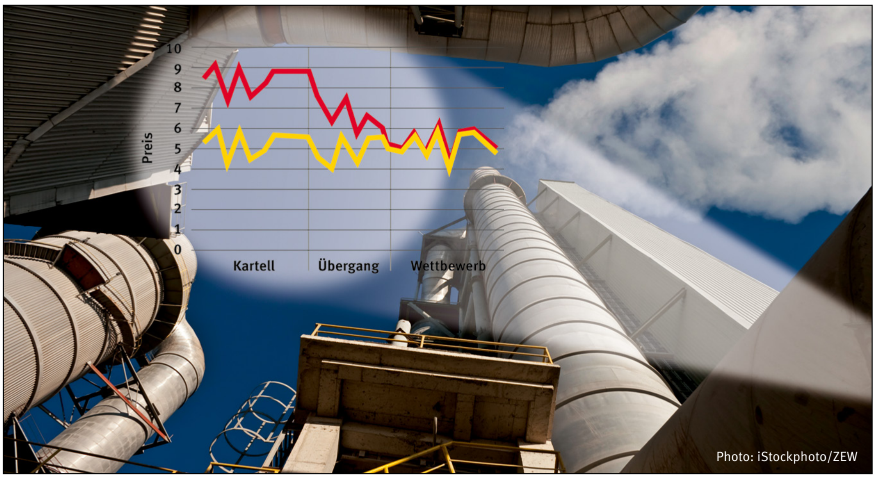
Wolfgang Franz received the award for making a wider knowledge about economic issues available not only to students in lecture halls, but also to the public. The award was presented on the occasion of the annual VfS congress in Göttingen, Germany in September 2012.

POLITICO-ECONOMIC ANALYSIS

Q&A: Empirical Study on Hardcore Cartels

Economic Effects of Hardcore Cartelization

In an empirical study of a large German cement cartel, ZEW researchers examined the effects of overt collusion on consumers and economic welfare. Kai Hüschelrath, the head of ZEW's new Competition and Regulation research group, explains the most important findings.



An analysis of a German cement cartel shows that the cartel led to price markups and harmed social welfare.

You analysed price fixing in a large cement cartel in Germany. What did you find?

The fixed quotas set by large German cement manufacturers between the early 1990s and the beginning of 2002 raised cement prices substantially. According to our estimates, the cartel markup was between 12.54 and 17.96 euros per ton of Portland cement. The collusive agreement affected the society as a whole as well as customers who had to pay higher prices. The cartel did not only limit cement supply but also suppressed innovation.

How did the prices set by cartel members and competitors change after the cartel broke down?

At first prices fell dramatically, among former cartel members as well as competitors. But then prices began to increase markedly – a phenomenon that can be found in many other cartels as well.

Why did prices rise again?

One explanation is that former cartel members were able to introduce forms of tacit collusion, creating similar elevated prices without explicit agreement. However, it is also possible that cost increases contributed to the observed price development. A precise econometric analysis is therefore necessary to track down the true reasons for the observed prices.

What measures can legislators take to fight cartels?

The job of fighting cartels falls to competition authorities who often pursue a two-pillar strategy: using deterrents to prevent the creation of new cartels and breaking up existing ones. Fine increases and improvements in the probability of detection are two of the main drivers altered as part of a series of reforms introduced in past years. For instance, the competition authority created stricter rules for fines and started a leniency programme under which regulators may offer to reduce or eliminate fines when companies who breached cartel laws notify officials of their wrongdoings. Tips from competitors, customers, and former cartel employees are another important factor in exposing cartels. And as cartel collusion becomes increasingly international, cooperation among national competition authorities is crucial as well.

Based on your study, what steps do you recommend politicians take to detect price fixing earlier or eliminate them altogether?

In recent years competition authorities have proposed important steps to make the legal prosecution of cartels more effective; most are already in operation. Statistics on the number of uncovered cartels provide a clear indication of the success of these measures. Of course, additional resources could be invested into a further strengthening of the deterrence effect. For instance, the competition authority could regularly monitor industries that are susceptible to forming cartels.

