

DIW BERLIN

German Institute
for Economic Research

Ellen Müller-Cöstel



2006 Annual Report

DIW BERLIN

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2006

Annual Report

Editors
Dr Alexander Fisher
Dr Rolf Ketzler

Layout
Alfred Gutzler

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Königin-Luise-Str. 5
14191 Berlin
Germany
+49-30-89789-0
www.diw.de



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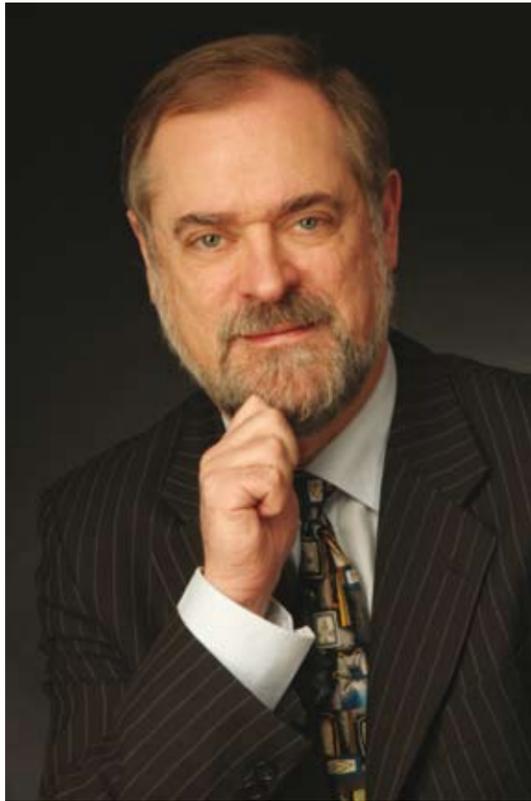
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President's Message

The German Institute for Economic Research (DIW Berlin) is Germany's leading economic research institute. Its strength is based on its active engagement in both research and policy advice and its independent status as a non-partisan and non-profit organization. The two main interacting tasks of equal weight are:

- (i) To scientifically examine economic processes in Germany and abroad.
- (ii) To provide timely policy-oriented contributions to the public.

According to this commitment, DIW Berlin has established work areas with a well elaborated focus and worldwide coverage. It contributes to the international awareness of Germany as an important location of policy relevant competitive academic research.

The research program of DIW Berlin focuses on three key areas:

- Identification of global economic trends
- Research on the conditions for prosperity and sustainable growth
- Elaboration of the role of the activating state

Research and advisory activities are carried out at DIW Berlin both within individual research departments and by cross-departmental teams. These structures enable the Institute to react flexibly to the emergence of new and topical questions in economic and social policy.

DIW Berlin's research findings are published in scientific journals, presented to the scientific community and disseminated to the broader public. One of the key functions served by the Institute is to supply decision-makers from the spheres of business and politics as well as the general public with up-to-date economic and structural data, forecasts, research reports, and services in the area of quantitative economics. The Institute's research findings are also very widely discussed in the media.

Since 2000, the Institute has continuously undertaken substantial efforts to respond to the changing demands of science, politics and society. The strength of the Institute is the dynamic and impressive spirit among researchers. Moreover, an effective management structure has been build up that actively supports the joint production process of high quality applied economic research and policy-oriented output. The high scientific reputation of DIW Berlin could be strengthened on a national as well as international level through a strong increase in publications in top peer reviewed journals listed in the Social Sciences Citation Index. Publications by the Institute's researchers increased from 6 in 2000 up to 53 in 2006. Since 2004, DIW Berlin holds the top position regarding the number of SSCI publications compared to other German economic research institutions and has successfully managed to increase its scientific output for 6 years in series.

The high scientific standard is endorsed by the strong presence at the most important European economic conferences. The number of papers presented in 2006 by DIW Berlin employees at the European Economic Association (EEA), the

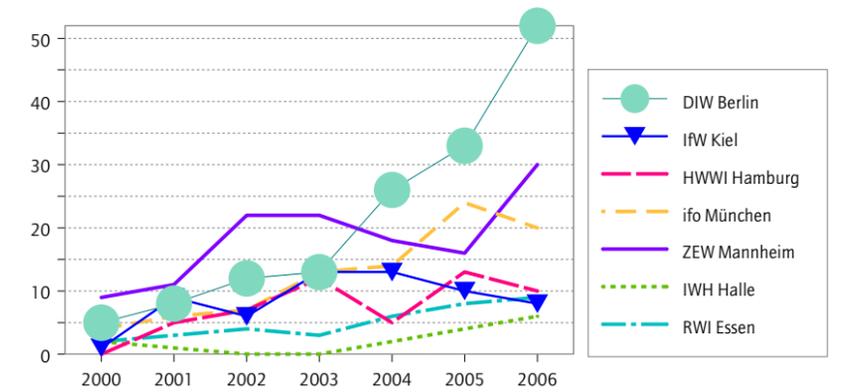
European Meeting of the Econometric Society (ESEM), and the Verein für Socialpolitik (German Economic Association) once again showed a significant increase from the previous year, which demonstrates the visibility of and the positive reception given to our research work in the academic community. The employees of the DIW Berlin have provided magnificent support for achieving a top position as one of Europe's leading research institutes.

In addition to the impressive scientific output the high reputation of DIW Berlin results from its close co-operation with universities which is intensified through joint appointments of its staff. DIW Berlin is renowned worldwide for its provision of socio-economic panel data (SOEP). The international empirical research community increasingly relies on these data, as proven by the rising number of empirical papers based on the data provided by DIW Berlin.

With regard to DIW Berlin's future development, the establishment of a training structure for Ph.D. students to push forward the promotion of young researchers is a core strategic task. The start of the doctoral program – Graduate Center of Economic and Social Research – in 2006 represented a significant step. The Graduate Center offers a training with an international outlook for policy oriented research in Economics as well as Social science. Before the beginning of the on-the-job-training within the institute's research projects, field courses and internships will take place in Berlin and Washington D.C. The Graduate Center relies on the Institute's extensive network of external partners in German and foreign universities, research facilities, think tanks and international organizations. From now on, the Graduate Center will contribute to the outstanding reputation of the institute and ensure the necessary provision of qualified young researchers.

