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May/June 2017

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The European Commission Needs a More Effective Fiscal Watchdog

In recent years, the credibility of the Stability and Growth Pact (SGP) has increasingly suffered from the European Commission's overly broad interpretation of SGP regulations. Up until now, political deference has prevented sanctions from being imposed according to SGP rules. The European Fiscal Board (EFB), which was set up in 2016, offers an opportunity for improvement. In cooperation with international research partners, ZEW has made proposals for how to strengthen the EFB in its role as an impartial counterpart to the European Commission.

In June 2015, the European Commission published its proposal for a future European fiscal union in the "Five Presidents' Report". Among other elements of fiscal governance, this report also included a proposal for the creation of the EFB. As part of its mandate, the EFB monitors the EU Commission's implementation of European fiscal rules, advises the Commission on the appropriate fiscal stance, and cooperates with the national fiscal councils of the Member States. With these mandates, the EFB assumes a special role as a fiscal board operating on a supranational level. Its essential goal is to allow unbiased and depoliticised expertise to enter into the fiscal decision-making process and to increase the transparency of this process.

EFB to provide unbiased and depoliticised expertise

The need for such action has arisen from the state of the EU Commission, which is becoming increasingly politicised. In terms of its fiscal scrutiny of the Member States, the Commission is increasingly behaving more like a judge allying themselves with the defendants, preventing the rules from the SGP from being implemented objectively. Indeed, the EU Commission has recently been rather generous in terms of deadline extensions for government deficit reductions in many eurozone countries. Given this background, a fiscal board could represent an effective countermeasure to fiscal policy decisions putting sustainability at risk.

Like many national boards, the EFB does not have any direct decision-making authority. It can, however, provide crucial momentum in the public debate due to its neutrality and independence from the EU Commission. In its current form, the EFB still lacks the necessary elements to successfully fulfil its mandates.

Of particular concern are issues surrounding independence and impartiality since the board's members are effectively appointed by the European Commission. Furthermore, the staff working under the five board members comprises entirely of EU Commission employees. The current situation is made all the more difficult by the fact that the EFB only has very limited resources at its disposal for its five board members. According to its mandate, the board also only has to produce a single annual report and should otherwise only take action at the request of the Commission. These conditions cannot provide a sufficient guarantee of independence and effective monitoring from the EFB.

Protecting the EFB's independence and credibility

With this in mind, ZEW researchers along with their research partners have composed a number of recommended reforms for the EFB. These include a stricter separation of the EFB from the European Commission to protect the board's independence and credibility. This could be achieved in the short term by granting the EFB complete independence in the hiring of its staff. The EFB should also develop an extensive and proactive media strategy. This could take the form of assessments of the efficacy of the European Stability Mechanism (ESM) or regular statements on budget plans. However, the EFB's current resources may not be enough to fulfil these mandates entirely.

The EFB's broad mandate is problematic also in another respect. The board's assessment of the European Commission's fiscal stance could open up an area of conflict over adherence to the regulations set out in the SGP. In this case, the EFB should cooperate more closely with the national fiscal boards and formally set up a bilateral channel of communication to exchange information and experience.

In order to strengthen the EFB's position as an independent fiscal watchdog, it would be a good idea to integrate it more fully into the European fiscal framework. For instance, the EFB could be integrated into the assessment of the fiscal adjustment programmes within the framework of the ESM, or into the Commission's development of country-specific recommendations. It would also be advisable to introduce the "comply or explain" principle, which would force the EU Commission to formally justify any deviations from the EFB's recommendations.

The policy brief on "Making the Most of the European Fiscal Board" is available for download at: *http://ftp.zew.de/pub/zew-docs/policybrief/en/pb03-17.pdf*

Prof. Dr. Friedrich Heinemann, heinemann@zew.de
Dr. Zareh Asatryan, asatryan@zew.de
Mustafa Yeter, yeter@zew.de

ZEW EVALUATION OF THE EFB BASED ON THE OECD PRINCIPLES FOR INDEPENDENT FISCAL INSTITUTIONS

Principle	EFB	Evaluation
Local ownership	Consensual proposal in the Five Presidents' Report.	+
Independence and non-partisanship	Decision of the EU Commission (EC). Selection process by the EC. Staff from the EC. Part-time positions.	–
Mandate	Mandate embedded only in a Commission's decision. Contrast between "fiscal stance" and SGP-framework is problematic.	–
Resources	Significantly under-resourced compared to the mandate.	–
Relationship with the legislature	No links to European Council or European Parliament.	–
Access to information	Access to information directly via Commission. Scarcity of resources a handicap for information as well.	+/–
Transparency	Question marks over full disclosure of information. Not a standalone institution with clear identity.	–
Communications	Open communication is expected. Not yet clear how regularly. Noise to signal problem – "on request problem".	+/–
External evaluation	Not planned yet.	–

Source: OECD, ZEW

Photo: © istockphoto.com/Pogonici

Digital Tax Index 2017: Germany Lagging Behind in International Rankings

As the process of digitalisation advances at a rapid rate all over the world, how attractive a location is for investments in digital business models depends on the tax framework of the country in question. A new study by ZEW in cooperation with the University of Mannheim and PricewaterhouseCoopers (PwC) now delivers a measure to assess the tax attractiveness of countries for investing in digital business models. In an international comparison, Germany has a lot of catching up to do in this arena.

