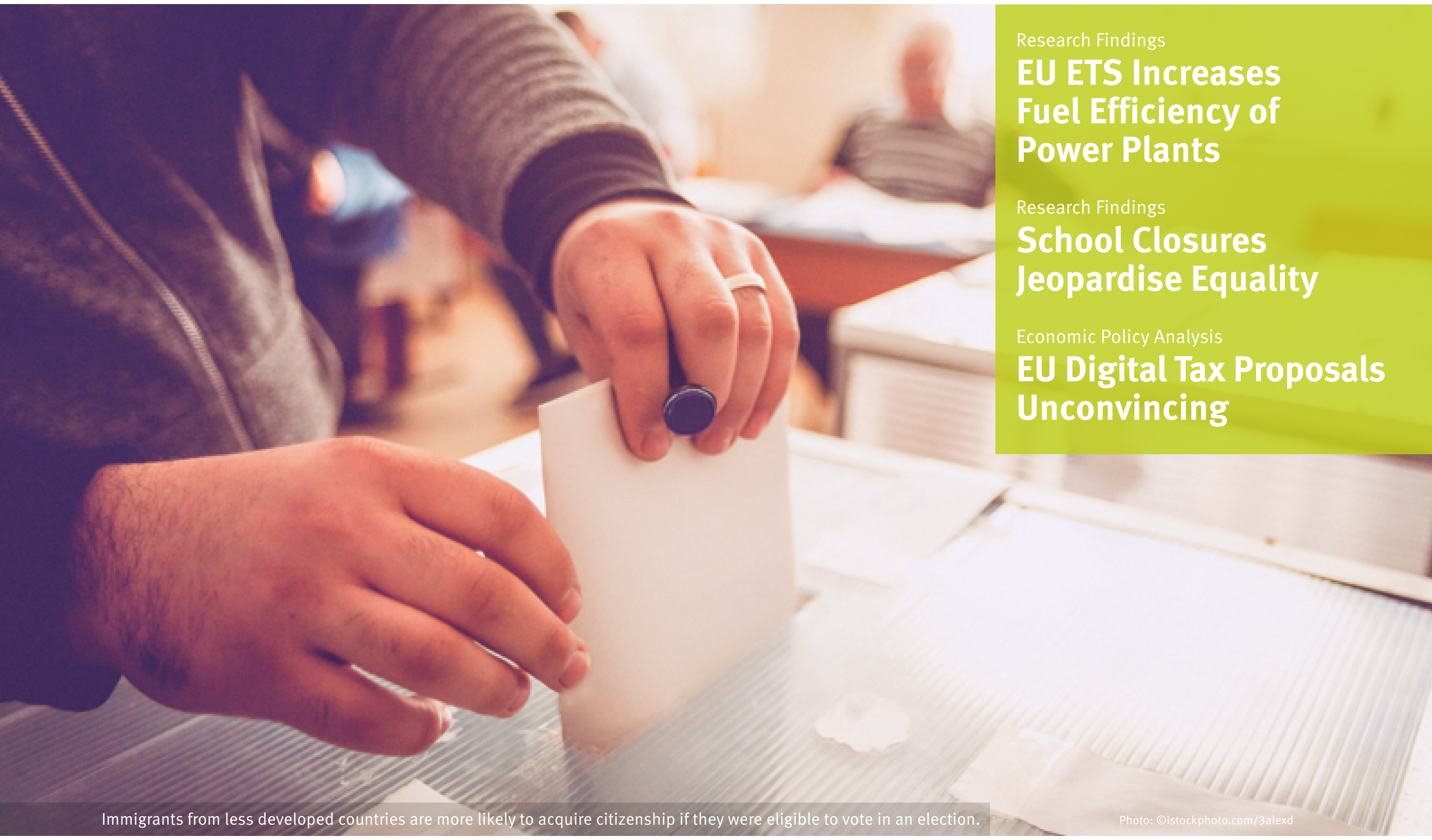
ZEWNEWS

Research Results · Conferences & Workshops · Publications

September/October 2020



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Immigrants from less developed countries are more likely to acquire citizenship if they were eligible to vote in an election. Photo: ©istockphoto.com/3alexd

Voting Rights of Foreigners Affect Their Likelihood of Acquiring Citizenship

A recent study conducted by ZEW Mannheim together with the University of Basel and Malmö University has found that the right of foreigners to vote affects integration: immigrants' likelihood of acquiring citizenship changed when they previously had the chance to participate in an election as non-citizen residents. The specific effect of voting rights on naturalisation differed depending on the level of socioeconomic development in foreign residents' particular country of origin.

The authors of the study considered three elections during the 2002–2010 period in Sweden. Foreign residents may vote in communal and regional elections provided that they have lived in the country for at least three years at the time of the election. The researchers identified foreigners who were eligible and not eligible to vote and calculated the likelihood that they would later acquire citizenship. For each election, they compared foreigners who established residency up to ten days before and after the voting eligibility cut-off. The restriction to the ten-day period around the cut-off ensured that the groups were comparable along all other metrics, such as length of residency.

Voting rights may help foreign citizens to integrate more quickly

Foreigners in Sweden can acquire citizenship after three to five years of residency, with no language or financial requirements. When foreigners can vote in the country in which they reside, they take part more quickly in political processes. This experience can help motivate foreign residents to integrate into society and acquire citizenship. But at the same time, that very experience can also act to slow integration, the study finds. If citizenship is no longer necessary to vote, an important incentive for its acquisition disappears. However, and importantly, any observed reaction to being granted voting rights, be it positive or negative, indicates that individuals assign a positive value to political participation rights.

