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Bad years – Good years: Have we kicked the debt habit?

It’s amazing what good a little growth can do. Following lean years in the first half of the decade, gross domestic product (GDP) in Germany grew by 2.7% in 2006. We are expecting a 2.3% increase this year and 2.6% in 2008. This has a thoroughly beneficial effect on public budgets. Tax revenues are gushing and expenditures associated with unemployment are on the decline. The federal, state and local governments have in the past had to resort to deficit spending and this is particularly true for municipalities in North Rhine-Westphalia (NRW). Today, however, there is good reason to hope that budgets can be balanced soon.

The question is, can we look forward to an unbroken series of “good years”? The situation isn’t quite that simple. The key macroeconomic figures are indeed unexpectedly good at present. But improvement resulting from the business cycles is, by its very definition, not enduring. Lasting improvement can be expected only if growth in potential output – i.e. GDP growth at normal utilization of capacities – is improved. In this regard, there’s not much happening at present. Moreover, the increase in tax revenues is due in large part to an increase in the sales tax rate. Given this situation, it would make good economic sense to reduce government expenditures even more consistently and to rigorously eliminate tax breaks. This would improve the prerequisites for continued growth.

The grand coalition in Berlin has already done a remarkable amount in regard to eliminating tax privileges. Among these changes were eliminating subsidies and tax deductions. Unfortunately, new loopholes were created with the “Impetus Program” designed to boost growth and investments. The states, given the fact that they cannot do much to influence their own revenues, have to concentrate on their outlays. In North Rhine-Westphalia this task has been taken up with resolute determination. This seems to be easier for the coalition in Düsseldorf – in spite of all the resistance voiced by those affected – than for the coalition in Berlin. In NRW the government can adhere to guidelines formulated in the coalition agreement: “Private initiative before state intervention”. There is no similar commitment to government restraint to guide the coalition in Berlin.

As regards the fundamentals of solid budgetary constraint, however, at least the ministers of finance Steinbrück at the federal level and Linssen in NRW are not so far apart. Both emphasize that expectations for higher tax revenues in the future cannot justify higher expenditures at present. Both want to make use of the “good years” to further reduce new indebtedness. And both have correctly pointed out that interest rates, which will probably rise, will become increasingly burdensome, given the enormous indebtedness at all levels of government. This is the downside of a good business phase and the unpleasant consequence of excessive government borrowing in the past.

Good years are most certainly difficult times for ministers of finance because here they have to prove who is actually capable of consolidating the budget.

Rainer Kambeck
Research news

Hospital Rating Report 2007: The chaff and wheat part ways

In many hospitals the optimization programs initiated in recent years are beginning to take effect. In spite of this, perceptible restructuring and a market shakeout in the clinical sector will continue in coming years. The extent of the impact on the various facilities will differ. This is the assessment arrived at in the current “Hospital Rating Report 2007”. When compared with the preceding study, the forecasting horizon has been extended. A detailed inventory of the market is submitted and, for the first time, benchmark analyses have been undertaken.

The economic situation of hospitals in Germany differs widely: 66% are “in the green range” with their rating while 15% are in the “amber” sector. But almost one clinic in five (19%) is in the “red” zone and thus among the “endangered species”. They will be facing considerable difficulty in taking out loans. This is one of the findings of the “Hospital Rating Report 2007” published by RWI Essen, Admed GmbH and the Institute for Health Care Business GmbH (HCB). Forming the basis for the analyses are current and previous annual accounts drawn up by a total of 593 hospitals.

This annual report has been prepared for the third time now and testifies to favorable developments in the industry: Optimization programs affecting both the organizational and the operating structures in the facilities are beginning to take hold. Hospitals will nonetheless have to stay on the ball because, were they to forego counteractive measures, then by the year 2020 presumably only about 50% of the hospitals would be in the “green” and 7% in the “amber” range. At almost 44%, nearly every second hospital would be on the “red” list.