While other indices assessing a country's digital attractiveness neglect taxes as a location factor, the study "Digital Tax Index 2017: Locational Tax Attractiveness for Digital Business Models" provides an index that determines the tax attractiveness of 33 countries for investing in digital business models. For their analysis, the authors of the study compared the tax frameworks of the EU-28 as well as the US, Japan, Canada, Norway, and Switzerland based on the respective tax base, effective average tax rate and cost of capital.

It became clear that tax conditions vary greatly from country to country. For instance, among the countries analysed, the effective average tax rate ranges from minus ten to plus 25 per cent. Ireland, Italy and Hungary prove to be particularly attractive locations for investments in digital business models, whereas Germany comes in third from last place with an effective average tax rate of 23 per cent. Only the US and Japan appear less attractive for investments in digital business models.

Regarding the cost of capital as a measure of a location's attractiveness for expanding the volume of investment, there is also great international variation from minus four to plus six per cent. With respect to the cost of capital, the most favourable conditions for investors were found in Italy, France and Hungary. Germany, meanwhile, comes in at number 28 out of 33 countries, with capital costs of roughly five per cent.

R&D incentives encourage investment

A country's ranking on the Digital Tax Index largely depends on special incentives such as favourable depreciation rules or so-called patent boxes. In some countries, investing in digital business models is even more profitable after tax than before. In other words, these investments are subsidised through the tax framework.

Another important influence on a country's ranking are tax incentives for research and development (R&D). R&D incentives can encourage firms to invest in digital innovation in a particular location, giving themselves an advantage over international competitors. Compared to countries such as Ireland or France, who are actively involved in providing R&D incentives as well as patent boxes, Germany is falling behind on the global stage. Overall, countries with little or no tax incentives rank lowest in the Digital Tax Index 2017.

The complete study (in German only) is available for download at: *http://ftp.zew.de/pub/zew-docs/gutachten/Studie_Digitale_Geschaeftsmodelle_2017.pdf*

Prof. Dr. Christoph Spengel, spengel@zew.de
Prof. Dr. Katharina Nicolay, nicolay@zew.de
Ann-Catherin Werner, awerner@uni-mannheim.de
Marcel Olbert, olbert@uni-mannheim.de

IN THIS ISSUE

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The EU Commission's proposal for a revision of the regulatory framework for European communications markets shows significant drawbacks.

EU Regulations Jeopardise Investment Incentives for Broadband Expansion

In September 2016, the European Commission published its proposal for a directive, establishing the European Electronic Communications Code with the intention of substantially revising the existing regulatory framework for communications markets. One of the code's main goals is to incentivise investment in new high-speed broadband infrastructure. This goal may, however, be jeopardised by the complex regulatory measures planned by the EU, as a recent ZEW study finds.

The study, which was prepared jointly with the Polytechnic University of Turin for Deutsche Telekom AG, provides a comprehensive overview of the relevant market characteristics and underlying regulatory policies in broadband markets, as well as a sound theoretical analysis of the role of future regulations and public policy in incentivising investment in new communications infrastructure. In particular, the study assesses the main measures foreseen in the code in terms of their expected impact on investment incentives.

The results of the study suggest that the original goal of the code, namely to foster investment in high capacity networks in Europe, could be seriously jeopardised by the complexity of the new regulatory measures and by foreseeable difficulties in putting these measures into practice. In particular, the study identifies three major shortcomings of the European Commission's proposals.

First, the code's provisions for a co-investment model are very prescriptive, excluding many voluntary, market-driven cooperation models from benefitting from regulatory relief. Co-investment will only induce additional infrastructure investment if regulatory requirements are not overly restrictive in terms of (accruing) future investment rewards. Therefore, the requirements for cooperation agreements to qualify for regulatory relief should be relaxed considerably.

Second, although the code's proposals on symmetric access obligations were intended to allow for fewer asymmetric access obligations, thereby reducing the overall intensity of regulation, they will most likely result in a significant expansion of current regulations to a large number of operators and access infrastructure elements. Additional regulatory burdens, plus the lack of clarity with regard to the scope and implementation of symmetric regulations, raise serious concerns about investment incentives for high capacity network deployment. Another concern is the code's aim to extend asymmetric access regulations to infrastructure elements outside the scope of the relevant market concept.

Third, public broadband targets as stipulated by the European Commission's gigabit strategy run the risk of distorting market outcomes by "picking winners", explicitly favouring particular broadband access technologies. Departing from the technological neutrality principle would require sound empirical evidence on the various welfare effects of different broadband access technologies. However, currently there is no evidence whatsoever that high-end ultra-fast broadband access technologies generate additional positive externalities as compared to hybrid-fibre or fast broadband access technologies. In fact, the notion of "efficient" investment implies that real investment meets real demand – and not maximising investment per se by choosing the most expensive technology.