The active expansion of the Institute's international relations regarding its research activities is also expressed through the enhanced participation in competitive project tenders on a European and worldwide level. Research assignments from the EU Commission won in competitive proce-

Significant increase in the number of SSCI Publications



Source: Institute's Annual Reports and websites, ISI Web of Knowledge

dures already account for a quarter of the third-party fund's budget. In 2006, DIW Berlin has taken on responsibility for coordinating the EU project ESCIRRU: Economic and Social Consequences of Industrial Restructuring in Russia and Ukraine. The Institute intends to further expand its international research activities within the Seventh Framework Programme. Brussels represents also a natural focus for the Institute's globalisation activities. By intensifying the cooperation with partner institutions in Brussels, DIW Berlin will strengthen its visibility throughout Europe. Moreover, the strategy of intensifying international relations involves also the regular presence of the Institute in international job markets. DIW Berlin is actively hiring well-trained researchers at the yearly meeting of the Allied Social Science Association (ASSA).

DIW Berlin ambition is to become an internationally leading and widely visible institute for applied economic research and policy advice. The keys to achieving this objective is further integration and professional exchange between these two areas and a strong international networking. Today more than ever, DIW Berlin plays an active role in scientific research and contributes to the further development of economic models and concepts as well as to empirical research methods. The Institute will maintain and strengthen its efforts to become one of the most respected scientific think tanks worldwide.

Klaus F. Zimmermann, President

DIW Berlin—A Brief Introduction

The German Institute for Economic Research (DIW Berlin) is Germany's largest economic research institute. As an independent and exclusively non-profit facility, it carries out basic research and provides consultant services on economic policy. It was founded in 1925 as the Institute for Business Cycle Research and received its current name some years later. Since its foundation, the Institute has been located in Berlin. In 2006, a branch in Washington D.C. will be established to strengthen the Institute's international presence and intensify the international relations of the Institute.

The overall administration of DIW Berlin is the responsibility of the President, Prof Dr Klaus F. Zimmermann, who is assisted in his duties by the Vice-President, Prof Dr Georg Meran, and the Managing Director, Dr Susanne Maria Schmidt. Together, they constitute the Executive Board.

Each of the seven Institute's research departments is chaired by a department head who is also actively involved in the design of DIW Berlin's research programs as well as in the scientific coordination of its research activities. The research topics in which the Institute's departments are specialized can be divided into three main themes:

- Basic understanding of global economic trends
- Identification of the prerequisites for welfare and sustainable growth
- Specification of the role of the activating state.

Research and consultant activities are carried out both within the individual research departments and by interdisciplinary research teams. The Institute's three service departments (Information and Organization, Information Technology, and Management Services) provide a range of services to internal and external users.

DIW Berlin's legal status is that of a registered association comprising in addition a Board of Trustees (chairman: Prof Dr Dr h.c. Günter Stock), and an Advisory Board (chairman: Prof Daniel Hamermesh, PhD).

Approximately half of DIW Berlin's budget consists of public grants to fund research, paid in equal parts by the federal state of Berlin and the German government (Federal Ministry of Economics and Technology). Other funding includes income earned

from projects and commissioned work, membership fees and donations.

DIW Berlin's staff numbered 190 in 2005, of whom approx. 100 were researchers. In addition to the permanent staff, many Research Professors and Research Affiliates contribute to the activities of the research departments. These researchers cooperate with the Institute for a fixed period of time, providing a fresh impetus to the Institute's research agenda.

DIW Berlin has conducted basic research of international renown and provided research-based consultant services to policymakers, economists, and the general public at the national, European, and international levels. Applied research and

policy consulting are the combined result of an erudite culture at DIW Berlin. The Institute is internationally renowned for the quality of its economic policy analyses and for its published research findings.

The guiding principle behind all the activities carried out in DIW Berlin's departments and research areas is the Institute's vision to become an internationally renowned think tank in the short term. The department's research programs are designed with this vision in mind.



A week at DIW Berlin

Monday, December 4

One week before the Nobel Peace Prize was awarded to Muhammad Yunus, the founder of the microfinance Grameen Bank, the workshop “Microfinance and Poverty Reduction” discussed the achievement and potential of the microfinance sector in the Middle East and North Africa. The non-governmental organization PlaNet Finance Deutschland invited to this workshop in Berlin while Prof. Tilman Brück, Head of the Department of International Economics at DIW Berlin, chaired the meeting.

In his opening comments, Tilman Brück welcomed the diverse audience composed of representatives of the private sector, government, civil society and research institutions interested in microfinance in Berlin and in Germany.

A series of short movies screened during the workshop presented the key message. The films traced the daily activities of several micro-entrepreneurs, demonstrating the power microfinance has to change people’s lives and livelihoods. PlaNet Finance Deutschland and their partner organizations Tamweelcom and Al Amana based in Jordan and Morocco, respectively, further emphasized this message.

These four presentations all painted a vivid picture of the young microfinance sector in the region, which is witnessing strong growth and promising profitability. The region appears excited to realize its economic potential, if only on the micro-scale. Perhaps the development of the microfinance sector is assisted by the relatively low levels of poverty in the region, thus enabling the literate, healthy and entrepreneurial customers to realize their potential.

In the discussion, the presenters were asked about the prospect of sustainable growth in the sector, raising the specter that the strong growth in recent years was merely a bubble. Yet, the presenters unanimously agreed that, if anything, the microfinance sector was on the verge of an even more rapid expansion.

Reducing the regulations was seen as a key policy request in helping to strengthen the sector and to enable it in countries, like Syria, where it does not exist yet. The question of the gender equality in regard to access to credit was raised in the discussion. This is a crucial concern specifically in Muslim societies, where promising more economic freedom to some of the more disadvantaged members of these societies is necessary.

