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Centre for European
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ZEWnews

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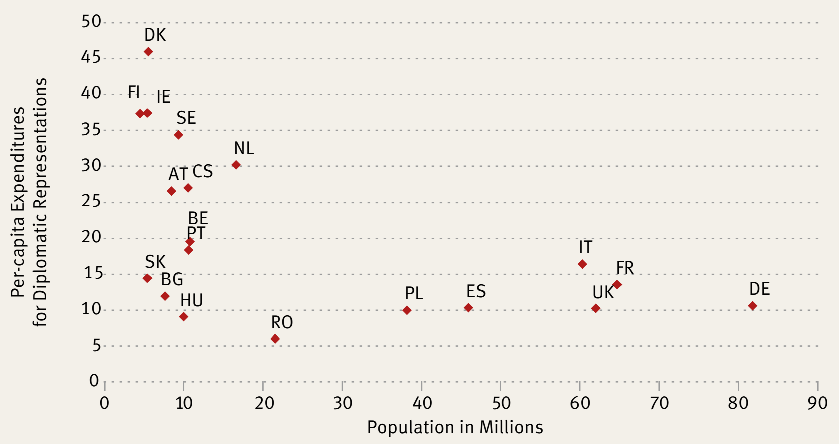
Research Results · Conferences · Publications

Member States Can Save Billions with the Help of the EU in Defence and Representation

The European Union (EU) can help member states to save their money, such as by establishing common EU diplomatic representations or a European army. These are the central findings of a recent study conducted by ZEW together with the Bertelsmann Foundation.

Expenditures for Diplomatic Representation of Selected EU Countries



Note: The graph illustrates per-capita expenditures of selected EU countries for diplomatic representation and relates them to population size. A clear negative correlation can be seen between expenditures and population: the greater the population of a country, the lower its per-capita costs. Accordingly, the study found a large savings potential for EU countries if they decided for common diplomatic representation, given a total EU population of 500 million people.
Source: ZEW

In the study "The European Added Value of EU Spending: Can the EU Help its Member States to Save Money?" researchers from ZEW and the Bertelsmann Foundation examined three policy fields in which existing or potential consolidation on the EU level could bring savings for member states. These fields are the Common Agricultural Policy (CAP), diplomatic representations, and last but not least defence. Of these, only one – CAP – has already played a role at the EU budget level; the other two are a long way off. The main question the researchers tried to answer was: To what extent can the EU create value by providing the same services for less money than a single country has been doing? The study arrived at differentiated insights.

How to Provide Services for Less Money

For instance, agricultural policy has been criticized repeatedly as a subsidy grab, yet it could make sense by preventing a costly national subsidy race. Indeed, the researchers' empirical analysis concluded that renationalising agricultural policy would be unlikely to lower total costs. So while no proof for genuine added value could be found, neither was there evidence that the EU was overspending.

In the area of diplomatic representations, the study found convincing evidence of a real return from European implementation. Researchers projected that EU states could save between 6% and 19% of today's costs introducing embassies "with 28 flags". In this way, annual expenditures could be reduced by up to 1.3 billion euros. The calculations take into account that shared embassies would still require specialised staff to maintain language services or to protect particular national interests.

European Defence Policy

The greatest savings could be reaped from a common European defence policy. The research team calculated the entire spectrum of possible savings for a Europe-wide army with the same military capability, arriving at an unbelievable savings po-

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RESEARCH FINDINGS

tential of between three billion and nine billion euros annually – without diminished military capabilities. The results stand in contrast to the agreement on the new financial perspective 2014-2020 for the EU budget. In the settlement, the focus is again on traditional policies and less on new policies with a clear added value potential. Unfortunately, EU governments appear to be more interested in policies with a high visibility at home. The study also contains a warning: So the calculated savings can only be achieved if the EU does not increase salaries over current national levels. The savings potential would be eliminated if embassy employees or European soldiers were to be paid EU salaries.

The study can be found on the homepage of the Bertelsmann Foundation at www.bertelsmann-stiftung.de.

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Information Economy: More and More People are Able to Work Outside the Office

Location-independent working is on the rise. Thanks to modern communication technologies, an increasing number of people are able to carry their work with them wherever they go, allowing them to be of service to their clients, colleagues and superiors no matter where they are.

A representative business survey in the information economy conducted by the Centre for European Economic Research (ZEW) shows that such statements are no longer visions, but have become real. According to the findings of ZEW, four out of five businesses in the information economy (IT, media, and knowledge-intensive service providers) already allow their employees access to internal business network services from an external IP.

This development rapidly continues to gather momentum. By the end of 2014, an increase to over 85 per cent is expected. “The results of our survey show that businesses in the information economy increasingly take advantage of the opportunities that have opened up through laptops, smartphones, and the rapid spread of public WLAN access points. Hence, mobile and location-independent working as an essential element of modern knowledge-based society becomes a reality for an increasing number of employees”, says Dr. Jörg Ohnemus, researcher in ZEW’s Research Department “Information and Communication Technologies”.

In most cases, firms offer their employees access to the internal e-mail system, e.g. via a web interface. Already today, the share of businesses offering their employees remote access amounts to 77 per cent (see figure 1). By the end of 2014, information economy businesses expect a further increase to about 84 per cent. As of today, about 54 per cent of the businesses facilitate employees’ access to digital documents from outside the company. The share of businesses to follow suit is expected to rise by nine percentage points in the coming year and a half to presumably about 65 per cent.

With about one third, the proportion of businesses allowing external use of programmes and applications is the lowest. However, the proportion is expected to rise here as well, namely to about 41 per cent by the end of 2014.

The findings reveal significant differences when taking the size of companies into account (see figure 2). Whereas today already about 74 per cent of large businesses with 100 employees and more offer employees remote access to programmes and applications, the share of smaller businesses is substantially lower with 27 per cent (five to 19 employees) and 47 per cent (20 to 99 employees). However, a general increase of these proportions is to be expected across firms of all sizes.