Is the deterrence of all cartel activity a desirable goal for competition policy?

Discovering all the cartels makes little economic sense. You have to weigh costs and benefits. Admittedly, uncertainty about the number of existing cartels and the damage they cause makes it difficult to assess the benefits.

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Kai Hüschelrath is the head of ZEW's Competition and Regulation research group and the coordinator of the Leibniz ScienceCampus "Mannheim Centre for Competition and Innovation (MaCCI)". He has investigated the economic effects of competition policy at ZEW since 2006. Previously he was a senior researcher in ZEW's department of Industrial Economics and International Management. Since 2009 he has also been Assistant Professor of Industrial Organization and Competitive Strategy at WHU Otto Beisheim School of Management in Vallendar.

POLITICO-ECONOMIC ANALYSIS

On the Use of Overdraft Credit Lines

Consumer advocates have strongly criticized the high interest rates charged on overdraft credit. Decisions about new regulations should consider not only costs for consumers, but also credit availability and bank overdraft practices.

Budget deficits among private households? A ZEW-study investigates how households use overdraft credit.

ZEW examined a comprehensive set of household data known as SAVE to identify which households have access to overdraft credit and how they use it. We find that access to overdraft credit is widespread in Germany. Around 76 per cent of households have a bank account with an overdraft facility. The average median overdraft limit granted to German consumers is 3,000 euros, the level rising with income. Notably, the self-employed have the highest average overdraft credit lines among workers. By contrast, only 45 per cent of low-income households with a monthly net income of 1,000 euros or less have access to an overdraft facility. Income level helps determine who can receive overdraft credit; so too does the regularity of income received into one's bank account, as indicated by the large percentage of the unemployed who lack overdraft protection. Generally, banks set the overdraft limit based on the creditworthiness of the customer; though when it comes to interest rates, banks tend to treat all customers equally.

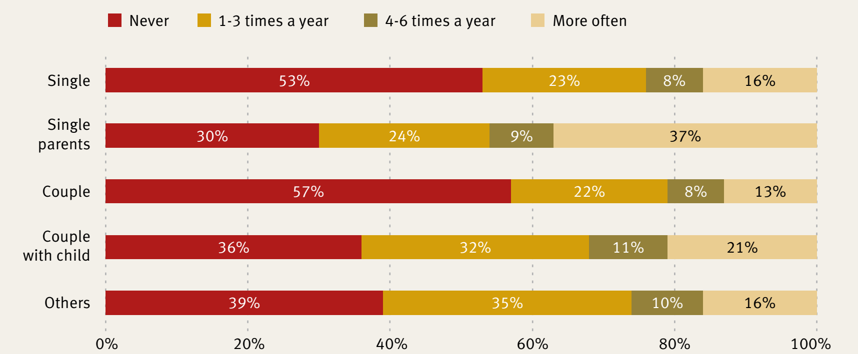
Almost half of all households that have access to overdraft credit say they use it. 17 per cent of households are in overdraft six times a year or more. Somewhat surprisingly, income plays no significant role in how frequently households take advantage of overdraft credit. The key factor is the specific living situation of household members – employment, age, family status, and so on. The unemployed use overdraft credit much more frequently than the employed. The same goes for the self-employed, who because of irregular income have a harder time getting loans and must rely on overdraft credit. Retired households, households without children, and couples are less likely to use overdraft credit (see chart). Couples without children are very unlikely to use overdraft credit, even though they are most likely to receive it and have the highest credit limits on average. If children are present, the use of overdraft credit increases, as children often require sudden short-term expenditures. The use of overdraft credit is especially likely for single parents, who have no partner to offset these costs.

Financial Knowledge

The comparison of two-person and single-person households without children is quite revealing when it comes to the use of overdraft credit. Couples without children are unlikely to use overdraft credit more than six times a year. By contrast, single-person households show average use. This suggests that couples are better at coping with short-term financial pinches than single individuals. Notably, households with better financial knowledge – based on education, income, and age – are more likely to have overdraft credit but less likely to use it. The findings suggest that financial knowledge affects credit behaviour (see table).