Discernible restructuring and market shakeout took place in recent years. This process will continue, and might even accelerate, in coming years. Large hospitals, public hospitals and university teaching hospitals will be affected more frequently. Some clinics will presumably be privatized or merge with other municipal hospitals; others will become smaller or specialize. This will affect more hospitals in western Germany than in eastern Germany. The future of the health care industry, according to the opinions put forth in the report, is to give the insurance premium payer greater freedom; this will encourage competition in the health care sector. Costly medical innovations would then be initially financed by patients who are privately insured, but those technologies would ultimately become available as basic care for members of statutory insurance societies.
Current report covers greater range of subjects

The “Hospital Rating Report 2007” goes far beyond its predecessors in terms of content and substance. For the first time ever, information from hospitals’ 2004 quality reports were evaluated and linked with the annual accounts. Moreover, the forecasting horizon (formerly 2010) was extended to 2020 and the impact of selected countermeasures intended to stabilize the economic situation were examined. Over and above that, the report inventoried the hospital market. Numerous maps of Germany illustrate the variations – in some cases quite significant – in key figures from one city or area to the next. Thus in the Ruhr Area overcapacities, measured on the basis of the number of available beds, will presumably rise from the 15% now prevailing and already quite high, to 45% by 2020. 7.0% overcapacity is being forecast for the rest of NRW, and this is in line with the rest of Germany. The basic reason for the difference is to be found in below-average population growth along the Ruhr. The report also includes key figures that have been averaged for various groups of hospitals. These enable hospitals to compare their own numbers directly with values typical for comparable facilities. Finally, the study contains both the results of its own in-depth analyses and extracts of the findings of other studies.

Parental income has no effect on school choice

Family income does not influence the decision as to which type of secondary school children attend. Instead, “non-measurable heterogeneity” – in the form of cognitive abilities, motivation or preferences – is determinant in the selection of the school. Thus governments should not place emphasis on transfer payments for disadvantaged families but should instead fund programs to improve early advancement of children. These would, for example, help to compensate for differences in the quality of the parents’ education.

Parents’ income has no statistically positive causal effect on which type of secondary school their offspring attend. The three options available are the Hauptschule (preparing pupils for apprenticeships usually in the trades), the Realschule (in preparation for more demanding vocations) and the Gymnasium (entitling graduates to attend university). In conducting this study RWI Essen used data the Socioeconomics Panel gathered on pupils 14 years of age at all three school types. Siblings’ school choices were used to measure the causal effect of income. School choices were compared with differences in family income prevailing when (at the end of the fourth grade) pupils transferred from elementary school to a secondary school. Moreover, the examination makes use of a “natural experiment”: In 1996 government child benefits were boosted considerably. Comparing behaviors before and after this raise made it possible to determine the degree to which the higher family income affected the selection of schools for the children.

The data show that children from poorer households do attend the Hauptschule and the Realschule more frequently, and that this is statistically significant. It can also be demonstrated that children from higher-income families more frequently attend the Gymnasium. More intensive analysis re-
revealed, however, that no causal effect between family income and the school choice can be demonstrated. Instead, the differences are apparently due to other factors, in this case differences in cognitive abilities, motivation or preferences, for instance, that parents pass along to their children.

It would make more sense to enhance children’s motivation level rather than parents’ income

For the political arena this means that the focus should not be on financial transfers to disadvantaged families in the hope of improving the educational outlook for their children. Programs that increase children’s motivation or improve education quality appear to be far more promising. This might include additional hours of instruction, home visits by teachers or other interventions to improve cognitive and social skills.

The study entitled “Does Money Buy Higher Schooling? Evidence from Secondary School Track Choice in Germany” appeared as No. 55 of the series entitled “RWI: Discussion Papers” and is available for download in PDF format from the RWI website at www.rwi-essen.de/dp.

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Awarded research contracts

Regulation of the construction market. Project commissioned by the Federal Office of Construction and Planning. Contact: Dr. Uwe Neumann. Duration: 11 months.

Options for increasing energy efficiency in existing residences. Project commissioned by Ener-tec. Contact: Dr. Manuel Frondel. Duration: 6 months.


Dates

Study on international services presented at the Federal Ministry of Economics and Technology

“Deregulation of international trading in services in the WTO – Opportunities and risks for Germany” is the title of a highly topical study prepared by RWI Essen on behalf of the Federal Ministry of Economics and Technology. RWI President Prof. Christoph M. Schmidt and Dr. Roland Döhn, director of the “Growth and Cycles” competence area, unveiled the study in a joint presentation at Ministry offices, attended by State Secretary Dr. Bernd Pfaffenbach.

