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Ostensibly fair but nonetheless inequitable

A majority of the members of both of the political parties forming the current grand coalition in Berlin favors extending the period during which persons over 45 years of age are eligible to draw Phase I unemployment benefits, even though the details of specific proposals differ. The argument is that this will accommodate the citizenry’s sense of fairness. Opinion polls do indeed reveal that 75% of the German public would support such an extension. But that by no means makes the arrangement fair or equitable.

There is little doubt that shortening the Phase I entitlement periods, effected in the course of implementing the Agenda 2010 reform program, induced a sharp decline in the number of older jobless persons. Those who advocate extending Phase I entitlement periods claim, however, that this decline was due solely to the good business climate, not to the reforms. But how does one explain why so many of the long-term unemployed and older jobless workers found employment shortly after the labor market reforms went into effect – at a time when the business upturn was still far beyond the horizon?

Why might extending the entitlement period for Phase I benefits be inequitable? Firstly, this would in all likelihood hurt exactly the group that is supposed to be helped. The extended entitlement period would probably mean that when the economy cools off – and that will certainly happen – businesses will be far more disposed to lay off senior employees. As in the past, this would cause a surge in unemployment among older workers. Experience shows that such a reaction among businesses cannot be averted by political provisions, since there is no way to effectively implement or enforce them.

Secondly, one would jeopardize all the measures associated with the labor market reforms, since they depend exactly on the principle of “develop and challenge”, i.e. provide assistance and require performance. If one were to weaken either side of this principle, then that would imperil the effectiveness of the other side. Consequently one may well doubt whether greater stringency in requiring older workers to take part in measures in so-called “active labor market programs” (such as retraining) could offset the negative effects of extending the entitlement periods.

Finally, someone will have to pay for the costs triggered by extending Phase I benefits. Even if one were to disregard a potential increase in unemployment – a probable consequence of extending Phase I entitlements – one can expect to incur expenses estimated at about one billion euros. The SPD wants taxpayers to bear these costs. In this way the individual – as is the case with many other tax increases – would be kept in the dark about the true costs. The CDU, by contrast, would rather engineer the extension of Phase I benefits so as to make them neutral in regard to costs for the tax system. This means that younger workers – who, due to the demographic shift, are even now exposed to impending burdens that are almost impossible to forecast – will have to foot the bill by way of transfer payments. Neither of these solutions appears to be worth pursing.

Thomas K. Bauer
Small and medium sized enterprises make a more modest contribution to employment in Germany than had previously been assumed. And the expansion of their employment figures is not consistently better than in the larger firms. This was the conclusion arrived at in a study recently completed at RWI Essen.

The share of employment accounted for by small and medium-sized enterprises (SME) in Germany is markedly lower than had been widely supposed. Earlier assessments, based on company data for the year 2005, for instance, estimated that firms with fewer than 250 employees accounted for almost 70% of all employment. By contrast, calculations based on the “Amadeus” company database arrive at only 58%. Evaluations on the basis of the register of companies come to a similar value.

The European Commission has recommended that SMEs be even more restrictively delineated. The number of employees (including those working for affiliated companies) has to be fewer than 250. This limitation cannot be precisely implemented using the official data available. Consequently RWI Essen used the Amadeus database, since it contains information on company ownership and holdings. When the EU definition is applied, the share drops to 50.5%. In 2004 the sectors in which SMEs account for the lowest amount of employment (when applying this demarcation yardstick) were mining, energy and water (17.7%), the manufacturing trades (38.5%), banking and insurance (46.5%) and transport and communications (47.5%). The share of employment declined once again where observations were limited to self-sufficient SMEs. Not only is the employment volume less than was previously presumed. The findings point to significant interlocking among holdings within the SME segment, as well.

The business data available do not yet permit a sufficiently exact analysis of the changes, over time, in the contribution to employment made by SMEs. Data from the IAB business panel could be used, however, to estimate the contribution to employment made by SMEs in adherence to the EU definition. This makes it possible to distinguish between independent SMEs and those affiliated with larger corporations.