The finding that households with better financial knowledge use overdraft credit less often is an important starting point for change. Improved consumer de-

Frequency of Overdraft Credit Lines by Household Type



Note: The chart shows the frequency of overdraft credit by household type. For instance, 57 per cent of couples without children state that they never use overdraft credit.
Source: ZEW, SAVE

POLITICO-ECONOMIC ANALYSIS

cision-making – and lower risk of overindebtedness – can be achieved by providing targeted information to bank customers. The bank can inform clients about the effects of credit decisions, take more care in monitoring the financial burden on household budgets, and be quicker to notify customers of possible problems. For instance, bank employees can schedule consultations with customers early on and discuss strategies for reducing outstanding overdraft debt. Ideally, this will help people restructure debt before they exhaust their overdraft limits. A predictable and consistent debt repayment schedule can help discipline credit users.

Frequency of Overdraft Credit Lines – Comparison of Different Characteristics

Frequency of use of the credit line	Never	1-3 times a year	4-6 times a year	More often
Whole sample	48%	26%	9%	17%
Households at risk of poverty	34%	25%	11%	31%
Households not at risk of poverty	50%	26%	9%	15%
High financial knowledge	50%	27%	9%	14%
Low financial knowledge	44%	25%	9%	22%
Unemployed	32%	22%	11%	35%
Not unemployed	49%	26%	9%	16%

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These findings were collected as part of a study by ZEW and iff Hamburg commissioned by the German Federal Ministry of Food, Agriculture, and Consumer Protection (BMELV). The study can be found in German language at www.zew.de/publikation6659

CONFERENCES

ZEW Researchers Participate in Numerous Conferences

In 2012, the ZEW was represented at numerous international conferences. Below you will find an overview of the participation by our researchers in certain selected conferences from mid-June until the beginning of September 2012. The strong participation as well as the multitude of lecture topics demonstrates once again that the ZEW attaches great importance to exchange with the scientific community. For further information visit the ZEW homepage: www.zew.de --> staff

International Society for Ecological Economics (ISEE) Conference, 16.6.–19.6.2012

Michael Hübler: South-North Convergence and Divergence in a Schumpeterian Model of Growth and a Sectoral Assessment of the EU Decarbonisation Roadmap2050.

Christiane Reif: Corporate Social Responsibility, Innovation and Financial Performance: On the Interaction between Corporate Social Responsibility and Innovation Strategies for Firm Performance.

Annual Congress of the International Institute of Public Finance, 16.8.–19.8.2012

Sarah Borgloh: On the Interrelation of the Church Tax and Charitable Giving in Germany.

Sarah Borgloh: Discussion of Gender, Social Norms and Survival in Maritime Disasters.

Jost Henrich Heckemeyer: Profit Shifting Channels of Multinational Firms – A Meta-Study.

Marc-Daniel Moessinger: Do Personal Characteristics of Finance Ministers Affect the Development of Public Debt?

European Economic Association/European Meeting of the Econometric Society (EEA/ESEM), 27.8.–31.8.2012

Bodo Aretz: The Evolution of Wage Mobility in the German Low Wage Sector – Is There Evidence for Increasing State Dependence?

Daniel Cerquera: Considerations on Partially Identified Regression Models.

Diana Heger: A Leap in the Dark: External Capital Access and New Product Launch in Start-Up Firms with Weak Intellectual Property Rights.

Julia Horstschräer: Decentralizing University Admission – Evidence from a Natural Experiment.

Kai Hüschelrath: The Impact of Cartelization on Pricing Dynamics – Evidence from the German Cement Industry.

Gunnar Lang: How does Domiciliation Decision Affect Mutual Fund Fees.

Atilim Seymen: Sequential Identification of Technologicial News Shocks: A Technical Discussion.

European Association for Research in Industrial Economics (EARIE), 2.9.–4.9.2012

Bettina Peters: Does R&D in Emerging Countries Pay Off? On The Contribution of International R&D to Firm Profitability.

