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Inflation and the financial market crisis

RGS Econ as “NRW Research School” – Conference on “Europe in Transition”

New RWI-Publications

Leibniz-Gemeinschaft supports BeNA, Berliner Netzwerk Arbeitsmarktforschung – German-Australian cooperation – New at RWI Essen and RGS Econ

No. 4/2008
The financial market crisis has many origins

Who is really to blame for the financial market crisis? Some politicians and the media offer explanations that are both simple and easy to understand: “greed on the part of banks” and a general “failure of capitalism”. In line with this, some have demanded more comprehensive state control for the future. However, that line of argument is too simplistic.

Of course, there has been “greedy” behavior in many cases. It will also be necessary to investigate which banking and financial supervision rules did not work and whether the market failure played a role and, if so, in what respect. However, state failure also seems likely to have made a substantial contribution to the crisis occurring. This is evident from the current difficulties of the state banks. Thus, the solution cannot be to simply increase state control over financial markets.

Extremely high money supply and credit growth, accompanied by unusually low prime rates, led in advanced industrial countries to higher asset prices and even higher liquidity. Bubbles started to occur on asset markets. The banks’ lending standards were lowered and risk premiums dropped. The situation was aggravated by the US government creating other fateful incentives for banks. These included pressure to enable low-income groups in what is known as the sub-prime sector to purchase homes by taking out bank loans despite the increased risk of default this involved.

Innovative re-bundling and distribution of existing risks on many shoulders helped to create new, structured products which were traded worldwide. As defaults in US mortgages grew and the deterioration of lending quality became apparent, a crisis of trust between banks emerged. When then banks stopped lending each other money, a liquidity crisis occurred, and central banks were forced to allocate additional central bank money.

Without a doubt, state bank supervision registered the emergence of the financial market crisis at a very late stage in many countries. Market players were the first to notice the problems; state bank supervision and politics simply reacted to them. In Germany this was further aggravated by the fact that public or state-oriented banks such as IKB, Sachsen LB, West LB, KfW were more seriously affected by the crisis.

This certainly has to do with the fact that the boards include many insufficiently qualified politicians, and representatives of associations and trade unions – some of whom, incidentally, put the blame for the financial market crisis entirely on greedy banks and the failure of capitalism.

As the financial market crisis thus mainly originates from failure of the state, it is useful to reflect on the original model of the social market economy. This model needs certain framework conditions to ensure that the markets are able to operate properly; conditions that are defined by a strong, unbiased state which also guarantees their observance. As the financial markets are highly integrated worldwide,
better framework conditions cannot be implemented at national level alone, but fundamentally at an international level only.

Wim Kösters

Research news

RWI Essen lowers its GDP forecast for 2009 and anticipates deep recession

RWI Essen has adjusted its forecast for real gross domestic product (GDP) growth in 2009 compared to its September forecast by 2.7 percentage points down to -2.0%. The reason for this is that the financial market crisis is having a far more serious effect on the global economy than was previously foreseeable. German exports in particular are likely to be substantially impacted, with employment and state receipts declining at the same time. However, we expect private consumption to remain stable until at least mid-2009, especially in light of the inflation rate falling to an annual average of 0.9%. To mitigate the effect of the imminent recession in the coming year, RWI Essen proposes a reform of income tax rates to reduce the tax load on German citizens by 25 bn €. Doing so could help to achieve positive GDP growth as early as the second half of 2009.

This is the second time that RWI Essen has substantially revised its 2009 forecast for Germany downward. While, in September, we still anticipated an increase of 0.7% in the gross domestic product (GDP) for 2009, all business indicators have since considerably deteriorated so that we must now assume that the GDP will fall by an annual average of 2.0% in real terms in 2009. This would be the strongest decline of economic activity that the Federal Republic has ever recorded. After three quarters with a receding GDP in this year, economic performance is likely to continue to drop in 2009. A slight recovery will not be noticeable until the end of the year when financial market stabilization measures and the expansive financial and monetary policy measures adopted by many countries start to take effect.

In the past few months, business activity has slackened worldwide, including in Germany, to a far greater extent than we forecasted in September, when our last forecast was finished on September 12. Up to this point, many indica-

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**Selected data on economic development in Germany**

RWI Essen outlook December 2008; change to previous year in %

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<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<td><strong>Gross domestic product</strong></td>
<td>2.5</td>
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<td>Use of gross national product</td>
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<td>Consumption</td>
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<td>0.5</td>
<td>0.3</td>
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<td>Private Households²</td>
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<td>Other capital</td>
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<td>Change in stocks, contribution to growth</td>
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<td>Domestic demand</td>
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<td>Net exports, contribution to growth</td>
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<tr>
<td>Exports</td>
<td>7.5</td>
<td>4.7</td>
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<td>Imports</td>
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<td>Persons employed³, 1000</td>
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<td>Unemployed persons⁴, 1000</td>
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<td>Unemployed rate⁵, %</td>
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<td>Price index⁶</td>
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<td>Unit labor costs⁷</td>
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<td>General government fiscal balance⁸</td>
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<tr>
<td>Bill. €</td>
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<tr>
<td>% of GDP</td>
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<tr>
<td>Balance of current account⁹, Bill. €</td>
<td>181.0</td>
<td>167.0</td>
<td>164.0</td>
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</table>