The share of employment accounted for by SMEs with a staff of fewer than 250 climbed between 1998 and 2005 from 65.0 to 69.6%. Since 2001, however, the share has risen only marginally. The trend toward production in smaller operating units has thus slowed significantly. Growth in the employment share is seen primarily in those operations with fewer than 250 employees that are associated with a larger corporation. There are indications, however, that this is the result of dismantling large corporate structures and acquiring smaller, independent operations.
The net contribution to employment by SMEs in the private sector from 1998 to 2005 was positive in western Germany. Operations with fewer than 500 employees created a total of 1,237,000 new jobs, net. The number of employees in large companies declined at the same time by 192,000 net. If one considers only employees with full benefits, then the contribution to employment by SMEs is, however, negative. In eastern Germany the number of persons employed by SMEs dropped by about 227,000 during the period cited; in larger companies the net decline was 55,000.

All in all, empirical results indicate that SMEs do not necessarily surpass larger operations in terms of employment effects. This casts doubt on the opinion held for decades now, i.e. that SMEs are the prime mover for employment and that they make an above-average contribution to employment. They cannot infinitely compensate for layoffs by major corporations.

Coexistence between small and large businesses

One uncontested fact, however, is that SMEs make a decisive contribution to intensifying market competition. This forces companies to design their production processes for greater efficiency. Additionally, the SMEs are the guarantor for the restructuring of employment patterns that is both desirable and economically necessary. They also carry out an important “ trial-balloon” function for new ideas and business models. SMEs do, however, also labor under disadvantages. The impact of resource shortages on SMEs is disproportionate, they have relatively higher bureaucracy-induced costs and, due to the expense involved, they invest less in R&D. Viewed against this background, it would seem to be necessary to adopt policies that capitalize on the specific advantages offered by both SMEs and large business units. The division of labor between these two segments will presumably advance. This opens, at the same time, an option for greater cooperation among them at all the steps of the value creation process.

Measures to reduce bureaucracy are certainly important and correct. But no matter how favorable such measures might be for middle-market companies and no matter how effective the resonance in the press might be – embracing comprehensive reforms is far more important. Those reforms ought to be aimed at curtailing rigidity in the labor and product markets and attenuating tax burdens. Moreover, the effects of promotional programs should be examined more closely, using scientifically sound procedures. Establishing a culture in which program evaluation is seen as a normal occurrence could make it possible to design business policies for greater efficacy in the future.

Those who are married are less tempted by cigarettes

Being divorced or widowed, having a lower education level or lower income – these are just a few of the factors associated with an increased likelihood of smoking. Young people who have spent their childhood with parents who smoke are more likely to start smoking than their peers. These are among the results found in studies carried out at RWI Essen and examining smoking behavior.

Anyone who is divorced or widowed has a greater probability of smoking than married persons. This is one of the findings in a recent study on smoking patterns in Germany, carried out at RWI Essen. Thus it was found that among men who are divorced or widowed the probability that they smoke is...
from 13 to 18 percentage points higher than for married men. Among women the differential is between 11 and 14 percentage points. Moreover, persons with less education (when compared with those with more education) will be more likely to smoke, as will persons with lower incomes, unmarried persons or – at least in tendency – persons who live in a household where there are no children.

Data from the German “microcensus” surveys in 1995, 1999 and 2003 were evaluated for this study. Among the factors considered in this random sample are the age, marital status, educational background, employment status, income and citizenship of those queried. It was not possible to assess consumers’ responses to price changes since the prices for cigarettes (in real terms) fluctuated only slightly.

Those who are divorced and widowed are not only more likely to smoke, but will probably smoke more, as well.