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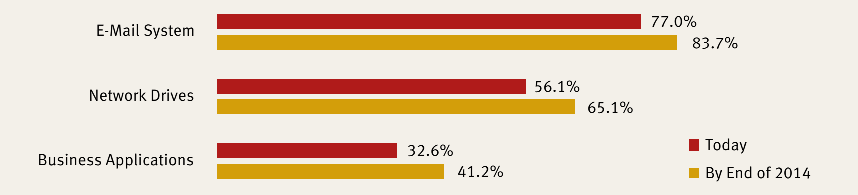
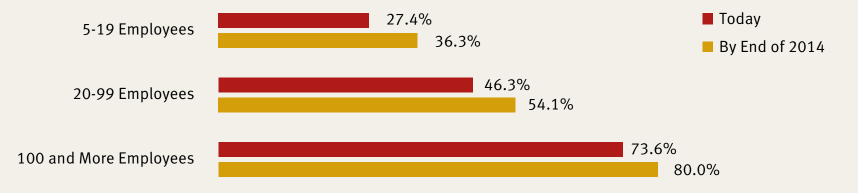
Figure 1: External Access to Network Resources



Currently 77 per cent of firms allow their employees remote access to the e-mail system from outside the internal network resources. By the end of 2014, the share is expected to rise to 83.7 per cent. Source: ZEW

Figure 2: Access to Business Applications by Firm Size



Already today, 73.6 per cent of information economy businesses with 100 and more employees allow their employees remote access to business applications. This share is expected to rise to 80 per cent by the end of 2014. Source: ZEW

RESEARCH FINDINGS

Praise and Recognition for the Top Employees Can Also Motivate the Co-Workers

Recognition is a very important source of employee motivation. But what is the most effective way to administer it at the workplace? Should all employees be praised equally or only those who do outstanding work? A broad study conducted by researchers of ZEW of over 300 subjects provides some surprising answers.

Photo: © Squaredpixels / iStockphoto

The study found that open recognition of the most productive employees increases performance generally, especially among co-workers that do not receive praise.

We all know praise plays a key role in motivation, but so far science has given inadequate attention to its effects.

Take, for instance, the question of exclusive recognition – praising only top performers. Does exclusive recognition push its recipients to reach new heights or lead them to rest on their laurels? Does it demotivate other employees or provide them with incentive to play catch-up?

A ZEW study (Discussion Paper No. 13-017) takes on these questions by investigating the effect of recognition on employee performance.

Thank-You Cards as Employee Recognition Tool

For the study, more than 300 subjects were placed in groups of eight and each instructed to complete a three-hour data entry task. After two hours, a supervisor interrupted the participants to praise their work so far. The praise came in the form of a thank-you card signed by the director of ZEW. In some groups, only the best performing participant received the thank-you card. In other groups, the top three were given cards. In a third set of groups, everyone received one.

Finally, in a set of control groups none of the participants received a thank-you card to observe how performance develops over time when no recognition is assigned. By a comparison of performance in groups with thank-you cards to the control groups, it is possible to differentiate any effects of praise from pure learning effects or fatigue.

The study found that recognition increased performance in all groups, but was greatest when the top three performers in a group received praise. The effect was less pronounced, but still significant, when recognition was given to either the group's best performer or to all group members. Interestingly, performance increases were mainly driven by improvements of group members who did not receive recognition. In contrast, the performance of recipients of a thank-you card did not significantly change.

Conforming to the Group Norm

Conformity preferences are the most likely explanation for the subjects' behavioural responses. Members who did not receive praise learned that their performance was relatively poor, and they reacted by conforming to the group norm established by the top performers.

The weaker (but still positive) responses of non-recipients when only the best performer in a group received recognition supports this conclusion, as belonging to the bottom seven out of eight in a group sends a weaker signal of low relative performance than when belonging to the bottom five out of eight.

Motivation is Gained by Reciprocity

The study's findings cannot be fully explained by conformity, however. Had conformity been the sole motivating factor, the recipients of exclusive recognition should have diminished their performance in the final hour of the task; instead they showed a slight (athough insignificant) improvement.

The natural explanation to reconcile these two findings is that, in addition to conformity, group members were also motivated by reciprocity. That is to say, group members conformed to the group norm but also responded in kind to praise by increasing their performance.

A Low-Cost Motivational Tool

These findings indicate that recognition can be a low-cost tool for increasing the average effort of employees, especially when limited to a substantial subset of high performers.

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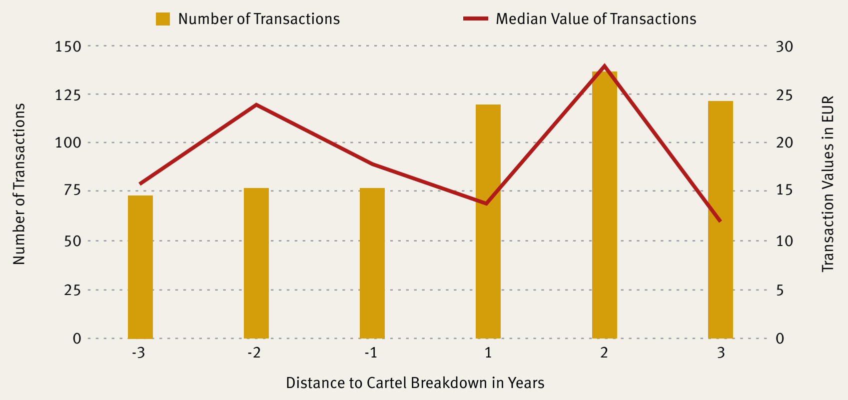
Robert Dur, Susanne Neckermann, Arjan Non

RESEARCH FINDINGS

Do Cartel Breakdowns Induce Mergers? Evidence from European Commission Cartel Cases

In the three years following a cartel breakdown, the number of mergers is higher than in the three years preceding the collapse. Comparing the time periods before and after a cartel breakdown, the worldwide number of mergers increases by up to 51 per cent after a collapse. A recent ZEW study (No. 13-036) has investigated this relationship.