Please download the study at: *ftp.zew.de/pub/zew-docs/gutachten/BriglauerCambiniDeutscheTelekomApril2017.pdf*

Dr. Wolfgang Briglauer, briglauer@zew.de
Prof. Carlo Cambini, carlo.cambini@polito.it

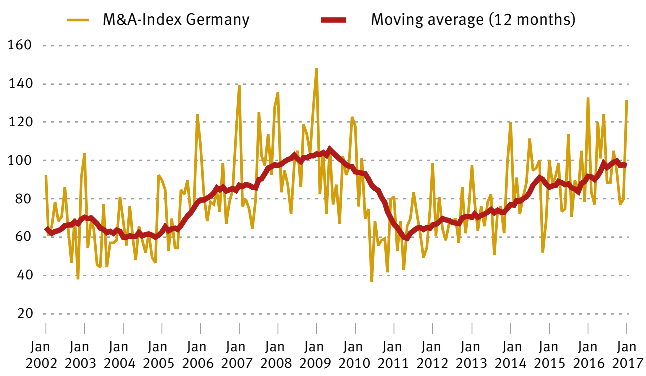
M&A REPORT

German M&A Market Starts off Strong in 2017

The worldwide post-financial crisis merger wave has been going on for some time now, and many attractive targets have already been acquired. It seems that the merger wave has reached its peak in many countries, and that the number of mergers has started to decrease in the United States as well as in Europe. Germany, however, is an exception, as the country's level of mergers and acquisitions (M&As) is still very high. A plausible explanation is that Germany provides a rather safe investment environment compared with other countries which are characterised by political uncertainties, such as US President Trump's politics, Brexit, or insecurities associated with the recent French presidential elections.

M&As involving German businesses have experienced a strong upward trend in the last few years. According to the current ZEW-ZEPHYR M&A Index, this upward trend will continue to persist. The index, which is based on the number of completed M&As per month, climbed to 132 index points in January, kicking off the year 2017 on a very positive note. The only time the index exceeded this level was exactly one year ago, in January 2016, when the ZEW-ZEPHYR M&A Index recorded a monthly average of 133 points. The moving twelve-month average of the M&A Index has also grown continually. The index now reads 98 points (as of January 2017) and is thus on the verge of exceeding the 100-point mark for the first time since 2009.

ZEW-ZEPHYR M&A-INDEX GERMANY



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

The largest deal in the past six months was the takeover of the German manufacturer of industrial robots and production machines Kuka. Mecca International, a Chinese electrical appliance manufacturer, spent 3.7 billion euros on the takeover. In Germany, the acquisition was subject of many public debates surrounding the transfer of German technical know-how into Chinese hands. Previous attempts to sell Kuka to a German company had, however, failed.

In the chemical industry, BASF completed its acquisition of Chemetall, a leading global surface treatment business for the auto and aerospace industries, thus succeeding in keeping the acquired company in German hands. The Ludwigshafen-based BASF bought Chemetall for around three billion euros from US company Albemarle. Before this takeover, BASF had not made any acquisitions of this scale during the ongoing merger wave in the chemical industry.

From December 2016 to January 2017, the ZEW-ZEPHYR M&A Index measured five more deals with a transaction volume of over one billion euros. One of those large-scale acquisitions includes, for instance, the takeover of the German tableware manufacturer WMF by the French company SEB. Another major deal was the French PSA Group's recent acquisition of the German automobile manufacturer Opel.

Dr. Sven Heim, heim@zew.de

The **ZEW-ZEPHYR M&A-Index** measures the number of M&A transactions completed in Germany each month. It considers only mergers and acquisitions by and with German companies. It does not differentiate between the country of origin of the buyer or partner. This means that both domestic and international buyer companies are considered, provided that the target companies are active in Germany.

BUREAU VAN DIJK

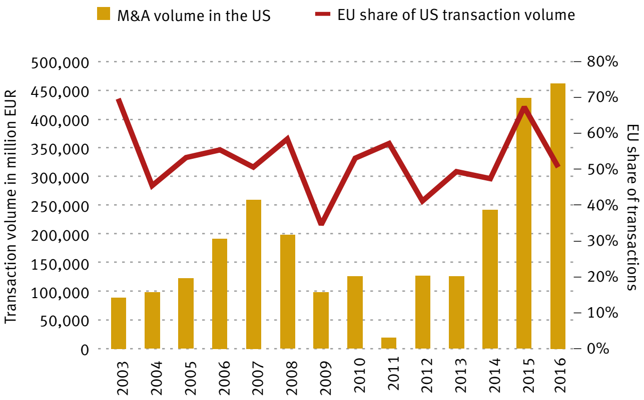
The M&A Report is a biyearly publication issued by ZEW and Bureau van Dijk. It uses the Zephyr database to report current topics and developments in global mergers and acquisitions. The Zephyr database, which is updated on a daily basis, contains detailed information on over one million M&As, IPOs, and private equity transactions around the world.

US Politics Fuel Uncertainty on Mergers and Acquisitions Market in the EU

Since taking office in January, US President Donald Trump has announced numerous changes to his country's economic policy, including the imposition of punitive tariffs on China, Mexico and the EU, and the renegotiation of various international trade agreements. Yet, the USA's economic success is tied in multiple ways to other countries. The EU, in particular, represents one of the most important US partners for private corporate mergers and acquisitions.