The study shows that German providers of services are in good standing in international business. The extent of their interna-
tional orientation does, however, vary widely. While Germany is among the world’s leading vendors for IT, communications, postal and courier services, construction services and marine shipping, it is in the second tier in financial and technical services. This is determined less on the basis of exports than on the significance of multinational corporations headquartered in Germany.

The abstract and complete study have been published in the “RWI : Project Reports” series and are available (in German) for download in PDF format at the RWI website: www.rwi-essen.de/pb
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Kick-off for the “Neighborhood Impetus Program” in Bonn

It was on November 30, 2006, that the kick-off event for the research project entitled “Neighborhood Impetus – New ways to strengthen local economies” was held at the Federal Office for Construction and Planning (BBR) in Bonn. In this study RWI Essen and STATTwerke Consult GmbH, Berlin, examined, using selected model projects as the examples, which effects community-oriented business promotion can have and how it can be successfully implemented. The STATTwerke Consult GmbH is responsible for consulting and support of the operatives while RWI Essen is handling monitoring and evaluation. The concept comprises mobilizing local self-initiative and promoting local companies and micro-businesses. The project is being funded by the BBR. For the first time ever, an evaluation study is being included, from the very outset, as a component in a project intended to promote “local business”. The intention is to make the findings accessible to a broader public by way of publications and workshops even as the project progresses. This is also intended to intensify the interchange of information among the model projects.

In the course of the kick-off affair RWI President Prof. Christoph M. Schmidt underscored the significance of “Neighborhood Impetus” research for the development of strategies to be used in local business promotion. Once the local operatives had presented all the model projects, the representatives of the research team, among them RWI scientist Dr. Uwe Neumann, explained the basic steps in the work involved in the upcoming initial phase. It became clear that “Neighborhood Impetus” research on the one hand ventures into new and largely uncharted territory. On the other hand, many of the actors involved appear to be ready to participate actively in the exchange of information above and beyond the model projects being supported and to take part in the learning process in this field of research.

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First “RGS Doctoral Conference” in Dortmund

The first “Doctoral Conference” of the Ruhr Graduate School in Economics (RGS Econ) took place in Dortmund on February 28. The objective was to provide doctoral candidates a platform for the discussion of their proposed dissertations and to enable research work at international level. Moreover, personal networks could be knit, laying the basis for joint research projects. In more than 30 speeches junior economists – including students from Italy, France and the USA – introduced their
work to a large number of participants. More than 100 entries had been submitted to the selection commission. The nine sessions covered a variety of fields, including labor markets, health economics and financing education.

A speech by Prof. Wolfgang Wiegard, member of the German Council of Economic Experts, rounded out the day. In his speech entitled “Economic policies of the grand coalition: Conflicting interests – Missed opportunities” he turned an extremely critical eye on the work of the federal government, using the health care reform and the reform of corporate taxation as the examples.

The thoroughly positive resonance among participants has prompted the organizers to consider repeating the conference next year and at larger scale.

Widely varied program at RGS Econ: “Mini-Lectures” and “Academic Writing”

The invitation had been extended by Prof. Volker Clausen of the University of Duisburg-Essen. It was accepted by Sergey Paltsev, Ph.D. who, in the course of a three-day “mini-lecture” series at RGS Econ last November, reviewed possibilities for using computable general equilibrium models in cost-benefit analyses associated with climate and energy policy issues.

The renowned scientist at the Massachusetts Institute of Technology provided detailed insights into the structure of the economic sub-model in the MIT Integrated Global System Model. It is used, for instance, in the framework of the interdisciplinary Joint Program on the Science and Policy of Global Change at MIT for the preparation of climate forecasts. The seminar also found lively interest among associates at RWI’s Environment and Resources competence area.
At the end of January Prof. David Jaeger, once again in the framework of a three-day “mini-lecture” event at RGS Econ, provided a comprehensive survey of the fundamentals of and questions pursued by migration research.