The effect of being able to vote varies depending on the person's country of origin

The authors assessed foreign residents and their countries of origin by standard of living based on the Human Development Index (HDI). The study found that persons from less developed countries, who often migrate due to an adverse economic and political situation in their country of origin and in many cases enter the host country as refugees, were more likely to acquire Swedish citizenship if they were eligible to vote in an election (i.e. three years after moving to the country). The share of those who acquired Swedish citizenship four years after the election – seven years after they originally immigrated – was 64 per cent. This was 17 percentage points higher than a control group of foreign residents who were ineligible to vote. Among foreigners from industrial nations who were eligible to vote, by contrast, the likelihood of acquiring citizenship declined. Only 59 per cent of them became naturalised over the following four years. This was approximately ten percentage points less than in the control group.

The findings show that voting rights for non-citizen immigrants are of great importance. Overall, the effect of the right of foreigners to vote appears to depend on the country of origin. For people from poorer countries, being able to vote primarily had a motivating effect. For immigrants from developed countries, the opposite was the case: the ability to vote as non-citizens disincentivised them to acquire citizenship. For foreign residents from countries with medium-range standards of living, no effect was observable. This does not mean, however, that voting eligibility made no difference. Here it is more likely that the one effect offset the other.

In addition, the authors investigated the naturalisation behaviour of immigrants who arrived in years without an eligibilty cut-off. For this group, they found no difference between those immigrating slightly earlier or later. This result also indicates that voting rights influence the attractiveness of naturalisation.

The study is available to download at:
http://ftp.zew.de/pub/zew-docs/dp/dp20055.pdf

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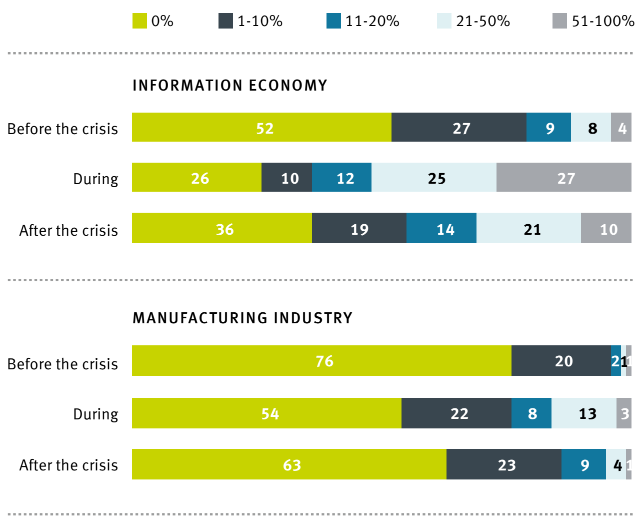
Companies Plan to Keep Remote Work Arrangements After Crisis

In light of the changes to organisational processes that businesses have had to make due to the COVID-19 pandemic, many firms have realised that there are more tasks that can be carried out from home than previously expected. In the business-related services sector, more than 50 per cent of companies – and in the manufacturing sector, more than 40 per cent – are reporting such digital learning effects.

The widespread recognition among firms that many more tasks can be performed remotely than previously assumed reinforces the impulse the coronavirus crisis is giving to increasing mobile work. Because of these new experiences and insights, many companies are planning to use remote work more regularly after the crisis than they did before. About one in three companies had to invest in new technologies in the short term in order to make remote work arrangements available during the crisis. These are the results of a recent representative survey conducted by ZEW in June 2020 among approximately 1,800 companies in the information economy and manufacturing industry. Especially in larger companies, the coronavirus pandemic is leading to a long-term expansion of remote work opportunities for their employees. Around 75 per cent of companies in

SHARE OF EMPLOYEES WORKING FROM HOME BEFORE, DURING AND AFTER THE CRISIS

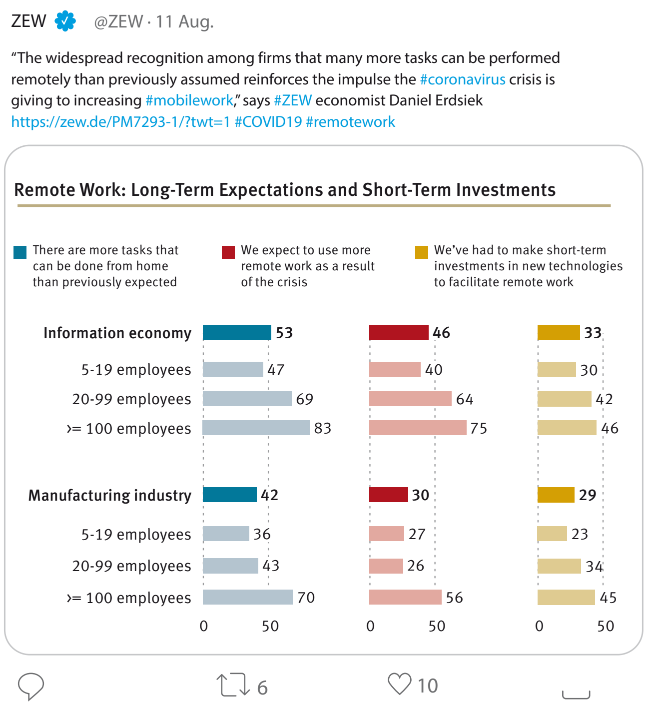


Reading aid: In 9 per cent of companies in the information economy, 11 to 20 per cent of workers worked remotely at least once per week before the crisis. This share of businesses is expected to increase to 14 per cent after the crisis, according to the survey respondents. Source: ZEW Sector Report on the Information Economy, 2020 the information industry with 100 or more employees expect a permanent increase in home-based work, for example. This figure is 64 per cent for medium-sized companies and 40 per cent for small companies with 5 to 19 employees. In the manufacturing sector, more than half of the large companies expect a permanent increase in remote work use as a result of the crisis.

A possible reason for the increased use of remote work arrangements even after the crisis may be the experience gained during the crisis that fewer activities than previously assumed have to be done in the main office – a lesson which larger companies in particular are learning. With that said, 83 per cent of companies with 100 or more employees in the information industry and 70 per cent in manufacturing stated to have learned that more activities are suitable for remote work than previously assumed. The investments in new technologies, which were necessary for around one third of companies in order to make remote working available to the employees, will therefore be paying off in the long term.