As the graph below illustrates, many of the companies that make up the absolute volume of M&A transactions between private US and foreign companies are based in the EU. This transaction volume roughly reflects the economic cycles of the past few years. Despite the striking decline of M&A activity after the financial crisis in 2008–2009, the transaction volume in 2016 reached a record high of 461.8 billion euros, with the lion's share (50.54 per cent) involving private EU businesses. The crisis year of 2009 was the only year in which European companies made up less than 40 per cent of US transaction volume.

SHARE OF TRANSACTIONS INVOLVING EUROPEAN COMPANIES IN US GLOBAL M&A ACTIVITIES



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

In case of a trade war between the US and the EU, M&A activities in both regions would be severely affected. Punitive tariffs could lead to a sharp fall-off in transaction volumes, given the significant share made up by large individual companies. The absence of synergy between the US and the EU would affect mega deals and hurt smaller companies even more. This uncertainty damages M&A activities, which already carry many risks, and could motivate investors to seek more attractive options in other markets.

At the same time, there has been recent speculation about reforms that will tax companies in the countries they sell their products. This would be a change from the common practice of taxing company revenues in the country they are produced. In theory, a reform like this can eliminate offshore tax havens. But if this regulation is introduced in the US and nowhere else, perturbations could result. Companies that sell many goods in the US would have an incentive to shift production there. In the short term, M&A activities could serve as a springboard for this shift, which, in turn, would increase the number of transactions between the US and the EU.

Niklas Dürr, duerr@zew.de
David Lun, p-lun@zew.de

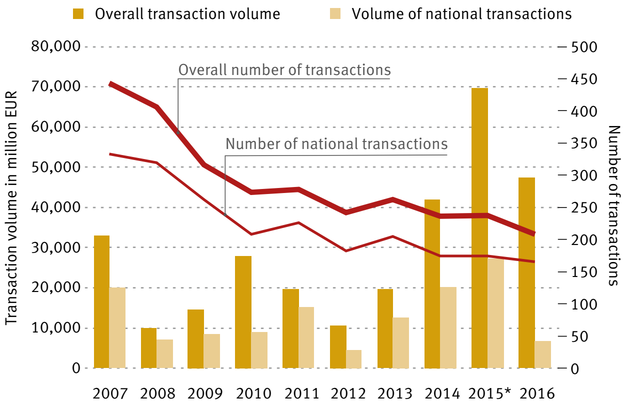
Large International Acquisitions Shape Europe's Telecommunications Sector

Two trends have shown on US and European telecommunications markets alike. For one, the numbers of M&A transactions have been declining annually and are now less than half of what they were in 2007. At the same time, transaction volumes have been increasing for several years now, which points to ever larger deals. On the European market, two developments have played a role in these trends: national markets have consolidated, and pan-European telecommunications firms have expanded into other markets and increased the size of foreign subsidiaries.

The largest national transaction in the past few years was British Telecom's 2016 acquisition of Everything Everywhere, a joint venture of Deutsche Telekom and Orange (formerly France Télécom). The 16.3-billion-euro deal made British Telecom, the largest landline operator, also UK's largest mobile network operator. Similarly, the domestic acquisition of Base, a Belgian company, by the broadband provider Telenet in 2016 for around 1.3 billion euros shows how attractive the acquisition of mobile providers has become for landline operators. These types of acquisitions have been a relevant factor in market consolidation.

Though the European landline and mobile segments are more fragmented than their US counterparts, they too have witnessed cross-border consolidations. Pan-European telecommunications

M&A ACTIVITIES IN EUROPE'S TELECOMMUNICATIONS SECTOR



Source: Zephyr database, Bureau van Dijk. *Adjustment by ZEW: The merger of Altice SA with Altice N.V. was an internal restructuring measure without substantial changes in ownership. Accordingly, in 2015 the total transaction volume was adjusted by the restructuring volume, which amounted to 61.9 billion euros.

companies such as Vodafone, Deutsche Telekom, Telefónica, Liberty Global and Altice have expanded their infrastructure footprints abroad. An example of this phenomenon is the acquisition of SFR by Altice in 2014 for around 14.25 billion euros. The deal allowed Altice to offer both mobile services and broadband services through its subsidiary Numericable. The largest cross-border transactions affecting the German market are the 2010 and 2011 acquisitions of the cable network operators Unitymedia and Kabel BW by the UK-based Liberty Global for around 6.7 billion euros.

Furthermore, a few national transactions have confirmed the trend in pan-European consolidation. The acquisition of Base by Telenet, a subsidiary of Liberty Global, is one such case. The acquisition of E-Plus by the German Telefónica subsidiary O2 in 2014 for around 8.6 billion euros is another example of how pan-European players are consolidating national markets.

Dr. Wolfgang Briglauer, briglauer@zew.de

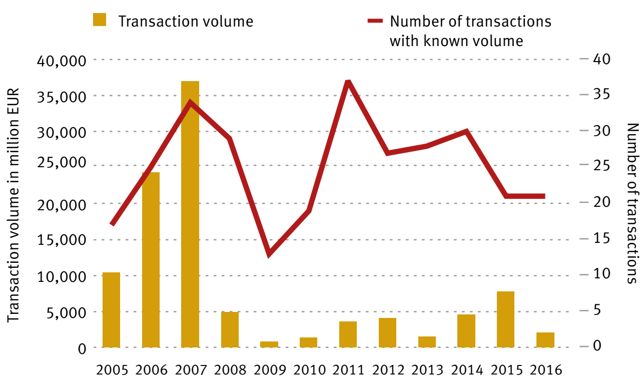
Transaction Volume of M&As Between Turkey and EU Countries Plummets

The volume of mergers and acquisitions (M&A) between Turkish and EU companies (EU-28, including Croatia and the United Kingdom) decreased significantly in 2016. This development could possibly be due to political tensions as well as the fact that Turkey's prospects of accession to the European Union have worsened considerably.