Diana Heger: Broadband Infrastructure – A Driver for Hightech Start-Ups?

Kai Hüschelrath: The Impacat of Cartelization on Pricing Dynamics.

Michael Kummer: Centrality and Content Creation in Networks – The Case of German Wikipedia.

Sascha Rexhäuser: Green Innovations and Organizational Change: Making Better Use of Environmental Technology.

Paula Schliessler: Patent Litigation Settlement in Germany: Evidence on the Role of Proceedings and Behavior in Court.

CONFERENCES

From the Computer to Social Networks

In early July, ZEW held its tenth annual conference on the economics of information and communication technologies (ICT). The conference attracted researchers from Europe, North America, and Israel to discuss recent findings in economic ICT research.

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

At the first ICT conference, in 2001, the dominating technology researchers were concerned about was the computer. They were particularly interested in the effects of computers on productivity and growth and presented an array of results based on micro and macro data. Yet as technologies have changed over the last ten years, the questions posed by ICT researchers have changed, too. At this year's conference, social networks were the dominant topic. Speakers discussed the ability of social networks to gather and bundle knowledge and make it available for everyone. They also highlighted their role as platform for labour supply and demand. Other speakers sought to advance the theory of two-sided markets, considered the market for triple play (the bundling of Internet access, TV, and telephone service), or investigated advertising mechanisms. There are some topics, however, such as, the determinants and the development of productivity – a central economic performance measure – that interest both researchers and politicians and are not limited to the field of ICT. In his keynote, Chad Syverson (University of Chicago) presented a study that used detailed data from the American automotive sector to investigate "learning by doing" as a driver of productivity growth.

The conference programme and lectures can be downloaded at: www.zew.de/veranstaltung1610.

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First Mannheim Energy Conference at ZEW

In June 2012, the first Mannheim Energy Conference was held at ZEW. Comprising four keynote speeches, a podium discussion, thirty talks, and five parallel sessions, it brought together researchers, economists, and politicians to discuss 15 years of energy market liberalisation.

The first day of the Mannheim Energy Conference featured keynote addresses by Frank Wolak of Stanford University and Michael Waterson of the University of Warwick. Wolak spoke about electricity markets in North America. He also addressed basic similarities and differences between America and Europe and discussed what governments and markets can learn from each other about market design and market structure. Michael Waterson discussed how important insights about market mechanisms can be gained from exogenous market shocks.

Another highlight was the podium discussion "Smart Grid Challenges". Stephanie von Ahlefeldt (Federal Ministry of Economics and Technology), Jochen Kreusel (ABB AG), Gabriele Riedmann de Trinidad (Deutsche Telekom AG), and Carla Seidel (BASF SE) discussed requirements for the successful implementation of smart grids, smart meters and the new markets associated with them.

On the second day, Michael Pollitt, energy expert from the University of Cambridge, presented milestones in energy market liberalisation and privatisation. Jochen Homann, president of the German Federal Network Agency,discussed the agency's development plans for Germany as well as a possible introduction of a capacity mechanism into the German electricity market. The Mannheim Energy Conference was organised as part of the Mannheim Centre for Competition and Innovation (MaCCI) at the Leibniz ScienceCampus. MaCCI is a research initiative by ZEW and the School of Law and Economics of the University of Mannheim.

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INSIDE ZEW

New ZEW Seminar Programme Available

The new seminar programme of the ZEW has recently been published. From September 2012 to July 2013, ZEW offers numerous Expert Seminars on current issues. The outstanding methodological skills of ZEW researchers contribute to the seminar programme's variety of content. The programme includes seminars on econometrics, financial market analysis and financial management, as well as on business administration and organisation.
A novelty is the Expert Seminar Capital Market Analysis on the basics of the analysis of international investment markets. Another new item is the business simulation "Mission BWL", where participants deal with basic business concepts in a practice-oriented way.
The programme for researchers has also been extended. The seminar "Leadership Training for Female Researchers in Directing Roles" addresses specific questions that concern women in executive positions to improve their leadership qualities and soft skills. In addition, clients can benefit from a revised concept for the Expert Seminar "Scientific Talks in English", which focuses on presentation skills in an international environment.
For further information please visit: www.zew.de/en/weiterbildung