Before the outbreak of the coronavirus pandemic, only one in four companies in the manufacturing industry offered their employees to work regularly from home. This share has now risen to almost 50 per cent. For the period after the crisis, around 37 per cent of companies plan to continue using remote work arrangements. Since not all activities in manufacturing are suitable for remote work, the proportion of employees who regularly work from home at least once a week is comparatively low. However, the pandemic is also having a long-term effect on the prevalence of remote work: In only four per cent of companies, at least one in ten employees worked regularly from home before the crisis. After the crisis, this share is expected to increase to 14 per cent of companies, three times higher than before.

REMOTE WORK: LONG-TERM EXPECTATIONS AND SHORT-TERM INVESTMENTS



Due to the crisis, 47 per cent of companies with up to 19 employees have learned that there are more tasks that can be carried out remotely than previously expectetd.
Source: ZEW Sector Report on the Information Economy, 2020

Use of remote work is likely to increase in the long run

The long-term changes are likely to be even more pronounced in the information economy, which includes the ICT sector, media service providers, and knowledge-intensive service providers. Even before the crisis, around one in two companies in the information economy already made use of mobile work, since these sectors involve a large number of tasks that can be performed remotely. In the long term, almost two thirds of companies are now planning to offer remote work arrangements even after the crisis. Companies also assume that an increasing proportion of employees will regularly make use of remote work. While up to now only about one in ten companies had more than 20 per cent of their employees working regularly from home, almost one in three companies expects the same regularity of remote work use in the post-crisis period. In the ICT sector, one in two companies plans to have more than 20 per cent of its employees work regularly from home after the crisis, whereas before the crisis, remote work arrangements were widespread in only one in five ICT companies.

The Sector Report on the Information Economy is available to download (in German only) at: *www.zew.de/PU81812*

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IN THIS ISSUE

When schools are closed, the students' socioeconomic circumstances have a greater impact on their performance.

Photo: © iStockphoto.com/ lakshmiprasad S

School Closures Jeopardise Equality

School closures reinforce existing inequalities related to a student's socioeconomic background. This is particularly true for the first two years of primary school, as an expert brief by ZEW Mannheim shows. The study further finds that these inequalities affect not only important academic skills such as mathematics and literacy, but also perseverance and the ability to concentrate.

Although from an epidemiological perspective, school closures might be unavoidable, they have significant side effects. This is especially true the longer they last. So, without a suitable framework to allow learning at home, school closures jeopardise the efforts toward equality in education made by education policy. Therefore, the authors of the expert brief would like to see policymakers to support the development of digital learning formats in order to reach all children even during school closures. Otherwise, a lack of teaching and in-classroom interaction could lead to learning deficits among pupils. Inequalities relating to a child's family background may increase, particularly in terms of academic achievement.

A quarter of the children will need another school year to compensate for deficits

The school performance of children can vary significantly depending on their socioeconomic background. The 25 per cent of pupils with the most disadvantaged background would need, on average, about one additional year of schooling in order to compensate for any deficits. First-graders whose parents obtained an Abitur (German high school diploma) or university degree, or who have high-status jobs, for example, achieve much better exam results. This shows that differences in academic performance, which vary depending on the family background, are already pronounced when children enter school. They also tend to receive better performance assessments from their teachers, which is particularly evident in regard to language skills.

Face-to-face teaching at school partially compensates for the economic and social disparities between families. Prior to coronavirus-related school closures, primary school students achieved similar learning progress over the course of a month regardless of their family environment, the authors explain. When schools are closed, the students' socioeconomic circumstances have a greater impact on their performance. Instead, the results of the analysis show that pupils can achieve similar progress in face-to-face learning regardless of their background. Since all students experience a similar learning environment at school, they can also achieve similar outcomes in a given time frame. The summer holidays provide further evidence of the impact of school closures. The ZEW expert brief shows that children whose parents have a lower level of education and lower-status jobs are more likely to fall behind their fellow students after the summer break.

Making education fit for the digital age via new learning formats

A hitherto untapped potential for teaching during school closures is the widespread use of digital devices; according to their parents, more than 90 per cent of all sixth-graders own a mobile phone, for example. According to the study authors, smartphones should be increasingly used to professionalise learning at home in order to make sure that equality of learning is also achieved outside of the school itself. The additional cost of supplying smartphones to students who do not possess one would likely remain at a manageable level.

The authors also call on policymakers to develop new learning formats that enable students to make progress in the learning process regardless of their family background. To this end, opportunities for digital interaction beyond face-to-face classes are needed. Mentoring programmes, in which university students support pupils with learning deficits outside of school classes, have proven to be successful in this regard.

The authors of the study recommend that policymakers use the pandemic as an opprtunity to restructure school education and make it fit for the digital age. Rethinking schooling means doing justice to the need for equality even in times of school closures. This will be possible if age-appropriate high-quality instruction no longer needs to be tied to the school as a physical location.

Download the study in German at: *http://ftp.zew.de/pub/zew-docs/ZEWKurzexpertisen/ZEW_Kurzexpertise2013.pdf*

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‘Treuhandanstalt’ Sold Productive Firms Mainly to West German Buyers

When East German companies were privatised after German reunification in 1990, the ‘Treuhandanstalt’ – the agency entrusted with the sale of formerly state-owned enterprises – was quicker and more likely to sell productive firms than unproductive ones, and to gain more money in the process. At the same time, the Treuhand was also more likely to sell these firms to West German investors. These are the results of a recent study conducted jointly by a team of researchers from the ifo Institute, ZEW Mannheim and the Université libre de Bruxelles.

The researchers found that especially productive East German firms were less likely to remain in the hands of East German owners. By 1995, when the Treuhand had concluded its main activities, 51 per cent of the firms, 64 per cent of the turnover and 68 per cent of the jobs analysed in the sample had fallen into the hands of West German investors. The sample further shows that the more productive the companies were, the higher was the ownership share of West German buyers.