As was shown in the study, those who are divorcees, widows and widowers and those with less schooling are not only more likely to smoke. Their cigarette consumption levels significantly exceed those of married persons and people with more schooling. It is also true that the younger someone starts smoking, the greater the number of cigarettes he or she will smoke at any given age in life, since cigarette consumption rises with increasing duration.

A second study, using the data of the Socio-Economic Panel from the years 1984 to 2004, examined the factors associated with when any individual starts smoking.

The share of smokers among young people rose steadily over the 1990s while, at the same time, the starting age dropped from one cohort to the next. It is above all young people who spent their entire childhood with parents who smoked who have a higher risk of starting. Pupils attending pre-collegiate secondary schools have a lower probability of starting to smoke than those who attend pre-vocational schools; young people attending academically more demanding schools start later than those attending schools with lower academic expectations. On average, the risk of starting to smoke at all began to decline for girls (boys) when they turned 18 (19 resp.).

The results make it possible to address individual target groups.

The results of the investigations provide valuable indicators for government agencies and policy makers as to which target groups in particular should be addressed by non-smoking campaigns. This is true both for more general campaigns and for those intended in particular to keep young people from taking up smoking at all.

The studies are published as “Ruhr Economic Paper” No. 26 ("Who smokes and how much") and No. 27 ("The Determinants of Smoking Initiation"). They are available as pdf download at www.rwi-essen.de/rep.

Information: weiler@rwi-essen.de

Awarded research contracts

Analysis of potentials for the trades in the development of the healthcare sector. Project for the Düsseldorf Chamber of Handicrafts. Contact: Dr. Boris Augurzky. Duration: 3 months.

The budget of the City of Essen in comparison with the 15 largest cities in North Rhine-Westphalia. Project for the City of Essen. Contact: Dr. Rainer Kambeck. Duration: 2 months.
Scientific evaluation of the QUADRIGA project; subproject analyzing its immediate and continuing effects. Project for the Federal Labor Agency. Contact: Dr. Jochen Kluve. Duration: 21 months.

Medical technology in NRW. Project for the Ministry of Labor, Health and Social Affairs of the State of North Rhine-Westphalia. Contact: Dr. Boris Augurzky. Duration: 2 months.

Dates

Joint diagnosis for the autumn of 2007: Made in Essen

The recently reorganized “joint diagnosis group” met for the first time at RWI Essen. The contract for the semiannual assessments of the business climate, prepared by the leading business research institutions, was awarded anew in July of this year by the Federal Ministry of Business and Technology. Some 40 scientists deliberated for almost two weeks at the beginning of October and ultimately came to a joint assessment of the economic situation and the reasons behind it. They expect gross domestic product (GDP) in Germany to rise by 2.6% this year and 2.2% next year.

Information: doehrn@rwi-essen.de

Third Ruhr Graduate Summer School again a resounding success

The Third Ruhr Graduate Summer School took place from October 8 to 12, 2007, at the University of Duisburg-Essen. International participation was strong. Responding to the invitation extended by Volker Clausen – Professor for International Economic Relations and lecturer at the Ruhr Graduate School in Economics (RGS Econ) – numerous scientists from domestic and foreign research institutions traveled to the Essen campus. Participants came not only from the EU countries but also from Indonesia, Japan, Sudan and South Africa. Their purpose was to concentrate on one specific economic topic: the so-called “General Equilibrium Models” with which, for instance, the effects of globalization and trade liberalization can be examined.
The participants learned to apply these models – themselves theoretically quite demanding – to numerous questions associated with world trade. This was made possible with special software and a special programming language. The questions were: What will be the macroeconomic impact of Russia’s joining the World Trade Organization? What influence can be expected from the current round of WTO talks? What effects will rising energy costs exert upon international trading?

Professor Clausen was once again able to attract renowned colleagues as speakers at the summer school session – David Tarr of the World Bank in Washington, for instance. He is one of the world’s foremost experts in this field and for twenty years has served as advisor to the World Bank and to the governments of many countries. Another lecturer was Sergey Paltsev of the Massachusetts Institute of Technology in Boston. His prolific writings have made a vital contribution to defining and applying general equilibrium models in scientific policy consulting.