DISCUSSION PAPERS

No 12-058, Christian Köhler, Christian Rammer: Buyer Power and Suppliers' Incentives to Innovate.
No 12-057, Daniel Dreßler: Form Follows Function? Evidence on Tax Savings by Multinational Holding Structures.
No 12-056, Oliver Schenker, Gunter Stephan:Terms-of-Trade and the Funding of Adaptation to Climate Change and Variability. An Empirical Analysis.
No 12-055, Michael Hübler, Andreas Löschel: The EU Decarbonisation Roadmap 2050: What Way to Walk?
No 12-054, Michael Hübler, Lavinia Baumstark, Marian Leimbach, Ottmar Edenhofer, Nico Bauer: An Integrated Assessment Model With Endogenous Growth.
No 12-053, Michael Kummer, Marianne Saam, Iassen Halatchliyski, George Giorgidze: Centrality and Content Creation in Networks – The Case of German Wikipedia.

Annual Report 2011 Now Published: ZEW, Mannheim Still on a Winning Track

In the financial year 2011, ZEW in Mannheim increased its total revenues by approximately 2.6 million euros to 18.2 million euros. The increase of third-party funding particularly contributed to the improved revenues of the research institute.

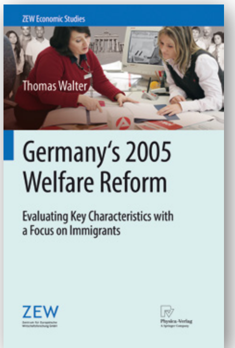
ZEW was also able to intensify research collaboration with partners in Europe and overseas. In this context, the research programme "Strengthening Efficiency and Competitiveness in the European Knowledge Economics" (SEEK), which is financed by the State of Baden-Württemberg, played a significant role. It supports scientific cooperation at the project level and promotes exchanges of scientists from the participating institutes. The huge number of papers ZEW researchers published in prestigious scientific journals, as well as numerous dissertations confirm the high quality of the scientific work conducted at ZEW in 2011. Furthermore, two ZEW researchers received full professorships at universities. ZEW department head Prof. Andreas Löschel was appointed chairman of the German federal government's "Expert Commission for Monitoring the Transformation of the Energy Economy".

By the end of 2011, the ZEW staff had been increased to a total of 183 employees. 120 of them are academic staff. The Annual Report contains further information about scientific conferences hosted by ZEW in the past year, as well as facts about public events with renowned speakers from politics and business. The Annual Report 2011 can be found at: www.zew.de/annualreport

ZEW ECONOMIC STUDIES

Thomas Walter

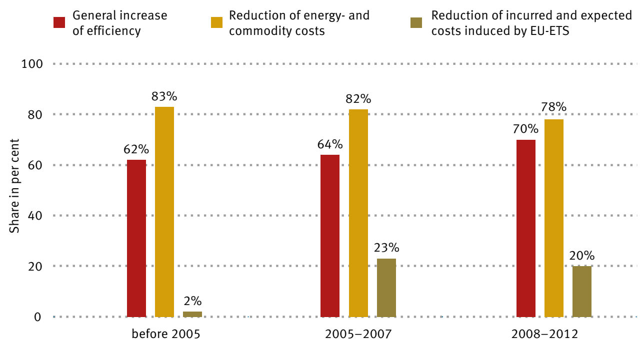
Germany's 2005 Welfare Reform



In January 2005, the German government enacted a substantial reform of the welfare system, the so-called Hartz IV reform. This book evaluates key characteristics of the reform from a microeconometric perspective. It investigates whether a centralised or decentralised organisation of welfare administration is more successful to integrate welfare recipients into employment. Moreover, it analyses the employment effects of an intensified use of benefit sanctions and evaluates the effectiveness and efficiency of the most frequently assigned Active Labor Market Programs. The analyses focus on immigrants, who are highly over-represented in the German welfare system.
ZEW Economic Studies, Volume 46, Physica-Verlag, Heidelberg/New York, 2013
ISBN 978-3-7908-2869-6

