Editorial: Flexibility in Job Market – a Way Out of the Crisis

Shortage in Nursing Care Due to High Minimum Wage

Road Traffic: Higher Fuel Prices Result in Less CO₂ Emission

“What is the latest on”: Prof. Dr. Friederike Welter
The German Federal Statistical Office (Statistisches Bundesamt) recently announced that “atypical” employment in Germany increased between 1998 and 2008. Consequently, the proportion of workers employed under mandatory social insurance schemes, for an indefinite term and for at least half the normal number of weekly working hours, declined from three-quarters to two-thirds during this period. At the same time, “atypical” forms of employment, such as “mini-jobs” and temporary employment, gained in numbers. It might, at first glance, appear that regular employment contracts have fallen prey to flexibilization. Yet, according to many economists, the “atypical” employment contracts facilitated by the labor market reforms in recent years have probably been a contributing factor in the decline in unemployment during this period. Consequently, many of the “atypically” employed would otherwise not have a regular job; indeed, probably no job at all. They would thus be more exposed to the threat of poverty than with “atypical” employment.

In the current economic situation, every possible effort should be made to ensure that the job market remains flexible. It does, in fact, appear as if the economy has gotten through the worst. In the wake of the financial crisis, growth indicators are warily turning upward as cautious optimism begins to spread. In spite of the hopeful mood, the German labor market is nevertheless still about to face the worst: on the one hand because the job market usually follows economic swings at a staggered pace and, on the other, extension of compensation for shortened working hours has initially postponed many job cuts for the time being.

Inflexible arrangements such as minimum wages are the wrong signal in this situation, resulting, as they have been shown to do, in job losses, especially among poorly skilled workers. Now, in particular, the necessary steps need to be taken to bring down unemployment levels as quickly as possible as recovery sets in. This applies especially to employees with low skills levels. To achieve this goal, existing flexible (i.e. “atypical”) features of the job market, including temporary and low-pay employment, should not only be maintained but even expanded if required, so that, as soon as possible, light will be seen at the end of Germany’s job market tunnel.

Ch.M. Schmidt
Shortage in Nursing Care Due to High Minimum Wage

A higher minimum wage for nursing assistants could result in a shortage of nursing care for 260,000 patients (about 16% of the total number) by 2020, as cases of insolvency increase and a portion of the private equity is withdrawn from Germany’s nursing care market. A minimum wage of 9.68 euros for all of Germany, currently under discussion, would have drastic negative impact on providers in eastern Germany and on private homes and mobile service providers.

The introduction of a minimum wage of 9.68 euros for nursing assistants could result in a shortage of some 100,000 nursing home beds and a lack of care for 160,000 mobile care recipients. Consequently, 22% of individuals requiring care in eastern Germany and 7% in western Germany would be left without a nursing home bed. Those are the conclusions reached in a special analysis of the data in the Nursing Home Rating Report 2009 by RWI, ADMED GmbH and HCB GmbH. The minimum wage would raise labor costs for assistant nursing staff, potentially leading to joblessness and a freeze on hiring. It is additionally expected that the risk of insolvency would increase and that private investors would withdraw in part from the nursing sector. In 2007, 39% of beds were in privately maintained nursing homes, while 45% of all patients receiving care at home benefited from private mobile nursing services. Providers in eastern Germany, as well as private homes and mobile service providers, would be particularly hard hit by the introduction of minimum wage levels. This could result in a threat to the prevailing principle of “at-home care over nursing home care”.

The shortage of nursing care caused by the introduction of the minimum wage could be alleviated by raising prices for nursing services. Were the increased labor costs to be directly translated into price hikes, care recipients, their relatives and social service offices would be faced with additional total costs of 3.3 billion euros between 2010 and 2020. In consequence, relatives of patients would presumably resort more frequently to illegal or semi-legal (i.e. black market) services.

Two different scenarios developed for the study

The study evaluated data provided by the Bundesverband privater Anbieter sozialer Dienste (Federal Association of Private Social Service Providers; bpa) covering 13,000 employees of residential nursing homes and 700 employees of mobile care institutions. Two minimum wage scenarios were developed: a minimum wage of 9.68 euros for all of Germany, as advocated by the service sector union Ver.di and the social services association AWO; and differing minimum wage levels of 8.50 euros in western Germany and 7.50 euros in eastern Germany. There would also be negative consequences in this case, albeit not as drastic.