At the time of German reunification, West German investors had better access to financial capital and more experience in managing companies in a market economy. In addition, they most likely had stronger ties to economic and political stakeholders compared to the investors from East Germany. Based on the sales criteria set by the Treuhand, these factors probably made West German investors better candidates for future company ownership. Nonetheless, the redistribution of company ownership from East to West remains a notable consequence of the privatisation programme.

Regarding the accusations that the Treuhand unnecessarily closed profitable companies, the study found that some productive companies were indeed closed down. However, the results also show that productive companies were less likely to be shut. Among the least productive companies, the share of firms that were privatised under the Treuhand was less than 40 per cent. This share was more than 70 per cent for the most productive companies.

Productive firms were economically active for a longer time

The researchers also found that the Treuhand achieved, on average, higher commitments with regard to the investment volume and the number of staff to be retained for firms with higher initial productivity. According to the study, companies that were more productive in the beginning were also more likely to be economically active 20 years after the privatisation. Based on the data available, it cannot be determined whether the Treuhand was able to achieve the best possible outcome for the public sector in the negotiations with potential investors.

These results are based on statistical analyses and describe trends on average across all firms. It is therefore not possible to draw conclusions about the decisions regarding the privatisation of individual firms. The data cover information on firm ownership only at the first and second level. Firm ownerships are classified in terms of majority shares, while minority shares have not been taken into account. ‘Smaller privatisations’ including shops, restaurants and hotels, the majority of which were sold to East German buyers, are not included in the data.

The ZEW expert brief is available to download (in German only) at: *http://ftp.zew.de/pub/zew-docs/ZEWKurzexpertisen/ZEW_Kurzexpertise2012.pdf*

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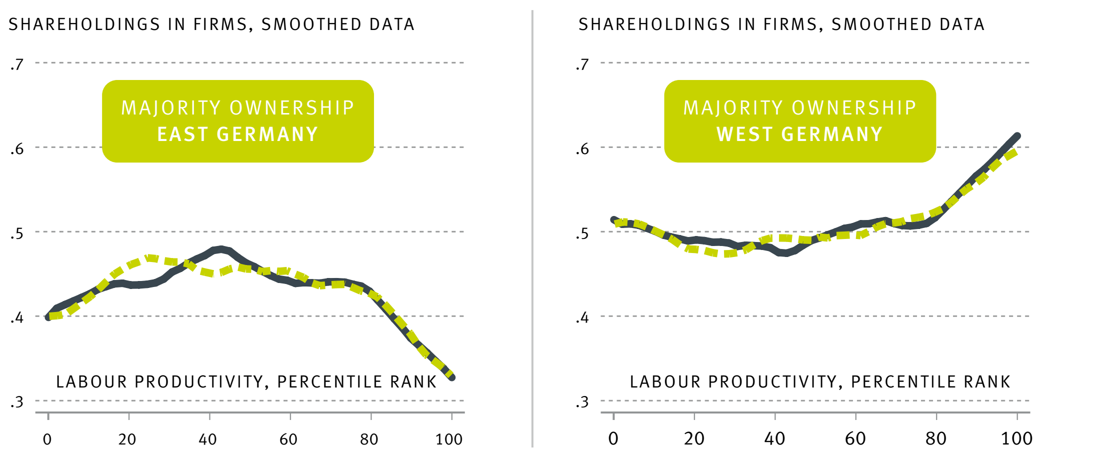
LABOUR PRODUCTIVITY AND FIRM OWNERSHIP AFTER PRIVATISATION (1995)



Turnover per employee

Turnover per working hour

Note: The graph on the left shows the share of privatised firms with owners mainly located in East Germany in 1995 as a function of labour productivity measures. The right graph shows the share of privatised firms with majority owners located in western Germany in 1995. Percentile ranks divide firms into 100 groups of equal size according to their productivity, with rank 100 marking the group of the most productive firms. Firms with international ownership (approx. 5.6%) are not shown. N=2.524.

The taxation of digital companies poses a great challenge.
Photo: © iStockphoto.com/stockcam

Digital Tax Proposals from the European Commission Unconvincing

Digital enterprises pose a major challenge for traditional tax systems. In a recent case, the fiscal authority of Hamburg successfully sued the vacation rental online platform Airbnb for submitting booking data. Though the EU made two proposals for taxing digital companies in 2018, they make the tax system even more complex, and their full implementation remains unconvincing from an economic point of view.

The digital transformation has been one of the biggest drivers of change since the industrial revolution. A multitude of technical innovations in communication and information processing enabled completely new business models, contributing to the constant transformation of existing models. In principle, digitalisation has been seen as positive for both society and the entrepreneurial innovation climate; it poses, however, an enormous challenge to the corporate taxation system.

Digital companies without physical presence

In the past, a company's physical presence was linked to the place of value creation of the company itself, i.e. to its operating sites or group units. In the case of globally networked and often locally independent value creation models of digital companies, however, the tax system is not readily finding an easy starting point for taxation. The business models of digital enterprises are often based on intangible assets, where the processing and provision of data and the interaction with users are at the heart of their activities. Employees who have the knowledge to develop digital products such as algorithms that can be used to evaluate any data obtained thus play an essential role in these companies, and intangible assets are very mobile compared to real, physical production sites. This allows digital companies to operate complex value chains across many countries.

If tax administrations are given insufficient insight into digital business models, they might classify value added contributions incorrectly, which can also lead to digital companies increasingly reporting their profits in low-tax countries. This effectively reduces the tax base and thus tax revenue in high-tax countries such as Germany and France. The business models of digital enterprises should therefore be better analysed so that transfer pricing regulations can be applied, ensuring appropriate taxation.