FACTS AND FIGURES

Only Poor Incentives for CO_2 Reductions



Reasons for the implementation of CO_2 abatement measures Source: ZEW

The EU Emissions Trading System (EU ETS) is supposed to provide incentives for regulated firms to reduce greenhouse gases in their production processes. However, for most regulated companies in Germany, emission reduction was only a side effect of investment and optimization measures they would have taken anyway. The objectives for the reduction measures were reducing costs for energy and raw materials as well as exploiting general efficiency potentials. This is revealed by the CO_2 Barometer, a survey among German firms regulated by the EU ETS.

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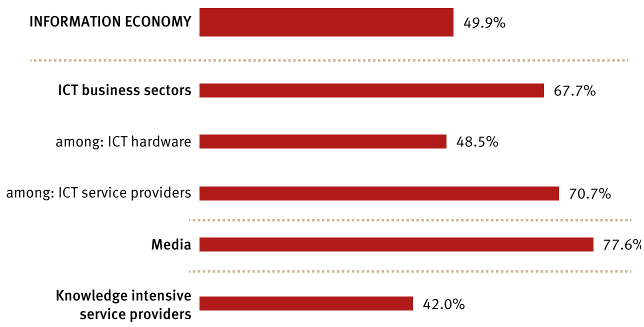
Every Second Company in the Information Economy Uses Social Media



Source: ZEW

Social media increasingly find their way into everyday life. More and more companies discover the potentials of these interactive media, too. Roughly fifty per cent of the companies in the information economy use Facebook, Twitter, blogs and other social media. There is a wide range of possible applications for social media, and for many companies, the placement of their profiles in social media is a primary target. These are the findings of a quarterly survey among companies of the information economy in Germany conducted by ZEW.

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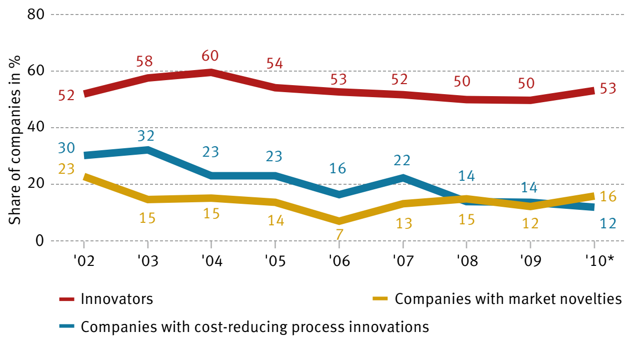
More Innovators in German Media Services



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

The share of companies within the German media sector having introduced product or process innovations increased during 2010. With 53 per cent the rate of innovators reaches its highest level since 2005. The share of innovators with market novelties increased to 16 per cent. The share of innovators having introduced process innovations to lower their unit costs, however, is further declining. With 12 per cent in 2010 it fell below the already low level of the previous years. Rationalisation of processes by with new technologies seem to have little priority.

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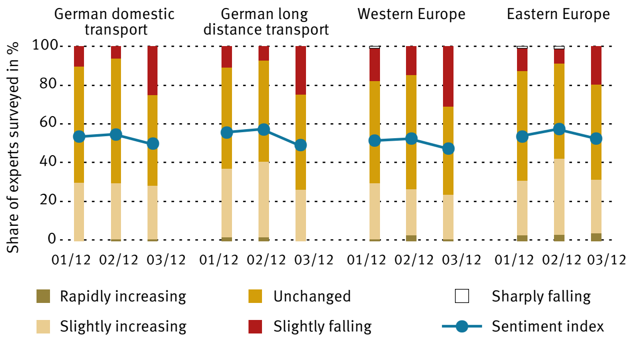
Raod Transport Volumes Barely Increase Over the Next Half Year



Source: ZEW

The experts surveyed by ProgTrans/ ZEW are cautious about the development of the road freight volumes within the next six months. Such reluctance has been seen for the last time in mid-2009. In the current survey, about half of the experts predict road freight volumes to remain unchanged, a quarter expects volumes to increase slightly and a quarter anticipates a slight decrease. Especially the Western European Routes will be affected from the sidewards movement, East European transport and domestic transport are slightly better off.