Number of Horizontal Merges and Their Median Values Three Years Before and After Cartel Breakdowns



Source: ZEW

In the three years preceding cartel collapses, the branches observed in the study recorded 696 company mergers worldwide. In the three years after the breakdowns, 1,052 mergers were realised.

Different Kinds of Mergers Also Show Clearly Increasing Developments

If the sample is narrowed down to horizontal mergers only, i. e. mergers between companies in the same industry operating on the same production stage, the number of mergers worldwide increases by as much as 83 per cent. The increase is from 196 to 359 mergers worldwide. ZEW also examined the figures for mergers involving at least one European company and the figures for mergers involving exclusively European companies. In both cases an increase in the number of mergers is clearly observable, though not as drastic as for mergers worldwide. The results of the ZEW study suggest that competition authorities should take into consideration that the companies involved possibly consider mergers to be a "second-best" alternative to the recently collapsed cartel. Former cartel members might try to systematically regain the market power they have lost by increasing merger activities.

Furthermore, post-cartel mergers might facilitate necessary structural changes in the industry, e.g. by acquiring firms in financial trouble. The ZEW study further indicates the need to re-allocate or expand resources in competition authorities, law offices and consulting firms to be able to efficiently deal with the increased number of mergers.

European and Worldwide Data Sets Were Used in the Study

The ZEW study is based on two data sets. The first data set contains all cartel cases decided by the European Commission between the years 2000 and 2011. It provides case-specific information such as the type and duration of a cartel and the number of companies involved as well as company-specific information including the duration of cartel involvement or the volume of fines.

This data set includes information about 73 cartel cases of the European Commission and 464 cartel members. However, only 22 cartels could be investigated due to insufficient data or because the cartels in many sectors were overlapping in time, making it impossible to examine the impact of a single cartel breakdown. The second data set is the ZEPHYR data base by Bureau van Dijk which contains information on worldwide mergers and acquisitions, such as the type of merger, transaction volumes and companies involved. ZEW researchers filtered out 5,244 companies from 24 sectors for the study.

Reduced Competition and Increased Profits by Cartels

Typically, competitors establish a cartel to reduce competition and increase profits. Causing serious economic damage, e.g. higher consumer prices or reduced innovation efforts, and generating no welfare benefits that could be traded off against anti-competitive effects, cartels are prohibited in many anti-trust legislations around the world.

Mergers unite two or more companies to a single new one. The main objective of a merger is to benefit from merger efficiencies and increase profits. There are three types of mergers: horizontal mergers take place between two or more companies operating on the same level of the value chain for a product; vertical mergers involve companies from different levels of the value chain of a product or service leading to upward or downward vertical integration; conglomerate mergers involve two or more firms operating in different value chains.

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POLITICO-ECONOMIC ANALYSIS

Q&A: How is the Chinese Economy Trending?

Great Economic Potential Still Seen for China

China's role in the global economy is becoming ever larger. But the country also faces serious economic problems at home. Gunnar Lang, the director of a new economic survey on China instituted by ZEW and Fudan University, explains China's current economic situation.

Together with Fudan University, ZEW has initiated the China Economic Panel (CEP), a monthly survey of Chinese economic data. Why has ZEW turned its attention to the Chinese economy?

China has caught up to the United States as one of the world's main engines of growth. At the same time, the country is struggling with falling growth rates and greater overall volatility. The China Economic Panel is designed to be an early indicator of important developments in China's economy. Our partnership with Fudan University ensures that the survey contains assessments from experts with an insider understanding of the country's economic situation.

To put the brakes on sinking growth, the Chinese government is reversing course on economic policy. One of its long-term strategies is to put less emphasis on exports and stimulate domestic consumption. Will this strategy prove successful?

China has enormous long-term demand potential by virtue of its large domestic market. Wages and individual assets have risen sharply in recent years, but domestic consumption is less than in other countries with similar levels of economic development.

Nevertheless, consumer behaviour will eventually fall into line. The current government reform measures are aimed at improving the quality of goods produced by domestic companies.

Wages are rising in China's industrial centres. Some branches such as textiles and shoes are already beginning to migrate to other regions and in some cases to other countries, where labour costs are lower. What does this mean for the Chinese economy in general?

Due to increasing unit labour costs in the coastal regions, companies will relocate further inland, creating jobs there. In view of China's intended objectives this tendency makes sense. The government's current five-year plan heightens the vertical range of manufacture in the value chain and fosters the development of western regions.

At the same time, industrial zones are being erected in China to attract specialists and high-tech services industries. The Liangjiang region is one example. This developing industrial zone is the size of Berlin and Munich together and is already home to one of the largest cloud-computing centres in the world.

Chinese banks have obviously taken on more than they can handle in their efforts to finance state-run companies, and are in danger of collapsing under the weight of their debt. Will China experience a financial crisis with international consequences?

Though a collapse of the financial system in China is very unlikely, credit levels are growing rapidly, and rates of growth like these are considered to be indicative of pending economic crisis.

In the US credit levels grew by 40% in the six years before the 2008 crisis; in China they have grown by 70% in the past six years. But China is different in two respects. Domestic savings are around 50% of gross domestic product, and in 2012 the central government had a debt level of 26%. Even if we factor in local government debt, the total level amounts to 45%, which is still low enough to afford China flexibility. The central government, moreover, is already taking measures to curb credit growth, to strengthen the innovation of domestic companies, and to improve opportunities for companies through new capital investments.