Since February 2009, the nursing care sector falls under the Arbeitnehmerentsendegesetz (Employee Assignment Act), so that a commission of eight experts has been mandated with preparing a minimum wage level proposal by the end of this year. Private service providers are underrepresented in this body.

Besides the economic consequences, a high minimum wage would narrow the gap in salary levels between professional and assistant nursing staff. Consequently, there would be fewer incentives for poorly skilled employees to acquire additional skills. This lack of incentive would be counterproductive, considering the additional need for about 50,000 professional nurses in institutions and 27,000 in mobile care by 2020.

The study “Effects of Minimum Wages on Nursing Care Institutions and Care Patients” (“Auswirkungen von Mindestlöhnen auf Pflegeeinrichtungen und Pflegebedürftige”) has been published as an RWI project report and is available as a PDF file at www.rwi-essen.de/pb.

For more information: augurzky@rwi-essen.de, weiler@rwi-essen.de
Urban Audit Analysis: Much Progress, Still Much to Do

The Urban Audit project has been collecting data on cities since 2003, in and, currently, from 27 countries in Europe. At a workshop held in Berlin, regional experts discussed the current progress and the outlook for the project. One of the participants was RWI staff member Dr. Uwe Neumann, member of a group of experts that is working on further improving the audit.

The idea behind the Urban Audit is to collect and render comparable statistical indicators on European cities. The project was initiated in 2003 by the EU Commission’s Directorate General for Regional Policy. In cooperation with the Statistical Office of the European Union Eurostat, and with the national statistical offices, almost 300 statistical indicators are surveyed in three-year intervals for each participating city. The statistics are related to demography, society, the economy, the environment, transport, the information society and leisure. In the meantime, more than 250 cities from 27 European countries are currently participating in the Urban Audit.

Representatives from 30 participating cities met in Berlin in late March of 2009 to discuss the current progress of the project and its prospects. Mandated by the EU Commission, RWI is currently developing a new typology for the Urban Audit to enable more in-depth analyses to be performed. Regional expert Dr. Uwe Neumann represented RWI at the workshop. Responsible for the RWI study, Dr. Neumann is a member of a panel of 35 experts with the task of further developing the Urban Audit.

Data quality highly variable

In the course of the workshop it became evident that potential for improvement exists both in terms of how data is collected and how it is used. Data quality was found to vary greatly among the 27 EU countries participating in the project, with regards to both response rates and the definition of the variables. This has resulted in data being of only limited use for analyses to date. And some of the information is not current enough, since surveys are done only once in three years. In addition, for certain aspects, such as “urban governance”, it is difficult to identify indicators which facilitate comparisons among cities.

For these reasons, an annual survey involving a limited set of 30 to 50 variables is to be conducted for the participating cities in the future. Additional plans include more uniform definitions of variables as well making the complete data set available for downloading. It is also planned to develop a more highly differentiated typology of cities. Yet this is to be done in the awareness that any typology is an artificial construct, incapable of adequately reflecting the complex and unique structure of a city, and consequently should not be used by policymakers as the sole basis for policy planning.

For more information: neumann@rwi-essen.de
Road Traffic: Higher Fuel Prices Result in Less CO\textsubscript{2} Emission

In reducing CO\textsubscript{2} emissions from Germany’s road traffic, a higher fuel tax would be more effective than the more stringent emission standards enacted by the EU. A current RWI study shows, in fact, that more stringent emission standards result in additional driving. European energy policy should have continued to regulate CO\textsubscript{2} emissions merely through fuel tax levels. Consumer demand for vehicles with better fuel economy would then still have increased, even without more stringent standards.

In reducing CO\textsubscript{2} emissions from Germany’s road traffic, a higher fuel tax is more effective than introducing lower vehicle emission standards. According to an RWI study published in the scientific journal “Environmental and Resource Economics”, a 10% increase in gas prices results in 3.5% fewer car trips, whereas increasing fuel efficiency by 10% leads to 5.2% more driving. The reason for this is that greater fuel efficiency means lower gas costs for drivers. Thus, they drive more. As a consequence of this “rebound effect”, more than half of the emissions that could be avoided by more efficient vehicles are nevertheless generated by increased driving.

The research is based on data from the German Mobility Panel (MOP), an ongoing survey being conducted by the Federal Ministry of Transport, Building and Urban Affairs. The results of a survey of 940 households, conducted between 1997 and 2006, were analyzed for the study. Among the questions asked in the survey concerned the decision of whether to acquire a private car and which trips would be made with such a vehicle.