Commenting on this lively debate, Tilman Brück concluded the meeting by calling for a strong poverty focus of microfinancing institutions and support to microentrepreneurs. “Donors have a key role in initiating microfinance institutions geared towards poverty reduction”, Brück commented. “The experience of Jordan and Morocco demonstrates that the potential of microfinance institutions has not yet been realized in the Middle East and in North Africa.”

Tuesday, December 5

9.30 a.m., Berlin, Hotel Ritz-Carlton.

Alexander Fisher, Managing Director of DIW Berlin since 12/1/2006, remembers on December 5, 2006: „My third day at DIW Berlin. Rather than having a lot of exciting meetings in Dahlem at which I was overloaded with information about my new role as the Managing Director of the largest German economic research institute, I had the luxury of being able to attend the top-class DIW Berlin „Innovation“ Summit at the start of my first working week.

Having arrived at the Ritz Carlton Hotel on Potsdamer Platz, I was greeted not only by the impressive atmosphere of this world-class hotel but also by the professional events management of the collaboration between my new employer and IBC EUROFORUM GmbH. There was a small breakfast, where I became acquainted with Mr Klaus Kinkel, our former Foreign Minister, and the President gave me an opportunity to introduce myself to participants when I gave the welcoming address for DIW Berlin at the get together in the evening.

At this exciting further training event, I spent the day listening and discussing. As a result of the impressive and thrilling speech of Prof. Werwatz, the Head of the Department Innovation, Manufacturing, Service, I learned how the innovation indicator was an excellent and up-to-date product of our institute. The enthusiasm of the more than 70 participants and the pride of Mr Kinkel in our product and that of the speaker was impossible to ignore. „Not bad“, I thought.

In the panel discussion „Is Germany a good environment for innovation?“, chaired by our President, the solitary position of DIW Berlin in



Panel at the DIW Berlin Summit

the German landscape for economic research became clear to me. Represented by the President, DIW Berlin made it clear why it has a unique position in German economic research where there is a demand for advice.

At the get together in the evening, I found it easy to deliver my first inspired speech and to invite participants to enter into an intensive co-operation with DIW Berlin in the future. Friendly applause, nods in agreement and the establishment of contacts of some of the participants for co-operation have at any rate meant that I can today support the departments of Innovation, Manufacturing, Service and Information Society and Competition in the joint submission of a not insignificant EC tender for sectoral investigations of competition at the European Commission.

A very successful and fantastic third working day at DIW Berlin.”

Wednesday, December 6

8.30 a.m., Press Office of DIW Berlin

From an examination of press clippings, it is clear that Claudia Kemfert, Head of the Department of Energy, Transportation, Environment of DIW Berlin enriched the current debate with her statement in support of higher flight prices. On the previous day, she exclaimed before the press agency dpa that „Flying must become more expensive in the interests of climate protection and that the emissions trade should be expanded to include air travel“. The next day, the newspapers were full of it: „The Deutsche Institut für Wirtschaftsforschung (DIW) demands higher flight prices in the interests of climate protection.“ „Flying must become more expensive in order to make traveling by train seem financially more attractive“, said Claudia Kemfert, the DIW energy expert in Berlin. In this way, the Institute supports the plans of the Federal Government and the EU Commission to include air travel in the emissions trade, the trade in CO2 certificates“, Süddeutsche Zeitung, Spiegel online, taz, Netzeitung, and more than 40 additional press clippings reported.

On Wednesday, the press agency gives its up-to-date Wochenbericht to the press. In today's report, the authors Christian Wey und Verena von Schlippenbach argue the case for the liberalisa-

tion of shop opening times at a Federal level. „The considerable potential for growth in the retail trade could be maximized by the standard liberalization of shop opening times throughout Germany“, conclude the authors. „At the same time, the restrictive planning and building regulations for the retail trade should be relaxed“.

Thursday, December 7

It's Thursday morning and nearly the entire department for macro analysis and forecasting comes together to discuss the forthcoming meeting of the German Joint Forecast Group. The major task of this meeting is to forecast the short- and long-term economic developments in Germany, the European Union and other industrial countries. At first, Prof Dr Steinherr, the head of the department, opens the discussion by giving a brief introduction and tries to motivate the group in order to support Florian Zinsmeister, Dr Christian Dreger and Jiri Slacalek, PhD, in developing their new International Macroeconometric Model. In the future this model will provide the department with benchmarks for its forecasts. After this Prof Dr Steinherr gives the floor to Dr Stefan Kooths who leads the discussion for the rest of this meeting. The sun is shining and bathes the conference room in light; here the members of the department for macro analysis and forecasting sit together, drink coffee and discuss the latest developments in the German



Alexander Fisher addressing the DIW Berlin Summit

economy and in the rest of the world. Two interns also are attending the meeting. Of course, they are too shy to say anything, but they are interested in seeing how such an event is conducted.

At first the group has to agree on how the oil price, the exchange rates, and the monetary policy of the European Central Bank affects the basis for making its forecasts. This is a difficult process because of several differing opinions on certain topics such as inflation rate expectations. The problem becomes only more complicated as everyone supports his or her position with sound arguments. For example, one topic of the discussion deals in brief with the fact that the German

Economy will probably grow this and next year at a rate above its natural growth. If this is indeed the case, then it seems plausible to expect a higher inflation rate. This point is of great relevance for the relationships of many economic agents, such as negotiation proceedings for wages between firms and unions.

In addition, they discuss the development of the German labor market. Erik Klär has expertise in this area, while Dieter Vesper has extensive experience evaluating public finance in Germany. After much debate, the participants agree on the main issues without obvious disagreement.

In regard to globalization, one must note the great degree to which the German Economy is integrated into the European and world economies. Therefore, developments in Japan, the United States, and Europe and additionally, the role of Latin America and China in the World Economy are of great concern. Patricia Alvarez Plata, Konstantin A. Kholodilin, PhD, and Dr Joachim Volz have special knowledge in these fields and it has never been less than fascinating to listen to their presentations on the conditions and problems these foreign economies face.