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Dr. Gunnar Lang is the deputy head of the ZEW Research Department "International Finance and Financial Management". His research concentrates on financial market regulation, corporate finance, corporate strategy, and real estate markets. In addition, he works on third-party funded projects ordered by the European Commission, federal ministries, and corporates. Gunnar Lang is responsible for the Financial Market Survey China, the monthly ZEW-Fudan-China Economic Panel (CEP) as well as the quarterly ZEW PwC Indicator of Economic Sentiment China.


Photo: ZEW

ZEW DISCUSSION PAPERS

No. 13-072 Katrin Cremers, Fabian Gaessler, Dietmar Harhoff, Christian Helmers, Luke Mc Donagh, Paula Schliessler, Nicolas van Zeebroeck: Patent Litigation in Europe.
No. 13-071 Tim-Alexander Kröncke: Asset Pricing without Garbage.
No. 13-070 Lisa Evers, Helen Miller, Christoph Spengel: Intellectual Property Box Regimes: Effective Tax Rates and Tax Policy Considerations.
No. 13-069 Ulrich Laitenberger, Florian Smuda: Estimating Consumer Damages in Cartel Cases.
No. 13-068 Frauke Schleer, Willi Semmler: Financial Sector-Output Dynamics in the Euro Area: Non-linearities Reconsidered.
No. 13-067 Jan Hogrefe: Offshoring and Relative Labor Demand from a Task Perspective.

POLITICO-ECONOMIC ANALYSIS

Recommendations for Preventing Tax Avoidance by Multinational Corporations

A position paper prepared by ZEW and the University of Mannheim analyses different measures to fight tax avoidance and profit shifting by multinational corporations. An internationally coordinated expansion of source taxation by imposing withholding tax on interest and royalty payments is what the paper's authors recommend most.

Over the past few years several well-known multinational corporations such as Google and Apple have come under fire for using complex tax planning strategies to shift their profits from high-tax countries to low-tax countries, thus reducing their global tax burden to a minimum. Both the OECD and the EU have now decided to combat these aggressive, but legal, practices. Just recently, at the July G20 finance ministers meeting in Moscow, the OECD presented a 15-point action plan for preventing tax avoidance and profit shifting by multinational corporations. The OECD announced that it would specify the 15 points more concretely over the next two years. The EU Commission has published first recommendations at the end of 2012 for fighting aggressive tax planning as well.

But which of the reform options are truly suited for preventing tax avoidance and profit shifting by multinational corporations? Which will hurt the economy? Which can be implemented quickly?

A joint paper by ZEW and the University of Mannheim (ZEW Discussion Paper Nr. 13-044) discusses these questions and makes recommendations. The position paper also discusses exemplary tax planning strategies of multinational corporations and points out flaws and loopholes in the existing tax system. Finally, it provides an overview of empirical findings on profit shifting.

Multinational companies have been criticised for using very complex global tax planning strategies to keep their tax burden to a minimum.

One Solution is the Tightening of CFC Rules in the State of Residence

One effective strategy for fighting tax avoidance identified by the authors is strengthening the taxation of multinational corporations in their state of residence, such as by tightening CFC rules. The paper shows, however, that some countries intentionally cut back residence taxation to attract investment or to give resident multinationals a competitive advantage abroad. Hence, expecting countries to implement reform measures for strengthening residence taxation voluntarily is not realistic. Possibly a binding Code of Conduct could exert sufficient pressure on individual countries. However, this would require a precise definition of harmful taxation regimes, but finding one is likely to be difficult.

A further effective course of action emphasized by the authors is to strengthen source taxation. The current debate about this matter focuses on unilateral measures, such as deduction restrictions for interest and royalty payments or the proposal of the EU Commission to introduce a common general anti-avoidance rule into the tax system of all EU Member States. The authors of the position paper argue that both courses of action would be ill-advised.

Deduction limitations often lead to double taxation, and a general anti-avoidance rule is not suited for effectively fighting aggressive tax planning models.

Withholding Taxes on Interest and Royalties

What the authors do advise, by contrast, is an internationally coordinated expansion of source taxation by imposing new or extending existing withholding taxes on interest and royalty payments. Such a measure, they demonstrate, can effectively counteract popular tax planning strategies used by multinational corporations and, at the same time, prevent double taxation and distortion of investment decisions when foreign withholding taxes are credited by the country of residence. Surprisingly, neither the OECD nor the EU is currently considering this course of action. The authors emphasize, however, that extending the levy of withholding tax requires existing regulations to be modified, including the EU Interest and Royalties Directive and double taxation

POLITICO-ECONOMIC ANALYSIS

Photo: © blowbackphoto/iStockphoto

An internationally coordinated levy of withholding tax on interest and royalty payments can help prevent tax avoidance and profit shifting.

treaties. Whether Member States are willing to do this depends on how the measures affect tax revenue in specific countries, which still needs to be analysed.

The position paper also discusses fundamental reform options, such as formula apportionment or a destination-based cash-flow tax. The authors argue that these options have the potential to eliminate the central problems of current rules for taxing multinational corporations.

Yet many questions still exist with regard to specific regulations, effects, and implementation. In the current debate, also calls for stricter reporting and transparency regulations, such as country-by-country reporting, have become increasingly louder. The position paper argues that measures like these cannot replace tax reforms and may face certain legal restrictions. Moreover, the authors note, it is doubtful whether the benefit from such regulations justifies the resulting administrative effort and cost.

More information on the topic can be found in Discussion Paper No. 13-044 which is available for download at www.zew.de/publikation07041

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INSIDE ZEW

ZEW Study Receives Best Paper Award

The study titled “Rewards and performance: A comparison across creative and routine tasks” by ZEW researchers Christiane Bradler, Susanne Neckermann and Arne Jonas Warnke received the Best Paper Award at the 16th Colloquium on Personnel Economics in Tübingen at the end of February 2013. The prize, which includes an endowment, was sponsored by the German academic journal PERSONALquarterly.