The evaluation is based on impending and completed M&A deals, whose transaction volumes have been calculated, or estimated. In 2007, the M&A activity between companies in Turkey and the European Union had reached a record high, with a transaction volume of almost 37 billion euros. Over the course of the global financial crisis, however, the transaction volume took a considerable nosedive, falling to a value of about one billion euros in 2009. After the crisis, the volume increased steadily for a few years, reaching a total of 7.7 billion euros in 2015. In 2016, which was marked by the failed coup attempt by a faction of the Turkish armed forces and the controversies surrounding the authoritarian tendencies in Turkey, the country experienced a sharp decrease in the overall transaction volume of over 73 per cent, falling to a total of merely two billion euros.

The most important sector in terms of the transaction volume recorded in M&As between Turkish and European companies was the banking sector, followed by the utility sector (gas, water, electricity), the chemical industry, the post and telecommunications sector, as well as the food industry.

M&A TRANSACTIONS BETWEEN TURKEY AND EU COUNTRIES



Source: Zephyr database, Bureau van Dijk, calculations by ZEW

Number of M&As between Turkish and European companies remains relatively stable

About a year ago, the M&A Report published in April 2016 had reported about the dramatic decrease in the number of M&A transactions between Russia and OECD countries. As a result of the latest political events surrounding the Crimea crisis, the number of mergers and acquisitions between Russian firms and companies in OECD countries had then almost come to a complete standstill.

Compared with the development in this other European crisis region, the number of M&As between Turkish and EU companies have remained relatively stable: in 2016, the number of transactions still amounted to 21. The greatest number of transactions ever recorded was in 2011, with a total of 37 transactions.

Stefan Frübing, fruebing@zew.de

Q&A: How Could Autonomous Driving Change the Way We Get Around?

"The Road Will Become More Competitively Viable than Rail, Air and Water Transport"

There's a revolution brewing on Germany's roads: In the not too distant future, cars could be controlled exclusively by computers. Today, there are already a number of vehicles on Germany's roads which are able to steer themselves independently, at least to some degree. The US company Google also recently presented its own self-driving car. ZEW environmental economist Wolfgang Habla offers his thoughts on the potential, arising from autonomous driving as well as its possible environmental and social consequences.

It has been claimed that autonomous cars could lead to a better utilisation of existing roads and, in particular, motorways. Will autonomous driving have a positive effect on the environment?

Yes and no. On the one hand, the safe distance needed between autonomous cars will be shorter than what it is today, since a computer can react to the car in front braking more quickly than a human can. Traffic is also expected to flow more smoothly with the introduction of self-driving cars, which would in turn lead to fewer traffic jams and lower levels of harmful emissions and noise pollution. On the other hand, it is not clear that there won't simply be more cars on the road than there are today. In the transport sector, around 50 per cent of total costs go on paying drivers. If, in the future, commercial vehicles no longer require any human input, the road will become considerably more competitively viable than rail, air or water transport, which could lead to a sharp rise in the volume of traffic. Autonomous driving is also an interesting possibility for passenger transport. Older people, people without drivers' licences and people with physical disabilities represent completely new groups of buyers for autonomous cars.

Politicians are currently paving the way for autonomous cars from a legal standpoint: Are our values and legal system sufficiently prepared for the arrival of self-driving cars?

There are three essential questions that the legal system must be prepared for: When an accident occurs, is it the car manufacturer or the passenger that is liable? Does the owner have to be able to take over the controls at any time? And finally, how should the car be programmed to deal with a situation in which an accident and resulting injury to other human beings is unavoidable? In the case of the latter, there are frequent debates surrounding hypothetical situations, which present moral and ethical dilemmas. Specifically, they deal with a situation like the following: An autonomous car encounters an unexpected obstacle. If the car doesn't swerve, it puts the passenger's life in danger. If it does swerve, however, it endangers the lives of uninvolved pedestrians. What decision should the car make? Should the car be allowed to swerve at all and potentially impact the lives of innocent bystanders? With questions like these, it is sometimes the case that our sense of morality and the law diverge wildly – and there is certainly plenty of further discussion to be had on this issue.

The Transport Committee of the German Bundestag has criticised the fact that the bill presented by the Federal Cabinet passes the risks on to the driver. What are the legal pitfalls?

The proposed bill places the ultimate responsibility on the driver. Even though the driver, according to the law, "can in certain situations hand over control of the vehicle to the technical system," the driver is not replaced by the system while driving. The driver must still be able to take over the controls at any time when prompted by the system or if the system is unable to take control of all driving functions. This bill, however, concerns highly- or fully-automated driving, not what is known as "autonomous driving", where all people in the vehicle are no longer drivers, but passengers. In the case of autonomous driving, responsibility would probably lie with the vehicle or the manufacturer, but we haven't got to this point yet.