Higher gas price would spur demand for more efficient vehicles

The results of the study call into question Europe’s energy policy which, in addition to taxing fuels, is coming to rely on more stringent efficiency standards for vehicles. The European Commission thus intends to limit CO\textsubscript{2} emissions of new vehicles to 130 g CO\textsubscript{2}/km by 2015.

In contrast, the results of the study indicate that CO\textsubscript{2} emissions could be more effectively reduced by higher fuel taxes. This would not only reduce the number of kilometers that individual vehicles are driven; at the same time, fewer households would purchase a car. The policy would still encourage development of more efficient vehicles, as the higher gas price would stimulate demand for vehicles that use less fuel. This would result in the propagation of more efficient technologies without resorting to explicit regulations governing CO\textsubscript{2} emissions.

The complete results of the study are published in the article “Do High Oil Prices Matter? Evidence on the Mobility Behavior of German Households”, appearing in “Environmental and Resource Economics”, Vol. 43, Pp. 81–94.

For more information: frondel@rwi-essen.de, weiler@rwi-essen.de
Research News

Procurement of Research Contracts

Economic impacts from the promotion of renewable energies: The German experience
Client: The Competitive Enterprise Institute.
Contact person: Prof. Colin Vance.
Term: 3 months

Development of Craftsman Markets and Requirements for Businesses to Adapt
Client: Federal Ministry of Economics and Technology.
Contact person: Dr. Bernhard Lageman.
Term: 2 years

Data Monitoring and Evaluation of the “Education Subsidy” Program
Client: Federal Ministry of Education and Research.
Contact person: Dr. Marcus Tamm.
Term: 3 years

Innovation Report 2009
Client: Ministry of Innovation, Science, Research and Technology of the German State of North Rhine Westphalia. Contact person: Prof. Dr. Christoph M. Schmidt.
Term: 8 months

Econometric Modeling of Production Processes Using the Example of Substitution of Energy Sources in the Generation of Electricity
German Research Foundation (DFG) project. Contact person: Dr. Harald Tauchmann.
Term: 3 years

Analysis and Forecast for Saving and Consumer Behavior of Private Households
Client: Federal Ministry of Finance.
Contact person: Dr. Roland Döhrn.
Term: 7 months

Events

RWI at EEA Annual Meeting in Barcelona

RWI presented its publications at the joint Annual Meeting of the European Economic Association (EEA) and the Econometric Society (ES). In addition to RWI researchers, a number of RWI scholarship recipients from the Ruhr Graduate School in Economics, which is co-funded by RWI, were in attendance at the conference held in Barcelona from August 23 through 27.

Researchers of RWI and RGS Econ and RGS professor Dr. Walter Krämer (third from right) at the RWI/RGS booth during the EEA Annual Meeting in Barcelona.
Guest Lecture by Christian von Weizsäcker on the Topic of Public Debt

“Public debt as a control instrument for the global economy” was the title of a lecture given by retired professor Dr. Carl Christian von Weizsäcker on July 16 as part of the RWI Research Seminar. Dr. Weizsäcker was for many years chairman of the Monopoly Commission and was the former director of the Institute of Energy Economics at the University of Cologne. A current research study by him draws on his early work in the area of capital theory. With reference to a global economic perspective, in a very entertaining and stimulating lecture Dr. Weizsäcker demonstrated that, in a “Keynesian” situation, public debt only becomes a problem when economic growth rates fall short of the long-term interest rate, i.e., once it is no longer possible to “grow out of debt”.

For more information: weiler@rwi-essen.de

Publications

Ruhr Economic Papers

Due to the growing number of Ruhr Economic Papers as well as space requirements, in the future the News will only mention titles and authors. Abstracts can be viewed and the Ruhr Economic Papers downloaded at www.rwi-essen.de/rep

(106) Colin Vance and Markus Mehlin, Tax Policy and CO2 Emissions – An Econometric Analysis of the German Automobile Market

(107) Michael Fertig, Christoph M. Schmidt, and Mathias G. Sinning, The Impact of Demographic Change on Human Capital Accumulation

(108) Daniel Baumgarten, International Outsourcing, the Nature of Tasks, and Occupational Stability – Empirical Evidence for Germany

(109) Thomas K. Bauer and Mathias G. Sinning, The Purpose of Remittances – Evidence from Germany

(110) Peter Grösche, Housing, Energy Cost, and the Poor – Counteracting Effects in Germany’s Housing Allowance Program

(111) Dirk Engel and Vivien Procher, Export, FDI and Productivity – Evidence for French Firms

(112) Stefan Felder and Harald Tauchmann, Regional Differences in the Efficiency of Health Production: an Artefact of Spatial Dependence?