Photos: ZEW

ZEW researchers Bradler and Warnke

In their award-winning paper, the authors used a laboratory experiment to compare the effects of various forms of bonus payments on work performance linked to simple routine procedures and tasks demanding creativity. The Best Paper Award honours high quality research relevant to human resources management.

The awardees Christiane Bradler and Arne Jonas Warnke are members of the ZEW Research Department “Labour Markets, Human Resources and Social Policy”. Susanne Neckermann is ZEW Research Fellow and assistant professor at Erasmus University Rotterdam.

ZEW researcher Receives DAI-Hochschulpreis

Dr. Gunnar Lang, deputy head of ZEW’s Research Department “International Finance and Financial Management”, received the renowned university award (DAI-Hochschulpreis) of Deutsches Aktieninstitut e.V. (DAI) in Frankfurt am Main in April 2013. DAI annually honours the best scientific works in the field of stock and capital markets on the basis of a competitive review process.

The awarded dissertation of the ZEW reseacher titled “Macro Attractiveness and Micro Decisions in the Mutual Fund Industry – An Empirical Analysis” addresses the attractiveness of financial centres as well as corporate decisions in the mutual fund industry and their impact on the economy. It will be published as volume 47 of the ZEW Economic Studies by Springer Verlag in Heidelberg.

Photo: © 2012 Sandra Ramirez Photography

From left: Werner Baumann (Bayer AG), Dr. Gunnar Lang (ZEW), Prof. Bernd Rudolph (Chairman Scientific Advisory Board University of Munich)

INSIDE ZEW

Current Fields of Action in the Area of Cross-Border Tax Planning with Limited Companies

At the Corporate Tax Day, organised by ZEW and the University of Mannheim, speakers from the fields of academia, business, and tax administration shed light on national and international corporate company taxation. This year's event, held on 20 June 2013, was devoted to cross-border tax planning with limited companies.

Photo: ZEW

The Mannheim Corporate Tax Day has been organised every year by the University of Mannheim and ZEW.

Initiator Christoph Spengel, professor at the University of Mannheim and research associate at ZEW, welcomed some 130 participants at the 2013 Corporate Tax Day. In his introductory address, Jürgen Lüdicke, a partner at PwC and professor for International Tax Law at the University of Hamburg, presented Germany's official basis for negotiating Double Taxation Treaties published in April. In addition to pointing out how the basis for negotiation deviates from the OECD model and Germany's current treaty practice, he noted that, although he welcomes the document in overall, further elaboration of some aspects is required.

Dietmar Gosch, the chief judge at the Federal Fiscal Court of Germany, devoted his talk to European law aspects of the mobility of limited companies . He discussed the implications of the verdict reached by the European Court of Justice in "National Grid Indus" for the taxation of hidden reserves when limited companies transfer their residency to another EU country. He emphasised that German legislators should not push the limits of what is permissible under EU law when it comes to exit taxation. Bernd Niess, the head of tax at Daimler Group, gave insights into the tax risk management of German multinationals using the example of his company. He pointed out that tax planning, which had previously been of major importance, has lost significance, whereas the focus has shifted towards the field of tax reporting, tax compliance and tax risk management. With regard to the current debate on aggressive tax planning for multinational companies, he emphasised his company's dedication to the "Good Citizenship" philosophy.

In the afternoon, three workshops offered a forum to discuss current issues in the field of cross-border tax planning with representatives from tax advisory and the fiscal administration. Thomas Rupp (Baden-Württemberg Ministry of Finance) and Hartmut Winkler (Ernst & Young) highlighted current focal points relating to the German Foreign Transactions Tax Act. Winkler pointed out that in the past years several EU states have "grown into" the act's sphere of scope through cuts of the corporation tax rate. Consequently, tax planning structures which are not abusive per se also run the risk of falling within the scope of the act. Marius Helios (KPMG) and Carsten Meinert (Fiscal Court Cologne) addressed issues regarding the financing and hedging of foreign participations. The speakers' ideas on the accounting and tax treatment of underlying transaction and hedge in the context of the protection against currency risks stimulated a lively discussion. Jens Schönfeld (Flick Gocke Schaumburg) and Andreas Benecke (German Federal Ministry of Finance) dedicated their workshop to current developments in the taxation of inbound and outbound dividends. Among other things, they shed light on the confusion relating to the refund of withholding tax on inbound dividends – a source of legal uncertainty and enormous administrative expense for companies subject to withholding tax.

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ZEW ANNUAL REPORT 2012

The 2012 Annual Report was recently published by ZEW. In 2012, ZEW's research units secured third-party funds worth 10.1 million euros against the backdrop of national and international competition among research institutions. The turnover in third-party funds with the EU and foreign ministries could even be doubled in 2012, which is an outstanding success. The ZEW public relations department will be pleased to send you a printed version of the Annual Report (tillich@zew.de).

CONFERENCES

ZEW Researchers Participate in Numerous Conferences

In 2013, ZEW was represented at numerous international conferences.

Below you find an overview of our researchers' participation in selected conferences from the beginning of June until the beginning of September 2013. The strong participation as well as the multitude of lecture topics demonstrate that ZEW attaches great importance to exchange with the scientific community.

For further information visit the ZEW homepage: www.zew.eu ⇢ staff

Annual Summer Conference of the Association of Environmental and Resource Economists (AERE), 6.6.-8.6.2013

Martin Achtnicht: Factors Influencing German House Owners' Preferences on Energy Retrofits.

Oliver Schenker: Climate Policy and Vertical Specialization in Multi-Stage Production Processes.

European Society for Population Economics (ESPE), 12.6.-15.6.2013

Bodo Aretz: Gender Differences in German Wage Mobility.