Own calculations. Sources: Statistisches Bundesamtes, Deutsche Bundesbank and Bundesagentur für Arbeit. **Price-adjusted.** Including private non-profit institutions. **National concept.** In relation to occupied population incl. unemployed. **Consumer price index.** Compensation per employed in relation to real GDP per engaged person. **Concept of National Accounts.** **Concept of balance of payments.** Estimation of RWI Essen.
tors suggested that the situation on the financial markets would calm down. However, the insolvency of the US investment bank Lehman Brothers on September 15 triggered an obvious downward spiral. As this was the first time that a major bank had become insolvent, the impact on confidence in the financial sector was so severe that the crisis on the financial market spread to other market segments that had, for the most part, previously been unaffected by it. In particular, emerging markets, which many expected to be a stabilizing element in the global economy up to a few months ago, have been noticeably affected.

Exports are likely to continue dropping initially, while private consumption remains stable

The recession in Germany has significantly affected by the slackening of the global economy and the resulting decline in exports. Since economic problems are becoming apparent in more and more countries, the decline in exports is likely to persist for the time being. Sales forecasts for German companies remain unfavorable so that investments will set the pace of the recession – much in the same way as in past business cycles. This is all the more true as the cost of financing has increased and orders that have already been placed can no longer be filled, or are subject to delays, because purchasers are experiencing financing problems. Unless sales and income expectations improve, the more favorable write-off requirements adopted by the German government to stabilize business activity will have little effect. All told, we expect fixed investment to drop by an average of 10% in the coming year. This will also impact investments in building, especially in light of the fact that large-scale projects are being postponed. Although the German government is allocating an additional one billion euros to public spending this year, that is little more than a drop in the bucket.

The only stabilizing factors right now is private consumer spending, where several factors play a role. Wages will again increase considerably as they were already settled in 2008. Pensions are likely to rise by some 2.5%, since they follow wage trends with some delay, and some benefits such as child allowance have also been increased. But above all, inflation is likely to continue to fall, particularly as a consequence of the drop in world market prices for raw materials and energy. We predict an increase in consumer prices of just 0.9% for 2009. Disposable real income is likely to improve until mid-2009, which should promote private consumption. However, ongoing deterioration of the labour market in the course of the year is likely to have an increasingly negative impact.

Employment and state income will drop next year

Thus far, employment has turned out to be surprisingly robust considering the fact that production figures have been declining for some time. However, the weak economy is likely to affect the labour market from now on, causing employment to fall and unemployment to rise. Many companies will probably attempt to avoid redundancies at first, and instead introduce short-time work, or reduce their staff’s “banked” hours. At the same time, however, the number of people in employment is likely to drop by around 700,000 by the end of 2009, with unemployment figures increasing by almost 600,000.

Public budgets are likely to deteriorate as a consequence of the recession. For one thing, more state expenditure has been approved and new subsidies have been introduced to stabilize the economy. For another, tax revenues, especially from profit-related taxes, are likely to decline. All told, we expect a more or less balanced budget in 2008; for 2009 a deficit of 1.1% of GDP is forecasted. This does not take into
account spending following from the Financial Market Stabilization Act as it is currently impossible to quantify them exactly since only a portion of the resources have even been used.

**Income tax reform could mitigate recession**

Our appraisal of the situation is that Germany is in deep recession. The stabilization measures passed thus far are unlikely to bring about a change for the better. The government puts these measures at 32 billion euros. However, some of these programs are scheduled to run for several years, and the restrictive effects of increasing health insurance contributions have to be offset. We estimate the boost in growth provided by the financial policy in the coming year at 10 billion euros.

However, politicians do have a genuine option for mitigating the decline in the coming years and for more quickly putting the German economy back onto an upward path of expansion. If the government were to quickly introduce a reform of income tax rates, following our recommendations, and thus reduce the tax burden on the population by some 25 billion euros (1% of the GDP), the GDP could achieve a 0.7% higher figure than forecast in this publication. This would considerably curb the extent of the recession; in particular it would be possible to achieve positive figures again in the second half of the year.

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**Christmas presents: little appreciated but sold at a premium**

Christmas presents are worth less than their actual purchasing price to the typical recipient. At the same time, recipients would tend to demand a far higher price if somebody attempted to purchase the present from them. This so-called “endowment effect” is confirmed by a recent survey performed by RWI Essen in the course of which more than 500 students of various disciplines were surveyed at the Ruhr University in Bochum, Germany. The study revealed that the effect does not depend on the price of the present and is less pronounced in students of economics, which would indicate that such students either have a better understanding of the market or have cooler emotions.