(113) Lars Kunze, Capital Taxation, Long-run Growth, and Bequests

(114) Stefan Felder and Anja Olbrich, Dealing with Excessive Off-label Drug Use: Liability vs. Patent Prolongation
Publications

(115) Markus Hörmann and Andreas Schabert, An Interest Rate Peg Might Be Better than You Think

(116) Jörg Franke and Tahir Öztürk, Conflict Networks

(117) Sonja C. Kassenboehmer and John Haisken-DeNew, Social Jealousy and Stigma: Negative Externalities of Social Assistance Payments in Germany

(118) Sandra Schaffner, Heterogeneity in the Cyclical Sensitivity of Job-to-Job Flows

(119) Christoph Schwierz and Ansgar Wübker, Determinants of Avoidable Deaths from Ischaemic Heart Diseases in East and West Germany

(120) Christoph Schwierz, Ansgar Wübker, and Björn A. Kuchinke, The Impact of Private versus Social Health Insurance on Offered Waiting Times in German Acute Care Hospitals

(121) John P. Haisken-DeNew and Matthias Vorell, Killing them with Kindness: Negative Distributional Externalities of Increasing UI Benefits

(122) John P. Haisken-DeNew and Christoph M. Schmidt, Nickel and Dimed German Style: The Working Poor in Germany

(123) Boris Augurzky, Dirk Engel, Christoph M. Schmidt, and Christoph Schwierz, Ownership and Financial Performance in the German Hospital Sector

(124) Ronald Bachmann and Peggy David, The Importance of Two-Sided Heterogeneity for the Cyclicity of Labour Market Dynamics

(125) Leilanie Basilio, Deciding Who Works Where – An Analysis of the Distribution of Work within Native and Immigrant Families in Australia

(126) Dirk Engel and Joel Stiebale, Private Equity, Investment and Financial Constraints – Firm-Level Evidence for France and the United Kingdom

(127) Volker Clausen and Hannah Schürenberg-Frosch, Aid, Spending Strategies and Productivity Effects – A Multi-sectoral CGE Analysis for Zambia

(128) Ansgar Belke and Daniel Gros, A Simple Model of an Oil Based Global Savings Glut – The „China Factor“ and the OPEC Cartel

(129) Verena Eckl and Dirk Engel, Benefiting from Publicly Funded Pre-competitive Research – Differences between Insiders and Outsiders

(130) Jörg Franke, Christian Kanzow, Wolfgang Leininger, and Alexandra Väth, Effort Maximization in Asymmetric N-person Contest Games

(131) Ansgar Belke, Ingo Bordon, Inna Melnykovska, and Rainer Schweickert, Prospective NATO or EU Membership and Institutional Change in Transition Countries

(132) Annika Herr, Hendrik Schmitz, and Boris Augurzky, Does Higher Cost Inefficiency Imply Higher Profit Inefficiency? – Evidence on Inefficiency and Ownership of German Hospitals

(133) Ansgar Belke and Jens Klose, Does the ECB Rely on a Taylor Rule? – Comparing Ex-post with Real Time Data

The Hospital Rating Report 2009 is the fifth since 2004. The amount and quality of the data has once again improved considerably, allowing additional analyses. Investigations in greater detail address the Krankenhausfinanzierungsreformgesetz (Hospital Financing Reform Act), the second stimulus package Konjunkturpaket II and the potential repercussions of the financial crisis. For the first time, hospital investment activities are analyzed, accompanied by the introduction of a more reliable method for assessing investment deficit. Patient flows are analyzed as well as the significance of foreign patients. Finally, the report was able to provide initial observations on the topic of medical care centers.

The Nursing Home Rating Report 2009 is the second since 2007. For the first time it was possible to make use of official data from December 2007, as well as previous years, covering all of the some 11,000 nursing homes, facilitating a presentation not only of the current situation but of future trends as well. Using this base, improved predictions about the number of nursing care patients were derived. In addition, an increased number of annual reports, allowed in particular the impact of any minimum wage to be analyzed. It was also possible to analyze for the first time data for an MDK (Health Insurance Medical Service) and to relate the data to price rates.