Current taxation no longer up to date

Recognising that the current company taxation system is not up to date, the European Commission developed two proposals for the taxation of digital companies in 2018. The first proposal is transitional in that it introduces a Europe-wide digital tax on income from online advertising placements, digital intermediation, as well as the sale of user data. It would remain in force until the second proposal is introduced, which contains an extension of the permanent establishment concept in order to include "significant digital presence" as a long-term solution.

The economic consequences of these two proposals are difficult to assess, making their value to the tax system ultimately unconvincing. The arbitrary size limits can lead to real economic distortions, causing companies to limit their growth. The risk of international double taxation also increases at the same time that the tax system is becoming much more complex. Moreover, the expected additional tax revenue of five billion euros would be distributed among EU Member States, but so that each individual country would only receive a small amount of it. And the fact that some countries have already introduced their own digital taxes at the national level further complicates and fragments the European tax system, increasing the tax risk for digital and innovative companies and thus reducing their incentives to invest. For these reasons, a much more coordinated, Europe-wide approach is needed.

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Q&A: What's New on the Horizon for Environmental Economics at ZEW?

"The Goal is to Strengthen the Ex-Ante Evaluation of Climate and Energy Policy"

At the beginning of August, Sebastian Rausch joined ZEW as the head of the "Environmental and Resource Economics, Environmental Management" Research Department. Following positions at MIT and ETH Zurich, he accepted the post at ZEW along with a professorship in environmental and energy economics at Heidelberg University. In this Q&A, Rausch talks about his work at ZEW and explains how environmental economics can help in the fight against global warming.

What aims will you pursue in your work at ZEW?

I intend to amplify my work on emissions and energy market design and bring it to bear on climate and economic policy debates. In recent years, the global climate debate has increased public awareness for the environment's importance for human well-being. ZEW and the renowned economics departments at the universities of Heidelberg and Mannheim are ideal environments for carrying out research on the key environmental and economic challenges of our time.

What can environmental economics contribute to the political debate about the clean-energy transition?

Energy is the elixir of life in modern societies. The steadily growing demand for energy is largely linked to economic development. Delivering reliable and affordable energy while reducing dependence on fossil fuels in order to avoid negative effects on the economy and the environment represents a key challenge in the 21st century. Environmental economics and the sub-discipline of energy economics examine the factors that generate energy supply and demand. They are crucial, therefore, for understanding the effects of industry on the environment, such as global climate change and local air pollution, but also environmental feedback effects on the economy. In conjunction with other social and behavioural sciences, environmental economics also provides approaches for pushing consumer and company behaviour to sustainable energy management while weighing the positive and negative effects of various alternatives.

Which economic incentives are needed to achieve climate targets?

The economic analysis of climate policy is largely based on the idea that the harmful environmental effects of economic activities through, say, CO_2 emissions, represent an externality, an economically significant effect of an activity whose consequences are borne at least in part by those who did not cause the externality. Climate policy tries to compensate for this imbalance by increasing the incentive to minimise external costs. This results in a strong role for the pricing of CO_2 emissions through a carbon tax or markets for tradable emission rights. This is the idea behind the European Emissions Trading Scheme and the introduction of national fuel emissions certificate trading in Germany. However, other economic policy interventions may also be necessary. For example, the failure of the market to account for the costs of carbon emissions interacts with the failure of the market to develop and disseminate new technologies. Together, the market failures provide a strong rationale for introducing a portfolio of public policies that encourage emissions reductions and the development and adoption of climate-friendly technologies. Positive knowledge and adoption spillovers and information problems can further weaken incentives to innovate. Technology policies such as subsidies, performance standards and mandates for the adoption of specific existing technologies is usually fraught with difficulties. They are less cost-efficient than market-based approaches and often have considerable distributional consequences.

What new projects are you planning at ZEW?

Determining which economic policy measures can be used to achieve ambitious climate protection goals requires knowledge of the complex relationships between consumers and companies, markets, technology and regulation. At ZEW, I would like to develop new expertise in the economic modelling of emissions and energy markets, especially with a view to their macroeconomic interrelations. The goal is to strengthen the ex-ante evaluation of energy and climate policy and thereby complement the institute's existing work on ex-post evaluation. The focus here will be on issues such as CO_2 pricing; the integration of the electricity, heat and transport sectors; the expansion of renewable energy; the economy-wide impact assessment and distributional effects of climate and energy policy; and the European integration of the German clean-energy transition.

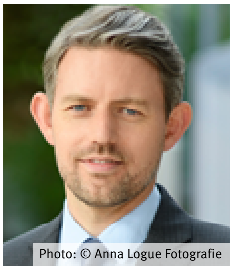

Photo: © Anna Logue Fotografie

Prof. Dr. Sebastian Rausch heads the ZEW Research Department "Environmental and Resource Economics, Environmental Management". Prior to accepting the joint appointment of ZEW and Heidelberg University, he held positions at the Massachusetts Institute of Technology (MIT) and ETH Zurich. His research aims to understand the role of economic policy in shaping the intertwined challenges of the environment, energy, technology and economic well-being. He is primarily concerned with the evaluation of markets and economic policy measures that curb climate change and the design of sustainable energy-economy systems. sebastian.rausch@zew.de

Thanks to emissions trading, fossil-fuel power plants were able to reduce fuel costs.

Photo: © iStockphoto.com/vofka

EU Emissions Trading Scheme Increases Fuel Efficiency of Fossil-Fuel Power Plants

In many countries, electricity generation is based predominantly on fossil fuels. Pricing greenhouse gas emissions through an emissions trading system is a cost-effective way to lower greenhouse gas emissions in the energy sector. The introduction of the EU Emissions Trading Scheme (EU ETS) has already led to increased efficiency in Germany's fossil-fuel power plants. A new ZEW study finds that emissions trading schemes can reduce both fuel costs and greenhouse gas emissions.