Christmas presents often entail a loss of efficiency: if they had to purchase the present themselves, the typical recipient would spend less money on their Christmas present than its actual market value. However, if you attempted to purchase it from them, their asking price would be above the actual value. This so-called “endowment effect” has been confirmed by a survey in which students at the Ruhr University Bochum were surveyed. According to the survey, the price the respondents would pay for a Christmas present they had received would be 11% below the market value of the present on average. Thus, giving presents leads to a loss of efficiency; in other words, apart from emotional value the benefit to the recipients would have been greater if they had received the value of their present in cash. However, if you were to offer to buy the present off them, the recipients would ask a price that is an average of 18% above the market price.

Subjective valuation of gifts also depends on the giver. Efficiency loss is greatest in the case of Christmas presents from grandparents and other relatives; presents from these groups are often valued well below their actual market value. In other words, their presents are more frequently “off the
mark”. In contrast, the gap between the price that recipients would be willing to pay to purchase a present themselves and the selling price that they would ask for apparently does not depend on the emotional distance between the giver and the recipient; in fact, it is relatively constant. In addition, the price of the present is not a relevant factor in the various valuations.

Students of economics value prices more realistically

Breaking down the figures by the students’ fields of study reveals that the “endowment effect” is less pronounced in students of economics. Their valuations are closer to the market value of the present; in other words, they would be prepared to pay more and would ask less for the present than the average student. This could be attributed to the fact that students of economics focus on market and price mechanisms in their studies. However, it is conceivable that they just tend to be more able to separate the material aspect of giving from its emotional aspect. Studies on this topic, or similar topics, in which all the respondents are (future) economists could thus lead to biased results.

In the course of the study more than 500 students of biology, chemistry, law, medicine, East Asian studies, psychology, social sciences, and economics at the Ruhr University Bochum were surveyed between January and March 2008. A questionnaire asked the respondents to valuate three of last year’s Christmas presents. Some 65 % of the respondents were students of economics; the respondents in the survey were 24 years of age on average and in their fourth term at university.

This text is based on the Ruhr Economic Paper #75 (“WTP vs. WTA: Christmas Presents and the Endowment Effect”). It is available as a PDF file at www.rwi-essen.de/rep/rep075.

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Awarded research contracts


Accompanying evaluation of the funding instrument “Top Cluster Competition” by BMBF. Project for the Federal Ministry of Education and Research. Contact: Dr. Bernhard Lageman. Term: 5 years.

Evaluation of the law on “parents’ money” (taxed-financed payment for couples to encourage them to have children) and parental leave – results for North Rhine Westphalia. Project for the Ministry for Generations, Family, Women and Integration of the State of North Rhine Westphalia. Contact: Dr. Marcus Tamm. Term: 1 month.

Energy forecast 2009. Project for the Federal Ministry of Agriculture and Technology. Contact: Dr. Manuel Frondel Term: 12 months.
12thRWI : Economic Discussion: focus on inflation and the financial market crisis

Although the original topic planned for the 12th RWI: Economic Discussion November 11, 2008 was actually the “Rebirth of Inflation?”, current developments ensured that the panel of financial experts would mainly be talking about the current financial market crisis. As expected, the discussion revealed major differences of opinion on the origins and consequences of the crisis among bankers, scientists, and trade union representatives.

“Rebirth of Inflation?” was the official title of the 12th RWI: Economic Discussion of the RWI Essen Friendly and Support Society, which took place November 11, 2008 at the Essen Philharmonic “Saalbau” building. The panel discussion was once more mainly sponsored by Commerzbank AG. After a few rods of welcome by Dr. Rolf Pohlig, the President of the Society of Friends and Supporters, the RWI board member Prof. Wim Kösters explained the empirical background and benchmarking problems. This was followed by a short introductory talk by Dr. Hans Georg Fabritius, a member of the executive board of the German Federal Bank.

The participants in the panel discussion that followed were Dr. Fabritius and Prof. Kösters the chief economist with the Federation of German Trade Unions, Dr. Dierk Hirschel, and the deputy chief political economist of Commerzbank AG, Dr. Ralph Solveen. The discussion was moderated in a poised and competent manner by WDR presenter, Martin von Mauschwitz. Due to current events, the financial market crisis was the decisive topic. German and U.S. banks had certainly made mistakes Dr. Solveen admitted right at the outset. Scenarios such as the insolvent of the Lehman Brothers investment bank and the imminent state bankruptcy in Iceland had been considered impossible until recently. However, he warned against imposing overly strict control on the financial markets in future, as that would create a risk of stagnation. “A free-market economy thrives on trial and error”, said Solveen.

DGB Chief Economist Hirschel had a totally different view: Excessive deregulation of the financial markets was one of the factors that triggered the financial market crisis, and this was why the regulatory framework would have to be reorganized. He thus called for a “mandatory state technical inspection” of financial market products, joint liability for private banks in Europe and taxation of short-term financial transactions.