As in the past, this year’s course was quickly booked up. That indicates the great demand, both locally and internationally, for these research-oriented educational sessions. Consequently another Ruhr Graduate Summer School in Economics will be organized again for 2008.

Information: rumpf@rwi-essen.de

Dalai Lama talks with doctoral candidates at RGS Econ

Three doctoral candidates from the Ruhr Graduate School in Economics (RGS Econ) enjoyed a very special honor on September 21, 2007. They had been selected to take part in a round of talks with Tenzin Gyatso, His Holiness the 14th Dalai Lama, on the subject of “Universal Responsibility in Science and Society”. The seven NRW graduate schools had invited the Tibetans’ religious leader to the university town of Münster.

This had originally been envisioned as an event within the circle of the NRW graduate schools but lively interest turned it into a major event. In the morning, the 72-year-old winner of the Nobel Peace Prize talked about his ideas of research ethics.
Prize talked for almost two hours with a select group of thirty doctoral candidates, among whom were three RGS Econ students: Daniel Baumgarten, Markus Hörmann and Vivien Procher. In this phase of the proceedings, not open to the public, attention was focussed on the ethical responsibilities of science and business in the face of ongoing globalization in the world’s economy and society. The discussion was transmitted to the auditorium at Münster Palace, allowing some 300 additional doctoral candidates from the NRW graduate schools to follow the discussion live.

In the afternoon the Dalai Lama delivered a public speech to 4,500 listeners in an SRO audience at the Münsterland Arena. In his welcoming comments NRW Minister of Research Andreas Pinkwart paid tribute to the religious head of the Tibetans as one of the great mediators between religion and science. In this lecture, in part quite emotional, on global responsibility in science and society, the Dalai Lama emphasized again and again the equality of all human beings. Compassion, tolerance and openness are indispensable in dealings one with another. But neither did the Nobel Peace Prize laureate avoid such delicate topics as embryonic stem cell research, animal testing or the future of Tibet.

“Consequently the two primary goals of the NRW graduate schools in their planning the event were fulfilled completely. It was possible to expand doctoral candidates’ familiarization with the ethical questions associated with their own research activities and to make the NRW graduate schools more visible to the outside world”, said the RGS Econ coordinator, Dr. Stefan Rumpf.

Information: rumpf@rwi-essen.de

Publications

**Ruhr Economic Papers**

Download at www.rwi-essen.de/rep

(24) Leilanie Basilio, Thomas K. Bauer and Mathias Sinning, Analyzing the Labor Market Activity of Immigrant Families in Germany

Examined here was whether immigrant families, restricted in their ability to take out loans, pursue a family investment strategy in which the one spouse, after arrival, invests in human capital specific to the host country while the other works to cover day-to-day expenditures. No evidence of such specialization could be found in the data for western Germany used for this study. In addition, the type of labor offered and the wage adjustments made by families were examined for families who immigrated all at the same time and for those whose members arrived one after the other. The estimates indicate that differentiation is relevant for an analysis of the labor market activities of immigrant households.

(25) Jan Brenner, Effects of Job Entry Restrictions on Economic Integration – Evidence for Recent Ethnic German Immigrants

Examined in this paper is the influence that limitations on access to the labor market have on the economic integration of so-called “ethnic Germans” (mostly from the former Soviet Union) shortly after immigration. The data of the German SOEP were used for this purpose. Ethnic Germans are, upon their arrival, more likely to be disadvantaged but, as far as the aspects
examined go, they catch up almost completely equal with the autochthonous German population over time. Moreover, these factors can explain to a considerable extent the income gaps between “ethnic Germans” and indigenous Germans.