The study examines how the EU ETS has impacted German power plants that run on fossil fuels, i.e. hard coal, lignite or natural gas. The EU ETS is currently the largest international cap-and-trade system for greenhouse gas emissions in the world. It puts a price on greenhouse gas emissions from regulated installations to achieve emission reductions. Power plants regulated under the EU ETS must submit emission certificates in an amount corresponding to their annual emissions, based on market prices. This creates a need for plants to either cut emissions or purchase more certificates (thus increasing certificate demand, and, ceteris paribus, certificate prices). Since the number of emission certificates is limited, price increases reduce emissions at other plants, mitigating emissions where abatement is cheapest.

Greenhouse gas emissions down by two per cent

The study's central finding is that the EU ETS has increased the fuel efficiency of fossil-fuel power plants, i.e. it lowered fuel consumption while generating the same output. This has reduced fuel costs per unit of output while also cutting greenhouse gas emissions. According to the study, due to greater fuel efficiency annual greenhouse gas emissions from fossil-fuel power plants in Germany decreased by around 1.5 to two per cent. To put this fuel efficiency improvement into context, at an annual fuel input of about 750 TWh and annual carbon emissions of around 290 million tons in hard coal, lignite, and natural gas power plants in 2012, this decrease in fuel input on average is equivalent to a reduction of around four to six million tons in annual carbon emissions. The study suggests that these savings were achieved through efficiency investments and through the improvement of power plants with multiple generating units. The EU ETS has therefore increased the likelihood of major investment in plants and machinery while lowering output at CO_2-intensive power plants.

The study relied on official microdata from power plants in Germany. Using this data for the first time to analyse the EU ETS, the study makes an important contribution to the scientific literature on emissions trading systems in the energy sector. To date, few studies have undertaken ex-post analyses of the EU ETS to calculate its impact on the energy sector. This is mainly due to the lack of suitable microdata sets as well as the particularities of the energy sector, which make empirical impact analysis difficult.

EU ETS governs nearly all German power plants

Almost all larger power plants in Germany are governed by the EU ETS. As a result, it is not possible to compare EU ETS power plants with a control group. But the study's microdata, especially those on fuel use before the introduction of the EU ETS, circumvent these methodological problems. The study calculates regulatory intensity based on individual CO_2 costs in order to identify the impacts emanating from the EU ETS. Its numerous sensitivity analyses test alternative explanations and impact channels.

The ZEW study provides important empirical evidence for the debate about national and international climate protection efforts and the policy instruments best suited to implement them. It finds that carbon pricing in an emissions trading system can create a variety of incentives for cutting emissions by, say, raising efficiency in the combustion of fossil fuels. The ZEW study documents the mechanisms of the ETS instrument and thereby expands the scientific basis for future economic policy decisions regarding the EU ETS.

The study is available online at: *www.journals.uchicago.edu/doi/10.1086/708894*

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An exclusive group of 30 participants followed the panel discussion at ZEW Mannheim on 8 October 2020.

Photo: © Erich Dichiser EDM

European Evening at ZEW: Using the Green Industrial Revolution to Encourage Growth

The European Green Deal is an ambitious climate action plan by the EU. Its implementation leaves a number of questions unanswered. During the European Evening at ZEW, Baden-Württemberg's Minister of Science, Theresia Bauer, former EU Commissioner, Günther H. Oettinger, as well as the director of the Potsdam Institute for Climate Impact Research, Ottmar Edenhofer, and president of ZEW, Achim Wambach, discussed what exactly is needed in order for Europe to become carbon neutral by 2050.

Under the motto "Green Deal for Europe – Green Industrial Revolution Post COVID-19?", the panel discussion participants debated growth opportunities in Europe against the backdrop of the EU's climate policy. The Green Deal currently presents Baden-Württemberg and its automotive industry with a challenge. "It should not be determined too early that the correct solution is in place," said Theresia Bauer, Minister of Science, Research and the Arts of Baden-Württemberg. "We need to be open to technological ideas and also have the courage to develop scientific solutions." The federal state government wants to tackle the green industrial revolution together with car manufacturers and suppliers. "It is essential that we also further develop higher education with regard to engineering training at a rapid pace," Bauer also said.

Bringing EU Member States together in the face of climate change mitigation

Environmental economist Ottmar Edenhofer underscored the ambition of the Commission's plans. He argued the case for an expansion of carbon pricing in order to reach the goal of becoming carbon neutral by 2050. "Carbon pricing is essentially an excellent mechanism as it provides the incentive to reduce emissions where it is most convenient. Those who want to become carbon neutral by 2050 are not able to do so by only using planned economy mechanisms. They must also use the power and the innovations of the market," Edenhofer said.

ZEW President Professor Achim Wambach believes that the crucial prerequisite for the success of the Green Deal is that companies in Europe succeed in dealing with structural change. He also called for viable decision-making from the EU at the same time. "The challenge will be to bring all Member States together. If we are not able to accomplish that in the EU, then how should we succeed in doing so on a global scale?", said Wambach. In his view, Europe will only be able to become carbon neutral by 2050 if the USA and China are also able to be convinced of taking this approach before 2030.

Former EU Commissioner and Minister President of Baden-Württemberg Günther H. Oettinger also made the following clear: "Central and Eastern European countries and other world regions will take the Green Deal as an example only when structural change within the industrial sector is successful and industrial revenue remains here." He appeared to be cautiously optimistic regarding the aim of becoming carbon neutral by 2050. "We will succeed in doing so if research produces new technologies which enable a quicker reduction path."

The cause for the event was the closure of the international research programme "Strengthening Efficiency and Competitiveness in the European Knowledge Economies" (SEEK) after having been funded by the state of Baden-Württemberg for ten years. Wambach emphasised that thanks to SEEK, ZEW has maintained a continual presence in Brussels and has become internationally connected with other research institutes. Oettinger, who collaboratively initiated the beacon project in 2010 noted: "European expertise particularly has its place in Mannheim." Theresia Bauer also made further announcements at the event. "We will attempt to construct an Innovation Campus in order to further strengthen the areas health and health economics in the metropolitan region." The Rhine-Neckar Region has the potential to be an international model concerning health-related topics.