German Federal Bank board member Fabritius: Speculation fulfills an economic function

German Federal Bank board member Fabritius advocated regulation that more closely reflects the
markets rather than stricter control. For example, it should be take certain financial market products off the balance sheet in the future; instead, banks should be required to cover these products with equity. At the same time, speculation fulfils an economic function and should not be entirely outlawed. Prof. Kösters agreed with this: it was important to achieve a balance between the market and the state, with the state defining unequivocal rules.

After closing the panel discussion, the panel guests and many visitors enjoyed the buffet and joined in further discussions. Participants were invited to pick up a free copy of Issue 46 of “RWI: Materials” (“The Financial Market Crisis – Selected Contributions”) for more details.

RWI Essen at the Annual General Meetings of EEA and VfS

This year, once again, RWI Essen demonstrated its national and international presence with a publication stand. The RWI stand visited the joint AGM of the European Economic Association (EEA) and the Econometric Society (ESEM) August 27 through 31 this year. Mainly English language publications were displayed there. The Institute exhibited its publications in English and German at the Annual General Meeting of the “Verein für Socialpolitik” (Association for Social Politics) which took place on September 23 through 26 in Graz, Austria. Besides this, visitors were very interested in our RWI buttons and had a choice of statements such as “Independent Thinker”, “We love curves”, “I need love and donations”, and “Humane Capitalist”.

Kick-off of RGS Econ as “NRW Research School”:
Grant recipients welcomed; graduates receive awards

The fifth year of RGS Econ PhD students was welcomed in an official ceremony at Dortmund Technical University. At the same time, this was the official starting shot for the “NRW Research School”. Additionally, the first graduates received their certificates. A small celebration was held to welcome the welcome the fifth year of students to the Ruhr Graduate School of Economics (RGS Econ), which has now become the “NRW Research School”. That marks a step up for RGS Econ, which has been privately and publicly funded since late 2004 as the joint research school of the university alliance Ruhr Metropolitan Area (universities of Bochum, Dortmund, and Duisburg-Essen) and the RWI Essen. The research focus is on causal analysis of the impact and side effects of demographic change. RGS Econ gives eight students per year a state-of-art, internationally recog-
nized PhD education thanks to a structured syllabus, intensive tutoring of the PhD students, and the monthly grant of EUR 1,300. This year’s new students are four female and four male grant holders from Germany, the Netherlands, and the USA. All told, some 160 applicants from all over the world competed for the eight places. They are financed by state funding of the “NRW Research School” program and the cooperating institutions’ own resources. The Chancellor of Dortmund Technical University, Dr. Roland Kischkel, welcomed the new grant holders and wished them much success in their academic careers. Following this, the two RGS Econ spokespersons, Prof. Wolfgang Leininger (TU Dortmund) and Prof. Christoph M. Schmidt (RWI Essen) introduced the guests to the new grant holders and the research school’s program. The event culminated in the first graduates receiving their certificates; they will now be going on to conduct research at famous institutions such as the University of Melbourne (Australia), the University of Maastricht (the Netherlands) and the prestigious MIT in Cambridge, Massachusetts (USA).

**PhD Student Conference at RGS Econ on “Europe in Transition”**

The second PhD student conference was held at RGS Econ, Essen, Germany, on September 18 and 19, 2008. It focused on the relationship between European integration, demographic change, and sustainability. The exchange between the young scientists that took part revealed that this field has ample scope for further scientific work. “Europe in Transition – Demographic Change and Sustainable Development” was the title of the second PhD student conference at RGS Econ, which was held on September 18 and 19, 2008 at the Essen campus of the University of Duisburg-Essen. This was the first time that the con-
ference was jointly organized by the “Arbeitskreis Europäische Integration” (Working Group for European Integration, Berlin, Germany), and it specifically targeted PhD students from the EU. Its aim was to establish the complex relationships between demographic change and sustainability on a European level, and thus to achieve a correlation of theoretical and empirical research results.

The conference opened with a talk on the subject of “Sustainable Business as a Challenge for Europe” by Prof. Klaus Töpfer, the former Federal Minister of the Environment and former director of the UN environmental program (for more details see RWI: News 3/2008). This was followed by scientific talks on topics such as transformation countries, retirement pensions and savings behavior, sustainability of public services, wages and income or population economics.

Following this, young scientists from Germany the USA, Great Britain, Hungary, France, the Netherlands and Sweden exchanged views in discussion groups. It became apparent that many questions remain unanswered with respect to the situations described at the conference.

A comprehensive report on the conference will be appearing shortly in “Integration” (published by Nomos Verlag).
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Publications

Ruhr Economic Papers

Download at www.rwi-essen.de/rep

(72) Manuel Frondel and Colin Vance, Do High Oil Prices Matter? – Evidence on the Mobility Behavior of German Households

This article investigates the determinants of the mobility behavior of German households. The focus of the empirical analysis is the effect of changing gas prices and gas consumption on the mileage driven by households. The estimated areas of elasticity indicate a significant increase in mileage as a reaction to purchasing vehicles with lower consumption. In contrast to this, an increase of gas prices by 10% would lead to a mileage reduction of around 4%. These results suggest that increasing taxes on gas would be a more effective means of reducing emissions than the introduction of efficiency standards for automobiles, as planned by the EU.