What about our European neighbours – do they have autonomous cars on the road yet?

As yet, there is no country in the world with self-driving cars on the road that function entirely without human input. Even in the famous test drives in California, a human being still has to be able to assume control of the system. There is, however, already competition among a number of countries to draft the best possible legal framework for autonomous driving. Countries with a strong automotive industry, such as the US, Germany and Sweden, have shown a particular interest in seeing that this technology of the future is ready to go into production as soon as possible following testing on their own streets. The German federal government recently published a strategy paper stating plans for Germany to become a "leading market" for automated driving technologies.


Photo: ZEW

Dr. Wolfgang Habla
is a postdoctoral researcher in ZEW's Research Department "Environmental and Resource Economics, Environmental Management". His research mainly focuses on financial and political issues in the area of environmental economics. One of his current projects also is dedicated to autonomous driving. To this end, he recently conducted an online survey among 1,500 Swedish citizens, in collaboration with researchers from the universities of Augsburg and Gothenburg.

habla@zew.de

When booking tickets for long-distance bus rides online, customers often have the opportunity to offset their CO2 emissions by paying an extra fee.

Protecting the Environment at a Mouse Click

When consumers make choices online, such as purchasing interurban long-distance bus tickets, they often have the possibility to offset any resulting carbon dioxide (CO2) emissions by paying an extra fee when booking their ticket. Many customers, however, tend to avoid the decision whether to participate in the offsetting programme or not if they are not explicitly prompted. A ZEW study has shown that an explicit prompt, which the consumer has to respond to in order to complete their booking, increases the share of carbon neutral journeys significantly.

Despite ongoing attempts to increase resource efficiency and to reduce CO2 emissions, many consumer decisions regarding their everyday needs produce CO2 emissions. In response to a growing awareness of climate- and environmentally friendly practices, many companies are trying to earn Brownie points with their customers through a reduced climate footprint. As an example, online traders in many cases provide carbon neutrality as an additional option for consumers when purchasing goods and services. Long-distance bus operators, for instance, increasingly offer passengers the opportunity to offset the CO2 emissions resulting from their journey by paying an additional fee when booking their tickets. But how do customers respond to this opportunity to help protect the environment?

As part of the ZEW study, more than 11,000 online bookings made through the online portal of a long-distance bus operator were analysed to determine whether voluntary contributions to a CO2-offset programme can be stimulated through changes to the basic decision-making structure. The field experiment distinguished between two different formats: In the first scenario, customers had the opportunity to offset their carbon emissions, but also had the option of simply ignoring the offer and continuing with the booking process. In this case the CO2 offset was not attached to the booking. By contrast, in the alternative choice conditions, customers were required to explicitly indicate their offsetting choice in order to complete their booking.

The results showed that this requirement of an explicit decision immediately increased the share of travellers who offset their carbon emissions by 50 per cent (from 18 per cent to 27 per cent). Even in the case of repeated booking decisions of returning customers the format with the required decision proved superior and led to more CO2-neutral bookings than the variant which allowed for skipping – and without decisively influencing the likelihood of the customer returning. The study thus provides some of the earliest evidence for the long-term effects of such behavioural economic instruments.

Many customers seem to systematically avoid decision-making situations

A detailed analysis of returning customers suggests that the difference between the two variants cannot be explained exclusively by a potential lack of attentiveness on the part of consumers when booking tickets. In contrast, a substantial share of customers systematically tends to avoid active contribution decisions in subsequent bookings.

The described behavioural phenomenon confirms current research findings on charitable giving. According to these findings, people tend to intentionally avoid personal questions regarding donations so that they do not have to openly declare themselves either for or against making a donation. The ZEW study suggests that even in relatively anonymous choice situations, such as the analysed online transactions, customers have a tendency to avoid deciding whether to donate to climate protection or not.

This piece was first published on 15 March 2017 on the online portal "Ökonomenstimme". The study is available for download at: *www.zew.de/PU78690*

Dr. Florens Flues, Florens.Flues@oecd.org
Dr. Martin Kesternich, kesternich@zew.de
Dr. Daniel Römer, Daniel.Roemer@kfw.de

Workshop on Spatial Dimensions of the Labour Market

Professor Andrés Rodriguez-Pose from the London School of Economics provided some insights into the drivers of employment growth across European regions.

What consequences do demographic changes, international trade and institutions have on local labour markets? And what are the drivers of inequality both within and between regions in Germany and Europe? These are some of the questions addressed in the third workshop on the spatial dimensions of the labour market, organised jointly by the Institute for Employment (IAB), the Rimini Centre for Economic Analysis (RCEA), and ZEW on 30 and 31 March 2017. About 45 participants came to Mannheim to present research exploring the issue of spatial inequality – the focus of this year's conference – from various perspectives. The workshop was organised as part of ZEW's international research programme "Strengthening Efficiency and Competitiveness in the European Knowledge Economies" (SEEK). In the two-day event, researchers from Europe and the United States discussed a variety of topics, such as agglomeration effects on employment and wage inequality, migration and sorting across space, as well as the consequences of demographic changes, international trade and institutions on local labour markets.