As always, the meeting ends at twelve o'clock and the department heads leave the room to break for lunch.

Friday, December 8

02:00 a.m. (Central European Time). Klaus F. Zimmermann, the President of DIW Berlin, has just landed at the Dulles International Airport in Washington D.C., where it is 20:00 a.m. He has flown straight from Brussels, where he has spent the whole of Thursday meeting with colleagues from the advisory circle of the President of the European Commission, José Manuel Barroso, and members of the EU Commission. The main topic for this discussion was „Youth Policy and Education“. The objective was the launching of Europe-wide initiatives for increasing the economic and social development of young people. The representatives agreed that resources and emphasis should be focused more on very young people where the best chance of success lay. Evermore tasks and advisory activities of DIW Berlin are taking place at a European level. However, the Institute wants to focus not only on Europe, but also on Asia and America. It is for this reason that Klaus F. Zimmermann traveled to Washington DC. DIW Berlin hopes to open a branch there in 2007. Preparations are already well underway. The Institute has rented premises in the heart of the city, on K Street (in the vicinity of the Capitol) where the research and consulting activities of DIW Berlin will be coordinated. During an initial stage, students of the Graduate Center for Social and Economic Research of DIW Berlin will be able to use these premises from January 2007 when they complete their internships at

prestigious institutions such as the World Bank or the IMF and when the office is available for lectures. Klaus Zimmermann meets colleagues of the World Bank and the IMF on this day in December. A new initiative would mean that matters relating to labor economics could be used for development work in Africa. In addition, internships and terms of employment for doctoral students of DIW Berlin will also be dealt with. Zimmermann meets representatives of the German Embassy and representatives of the German business world at a speech. Only two days later, Klaus F. Zimmermann will travel to China, where the Institute hopes to establish further contacts. There is much interest in labor economics, social security systems, and migration, the research subjects of the DIW President. Hong Kong, Xiamen and Beijing will be the ports of call this time. Our Chinese colleagues have again managed to organize first-class expert conferences at these venues, with international representation at the highest level. Particularly impressive is the large number of highly qualified young academics, who stand out due to their good language skills and specialized knowledge. In the future, DIW Berlin will also play a role in academic terms in Beijing: the Renmin University of China will make Klaus F. Zimmermann an honorary professor for his services in the development of labor economics.



A meeting of the department
Macro Analysis and Forecasting



Prof Dr Alfred Steinherr, Head of Department
Macro Analysis and Forecasting

Macro Analysis and Forecasting

If 2005 was in many regards a period of consolidation, the past year has seen the Department of Macro Analysis and Forecasting coming into its own once again. “2005 was a difficult year for us,” explains Prof Alfred Steinherr, Head of the Department. “A number of senior researchers had left the department, and we were faced with the challenge of maintaining our regular forecasting business, increasing the research output, while, at the same time, integrating a num-

ber of new colleagues into the ongoing work. In retrospect, we can safely say that due to the old and new staff’s enormous dedication, we coped very well and now we are fully back in business.”

Indeed, over the past year, the Department has managed to increase its activities in all of the areas mentioned above. Still, economic forecasting remains the core of our work. The department delivers six business cycle forecasts a year: two each for DIW Berlin’s own semi-annual evaluation of economic developments in Germany and the rest of the world, for the Joint Forecast carried out in cooperation with other leading German economic research institutes, and, finally, for the EUROFRAME group, a network of European forecasting institutions. For these forecasts, the newly developed International Macroeconomic Model (IMM) has become of great importance. “Multi-country models are a must today,” says Dr Christian Dreger, Deputy Head and Chief Econometrician of the Department. “With the continuing integration of financial, product and labour markets worldwide, you need to have a model that reflects the international feed-back effects of what is happening in the national economy.” The department’s model has been set up in cooperation with Global Insight, a private company that is the world

leader in sectoral and macroeconomic forecasting and data management.

Maintaining your own macroeconomic model comes with an additional advantage: It allows for the immediate incorporation of fresh insights from the department’s scientific research. “Much of our research has direct implications for

the way we estimate future business cycle developments,” says Jiří Slačálek, Ph.D., researcher at DIW Berlin. “That should come as no particular surprise. Forecasting is our main job, and obviously the desire to improve the accuracy of our forecasts spawns innovative research activity in the respective fields.” Over the past year, the



Members of the department at their
regular in-house colloquium

Macro Analysis and Forecasting

department's researchers have published findings on a variety of forecasting-related issues, such as the properties of alternative leading indicators for German GDP, the long-run demand for money in the Euro area, or the importance of wealth effects for household consumption (see box). Overall, the department's publications in refereed journals have increased to 18 in 2006.

Externally funded research is the third field in which Macro Analysis and Forecasting has been exceptionally active over the past year. Besides its regular policy advice delivered to the German federal government, the department has acquired a number of prestigious projects funded by the European Commission. Yet the demand for its advisory services is not limited to Europe. The department's expertise in macroeconomic modeling, for instance, has helped in acquiring a project financed by the European Commission's EuropeAid programme, in which the department and its partners support the government of Lesotho in the development and implementation of a macro-econometric model for its economy. Furthermore, when the Asian Development Bank (ADB) was searching for consultants to develop a report on the scope of regional cooperation in monetary and exchange rate policy in Cambodia, Laos and Vietnam, DIW Berlin was there to help. In a series of joint workshops carried out in the region, DIW and the ADB researchers alongside experts

from the countries' governments and research institutions developed policy options for enhancing monetary stability in the region, as well as for increasing the participation of the three countries in the process of economic and monetary integration currently taking place in Asia.