This highly respected scholar at the College of William and Mary (Williamsburg, Virginia) discussed not only the general economic literature on the assimilation of immigrants, but in particular some of the econometric processes used in migration research. He also provided a prediction as to research questions that will be of relevance in the future. Those taking part in this seminar were once again both doctoral candidates at RGS Econ and RWI scientists.

Vera Zegers of Golin Wissenschaftsmanagement in Hamburg used a 1½-day workshop for doctoral candidates at RGS Econ and RWI Essen to discuss the subject of academic writing in English. Her range of topics included various techniques for structuring the writing process, suggested solutions for problems frequently encountered, and realistic time management while writing. She also explained how academic texts can be adapted to suit the needs of varying groups of readers and listeners. Information: rumpf@rwi-essen.de

May 15 deadline for RGS Econ scholarship applications

Once again this year RGS Econ, a joint initiative of the universities at Bochum, Dortmund and Duisburg-Essen together with RWI Essen, is seeking eight superior junior scientists for its three-year doctoral program in economics.

Each year up to eight German and foreign doctoral candidates are accepted in the program. Enjoying the advantages of a full scholarship, they can earn their postgraduate degree in economics under ideal conditions. The program’s key features include emphasis on theoretical modeling and econometric analysis and its thoroughly international orientation. Not only do the scholars receive financial support. The doctoral candidates profit above all from work in small teams, intensive counseling, the structured educational and research program, and access to networks of internationally renowned scientists. Applicants should hold a degree with high grades (either the German Diplom, a master’s degree or comparable diploma) in economics or a related subject. Instruction is in English.

Thanks to generous public and private funding – including that deriving from the Research and Innovation Pact initiated by the Federal Ministry of Education and Research – all eight candidates can be awarded a full scholarship in the amount of € 1250 per month. May 15, 2007, is the closing date for applications for the program.
commencing on October 1 this year. Additional information on the educational content, research thrust and application procedure will be found in the Internet at www.rgs-econ.org.

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Publications

**RWI : Discussion Papers**

Download at www.rwi-essen.de/dp

(54) Boris Augurzky, Dirk Engel and Christoph Schwierz, Who gets the Credit? Determinants of the Probability of Default in the German Hospital Sector

Huge underinvestment increases the need for private borrowing in the German hospital sector, the access to which is partly determined by the probability of default (PD) of individual hospitals. Using ordinary least squares and quantile regression techniques this paper provides first empirical evidence of its kind to evaluate the PD in the hospital sector and its constituent determinants. Based on annual account and medical data from 17% of all German hospitals we find that the current average probability of default amounts to approximately 1.7%, which is slightly higher than the average probability for all German firms. Among other determinants, we find that public ownership significantly increases the risk of default, while private for-profit and private not-for-profit hospitals do not differ. Moreover, demographic change in the form of population growth is confirmed to be relevant for the PD.

(55) Marcus Tamm, Does Money Buy Higher Schooling? Evidence from Secondary School Track Choice in Germany

The German schooling system selects children into different secondary school tracks already at a very early stage in life. School track choice heavily influences choices and opportunities later in life. It has often been observed that secondary schooling achievements display a strong correlation with parental income. We use sibling fixed effects models and information on a natural experiment in order to analyze whether this correlation is due to a causal effect of income or due to unobservable factors that themselves might be correlated across generations. Our main findings suggest that income has no positive causal effect on school choice and that differences between high- and low-income households are driven by unobserved heterogeneity, e.g., differences in motivation. (cf. pp. 4–5.)

(56) Michael Fertig and Marcus Tamm, Always Poor or Never Poor and Nothing in Between? Duration of Child Poverty in Germany

This paper analyses the duration of child poverty in Germany. In our sample, we observe the entire income history from the individuals’ birth to their coming of age at age 18. Therefore we are able to analyze dynamics in and out of poverty for the entire population of children, whether they become poor at least once or not. Using duration models, we allow poverty exit and re-entry to be correlated even after controlling for observable characteristics and also account for correlations with initial conditions. Our results indicate that household composition, most importantly single parenthood, and the labour market status as well as level of education of the household head are the main driving forces behind exit from and re-entry into poverty and thus determine the (long-term) experi-
ence of child poverty. However, unobserved heterogeneity seems to play an important role as well.