As the financial crisis has expanded to become a global recession, the economic sciences have also come under pressure in the public discussion, with doubts raised as to the capability of these disciplines to provide explanations and guidance. Representatives of the traditional school of Ordnungsökonomik (ca. economics of order) offer the criticism that mathematics dominates the universities, while economic policy issues have been squeezed out to the fringes. However, the above discussion misses the point entirely, since this apparent dichotomy ceases to exist upon closer examination. The critique that theories, along with their empirical verification using quantitative methods, have become formalized, is rooted in a highly selective perception of current economic practice. This is why Volkswirtschaftslehre (ca. national economics), as an academic discipline at German universities, is well advised to orient itself on the Anglo-Saxon triad of “microeconomics – macroeconomics – econometrics”, an indispensable framework for modern economics. Economists trained with this foundation have a command of the resources required for elucidating systemic relationships and for supporting policymakers in tackling major challenges in economic policy.
Adhering to the theme “a day at the lake”, this year’s RWI institute outing took place at, and on, Baldeney Lake near Essen. The morning began with a visit to the Villa Hügel, where works from the Folkwang Museum were on exhibit. Here paintings by Monet, Renoir and van Gogh and other artists were available for viewing. Afterwards, participants proceeded (on foot, by car, ship or inline skates) to the Kupferdreh Sports Club on the south shore of the lake. After enjoying coffee and cake, an opportunity was provided to learn, under expert guidance, how to paddle a dragonboat. A rather wet undertaking, up under the market test, i.e. customers were buying alternative products. Nothing is capable of changing that fact: no prediction by auditors, no petition and probably no financing guarantee. Policymakers are well advised not to risk a wager on the opposite outcome. One of the lessons learned from the financial crisis is: “Thou shalt not gamble!” That also, and especially, goes for the government.

It got off to a great start: the weather was sunny in the afternoon when the RWI summer party began, then came the rain.

Water everywhere: dragonboat training at this year’s RWI institute outing turned out to be wet fun, especially when rain from above added to the lake water below.
as it turned out, especially when extra moisture from above in the form of rain set in. Still, the institute team was quickly able to find a uniform rhythm and, thanks to combined team efforts, pick up speed. In spite of various forms of turbulence, all of the RWI and RGS staff members made it safely back to shore. There they were able to replenish their expended energy at the barbecue buffet.

“What is the latest on …”

... Prof. Dr. Friederike Welter

Prof. Dr. Friederike Welter worked as a research staff member from 1993 to 2006 in the RWI area of competence “Business startups and development, trades and new technologies” (now called “Business and innovation”), and from 2003 on she was deputy head of the competence area. Prior to that she had studied economics at the universities of Wuppertal and Bochum and completed her doctorate in 1992 with a thesis about SME and SME promotion in Nigeria, funded in part with a graduate scholarship granted by the State of North Rhine Westphalia. In 2002 she qualified as a professor at the University of Lüneburg. She was a professor for “general economics, specializing in the management of small and medium-sized enterprises” at the University of Siegen from 2005 to 2008.

Since 2008 Friederike Welter has been a professor for economics and “Associate Dean for Research” at the Jönköping International Business School in Sweden. She is also visiting professor at the Small Business Research Centre of Kingston University in the UK and holds a professorship for entrepreneurship at the Stockholm School of Economics in Riga.

1.) What did your work at RWI teach you that you can apply in your present job?
Several things! What helps me the most at the university is the broad experience I have gathered in writing applications and procuring research funding, but I have also learned how to “sell” research findings to policymakers.

2.) What do you remember best about your time at RWI?
The pleasant colleagues at the trades department, with whom I was able to work with even until midnight, putting the finishing touches on an expert report, and Mr. Westram, who could procure literally any article that had ever been published anywhere – even if it sometimes took a while.

3.) What are the differences between your present situation and your previous work at the institute?
As Associate Dean for Research, I am responsible for the research work completed at the entire Business School, including the quality of the work, meaning I have more administrative responsibilities – and teaching, of course, which has a highly international character here.

4.) In your opinion, what is the greatest challenge that German research facilities will be faced with in the future?
International competition for increasingly limited research funding and for good people!

5.) Which question would you like to answer?
What will you read next?