"The officials in those three countries wanted to bring in external experts, and they decidedly did not want people from the IMF," explains Prof Steinherr when asked how the project came to DIW Berlin. "They were looking for consultants with first-hand experience in the area of economic and monetary cooperation and integration. Europe exemplifies that. And we fit the profile." Patricia Alvarez-Plata, the department's expert for international financial markets, welcomes the change of perspective that the project in Indochina imposes on the German researchers. "In Europe, we look at a 0.25 percent increase in the ECB's lending rate and argue forever about how it may or may not affect real economic activity. In these countries, with a large degree of dollarisation and exchange rates pegged to the US dollar, you have virtually no monetary policy independence to begin with. Coming up with ways to increase monetary stability and at the same time opening up some manoeuvring room to pursue domestic policy goals is a rewarding task."



Household consumption: The role of wealth effects

Housing prices in many industrial countries have recently been rising, substantially driving up consumers' wealth. Both intuition and theory suggest that household assets are a key determinant of consumption spending, which in turn, being the largest part of the gross domestic product, plays a crucial role for the overall state of the economy.

As real estate makes up the bulk of households' total net worth [40-70%] the size of the "wealth effect" on consumption may be nontrivial. Increases in value of homes affect household expenditure in several ways. First, directly: more wealthy consumers tend to spend more. Second, credit-constrained households can use their houses as collateral to borrow more money. In addition, house price increases obviously have redistributive effects: They shift wealth from renters to homeowners.

While many economists have investigated these issues theoretically, to answer the important question for policy makers: "What is the size of the wealth effect?" one has to take a careful look at the data. And before doing that the data on housing wealth, not being available for most countries, has to be constructed. That is exactly what Jirka Slacalek, Ph.D., researcher in DIW's Department of Macro Analysis

did. His research project is the ideal combination of sound research and policy-relevant work for which the Department strives. It began as a research project that the European Commission was interested in supporting as a part of the "Financial Integration in Europe and the Propagation of Shocks" project. The results of Dr Slacalek's papers were featured prominently in November 2006 edition of *The Economist* magazine in the "Economics focus" section, which brings the results of the latest economic research to a broad audience of practitioners, businessmen and policy-makers.

Dr Slacalek's research on the size of the wealth effect suggests that the wealth effect varies considerably across countries: typically something between 0 and 10 cents is consumed from a 1 Euro increase in housing wealth. The wealth effects are more powerful in market-based, Anglo-Saxon and non-Euro area economies. The effect of housing wealth is somewhat smaller than that of financial wealth for most countries, but not for the US and the UK. The estimates suggest that had the German housing prices over the past ten years grown by 64 percent—as much as the US ones did—rather than falling by 13 percent, (real) consumption growth would have been about 8 percentage points or 0.8 percentage point per year stronger.



Prof Tilman Brück, Head of the Department of International Economics

International Economics

International Integration – Renewing transatlantic relations

“Europe is currently enjoying an economic upswing and reforms are starting to translate into growth and jobs. These positive developments should be used to step up the pace to modernise Europe and its economy, thus helping the EU to achieve higher levels of prosperity, further job creation and greater social cohesion. The Union is determined to shape both its internal and external policy in accordance with its values in a globalised world to the benefit of the Union’s citizens” – this is the message for the European

Council 2007. The renewed Lisbon Strategy for Growth and Jobs provides a framework for intra-European integration and makes the evaluation of any progress possible. International integration of the EU appears to be more complex, since the union has still to define its role on the international playing ground. These different aspects of European as well as international integration

are at the core of the department “International Economics” of the DIW Berlin. In addition, questions on international security policy and economic consequences of terrorism are addressed. Many of the recent studies of the department are innovative such as for example the project on the evaluation of banking supervision in Germany for the Ministry of Finance and as well as the project funded by the Sixth Framework Programme of the European Commission on Economic and Social Consequences of Industrial Restructuring in Russia and Ukraine.

Germany’s double presidency, President of the European Council and the G-8, might be a new starting point for an adequate definition of the Europe’s role in the international context. Impressive work programmes are formulated. While the Presidency on the EU level got the slogan “Europe – succeeding together”, central themes of the G-8 Presidency are growth and responsibility. In practice, the programmes show several similarities particularly in the fields of international economic integration, energy security and climate policy.

On the eve of 2007, the department of International Economics has pooled its assets to analyse these programmes from a wide variety of perspectives.

Focusing on the EU wide agenda, one important topic is the design of trade policy in the times of a comparably weak WTO. In general, a world wide trend for bi-lateral free trade agreements is observable. These contracts lead only to a regional reduction of trade barriers. Consequently, new high potential “trade blocs” could emerge. The exclusion of other trading partners is expensive and requires additional agreements. In this situation, closer cooperation between the EU and the US could serve as a locomotive for worldwide integration. This is especially true in regard to trade barriers as well as to protection of intellectual property rights. A closer cooperation between the EU and the US concerning standards in export documentation would not only lead to lower international transaction costs but also provide an energizing impetus for international standardization and security.

In 2007, based on the “European strategy for sustain, competitive and secure energy”, a Euro-

pean action plan must be adopted. Still, we are far from realizing a common market for electricity. This fact is reflected in drastic price differences among EU member states. As the Scandinavian experience illustrates, the creation of a single market place for electricity could contribute to greater stability and crisis prevention. Liberalizing the gas market, which is highly dependent on pipeline capacities and nets, is also necessary. In general, the creation of an efficient European supervision agency as well diversity in the energy mix should help to overcome recent problems. Consequently, the sustainability of oil supply should be one of the major topics in the EU-negotiations with the Russian Federation. For successful negotiations it is very important that the European Union speaks with one voice.

Despite the fact that wages and unemployment rates differ widely in the EU, intra-EU Migration is still low. In Eastern European new member states job creation was constrained mostly to the emerging private sector, while privatized and state owned firms laid off many workers. Still, differing rules concerning immigration exist among the older states. These legal differences are leading to welfare losses and high transaction costs. Obviously, there is considerable need for harmonization.

The coordination and harmonization may also improve the efficiency of European international aid programs. In addition, to fulfill the millennium goals in development and poverty reduction as well as to contribute to international stability, the EU should increase their engagement in so-called “fragile states”.

All in all, it becomes clear that the role and weight of the European Union in the international playing ground is highly dependent on a successful intra-EU integration. For successful international integration, a deeper intra-European integration appears necessary.