Smoking is associated with great economic costs since it increases the risk of incurring various illnesses. One promising instrument for reducing these costs is to deter tobacco consumption by way of target-group-oriented non-smoking campaigns. The results show that such campaigns ought to concentrate on people with a low educational level and low income, unmarried, divorced or widowed persons, and the unemployed (p. 4).

(27) Silja Göhlmann, The Determinants of Smoking Initiation – Empirical Evidence for Germany

This examination of the determinant factors in the decision to start smoking reveals that younger people with a higher educational level will be less likely to start smoking while among adults the educational background is irrelevant. Moreover, the probability that an individual will take up smoking is increased if both parents smoked during the respondents’ entire childhood (p. 4).

(28) Jochen Kluve and Sandra Schaffner, Gender Wage Differentials and the Occupational Injury Risk – Evidence from Germany and the US

Numerous studies, above all for the USA, have demonstrated that employees who are exposed to high occupational accident risk are indemnified by way of the appropriate bonuses. Males are over-represented in the more hazardous occupations and past studies on earnings differentials between men and women have not taken sufficient account of this aspect. The findings of the current paper, using data from Germany and the USA, indicate that the compensatory wages for hazardous jobs are a part of the gender-related wage discrepancies. A part of the wage gap is thus certainly due to the unequal distribution of occupational accident risk between men and women.

(29) Torsten Schmidt and Tobias Zimmermann, Why are the Effects of Recent Oil Price Shocks so Small?

In comparison with the 1970s and 1980s, the most recent oil price shocks have had relatively little effect on real economic activity and inflation. There are two factors currently preventing a stronger reaction by the German economy. On the one hand, the ratio of energy costs to total production costs has dropped significantly. On the other hand, the high oil price is also due to a strong expansion of the world economy. Accordingly, high oil prices go hand in hand with high demand for German goods. If the world economy were weaker, then oil price shocks would have greater potential for exerting substantial effects on the German economy, even though its vulnerability to energy prices overall has dropped.

(30) Mathias Sinning, Wealth and Asset Holdings of Immigrants in Germany

This work analyzes asset accumulation by immigrants in Germany and studies the investment decisions they make. The results show significant differences between indigenous Germans and immigrants in regard to overall wealth and the various components in wealth. Primarily responsible for the differences in total wealth are inequalities in the home ownership rate. Moreover, investment diversification among migrants is significantly lower than for comparable groups of Germans. There is much to indicate that these differences can be explained largely by disparities in educational levels.
These observations begin with the determination that conventional methods for calculating penalties will in many areas not be adequate to deter those who deliberately evade taxes. Fines based on overall income have virtually no deterrent effect, particularly in the lower range of relative evasion amounts. In economic terms, however, penalties are to serve a stimulus-compatible and efficient intake of public revenues. In particular, it is necessary to ensure that tax evasion ultimately does not pay. Honesty in tax reporting can be compelled by increased auditing activity. A modest expansion of auditing intensity might actually pay off on balance for the state. Extending audit frequency to the point at which tax evasion becomes unattractive, by comparison, is costly. One reform proposal might involve raising to a reasonable extent the guidelines for imposing penalties. Confiscating non-declared income could be an acceptable response to tax evasion, regardless of the motives for the deed.

The “Reha Rating Report 2007” for the first time examines empirically the economic situation among rehabilitation centers in Germany. Even though the data available in many instances leaves something to be desired, interesting conclusions could be drawn as to the rehabilitation market, on the current economic situation of the rehab clinics, and about perspectives for the future. This is to provide empirically sound findings on this market to decision-makers at a wide variety of levels (government and legislatures, hospitals and their business partners, health insurers, banks and investors). The names of the rehab facilities were mentioned in the spot sample but not evaluated by way of a rating. With the “Reha Report 2007” the ADMED GmbH, together with RWI Essen and HPS Research, have published – following the Hospital Rating Report and other papers – a further work lending transparency to the economic situation in the German health care system.