Using a panel of household travel diary data collected in Germany between 1997 and 2005, this study assesses the effectiveness of fuel efficiency improvements by econometrically estimating the rebound effect, describing the extent to which higher efficiency causes additional travel. Following a theoretical discussion outlining three alternative definitions of the rebound effect, the econometric analysis generates corresponding estimates using panel methods to control for the effects of unobservables that could otherwise produce spurious results. Our results, which range between 56% and 66%, indicate a rebound that is substantially larger than obtained in other studies, calling into question the efficacy of recently implemented measures in the European Union targeted at technological innovations in the automotive sector.

RWI : Materialien

Download at www.rwi-essen.de/mat


There is no question that knowledge is becoming an ever more decisive factor in production. Based on the speed at which knowledge spreads nowadays, competitive advantages can be maintained only by continuously updating and conscientiously expanding knowledge already on hand. Consequently, current innovation activity and the foundations for future innovative capabilities move further into the limelight. In order to explore North Rhine-Westphalia’s prospects for the future, the “Innovation Report 2006” (cf. RWI : News 5/2006), analyzes the position NRW assumes in leading-edge work within Germany and in Europe and what initiatives governments might take in order to effectively promote research and discovery. The report is based on the latest indicators for education, science and innovation and concentrates on a comparison with the other states in Germany.

(30) Bernhard Lageman und Christoph M. Schmidt, Humankapital, Bildung und Ausbildung in Deutschland – Eine aktuelle Bestandsaufnahme auf Ebene der Bundesländer (Human capital, education and training in Germany – A current inventory at the state level)

Standing as we are at the threshold of the “knowledge-driven society” in the 21st century, the subjects of education, research and innovation are of cardinal importance for the future of every national economy. Given their authority and responsibility for shaping development, it is absolutely necessary for political decision-makers in the German states to achieve complete clarity as to which position their state assumes in each case. They must also know where the state’s strengths and weaknesses lie and where state government might apply leverage to effectively foster future economic prosperity. It is against this background that the paper examines educational affairs in the German states on the basis of selected indicators and questions on specific topics.
NRW experienced a strong upswing in 2006; GDP for the state is estimated to have risen by 2.1%. Even so, this was weaker than in the rest of Germany and special factors were to blame here. Since last spring, however, business indicators have been pointing distinctly upward, similar to the overall trend in Germany. Capital investments and exports were the driving forces here and that, of course, favored the production of intermediate inputs and machinery. Overall, manufacturing industry output in NRW will have risen by 4.2%. Construction activity, following a long period of decline, once again rose significantly, by 3.1%. Growth in the services sector will have come to about 1.5%. In 2007, due to restrictive fiscal policies and a slight cooling of the global economy, somewhat weaker expansion may be expected (GDP growth of 1.6%). The upward trend should, however, essentially continue. The unemployment rate may well decline from 10.7% to 9.8%.

The “Hospital Rating Report 2007” essentially follows in its predecessor’s footsteps. It does, however, also set its own accents and includes six additional aspects in the examination of the clinics’ economic situation (cf. pp. 3–4). The primary objective is, as always, to improve transparency in the hospital market.

This volume contains the complete “Hospital Rating Report 2006” in English. It is now available gratis, as is the complete German version (RWI : Materialien 22), as a PDF download (www.rwi-essen.de/mat).
**Interna**

**RWI Essen founds the HCB subsidiary**

In a cooperative venture with the health care consultant company ADMED GmbH, HPS Research and additional partners, RWI Essen founded the

*Institute for Health Care Business GmbH*

(HCB) in December 2006. The subsidiary pools the know-how of these three partners with their demonstrated expertise in the health care field. The partners have worked together most successfully on several occasions in the past. RWI Essen and ADMED GmbH have for several years now produced the “Hospital Rating Report”; they were joined by HPS Research to publish for the first time last year a study examining the financial situation in the nursing homes sector. Both studies will be continued in cooperation with HCB. Over and above that, HCB will offer consultation and conferences for companies active in the health care sector. RWI scientist Dr. Boris Augurzky has assumed management responsibilities here. Thus RWI Essen is one of the first Leibniz Institutes in Section B – “Economics, Social Sciences, Regional Infrastructure Research” – to carry out a spin-off.

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