An International Research Network at DIW Berlin: The Households in Conflict Network (HiCN)

One third of the world's population lives in conflict-affected low income countries with two thirds of these people residing in rural areas. Yet little is known about how violent conflict affects poor households and how poor households deal with violent conflict.

To address this knowledge gap, Professor Tilman Brück, Head of the Department of International Economics at DIW Berlin, set up the Households in Conflict Network (HiCN) in 2004 together with two research affiliates of the Department of International Economics, namely Philip Verwimp of ECARES in Brussels and Patricia Justino of the Institute of Development Studies in Sussex and of Harvard University in Boston.

Most of the current literature on conflict has focused on the analysis of large cross-sections of countries and on the causes and impact of large-scale civil wars on national or regional development. By focusing on the quantitative micro-analysis of the interaction between conflict and households HiCN continues to break new methodological and analytical grounds.

Researchers of the Network understand conflict to encompass different degrees of uncertainty over property rights and human security. Examples of conflict include civil unrest, internal or external war and genocide. Research compares various conflict intensities rather than focusing on one specific type of conflict.

This is a particularly important aspect of the Network as most current analyses of conflict have focused on large-scale conflicts, ignoring the fact that less violent forms of instability may constitute the preliminary stages of more violent conflicts. The approach takes the entire cycle of violence into consideration including unbalanced post-conflict outcomes which may inspire new violence by dissatisfied groups.

The three co-founders Brück, Justino and Verwimp launched the Households in Conflict Network at their joint session on "Poverty, Inequality and Conflict" at the Annual Meeting of the American Economic Association in January 2005 in Philadelphia. The session was a great success with leading economists in the field such as Frances Stewart (Oxford) and Klaus Deininger (World Bank) discussing papers on conflict in Mozambique, Rwanda and India with an audience of about forty participants.

Meanwhile a three-year grant from The Leverhulme Trust (UK) has been awarded to help fund the Network. The HiCN is now an international, multi-disciplinary network connecting over fifty high caliber senior social scientists such as Tony Addison (Manchester University), Robert Bates (Harvard University), Debarati Guha-Sapir (Université Catholique de Louvain), Jean-Philippe Platteau (Université de Namur), Stathis Kalyvas (Yale University), Edward Miguel (Berkeley), and Frances Stewart (Oxford University) and younger researchers sharing a common interest in conflict studies at the micro-level.

In the two years since its establishment, HiCN has published over twenty working papers on its website and organized two international workshops (in Berlin and in Antwerp). The workshops also actively include and train PhD candidates. Workshop participants have called the approach "electrifying".

The working papers series provides scholars with an opportunity to publish innovative, interdisciplinary work on the causes and consequences of violent conflict. Its approach differs from existing research in the social sciences in the sense that HiCN focuses on the micro-level dynamics of violent conflict. Workshop programs and working papers are accessible online at www.hicn.org.

In 2006, DIW Berlin and HiCN were commissioned to organize a major international conference in collaboration with USAID. The conference titled "Fragile States: Perspectives from the Household Level" took place in November 2006 in Washington DC. It brought together the key scholars and policy makers worldwide working at the intersection of conflict, fragility and development.

In his keynote speech, the co-director of the Network, Tilman Brück, emphasized the importance of studying conflict at the household level, noting the extreme human and economic cost of mass violent conflict and outlining avenues for successful policy interventions.

With Patricia Justino as director and Tilman Brück as a deputy director, HiCN won a five-year integrated project grant from the European Union's 6th Framework Programme in 2006 to investigate micro-level dynamics of violent conflict (project acronym MICROCON).

Smaller grants have been awarded to Tilman Brück and his team at DIW Berlin by the United States Institute of Peace to study the comparative experiences of conflict-affected households in Rwanda and Mozambique and by UNDP to survey the state of the art on conflict and gender.

The Households in Conflict Network therefore continues to combine excellent research and policy advice on a challenging issue in economic development.



Tilman Brück, Patricia Justino, and Philip Verwimp



Prof Dr Viktor Steiner, Head of Department Public Economics

Public Economics

How would the current tax-benefit system in Germany have to be redesigned in order to enable the labor market to cope with economic pressures arising from demographic change and globalization? How could tax-benefit systems help to raise the level of employment by alleviating long-term unemployment, discouraging early retirement and raising the labor market participation of women? These vital policy questions were the focus of much of the research undertaken in the Public Economics department during the last year.

From a comparative perspective, these questions were analyzed in a research project together with the Institute for Fiscal Studies in London. “Contrary to what is often assumed in public discussions, out-of-work benefits are similar in both countries, but in Britain in-work credits make labor market participation for the target groups more attractive”, says Viktor Steiner, one of the authors and project leader of the study financed by the Anglo German Foundation. Wages of older workers are much less flexible in Germany than in Britain, due to the pronounced wage-tenure profile prevailing in Germany. This affects the employment rates of older people in the two countries differently.

“Using our country-specific microsimulation models accounting for labor supply responses on these observations, we have analysed the potential effects of introducing British-style in-work tax credits in Germany and find mixed results”, Peter Haan, research associate in the Public Economics department and one of the authors of the report explains. Labor force participation of single individuals would increase by roughly 100,000 people, while labor supply of men and women living in couples households would fall by about 70,000. Such a reform would lead to substantial net fiscal costs of about 11 billion Euro. “Simply ‘importing’ the in-work support system from Britain to Germany without further changes

to the tax-benefit system would have no overall positive employment effect, according to Michal Myck, co-author of the study and senior research associate in the department.