(73) Stefan Felder, Andreas Werblow and Peter Zweifel, Do Red Herrings Swim in Circles? – Controlling for the Endogeneity of Time to Death

Studies on the effect of aging on healthcare spending have shown how important it is to take the variable “time to death” into consideration. However, health-care spending could influence life expectancy at the same time. This paper predicts life expectancy and then applies it regressively to health-care spending. There are no indications that life expectancy is exogenic. At the same time, it was confirmed that life expectancy plays a greater role than age as a determining factor in health care costs.

(74) Christoph Schwierz, Boris Augurzky, Axel Focke, and Jürgen Wasem, Demand, Selection and Patient Outcomes in German Acute Care Hospitals

In times of peak demand hospitals may not be able to offer the same high level of care as at times of regular demand. In order to
assess this, the effects of differing workloads on staff on the results of treatment are analyzed. The analysis reveals how important it is to take the degree of severity of the patient’s illness into consideration when quantifying correlations. The analysis reveals that in this case the quality of care in times of peak demand does not decline.

(75) Thomas K. Bauer and Christoph M. Schmidt, WTP vs. WTA: Christmas Presents and the Endowment Effect

Based on data on the valuation of Christmas presents received by students of various faculties at a single German university, this study investigates whether the quality of what is known as the „Endowment Effect“ differs between students of economics and students of other disciplines, and if the effect changes to reflect the market price of the present. The results show that the behavior of economic students is significantly different. Additionally, the effect occurs independently of the present’s market price.

(76) Hendrik Schmitz, Do Optional Deductibles Reduce the Number of Doctor Visits? – Empirical Evidence with German Data

Health insurance deductibles are often regarded as a means of containing health care costs when the insured demonstrate a moral risk. When there is no moral risk, however, freely selectable deductibles can lead to self-selection in various insurance contracts. This study investigates the extent to which the demand for medical care depends on its price. The results reveal that a deductible has a negligible effect on the number of consultations, whereas a complementary insurance policy will tend to increase them. All told, the effect of the insurance status on consultations is low.

(77) Mario Jovanovic and Tobias Zimmermann, Stock Market Uncertainty and Monetary Policy Reaction Functions of the Federal Reserve Bank

This study investigates whether the US Federal Reserve responds systematically to stock market uncertainty. There are reasonable arguments for central banks taking uncertainty into account in their strategies. For example, it can contribute to financial markets remaining functional, or mitigate negative effects on the real economy. Assessments show that US Federal Reserve interest rates are significantly lower in times of extreme uncertainty on the US stock market, and vice-versa.

(78) Yiquan Gu, Imperfect Certification

This paper proposes a model for a certification market with imperfect test engineering. Test engineering of this kind simply ensures that, of two products tested, the product with the higher quality is more likely to pass the test than the inferior quality product. The paper demonstrates that the number of certifiers influences the test results. Empirical evidence shows that the difference in the charges levied by test companies does not necessarily result from their different test technologies.
Against the backdrop of the current discussion concerning the introduction of minimum wages, this publication investigates the potential effects on employment and taxes that such measures would have. The results indicate that this would lead to considerable loss of employment, especially in temporary, part-time or low-paid full-time employment, or unskilled labor. The introduction of a statutory minimum wage would backfire for the state, as the additional costs it would entail would probably exceed the additional earnings.

This paper assumes that future inflation in an economy depends on the population’s perception of inflation at current rates. It develops indicators capable of measuring “perceived” inflation. The forecasting ability of these indicators is compared with various inflation indicators for the USA and Germany. The newly developed indicators prove to be a convincing alternative to traditional core inflation metrics.
mance. Additionally, research institutes with a pronounced international environ-
ment seem to produce a particularly large number of scientific publications.

**RWI : Positionen**

Download at
www.rwi-essen.de/positionen

(27) Wim Kösters und Christoph M. Schmidt,

Who is really to blame for the financial market crisis? It is not just “greed on the part of banks” and a general “failure of capitalism”, but also failure on the part of the state that seem to have substantially contributed towards the development of the crisis. Against this background, a renewed appraisal of the original model of the social market economy would appear to be useful. This model needs certain framework conditions to guarantee the functionality of the markets; conditions that are defined by a strong, unbiased state which also guarantees their observance. However, better framework conditions cannot be implemented at national level alone, but fundamentally at an international level only.

(28) Roland Döhrn, Rainer Kambeck und Christoph M. Schmidt, Senkt die Einkommensteuer jetzt! (Reduce Income Tax, Now!)

To mitigate the effects of the financial market crisis, RWI Essen appeals for a reduction of income tax to reflect the current economic situation that would allow the German government to reduce the tax burden on German citizens by 25 billion Euros as early as 2009. Five arguments speak in favor of this measure: it is effective, it acts quickly, it is fair, it has a long term effect, and it does not conflict with budget consolidation.