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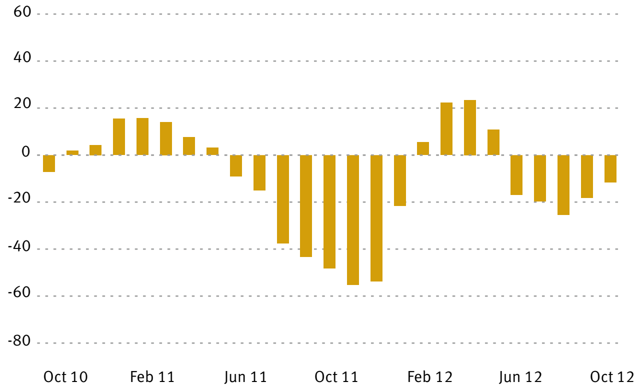
FACTS AND FIGURES

ZEW Financial Market Test October 2012



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

Germany: Economic Expectations Brighten up

The ZEW Indicator of Economic Sentiment for Germany has increased by 6.7 points in October. It now stands at a level of minus 11.5 points. This is the second increase of the indicator in a row. The indicator's rise shows that risks for the German economy have somewhat diminished according to the financial market experts. This could well be explained by the decreasing uncertainty on the financial markets during the last weeks. Slightly more experts still expect the German economy to cool down instead of brightening up. Nevertheless, the share of experts holding such a pessimistic view has once again declined compared to the previous month. Furthermore, 45.5 percent of the experts forecast that the economic situation six months ahead will be more or less the same as today.

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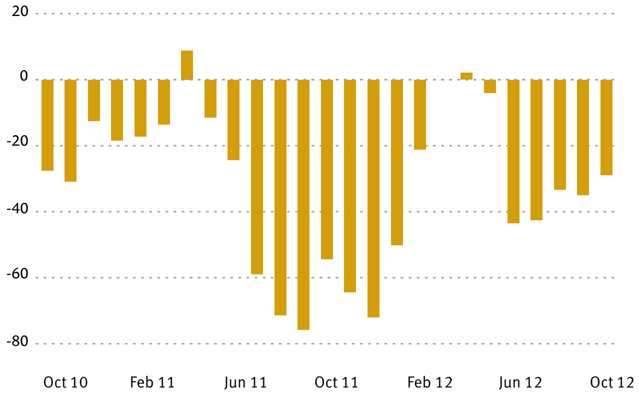

Balance of positive and negative assessments concerning economic development in Switzerland. Source: ZEW, Credit Suisse

Switzerland: Economic Outlook Improves Slightly

Economic expectations for Switzerland have improved by 6.0 points to the minus 28.9 points-mark in October. Thus, the ZEW-CS-Indicator of Economic Sentiment has increased by a total of 14.5 points since June 2012. In October fewer analysts expect the economic development in Switzerland to deteriorate on a six- month time frame. Their share now amounts to roughly one third. However, not even one in ten experts anticipates an improvement of the economic situation in Switzerland within the next six months. The ZEW-CS Indicator is calculated monthly by the Centre for European Economic Research (ZEW) in cooperation with Credit Suisse (CS). It reflects the expectations of the surveyed financial market experts regarding the economic development in Switzerland on a six-month time horizon.