Due to the COVID-19 pandemic, an exclusive group of participants was permitted to attend the event in person. However, those interested in the event were able to connect via a live stream. The event was supported by the programme "Dialogue on the Economics of Climate Change" from the Federal Ministry of Education and Research.

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Sebastian Siegloch Receives Grant to Investigate Inequality in Real Estate Markets


Source: ZEW

Urbanisation and gentrification are leading to rapidly increasing property prices and changing population structures in German and European cities. While inequality in neighbourhoods has been decreasing, disparities between individual districts have been growing. Why are such marked shifts occurring and which policies can mitigate these inequalities? Professor Sebastian Siegloch, head of the Research Department "Social Policy and Redistribution" at ZEW Mannheim, received a prestigious funding grant from the European Research Council (ERC) as part of the European Union's research programme "Horizon 2020", amounting to a total of 1.5 million euros, which will be paid over five years to investigate these questions. In this research project, Siegloch investigates how different housing policy instruments affect local housing markets and influence regional inequality. The analysis of the effects of different instruments provides a comprehensive overview of available policy options. It combines state-of-the-art theoretical models and carefully conducted empirical analysis in order to derive the efficiency costs and distributional effects of different policy measures. These results provide guidance for policymakers when addressing the challenges induced by the current housing crisis.
With the Starting Grants, ERC offers excellent young scientists in Europe the opportunity to carry out basic research and expand their own research team. The ERC supports ground-breaking and visionary research that breaks down the barriers between basic and applied research, between traditional disciplines and between research and technology.

Workshop on the Integration of Immigrants and Attitudes Towards Migration Issues

What can countries that take in immigrants do to integrate them? What consequences can be expected from accepting and integrating immigrants with regard to the attitudes towards migration issues in these countries? These and other questions were discussed at the international workshop "Immigration, Integration and Attitudes" held on 22 and 23 September 2020 at ZEW. The workshop was organised by the ZEW Junior Research Group "Integration of Migrants and Attitudes Towards the Welfare State" (IMES) in close cooperation with the Mannheim Centre for European Social Research (MZES) of the University of Mannheim. In the first keynote speech, Thomas Bauer, vice president of RWI Essen and professor for empirical economic research at Ruhr University Bochum, provided insights into the time of the so-called 'refugee crisis', when he served as chair of the Expert Council of German Foundations on Integration and Migration. Dominik Hangartner, professor for public policy and co-director of the Immigration Policy Lab of ETH Zurich, explained in the second keynote speech how naturalisation can accelerate the integration of immigrants and how policymakers can take an active role in this process. Apart from these two keynote speeches, the workshop also featured 16 scientific contributions from the fields of economics, sociology and political science. The topics ranged from integration measures like language lessons and cash transfer programmes and the different dimensions of (labour market) integration to the political consequences for attitudes and election behaviour.

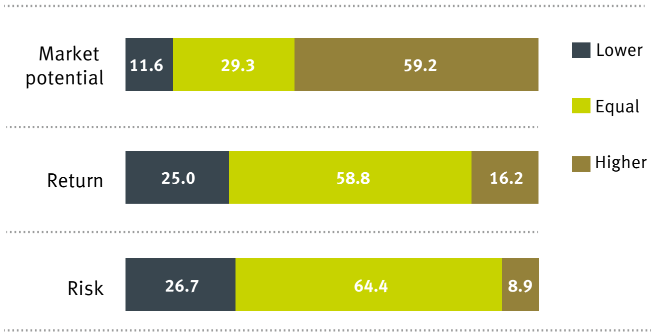
Laura Pohlan Honoured with Social Market Economy Research Award


Source: ZEW

Dr. Laura Pohlan, a researcher in the ZEW "Market Design" Group, received the 2020 "Forschungspreis Soziale Markwirtschaft" ("Social Market Economy Research Award") by the Roman Herzog Institute (RHI) on 7 October 2020. She was awarded the third prize for her dissertation on the social consequences of unemployment and the effects of direct and indirect state measures on employment. She wrote her dissertation while still working in the ZEW "Labour Markets and Human Resources" Department. Laura Pohlan's work "Essays on Unemployment, Job Search Behavior and Policy Interventions" examines the multiple causal effects of unemployment in the context of social exclusion. She shows that the feeling of social exclusion increases with the duration of unemployment and may even continue after taking up a job. She also investigates how social policies and technological innovation influence individual behaviour in job seeking and in what way they help to reintegrate unemployed individuals into the labour market. The RHI is an interdisciplinary think tank that addresses socio-political issues relating to both the future of work and ethics in the social market economy. The award is one of the highest endowed prizes in the field of economics and social sciences.

Sustainable Investments Become More Important for Financial Market Experts

COMPARISON OF ESG PRODUCTS TO CONVENTIONAL INVESTMENTS



FIGURES IN PER CENT OF TOTAL NUMBER OF RESPONSES

Around 59 per cent see greater market potential for ESG investment products than for conventional investments, according to the results of the ZEW Financial Market Survey's special question.

Sustainable investments (ESG investment products) are becoming more relevant for financial market experts. This is the result of a special question featured in the September ZEW Financial Market Survey conducted among approximately 150 financial market experts. Around 59 per cent see greater market potential for ESG products than for conventional investments, 29.3 per cent assume that the market potential is equally good, and only 11.6 per cent see less potential. Experts in 2007 still estimated the market potential to be much lower. According to the respondents, ESG products are also associated with a similar ratio between risk and return as conventional investment products. Two thirds of the experts want to have ESG investment products in their own portfolios, even if only to a share of less than 50 per cent. However, the majority of the participants hold the view that social and ecological aspects are addressed only insufficiently by ESG investment products.