(29) Rainer Kambeck, Tanja Kasten, Till Requate und Christoph M. Schmidt, Einkommensteuer senken, Pendlerpauschale abschaffen! (Reduce Income Tax, Abolish Commuter Tax Relief!)

This appraisal was drafted in the run-up to the ruling by the Federal Constitutional Court, December 9, 2008. The statement contains RWI Essen’s recommendation to abolish commuter tax relief from tax law while at the same time reducing income tax to avoid increasing the burden on taxpayers. This recommendation is founded on the fact that commuter tax relief does not enhance the efficiency of the tax system and is not a suitable instrument for achieving social distribution aims, among other reasons. At the same time, it leads to a number of negative effects from both economic and ecological viewpoints, thus encumbering the economy.
Internae

Leibniz-Gemeinschaft (Leibniz Society) supports Berliner Netzwerk Arbeitsmarktforschung (Berlin Network for Employment Market Research – BeNA)

The president of the Leibniz Gemeinschaft, Prof. Dr. Ernst Rietschel, has supported the idea of a “Leibniz Seminar for Employment Market Research“ ever since in April 2008 – as part of an initiative launched by RWI Essen’s Berlin office – young scientists from the three Leibniz institutions, Deutsches Institut für Wirtschaftsforschung, RWI Essen’s Berlin office, and Wissenschaftszentrum Berlin, along with the Humboldt University of Berlin turned to the Leibniz society’s Berlin office with a joint concept: “The Berlin Network for Employment Market Research is a unique research project in the field of economics in Germany for which young scientists, PhD and post PhD students, are solely responsible. Besides autonomous organization, it is characterized above all by its interdisciplinary approach and inter-institutionalism”, says Rietschel. As selective promotion of young researchers, building bridges between various disciplines, and cooperation between Leibniz institutions and universities are also strategic aims of the Leibniz society, the grant application submitted by the Berliner Netzwerks Arbeitsmarktforschung (Berlin Network for Employment Market Research, BeNA) convinced the Leibniz society’s steering committee on all counts.

The Leibniz society has awarded a grant of 6 000 euros to the project for the academic year 2008-2009. This will enable the network of young scientists to expand the employment market seminar introduced in 2004 in a selective manner in the field of employment market research. “The grant from the Leibniz society has given our network a genuine boost”, Dr. Michael Kvasnicka, employment economist at RWI Essen’s Berlin office and the Chairman of BeNA is happy to say. “Thanks to this support, we have been able to invite scientists from Jerusalem, Essex, Maastricht, Amsterdam, and St. Gallen this term.”

BeNA was founded in spring 2004 as an interdisciplinary and cross-institutional organization of young employment market researchers in Berlin. Following the grant approval by the Leibniz society, the informal
BeNA presents its activities on its homepage at www.arbeitsmarktforschung.net.
Information: michael.kvasnicka@rwi-essen.de

RVI Essen Participates in German-Australian DAAD Cooperation

RVI Essen is participating in a project on the “Effects of Residential Segregation on Labor Market Outcomes of Immigrants” as part of a cooperative research program between the German Academic Exchange Service (Deutscher Akademischer Austausch Dienst – DAAD) and the “Group of Eight”, a coalition of eight leading, Australian universities. The aim of the program, among other things, is to promote an exchange of highly qualified scientists from German and Australian universities. Funding for the cooperation totals the equivalent of 510 000 Euros and various disciplines are supported. RVI Essen’s Australian cooperation partner is the Australian National University (ANU) in Canberra. The heads of the project are Prof. Thomas K. Bauer, Matthias Vorell (RVI Essen) and Dr. Mathias Sinning (ANU), who moved from RVI Essen to the ANU mid-year. A total of two one-month research visits by Matthias Vorell to Australia and two visits to Germany by Mathias Sinning will be funded.

Municipal Finance Directors Association of Israel board visits RVI Essen

Headed by its Chairman, Armir Bartov, the Municipal Finance Directors Association of Israel (MFDA) board visited the “Public Finance” department at RVI Essen in September. The finance directors of some of Israel’s biggest cities, who already maintain exchange contacts with partner organizations in China, Spain, South Africa and the USA, were interested above all in the challenges faced by German municipalities. They took this opportunity to exchange experiences with German experts and colleagues. The visit was part of a European tour, organized by the late municipal finance director of the City of Essen and chairman of the Federal Working Committee of Municipal Exchequers and State Auditors (Bundesarbeitsgemeinschaft der Kommunalen Finanz-Kassen- und Rechnungsbemanten – BAG), Marius Nieland, in cooperation with Prof. Cornelia Scott. Ms Scott is a guest scientist at RVI Essen and responsible at BAG for international affairs and education. The visit to Essen followed the 4th Financial Directors Day (Kämmerertag) in Munster. Besides RVI Essen, the party also visited the head offices of ThyssenKrupp.