Related research in the department concerns the evaluation of alternative proposals to reform the taxation of families. Using microsimulation, department members have analyzed the distribution and work incentive effects of reforms of family taxation, currently featured in public policy

debates: a French-type family splitting and two full family splitting proposals. Simulation results show that under each reform the lion’s share of the reduction in taxes would accrue to families with children in the upper part of the income distribution. Furthermore, the expected labor supply effects of these proposals would be small, both in absolute terms and relative to the implied fiscal costs. “The main reason for these negative results is that the current system of joint taxation of



Marco Caliendo, left, and Katharina Wrohlich, Research Associates

married couples, with its implied high marginal tax rates for secondary earners, remains in tact”, Katharina Wrohlich, research associate in the Public Economics department and one of the authors of this study, explains. Her research has shown that a more substantial increase in labor supply in comparison to the current family-splitting reform proposals could be expected from publicly subsidized child care or the preferential tax treatment of private child care expenditures.

Another focus of our research relates to the optimal design of the tax-benefit system and its inherent trade-off between equity and efficiency. Public support aimed at improving financial work incentives for low income groups by providing a sufficient income for those who take up work, has not only garnered the wished for labor market effects but also unwanted welfare effects. If public support of low incomes induces a part of the working population to reduce their labor supply, it jeopardizes the success of the tax-benefit reforms. In our analysis focusing on lone mothers as a target group, we obtain two main results: First, currently existing tax-benefit systems in both countries, which do not feature negative marginal tax rates, are only optimal if the government puts a relatively high welfare weight on the well-being of non-working lone mothers and has a relatively low preference for redistribution towards working lone mothers. Second, in-work credits with negative marginal tax rates would be optimal from a social welfare perspective in both Britain and Germany given relatively modest or medium preference for redistribution.

Regarding policies to increase work incentives of older unemployed people, we analyse three policy reforms: an hourly wage subsidy, an in-work tax credit and a subsidy of social security contributions (“employment bonus”). “We find that the employment effects of the three policy reforms would be rather similar and of moderate size, ranging between 20,000 and 30,000 additionally employed older women and between 10,000 and 20,000 men”, Viktor Steiner summarises the results of this study. The hourly wage subsidy would yield the highest income and welfare gains, especially for people living in couples households

and for single women, whereas for single men these effects are largest for the in-work tax credit.



Dr Stefan Bach, Research Associate

Information Society and Competition

In a nutshell, the chief task of the Department Information Society and Competition is to evaluate policies that could make market-based competition more effective. It is generally accepted among economists that anti-trust and anti-monopoly policies, sector-specific regulations as well as various sorts of innovation policies should ultimately benefit consumers. Traditionally, the focus of much of the academic literature as well as of applied economic consulting work have been on supply-side sources of market failures and monopoly problems, so that businesses attracted most of the attention. Surprisingly, well-known

sources of market failures accruing from poorly informed consumers, excessive searching or undue technology switching costs have often been taken for granted, and, therefore, have been neglected as targets of a pro-active competition policy. Spurred by the rise of electronic commerce – and associated problems with market development, i.e., the growing digital divide, unsecured internet access and the lack of privacy protection, demand-side sources of market and innovation failures have recently been identified by policy makers as a potential barrier to economic growth which merits more attention and scientific scrutiny.

In March 2006, the Department organized a Conference on “Aspects of Consumer Policy as Drivers of the Economy” bringing together consumer policy experts from Europe and the US. In that conference, Mr. David Meir, Deputy Head of the Consumer Policy Unit at DG Health and Consumer Protection of the European Commission, summarized the potential role of consumer policy and unresolved issues of implementation as: “Consumer Policy has a fundamental economic, as well as a social role. Innovation and competition depend on a stable and effective environment of laws and enforcement. By creating a trusting atmosphere, consumer policy can facilitate new entrants, particularly SMEs. The important role of consumer policy in a competitive economy is gaining wide recognition. But the theory underpinning intervention is not as well developed as the theory grounding on competition policy”.

In a recent study on “Consumer Policy as a Driver of the Economy” (Verbraucherpolitik als Motor der Wirtschaft) commissioned by the Federal Ministry of Nutrition, Agriculture and Consumer Protection, the Department developed a conceptual framework for assessing current consumer policies from an economic perspective. Senior Researcher Mrs. Kornelia Hagen, who coordinated the project, concludes “that the cross country comparisons reveal widely different implementation strategies and that convergence between countries is virtually absent.” As Professor Christian Wey states, “the report clearly emphasizes an urgent need for more coordination between business-oriented competition policies and consumer policy in general. Together with its

reliance on the principles of the economics of information, the US approach of combining competition and consumer policy experts within a single authority – namely, the Federal Trade Commission – appears to be particularly promising for a more effective consumer policy in Germany.” In this regard, Germany lags behind such countries as the UK, Poland, and the US where competition policy and consumer policy competencies have been pooled together under a single authority. “However, pooling competition and consumer policy may also go hand in hand with a significant streamlining of consumer policy which will

then focus exclusively on information failures, in particular in the form of fraudulent and deceptive practices”, as Mr. Joseph Mulholland, from the Federal Trade Commission (FTC) has pointed out on the above mentioned conference on “Aspects of Consumer Policy as Drivers of the Economy” at DIW Berlin.

In 2006, the Department began a collaborative research project on “Innovation and Coordination” funded by the Volkswagen Foundation. The project, which will last for three years, is headed by Mrs. Irena Suleymanova from Humboldt University in Berlin. She joined the Depart-



Prof Dr Christian Wey, Head of Department Information Society and Competition, left, with Vanessa von Schlippenbach and Dr Pio Baake

ment in October 2006. This international project brings together business science experts, economists, psychologists and statisticians in order to gain new insights into the behavioural foundations of coordination in new and emerging markets. At DIW Berlin, the most research will focus on product pre-announcements in software markets. We believe that leading software firms (namely, those that have established a customer base) may deter consumers from switching to new – and often superior – products by making misleading or false announcements about upcoming products (i.e. concerning release dates or special features of updated software products). Professor Christian Schade (Humboldt-Universität at Berlin), who is also a Research Professor of the Department, coordinates the research. Partners from the US include David Krantz (Columbia University) and Howard Kunreuther (University of Pennsylvania, Wharton School) as well as Philipp Köllinger who left the Department in 2006 to become an Assistant Professor at the University of Rotterdam.