Professor Jens Südekum from the University of Düsseldorf opened the workshop with a keynote lecture on the role sorting and matching of firms and workers has to play in the current state of wage disparity across German cities. In the second keynote speech, Professor Andrés Rodriguez-Pose from the London School of Economics provided some insights into the drivers of employment growth across European regions. The closing keynote lecture was given by Professor Gilles Duranton from the Wharton School of the University of Pennsylvania on the role of local establishment size for employment growth.

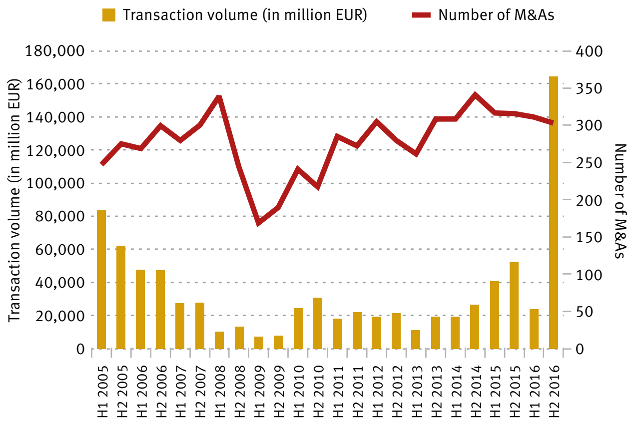
ZEW Economist Vitali Gretschko Accepts Professorship at the University of Mannheim

Professor Vitali Gretschko, head of ZEW's Research Group "Market Design", has taken up a professorship in economics at the University of Mannheim as of 1 April 2017. The professorship runs parallel to his duties as head of the ZEW Research Group, which he has led since June 2016. "The goal of market design is not only to analyse individual markets and institutions, but to actively shape them. Market design thus, on the one hand, draws on methods taken from economics such as game theory and behavioural economics. On the other hand, due to the complexity of real markets, market design is at its core an interdisciplinary field bringing together economists, computer scientists, psychologists, and engineers," says Gretschko when asked to explain the goals of both the research group and his teaching role at the University of Mannheim. Gretschko was previously a postdoc at the University of Cologne and worked as a project leader at TWS Partners. His research interests extend across the field of market design, although he is particularly interested in applied auction theory and contract theory. He has a wealth of experience in the practical design of auction markets and in providing market participants with strategic advice.

Long-Serving Member of ZEW Scientific Advisory Council Gebhard Kirchgässner Dies

Professor em. Dr. Dr. h.c. Gebhard Kirchgässner, a member of the Scientific Advisory Council at ZEW for many years and professor emeritus at the University of St. Gallen, died on 1 April 2017 at the age of 68 following a prolonged illness. With his passing, ZEW has lost an outstanding, highly active member of the Scientific Advisory Council. Gebhard Kirchgässner was a member of ZEW's Scientific Advisory Council from November 1999 until his retirement at the end of 2016. "As a member of the Scientific Advisory Council for over 17 years, Gebhard Kirchgässner, through his hard work and economic expertise, contributed greatly to making ZEW one of the leading economic research institutes in Europe today. He was particularly active in the development of the Research Department 'Environmental and Resource Economics, Environmental Management'. We are greatly indebted to him," says Thomas Kohl, Director of Business and Administration at ZEW. Gebhard Kirchgässner's particular areas of research included public choice theory and applied econometrics as well as the methodological basis for economic and social science, and energy and environmental economics.

British Companies in Great Demand After Brexit



Despite the comparable number of M&A deals, the transaction volume in the second half-year of 2016 has increased sevenfold compared to the first six months of the same year.

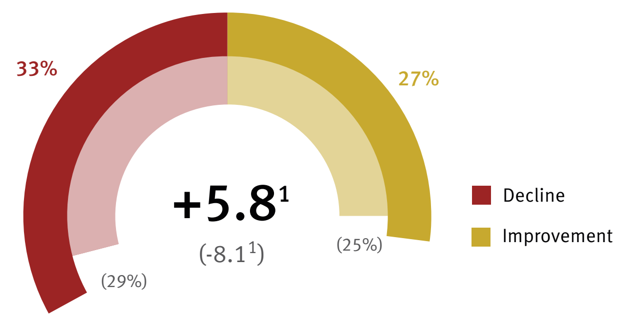
Source: Zephyr database, Bureau van Dijk, ZEW

Although the UK has officially decided to leave the European Union, British companies continue to be highly attractive to foreign companies. Judging by the number of mergers and acquisitions of British companies, M&A activities have apparently remained largely unaffected by the Brexit vote in June 2016 since neither a drop nor an increase in the number of M&A was witnessed. By contrast, the financial volume of M&A transactions reached an absolute record high following the Brexit vote. In the second half of 2016, the aggregated transaction volume for international M&A targeting British companies amounted to around 164 billion euros, representing the strongest half-year since 2005 in terms of M&A transaction volume. Given the weak pound as a result of Brexit, foreign companies seem to have taken advantage of this opportunity to purchase British companies at a favourable price.

Dr. Sven Heim, heim@zew.de
Michael Hellwig, hellwig@zew.de

ZEW-PwC China Economic Barometer – A Moderate Outlook for Economic Growth

Assessment of the current economic situation and the development over the coming twelve months



1) Figure in the middle: assessment of the current economic situation in China. Balance of positive and negative replies. Circle: likelihood of a decline or an improvement in the economic climate over the next twelve months (in per cent). Difference to 100 %: probability of remaining "constant". Figures of the previous quarter in brackets.