Sebastian Butschek: What Active Labour Market Programmes Work for Immigrants in Europe? A Meta-analysis of the Evaluation Literature.

Annual Conference of the European Association of Environmental and Resource Economists (EAERE), 26.6.-29.6.2013

Martin Achtnicht: Factors Influencing German House Owners' Preferences on Energy Retrofits.

Claudio Baccianti: Sectoral Production Technologies And Conditions For Sustainability: An Empirical Investigation.

Martin Kesternich: Rule-based Contribution Schemes for Public Goods: The Case of Endogenous Endowment Heterogeneity.

Benjamin Johannes Lutz: Nonlinearity in Cap-and-Trade Systems: The EUA Price and its Fundamentals.

Frank Pothen: On China's Vanishing Monopoly on Rare Earths.

Christiane Reif: Are Socially Responsible Companies the more Successful Environmental Innovators?

Oliver Schenker: Climate Policy and Vertical Specialization in Multi-Stage Production Processes.

Michael Schymura: Peeling the Onion: Analyzing Aggregate, National and Sectoral Energy Intensity in the European Union.

Sebastian Voigt: Employment Effects of Regional Climate Policy: The Case of Renewable Energy Promotion.

Nikolas Wölfing: The Effect of Regulatory Scrutiny: Asymmetric Cost Pass-through in Power Wholesale and its End.

International Finance and Banking Society (IFABS) Conference, 26.6.-28.6.2013

Lena Jaroszek: Knowing What Not To Do – Financial Literacy and Consumer Credit Choices.

UECE Conference on Economic and Financial Adjustments in Europe, 28.6.2013

Marc-Daniel Moessinger: Sovereign Bond Market Reactions to Fiscal Rules and No-Bailout Clauses – The Swiss Experience.

EcoMod2013, 1.7.-3.7.2013

Frank Pothen: Is China Losing its Market Power in Rare Earths' Markets?

Warsaw International Economic Meeting 2013 (WIEM), 4.7.-6.7.2013

Jan Hogrefe: Offshoring and Relative Labour Demand from a Task Perspective.

International Association for Energy Economics (IAEE); European Conference, 18.8.-21.8.2013

Philipp Massier: A Model of Capacity Markets in a Power Market with Renewable Energy and Regulatory Uncertainty.

Dominik Schober: Renewable Energies Integration – Fixed Feed-In Tariffs vs. Premia Systems.

69th Annual Congress of the International Institute of Public Finance (IIPF), 22.8.-25.8.2013

Zareh Asatryan: Direct Democracy and Local Public Finances under Cooperative Federalism.

Clemens Fuest: The Taxation of Foreign Profits: A Unified View.

Melissa Engel: Higher Taxes, more Evasion? Evidence from Border Notches in TV License Fees.

Marc-Daniel Moessinger: Sovereign Bond Market Reactions to Fiscal Rules and No-Bailout Clauses – The Swiss Experience.

Christoph Schröder: Revenue Autonomy Preference in German State Parliaments.

Mustafa Yeter: The Efficiency of Public Administration and Firm Productivity.

European Economic Association/ European Meeting of the Econometric Society (EEA|ESEM), 26.8.-30.8.2013

Bodo Aretz: Gender Differences in German Wage Mobility.

Melanie Arntz: Regional Age Structure and Innovation – Does Demographic Aging Weaken Knowledge-based Economies?

Jan Hogrefe: Trade, Tasks, and Training: The Effect of Offshoring on Individual Skill Upgrading.

Kai Hüschelrath: Cartel Detection in Procurement Markets.

Holger Stichnoth: Cultural Influences on the Fertility Behaviour of First- and Second-Generation Immigrants in Germany.

Thomas Walter: What Active Labour Market Programmes Work for Immigrants in Europe?

Zareh Asatryan: Direct Democracy and Local Public Finances under Cooperative Federalism.

Annual Congress 2013 of the Verein für Socialpolitik (VfS), 4.9.-7.9.2013

Bodo Aretz: Gender Differences in German Wage Mobility.

Friedrich Heinemann: Revenue Autonomy Preference in German State Parliaments.

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Philipp Doerrenberg: Experimental Evidence on the Relationship Between Tax Evasion Opportunities and Labor Supply.

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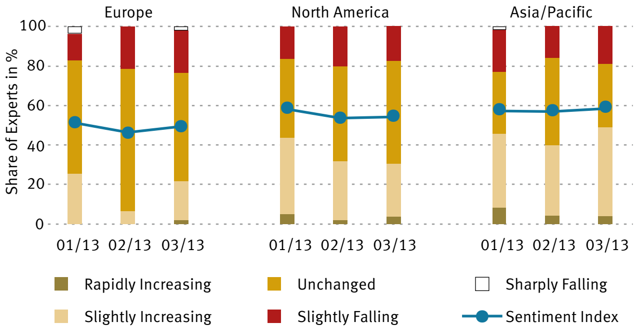
Thomas Walter: What Active Labour Market Programmes Work for Immigrants in Europe?

Nikolas Wölfing: The Effect of Regulatory Scrutiny: Asymmetric Cost Pass through in Power Wholesale and its End.

Mustafa Yeter: Cultural Influences on the Fertility Behaviour of First- and Second Generation Immigrants in Germany.

FACTS AND FIGURES

Only Slight Upswing for Air Freight



Source: ZEW

The air freight sector has been through ups and downs. In the first half of 2013, volumes remained stable compared to the first six months of 2012 (+0.4 per cent). Most of the experts surveyed by Progtrans/ZEW expect stable volumes in the next six months for European and North Atlantic traffics. When it comes to Asian/Pacific traffic, the majority of experts expect a slight increase of freight volumes. Uncertainty among experts, however, is remarkable: One out of five experts expects a slight decrease of freight volumes in all three submarkets in the next six months.