Let’s talk about money: During a visit at RVI Essen the board of the Municipal Finance Directors Association of Israel (MFDA) caught up on the current challenges of German municipalities.
Dr. Markus Scheuer to remain a member of the RESER board

RWI scientist Dr. Markus Scheuer has been elected as a member of the RESER (European Association for Research on Services) board for a farther three years. The aim of this pan-European research network is to promote research in the service sector and its role in the economic and social context. RESER members include scientists from universities and independent research institutes from all over Europe, researchers working for commercial enterprises, and corporate consultants.

RWI Smokers’ Paradise

RWI Essen became a no-smoking zone at the end of November. Smoking is now prohibited inside the building; a weatherproof shelter was set up for smokers in the quadrangle. In keeping with the festive spirits, smokers have decorated their shelter with Christmas decorations. Rumors of plans to stage a nativity play remain unconfirmed.

New Staff at RWI Essen

Birte Christine Pohl joined RWI Essen’s “Environment and Resources” department as a guest scientist, October 1, 2008. She studies economics at the Ruhr University, Bochum, majoring in “International Economic Relations”, “Controlling”, and “Planning and Organization”. Her thesis on the subject of “International Climate Protection Agreements, Sustainability and Developing Countries” was awarded the RUB’s “Prize for outstanding scientific theses”. Ms Pohl works as a scientist at the Chair of Theoretical Macroeconomics I at RUB, has received a PhD grant from Evangelisches Studienwerk e.V. Villigst. RWI Essen is familiar with Ms Pohl from her internship and as a pre-graduate scientific assistant. Ms Pohl is likely to stay on as a guest scientist until the end of 2009.

Rosemarie Gülker also joined RWI October 1, 2008, as a member of our “Employment Markets, Population, Health” department’s scientific staff. She studied macroeconomics at the Albert Ludwigs University of Freiburg im Breisgau, majoring in social politics, econometrics, and empirical economic research. Her thesis was entitled
“Das Anwartschaftsdeckungsverfahren im Gesundheitswesen – Ein Ausweg aus der demographischen Zwickmühle?” (“Entitlement Coverage Methods in Health Care – A Solution to the Demographic Quandary?”). During and after her studies, Ms Gülker was an intern at the Federal Ministry for Economics and Employment, the Federal Ministry of Finance, and the Institute for Health Economics and Clinical Epidemiology at the University of Cologne. She will be investigating the health sector in the scope of her PhD.

Vivien Procher joined our “Empirical Industrial Economics” department’s scientific staff October 1, 2008. She graduated from the London School of Economics in “Government & Economics”. She then went on to take a Master of Science in “International Management” at the LSE and the Haute Ecole de Commerce, Paris. Her masters’ thesis analyzes the organizational structure of multidivisional corporations in the automotive supplies industry. Ms Procher started a PhD course at RGS Econ in 2005 where she is working on internationalization of French enterprises.

Arndt Rüdiger Reichert joined our “Employment Markets, Population, Health” department’s scientific staff November 1, 2008. He studied macroeconomics at the University of Augsburg before spending two terms abroad in Spain at the University of San Pablo CEU. In the course of his Studies, Mr Reichert, served internships at the Bavarian Ministry of the Economy’s Department of Foreign Trade, and in the Federal Ministry for Economic Cooperation and Development’s South-Eastern Europe Department. He also worked as a pre-graduate scientific assistant for the Chair of Empirical Microeconomics at the University of Augsburg under Prof. Maußner. His thesis was entitled “Temporal Progression of Indebtedness Indicators and their Determinants: An Empirical Study of Selected Emerging Countries”.

The students of RGS Econ, 4th Cohort 2007 (part 2)

In October 2007, the fourth cohort of eight scholars started their education at the Ruhr Graduate School in Economics (RGS Econ). Here you can read short CVs of the second four scholars, the first ones having already been introduced in RWI : News 3/2008. Meanwhile the fifth cohort has started its studies. Subsequently, its first four scholars are introduced. The rest of them is going to follow in RWI : News 1/2009.

Alfredo Paloyo joined the Ruhr Graduate School in Economics in October 2007. He obtained a Bachelor of Science and a Master of Arts degrees in
Economics from the University of the Philippines School of Economics in 2002 and 2005, respectively. In 2007, he earned the European Master in Law and Economics, an Erasmus Mundus course, from Erasmus Universiteit Rotterdam, Universität Hamburg, and Università di Bologna. Between the MA and the EMLE, he taught introductory economics courses at De La Salle University in Manila.

Main fields of interest: Corporate Governance, Idiosyncrasies of developing countries, Public Finance

Klaus Seipp

joined the Ruhr Graduate School in Oktober 2007. He studied Economics at the University of Hamburg, the University of Göttingen and the Charles University of Prague. His areas of interest are international macroeconomics and development economics both with an empirical focus. He did an internship at the Macroeconomic Policy Institute (IMK) in Düsseldorf and worked as student assistant and tutor at the University of Göttingen. His master thesis dealt with the empirical effects of international capital flows on the business cycle and macroeconomic policy in emerging market economies using Mexico as an example.