**RWI Essen once again on hand at EEA-ESEM and VfS**

As in previous years, RWI Essen was once again on hand at the annual conferences of the European Economic Association/Econometric Society (EEA-ESEM) and the Verein für Socialpolitik (Social Policies Society – VfS), delivering lectures and showing RWI publications. The EEA-ESEM met in Budapest from August 27 to 31, 2007. Six RWI scientists journeyed to Hungary to present scientific papers. The VfS held its annual meeting this year in Munich, from October 9 to 12, and there five RWI associates reviewed the results of their research. RWI President Prof. Christoph M. Schmidt also took part in the conference and – quite to the amazement of many who hurried by – was frequently to be found at the RWI booth. It was not only
this highly-qualified line-up that sparked interest; great attention was also devoted to the RWI publications themselves. In addition to the new series of discussion papers – the “Ruhr Economic Papers” – there were numerous inquiries about RGS Econ. This joint initiative by the universities of Bochum, Dortmund and Duisburg-Essen, in collaboration with RWI Essen, is regularly present – represented not only by its logo but also by information material at the RWI booth.

Information: weiler@rwi-essen.de

Second RGS doctoral candidate earns degree at University of Dortmund

Baudouin Tameze is the second doctoral candidate at the Ruhr Graduate School in Economics to complete his graduate work at the University of Dortmund. In his dissertation on “Minimum Distance Estimation of GARCH Models”, supervised by Prof. Walter Krämer, he examined the consequences of structural discontinuities in the GARCH (1.1) model.

The GARCH (General Autoregressive Conditional Heteroscedasticity) model is a generalized version of the ARCH model and perhaps the best-known statistical model for risk-fraught returns. Particularly for firms in the lending sector, the measurement of risks inherent to an institution is of major significance since banks are being forced to limit the scope of their risk in relationship to equity capital. Consequently, experts practiced in dealing with models used to measure market risks and who can help improve the institution’s own models for risk logging are much in demand. Thus it is hardly surprising that Baudouin Tameze, immediately after completing his graduate studies at RGS Econ, was offered and accepted a position in the risk management department at a large bank in northern Germany.

Information: rumpf@rwi-essen.de

RWI: Cup goes to RGS Econ

In their very first showing, the doctoral candidates at RGS Econ were able to celebrate victory in the annual RWI soccer tournament. Fielding a team without a single substitute player or any outside guest players, the RGS crew made its way into the final round thanks to a strong sense of teamwork, a fighting spirit and tactical discipline. Then, in an enthralling game, the first RWI Essen team was forced to its knees with a 3:2 score. Tournament organizer Heinz Gebhardt was happy to note

Meanwhile at the booth: During the annual EEA-meeting RWI-scientists helped to staff the stand of the institute
that the traveling cup will in fact remain at RWI Essen. A total of five teams took part in the tournament, including squads from Cologne and Duisburg.

**New staff members at RWI Essen**

Since September 1, 2007, *Julia Bredtmann* has been on board as assistant to the Executive Board at RWI Essen and in the Labor Markets, Population and Health area of competence. She majored in economics at Ruhr University in Bochum, specializing in marketing, econometrics and macroeconomics. She worked, in parallel to her studies, as a student assistant at RWI Essen and while there drafted her empirical thesis on the topic of “Fertility and employment behavior among women in Germany”. Julia Bredtmann is deployed for one-third of her time at RWI Essen and for two-thirds to the chair held by RWI Executive Board member Prof. Thomas K. Bauer at Ruhr University Bochum.

Since October 1, 2007, *Christoph Ehlert* has bolstered the team at RWI Essen, working in the Labor Markets, Population and Health area of competence. He studied economics at the University of Hannover and at California State Polytechnic University in Pomona. His thesis, entitled “Food Safety Standards and Farm Workers’ Welfare in Kenya” was written in the department for program evaluation at the ICIPE (International Centre of Insect Physiology and Ecology) in Nairobi, Kenya.