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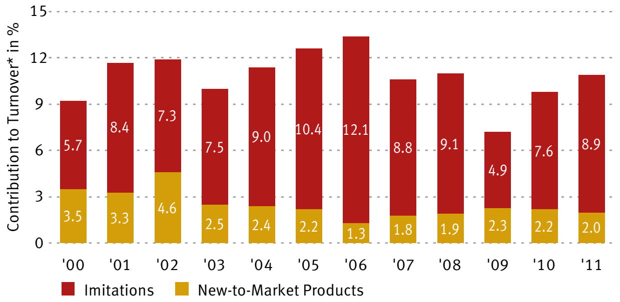
Higher New Products Sales in Financial Services



*Sales: Gross interest and commission earnings or gross premium income

Source: ZEW, Mannheim Innovation Panel

Product innovation activities in the German financial services sector (banks, insurance companies, financial consultants and brokers) significantly slowed down. Novel financial products contributed only 7.2 per cent to turnover in 2009, compared to 13.4 percent in pre-crisis 2006. The range of products was updated again in 2010 and 2011. The contribution of product innovations to turnover consequently increased to 10.9 per cent. This upward trend substantially stems from imitations, new services based on similar services offered by competitors.

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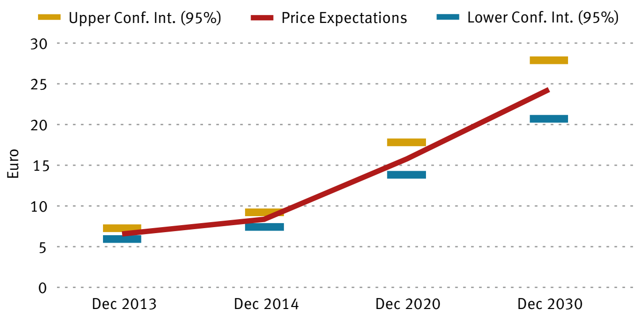
The Majority of Companies Revised EUA Price Expectations Downwards



Source: CO2 Barometer

The latest KfW/ZEW CO2 Barometer shows that firms in Germany revised their price expectations for European Union Allowances (EUAs) downwards. The main reason underlying this change in expectations is the increasing oversupply of permits that puts pressure on the EUA price. The average price expectations (inflation-adjusted) for December 2014 and December 2020 are approximately EUR 8.36 per tCO2 and EUR 15.82 per tCO2, respectively. By comparison, the price was about EUR 4 per tCO2 in March 2013 when the survey was conducted.

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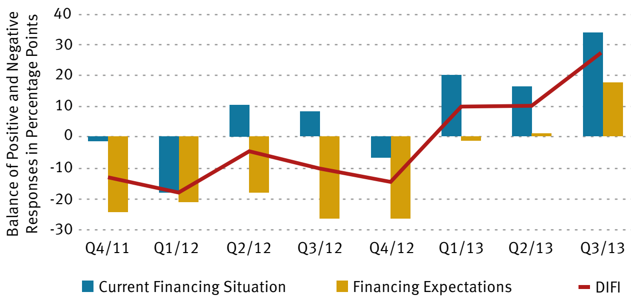
German Real Estate Market: Financing Conditions Improve Significantly



Average assessment of situation and expectations for the four real estate market segments (office, retail, logistics and residential)

Source: Jones Lang LaSalle, ZEW

The German Real Estate Finance Index (DIFI) has gained 16.5 points in the third quarter of 2013. Reading 24.8 points, the index is clearly within positive territory.

Experts assess the current financing conditions positively and report optimistic expectations on the development of financing conditions over the next six months. Confidence on the financing markets has grown due to the moderate improvement of the economic situation in the Eurozone as well as persistently stable macroeconomic conditions in Germany.

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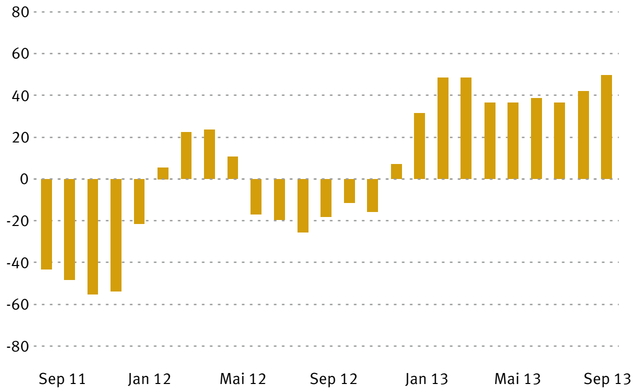
FACTS AND FIGURES

ZEW Financial Market Test September 2013



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

Germany: ZEW Experts More Optimistic

The ZEW Indicator of Economic Sentiment for Germany increased by 7.6 points to 49.6 points in September 2013. This is the indicator's highest level since April 2010. The assessment of the current economic situation for Germany has also increased by 12.3 points to 30.6 points. The fact that the financial market experts' economic optimism has increased although recently released economic data for Germany fell short of expectations suggests that the improved economic outlook for the Eurozone played an important role. Economic expectations for the Eurozone have increased. The respective indicator has improved by 14.6 points to 58.6 points. The indicator for the current economic situation in the Eurozone has increased by 14.4 points to a level of minus 59.7 points.