Main fields of interest: International Macroeconomics and Development Economics, Econometrics

Michaela Trax

joined the Ruhr Graduate School in Economics in October 2007. She completed her bachelor in European Economic Studies at the University of Bamberg and the University of Sevilla, Spain. During her subsequent studies of the master programme in economics at the University Essen she focused on industrial economics, labour economics and econometrics. In her master thesis, she analysed the labour demand of multinational firms based on firm-level data. Parallel to her studies Ms. Trax worked as a student assistant at the RWI Essen. Her PhD thesis covers aspects of internationalization from a micro-perspective.

Main fields of interest: Applied Econometrics, Industrial Economics, Internationalization

Yu Zheng

studies at the Ruhr Graduate School of Economics since October 2007. She graduated from Nanjing University of Science and Technology with her postgraduate degree in international trade and economics. Her main subjects were international trade and international finance. In her master thesis, she applied Merge & Acquisition theories to share-purchase of foreign capital into domestic banks and established the input/output evaluation system by DEA to analyze the efficiency of several commercial banks. Besides she also worked as a student assistant when pursuing her graduate degree.

The students of RGS Econ, 5th Cohort 2008 (part 1)

Claudia Burgard joined the Ruhr Graduate School in Economics in October 2008. She studied economics at the Ruhr-University Bochum and at the University of Almería (Spain). During her studies she focused on econometrics and empirical economic research. In her diploma thesis "The effect of further education on job satisfaction" (supervisor: Prof. Dr. Thomas K. Bauer) she empirically analysed whether on-the-job training influences work satisfaction using data from the German Socio-Economic Panel (GSOEP). In addition to her studies Claudia Burgard interned at the Institut der deutschen Wirtschaft Köln (department of education and labor market policy) and at the RWI Essen, where she also worked as a student assistant. Furthermore, she gave tutorials in statistics at the University of Bochum (chair of quantitative analysis).

Main fields of interest: Microeconometrics, Education and Labor Economics

Frauke de Haan joined the Ruhr Graduate School in Economics in October 2008. She studied Economics at the University of Bonn. Her main subjects were econometrics and finance. In her diploma thesis “The Impact of Monetary Policy on Long-Term Interest Rates” (supervisor: Prof. Dr. Jörg Breitung) which was written in cooperation with the German Central Bank (Monetary Policy and Analysis Division), she examined the relation between long-term interest rates in the USA and in the European Monetary Union (EMU) as well as the impact of monetary policy on long-term interest rates via short-term interest rates, using methods of multivariate time series analysis. In addition to her studies Frauke de Haan worked as a freelancer for the General-Anzeiger in Bonn and as tutor at the Institute for Econometrics and Operations Research of the University of Bonn. Furthermore she interned at the Federal Statistical Office, Wiesbaden and the WestLB in Düsseldorf. Before she started her tertiary education at the University of Bonn Frauke de Haan had been a really successful competitive athlete. She won a 3rd place in heptathlon at the German Athletics Championships in 1998, 1999 and 2000 as well as a 2nd place in 3x800m relay in the year 2000.

Main fields of interest: Econometrics, Macroeconomics, Monetary and Financial Economics

Regina Flake joined the Ruhr Graduate School in Economics in October 2008. She studied International Economics at the Georg-August-Universität Göttingen, the École Supérieure de Commerce International in Fontainebleau (France) and the Universidad Popular Autónoma del Estado de Puebla in Puebla (Mexico). In her Master thesis, she analysed the development of the Treaty of Lisbon from the perspective of political economy. During her studies, she worked as a student research assistant at the University of Göttingen. Furthermore, she interned at the Representation of the Lower Saxony to the European Union in Brussels (Belgium) in the department "Economic Affairs, Labour and Transport" and at the Centre for European Economic Research (ZEW) in Mannheim in the research department
“Corporate Taxation and Public Finance”.

*Main fields of interest:* International Economics, European Integration, Political Economy

*Jonas Keil*

joined the Ruhr Graduate School in Economics in October 2008. He studied Economics at the Free University of Berlin, the University of Cologne and the University of Edinburgh (United Kingdom). Before graduating from the University of Cologne in August 2008, he worked as a research assistant at the Economic Policy Department and as a teaching assistant at the Statistics and Econometrics Department. Additionally, he interned at the research department “Corporate Taxation and Public Finance” of the Centre for European Economic Research (ZEW) in Mannheim and the “Economic and Demographic Statistics and Regional Planning Department” of the District Government (Bezirksregierung) in Cologne. Jonas Keil wrote his diploma thesis “On the Determinants of Business Cycle Synchronization: The Case of the Euro Area” (supervisor: Prof. Dr. Juergen B. Donges) in cooperation with the ZEW research group “Growth and Business Cycle Analyses”. In his thesis, he empirically analyzed the determinants of business cycle synchronization in the Euro area, such as trade or financial market integration.

*Main fields of interest:* International Economics and Macroeconomics, Monetary and Financial Economics, Applied Econometrics

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