Source: ZEW, PwC

There are ambiguous results for the economic outlook in China in the second quarter of 2017: On the one hand, the surveyed managers overall offered a considerably brighter assessment of the economic situation in China compared to the previous quarter, with the indicator rising from minus 8.1 points to 5.8 points. On the other hand, in terms of the economic outlook for the coming twelve months, the mood has become rather cautious, with the manager's overall assessment dropping from 1.6 points to minus 3.5 points. Even the predicted probability of changes in the economic climate over the next twelve months reflects a degree of uncertainty. The likelihood of both an improvement and a decline in the economic climate rose compared to the previous survey. That being said, a continued decline in the economic climate is seen as more likely than an improvement.

Dr. Michael Schröder, schroeder@zew.de

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Ninth ReCapNet Conference

ZEW is pleased to announce the ninth conference of the Leibniz Network on Real Estate Markets and Capital Markets (ReCapNet), which takes place in Mannheim on 2 and 3 November 2017. The main theme of the conference is "Commercial Real Estate Finance and Investment". We solicit contributions dealing with the interactions between real estate markets and capital markets. Potential topics include commercial real estate finance and securitisation; risk, return and pricing of commercial real estate asset classes; green building and sustainability. Contributions are welcome from both established and junior researchers. Please submit full papers to conference@recapnet.org. Deadline for submissions is 16 July 2017. Papers will be selected based on a competitive double-blind peer-review process.
For further information please visit: *www.zew.de/VA2317-1*

Fourth Annual MaTax Conference

ZEW and the Leibniz ScienceCampus MannheimTaxation are pleased to announce the fourth Annual MaTax Conference, which will take place in Mannheim on 21 and 22 September 2017. We invite submissions on any topics broadly related to tax research, including papers from economics, law, political science, other disciplines, and interdisciplinary contributions. The conference focuses particularly on applied and empirical papers related to business taxation, tax avoidance and evasion, behavioural responses to taxation, tax harmonisation in the European Union, political economy of taxation, international taxation, tax law, and taxation of the financial sector. Please submit your paper or extended abstract to MaTax@zew.de. Deadline for submissions is 30 June 2017.
For further information please visit: *www.zew.de/matax2017*

Photo: ZEW

Macron Must Revitalise French Economy

The majority of French voters rejected Marine Le Pen, the right-wing presidential candidate from the populist party Front National. Emmanuel Macron, the former French economy minister under President François Hollande, carried the election with 66.1 per cent of the votes.

Macron's victory was cause for relief in Germany, in part because he has advocated strongly pro-European positions, in contrast to the isolationist tendencies of some of the other presidential candidates. However, Macron's plans for Europe have the potential to trigger conflict with Germany. Macron has criticised Germany's trade surpluses, and some of his policy ideas are sure to encounter resistance, including his proposals for establishing a finance minister for the eurozone, or for harmonising economic, financial, and social policy. According to a survey conducted last year by ZEW, members of parliament in both France and Germany can imagine greater cooperation in the areas of defence and immigration policy. However, the opinions of German and French parliamentarians diverge considerably when it comes to common taxation and labour market policies – including, for example, whether wage regulations should be drafted in Brussels.

The extent to which Macron manages to revitalise the French economy will be decisive for future developments in Europe. France's problems are readily apparent: French GDP growth has trended below the European average in recent years. The unemployment rate is nearly ten per cent, and youth unemployment is far too high at nearly 25 per cent. The European Commission has criticised the poor integration of young people in the labour market and weaknesses in the French apprenticeship system.

Furthermore, public sector spending as a share of GDP is quite high in France at 56 per cent. By comparison, the public sector accounts for 44 per cent of spending in Germany. Unfortunately, French budget woes leave little room for manoeuvre. Public debt stands at 96 per cent of GDP, and France has been running budget deficits of just over three per cent.

On the bright side, the reforms initiated by Hollande are gradually beginning to work, as spotlighted by the European Commission in their country report for France. Unemployment has been dropping slowly, and French growth is expected to hit 1.4 per cent in 2017 and 1.7 per cent in 2018, even in the absence of policy changes. Macron has only made tentative statements regarding his specific policy plans. A public-sector investment programme – in part to bolster the apprenticeship system – is to be financed by reducing expenditures elsewhere. Furthermore, more flexible working hours should help to create jobs, even if the 35 hour working week is not being called into question. The EU Commission has also recommended that investment activity be stimulated by simplifying the tax system and further liberalising the services sector.

While Macron did not emerge from any of the established political parties, he is certainly no outsider. His experience as economy minister will help him to implement his plans to flexibilise the economy. And clearly, a revitalised French economy would also benefit Germany and Europe.

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President: Prof. Achim Wambach, PhD · Business and Administration Director: Thomas Kohl
Editors: Gunter Grittmann (V.i.S.d.P) · Phone +49 621 12 35 - 132 · Telefax +49 621 1235 - 255 · E-mail grittmann@zew.de
Sarah Tiedemann · Phone +49 621 12 35 - 135 · Telefax +49 621 1235 - 255 · E-mail tiedemann@zew.de
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