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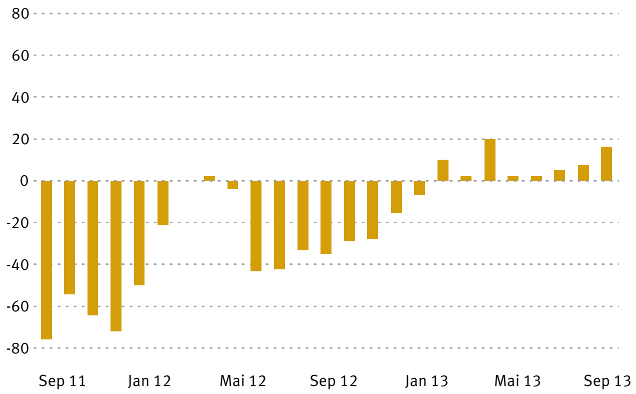

Balance of positive and negative assessments concerning the economic development in Switzerland
Source: ZEW, Credit Suisse

Switzerland: Economic Expectations Improve

In September 2013 economic expectations for Switzerland increased by 9.1 points and reached the 16.3-points-mark. Close to two thirds of the survey participants foresee a stable economic development. The analysts' assessment of the current economic situation has improved by 6.3 points to the reading of 37.2 points. Economic expectations for the Eurozone have also improved in September by 3.9 points. Although some analysts remain cautious, the assessment of the current economic situation in the Eurozone has improved: while 72.5 per cent of the surveyed experts evaluated the economic situation to be "bad" in the August survey, this ratio has dropped to 40.5 per cent in the current survey. The Indicator is calculated monthly by ZEW in cooperation with Credit Suisse (CS).

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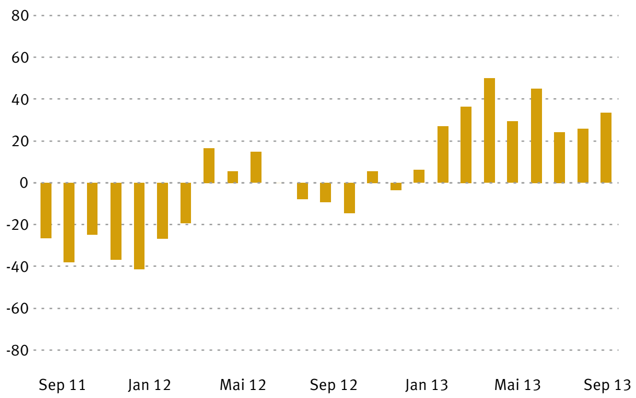

Balance of positive and negative assessments concerning the economic development in the CEE region
Source: ZEW

CEE Region: Stable Economic Expectations

In September 2013 economic expectations for Central and Eastern Europe including Turkey (CEE) remained almost unchanged. The ZEW-Erste Group Bank Economic Sentiment Indicator for the CEE region has increased by 2.4 points. The indicator now stands at a level of 35.7 points.

Among the individual CEE countries, almost all indicators except those for Romania and Turkey have increased moderately or even strongly. Growing by 31.8 points, the indicator for Hungary showed the highest increase in September. One reason for the rising optimism for the country may be the decrease in the unemployment rate, which has nearly reached a four-year low, as announced by the Hungarian Central Statistical Office at the end of August 2013.

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OPINION

New Elections are Likelier Than Tax Increases

It is paradoxical. If we are to believe the opinion pollsters, then the poor election results for Germany's Social Democratic Party (SPD) and the Greens are payback, at least in part, for their unpopular plans for tax increases. During her campaign, Chancellor Merkel, widely celebrated as the election victor, assured us that taxes are high enough already. Nevertheless, there is now talk about increasing taxes. Will it actually come to that?

At first glance, it appears that tax hikes are in the pipeline. Merkel's party, the Christian Democratic Union (CDU), is by far the strongest faction in the Bundestag, but by itself, it lacks a majority. The SPD and the Greens did poorly in the elections, but due to the narrow failure of the euro-sceptic AfD (Alternative for Germany) and libertarian FDP (Free Democratic Party) to reach the five per cent threshold required for parliamentary representation, the parties favouring tax increases now hold a majority in the Bundestag. The fact that Angela Merkel can continue as Chancellor only has to do with the promises made to the voters by the SPD and the Greens that they would not work together with the hard-left party Die Linke.

However, this does not imply that the Social Democrats and the Greens are eager to enter into a coalition with Angela Merkel as junior partners. They fear, presumably not without cause, that the Left will push forward with its demands for greater income redistribution. The Left's proposal to enact a comprehensive mandatory minimum wage immediately upon conclusion of the constituent assembly of the Bundestag offers a foretaste of what is to come. Moreover, the SPD learned from its experience in 2009 that it had problems scoring points with the electorate while in a grand coalition under Angela Merkel.

This situation has two consequences. First, the SPD will demand a high price for the coalition, a price that will presumably consist of raising the top personal income tax rate. The second consequence is that it is unlikely the coalition will hold together through the end of the legislative period. Why should the SPD allow the CDU and Angela Merkel to benefit once again from the advantages of holding the chancellorship? The SPD has considerable incentive to end the coalition in two or three years and to topple Angela Merkel with the support of the Left, form a minority government with an SPD Chancellor, and then call for new elections. The CDU would not only face the loss of the chancellorship, but in addition, the stigma of having broken its election promise of no tax increases. The excuse that all coalitions require compromises does not sit well with voters, as the FDP learned in its coalition with the CDU.

Since the CDU is fully aware of this, it will presumably refuse to go along with tax increases – in any event, not in a coalition with the SPD. These considerations lead to the conclusion that there will be no grand coalition. A Black-Green coalition (between the CDU and the Greens) is also improbable, since these parties have even less in common than the CDU and the SPD. This only leaves the alternative of new elections.

Of course, this is all very speculative. One might hope that the SPD and the CDU might place the best interests of the nation above political strategizing. They could make use of their majorities in the Bundestag and the Bundesrat (the upper house of the German parliament) to push forward important projects such as transforming Germany's energy economy, combating the European sovereign debt crisis, and reforming financial relations between Germany's states and federal government. Once they have exhausted their substantive common ground, they could then call for new elections. However, deciding to take this road would demand more public spirit and sacrifice on the part of the SPD than the CDU. The next few months will reveal whether party tactics or a sense of civic responsibility will gain the upper hand.

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