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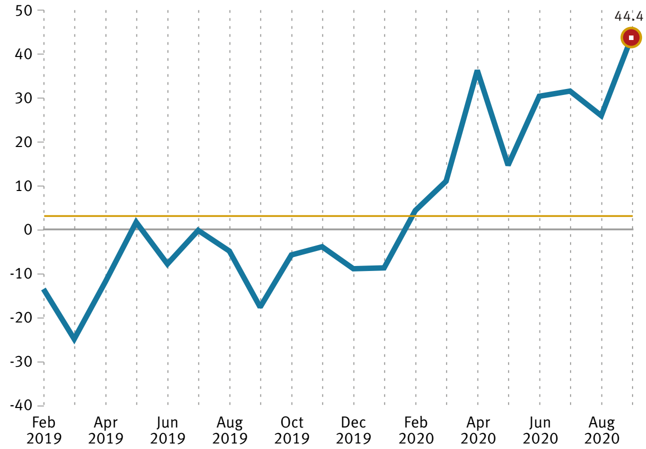
Chinese Economy: Outlook Improves Significantly



Balance of the symmetrically weighted positive and negative assessments regarding the macroeconomic environment in China in twelve months. Survey period: 7 September 2020 – 16 September 2020. Source: ZEW/Fudan University

In the September survey, the CEP indicator rose by 18.3 points to a new level of 44.4 points. This is by far the highest value of the indicator since the survey began in mid-2013. The CEP indicator, based on the China Economic Panel (CEP) in cooperation with Fudan University, Shanghai, reflects the economic expectations of international financial market experts for China on a 12-month basis. The assessment of the current economic situation has also improved very strongly, with the corresponding indicator rocketing by 31.1 points to a new reading of 1.9 points, thus signalling a 'normal' economic situation. Expectations have risen sharply for all components of GDP, including exports, consumption and private investment. The experts are also optimistic regarding the individual sectors as well as the most important economic regions, which means that they are expecting to see a lasting economic recovery. Nevertheless, the indicator values for domestic and foreign debt remain very high.

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2021 ZEW Public Finance Conference

We are pleased to announce the call for papers for the 2021 ZEW Public Finance Conference, which is scheduled to take place on 6 and 7 May 2021. The annual conference aims to cover all fields of public economics and political economy, with behavioural public economics being the focus of this year's keynotes lectures. If you are interested in presenting a paper, please submit your contribution no later than 19 February 2021. Both full papers and ongoing projects are welcome. We also offer the opportunity to present posters for ongoing projects in order to receive early feedback. The conference fee will be waived for speakers presenting a paper. More information: *www.zew.de/VA3220-1*

Workshop: Ageing and Financial Markets

We are happy to announce the call for papers for the workshop "Ageing and Financial Markets" on 11 and 12 February 2021. The event shall provide a stimulating environment for in-depth debates on the effects of demographic change on financial markets and their various players, on the policy implications of recent research, and on new research questions arising from policy responses. We invite empirical and theoretical submissions (full papers only) with a microeconomic focus on all aspects related to ageing and financial markets. If you are interested, please send your paper to FMworkshop@zew.de by 15 November 2020. More information: *www.zew.de/VA3268-1*

Climate Targets: The 'How' Matters

Within the space of a few days in September, EU Commission President Ursula von der Leyen and German economic minister Peter Altmaier both publicly called for the creation of a climate-neutral economy by 2050. Each of their proposed initiatives focuses on augmenting CO_2 reductions. But the success of European and German climate policies will depend on more than meeting climate targets alone.

In her State of the European Union address on 16 September, EU Commission President Ursula von der Leyen emphasised the importance of tackling the climate crisis within the framework of the European Green Deal, which aims to make Europe the first climate-neutral continent by 2050. A few days earlier, German economic minister Altmaier presented the Charter for Climate Neutrality and Economic Strength, whose 20-point programme includes annual reduction targets and the creation of climate-neutral public institutions by 2035.

The September announcements show that politicians in Europe are ready to enact ambitious plans and put legislators to work on new climate bills. For all the enthusiasm, however, it is important that decision-makers not lose sight of the big picture. Keeping global warming well below two degrees Celsius can only be achieved if we succeed in reducing emissions globally. The EU produces only around ten per cent of global emissions; Germany, a mere two per cent. While Europe can help achieve the two-degree target, pursuing stricter emission reductions at all costs is not the most effective strategy.

China is the world's largest CO_2 emitter, with annual emissions twice as high as Europe's. Chinese President Xi Jinping has stated that no decline in emissions is foreseeable before 2030. The same is likely to be true for India, whose booming economic growth will produce large amounts of greenhouse gas emissions over the next decades. If these and other countries are to pursue ambitious climate action, it must be affordable.

What is the most efficient way to reduce emissions? What new climate mitigation technologies will be developed? How can these be rapidly made available around the world? The German chemicals, engineering and automotive industries are world leaders. Their technologies can set standards in decarbonisation, provided they remain competitive. The loss of their global market share due to EU climate policy serves neither European companies nor their employees. Moreover, it would ultimately hurt the climate and disincentivise other countries from following Europe's path.

Technological innovations are just one piece of the puzzle. Governments also need to create new organisational structures that encourage global climate neutrality. For instance, how should emissions trading be organised to address all sectors? What is the best way to induce countries with different interests to act in concert? Here's where Europe and Germany stand to make a big difference. Of course, European countries must also reduce CO_2 emissions in the process, but what matters is how they go about it.

European climate policy must focus consistently on efficiency in addition to technology and organisation. Altmaier's charter, which seeks to "achieve climate goals while maintaining economic strength," is a step in the right direction. But the implementation will be crucial. Is the burden roughly the same across economic sectors, or is it skewed? How can governments ensure that industries adopt better technologies? Which emissions end up getting displaced instead of abated? Efficiency and reproducibility abroad are the benchmarks with which to measure the true worth of Europe's climate policy.

President of ZEW, Prof. Achim Wambach, PhD

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