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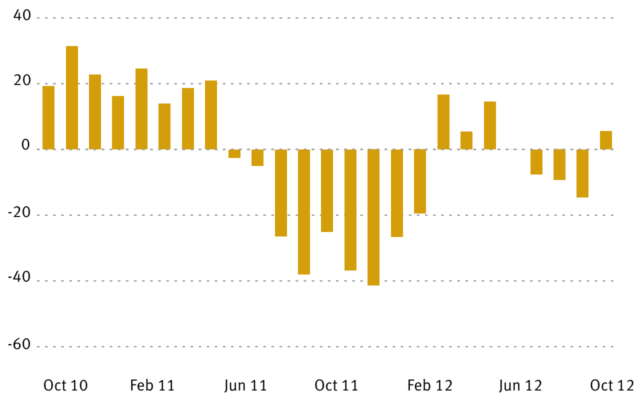

Balance of positive and negative assessments concerning economic development in the CEE region. Source: ZEW

CEE Region: Rising Optimism

Economic expectations for Central and Eastern Europe including Turkey (CEE) have improved considerably in October. The ZEW-Erste Group Bank Economic Sentiment Indicator has increased by 20.1 points to a level of 5.5 points. Furthermore, rising optimism can be seen in all of the surveyed countries. The economic outlook is brightening up for each country included in the survey in October. The economic sentiment indicator for the CEE region and further financial market data have been surveyed monthly by the Centre for European Economic Research (ZEW), Mannheim, with the support of Erste Group Bank, Vienna, since 2007. The CEE region consists of Bulgaria, Croatia, the Czech Rebulic, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, and since October 2010 Turkey.

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OPINION

Dismissal Protection

From around 2005 till today, the German labour market has seen a marked rise in the number of employees. This positive trend – interrupted only by the downturn in 2009, which was mild given the gravity of the recession – has quelled debate about labour market inflexibility in Germany. It has even been suggested that the rigidity of German labour laws stimulated the rise in employment.

Now, after Schlecker's bankruptcy, we know better. Schlecker was a well-known drugstore company with numerous chain stores. According to reports, fears of thousands of unfair dismissal suits have kept investors from buying up assets and restructuring the company. Unions agree. The district head for the German trade union ver.di said in an interview, "The high number of unfair dismissal suits has scared away investors." Neither the union representative nor the interviewer raised an obvious point, though: reforming those dismissal protection laws, which are inimical to employment creation.

In the Schlecker case, the problematic labour law appears in section 613a of the German Civil Code (BGB). This law stipulates that if a business passes to another owner by legal transaction, the new owner succeeds to the rights and duties under the employment relationships existing at the time of transfer. Specifically, this means that an employer's bankruptcy does not automatically terminate its employment relationships. But according to article 113 of the German Insolvency Statute, bankruptcy does give the insolvency administrator a special right to terminate employment (Brox, Rüthers, Henssler, Arbeitsrecht, 18th edition, Stuttgart 2011, margin number 614).

The criticism of existing dismissal protection laws goes far beyond the Schlecker case. The reason is not that employee termination is impossible in Germany. As unemployment statistics show, each year millions of employees lose their jobs. The real problem is the high costs associated with dismissal protection. Employees who have been terminated can drag former employers before labour courts, and possibly through several courts of appeals, backed by courts protection insurance. This wouldn't be a problem if labours had not come to a number of bizarre decisions in favour of employees who did not meet basic standards of performance and if the smallest of formal errors did not serve to nullify a dismissal. On the open sea and before judges we are all in God's hands, according to a German proverb. This is why many employees prefer to negotiate expensive settlements, even if employees have no claim to one. As long as the severance pay is high enough, a company can practically get rid of any employee.

The point is not to make the case for the unrestrained power to hire and fire. In the vast majority of cases, employees rely on a stable employment relationship more urgently than companies do. Much could be achieved if the formal dismissal procedures were simply made less complicated and, most of all, more predictable. Several years ago the German Council of Economic Experts put forward a proposal that satisfies these criteria. It recommends that company layoffs be generally permitted provided employees have signed a severance pay agreement. This does not apply of course to performance-based dismissals. Employees who do not meet company expectations should not be seen off with a golden handshake. But a severance pay agreement does provide legal certainty. They do not necessarily make dismissals less expensive but they do make their costs more predictable.

It is up to legislators to seriously examine such proposals, however plagued they may be by countless other cares, for ignoring the issue will not solve it.

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