Together with the Institute of Telecommunication Networks from the Technische Universität Berlin (namely, Professor Adam Wolisz and Dr. Barbara van Schewick) the Department investigated “The role of the State in the Development Process of Technologies in Deregulated Telecommunication Markets“ in a report on behalf of the German Federal Ministry of Education and Research (BMBF). The role of government intervention and public research policies in emerging telecommunications markets is one of the most contentious issues that has attracted growing attention from industry experts and governmental authorities. In short, the debate circles around the architecture of the Internet’s future which may very well become the fulcrum of tomorrow’s globalized economy. The study’s main focus was the significance of public research funding and the extent to which governmental actors should intervene in the innovation and market processes in order to increase the dynamic efficiency of telecommunication markets. The study found that public research policies can play an efficiency-enhancing role with regard to the development of new network architectures and standards, i.e., transmission protocols. Similarly, the promotion of open

network structures can enhance innovation at the service level. These findings are based on the observation that an open Internet architecture may result in positive external effects in those layers of the Internet where new consumer services are developed. Consequently, private investment strategies alone are likely to be insufficient to achieve necessary investment levels.

According to Senior Researcher Dr. Pio Baake, who was in charge of the project, “governmental actors can play a decisive role with respect to standardization.” Since standards can have considerable impacts on the design of inter-network interfaces, they also influence competition between different networks. Moreover, standards may define the potential characteristics of services and applications and hence the future use of the networks. Public intervention standardization processes seem to be advisable whenever standards limit the compatibility between networks and, therefore, potential competition. The same holds true if standards have immediate effects on services and applications. In those instances public involvement appears advisable. Whenever private incentives take into account issues such as consumer data, protection and security of data transfers are typically too low.

Regulatory Holidays in Telecommunications Markets

The development of broadband networks such as VDSL and 3rd generation mobile networks promises a new range of services like triple play (telephone, TV and internet services offered over a single network), video telephoning and other real time services requiring high bandwidth and fast data transmission. However, to realize these services, existing bandwidth must be increased via home-reaching fiber optics and trough buildup of new mobile infrastructures or investments in cable networks allowing for data streams in both directions. These investments will be substantial and their economic value is still uncertain. Higher bandwidth and faster data transmission does not necessarily have increased value. Customers’ willingness to pay for connections to new networks depends on the services offered and, thus, on complementary innovations in future markets. This interdependence between innovations in vertically related markets points to potentially higher risks associated with investments in new communication infrastructures. Additionally, the sunk cost nature of infrastructure investments and network effects can lead to market failures as new monopolies emerge.

In this project, we focus on access regulation in dynamic markets which exhibit network effects. We consider a simple dynamic model with two firms operating their own networks, sunk investments in infrastructure and uncertain future demand. We have incorporated uncertain future demand by assuming indirect network effects such as the probability that high demand in the future depends on the number of current connections to the networks. Furthermore, assuming a skewed distribution of consumers, our model leads to an asymmetric market structure with one firm investing more, leading to a higher market share.

We have observed that regulation faces a trade-off between flexibility and commitment: the regulator can either impose short run case by case decisions which react flexibly to the actual market structures or it can fix regulation decisions in the long run. While the latter suffers from an obvious inflexibility the case by case approach may reduce the ex ante commitment power of the regulator considerably.

In comparing the different regulatory regimes, several effects have to be taken into account. While low access prices generally increase static efficiency, they also tend to decrease investment. Furthermore, lack of regulatory commitment induces firms to further reduce investments.

After evaluating these countervailing effects, our model shows that there is little to gain, but much to lose from regulation. While access regulation imposed on the firm with the higher market share leads to lower consumer prices, positive welfare effects are diminished by strategic investment decisions of the firms. This is especially true if a short-run case by case regulation policy is implemented. Short run regulation reduces the firms’ investment incentives drastically which is detrimental to market development. With long run regulation policy, investment can be stimulated by high access prices, but there is little room to exploit static efficiency gains. Finally, our analysis shows that access holidays conditional on the market development can increase social welfare, but do not resolve the initial investment problem if investment costs are high.

These results indicate that the commonly held belief that natural monopolies and network effects lead to market failures and thus require ex ante regulation is premature in dynamic markets. Considering uncertainty and network effects, fundamental economic insights gained from the patent literature should be taken into account.



Prof Axel Werwatz, PhD,
Head of Department
Innovation, Manufacturing,
Service

exception. After a long period of sluggish growth, the current German government has put innovation policy high on its agenda. But where does Germany stand with regard to its innovative capacity?

To answer this question, a team of researchers from the Department Innovation, Manufacturing, Service developed and constructed a composite indicator of national innovative capacity. The team of DIW Berlin has prepared the *Innovation Indicator for Germany* on commission of Deutsche Telekom Stiftung and Bundesverband der Deutschen Industrie (BDI, Federation of German Industries). While its name highlights that the *Innovation Indicator for Germany* aims at describing and understanding Germany's innovative performance, it does so by comparing Germany with 12 other leading industrial countries (Austria, Belgium, Denmark, Spain, Finland, France, Great Britain, Italy, the Netherlands, Sweden as well as the United States and Japan). Constructing a cross-country ranking of innovative capacity posed two main challenges for the DIW Berlin team: Firstly, an economy's capacity to innovate cannot be directly observed and assessed and secondly, Germany and its rival countries among the World's core innovators share a lot of important traits (well developed infrastructure and education systems, commitment to free trade and property rights, etc.) and are thus difficult to rank. Prof Axel Werwatz, PhD, Head of Department and project coordinator says: "Both challenges required a broad approach. No single indicator or small set of indicators can adequately capture innovative capacity or discriminate among these highly developed countries." Hence, in order to assess a country's innovative capacity, the researchers of DIW Berlin constructed a multi-faceted, multilevel indicator system, culminating in a single overall composite indicator build in a stepwise fashion from more than 150 original indicators. The overall indicator rests on two pillars: (1) the innovative capacity of the key innovation actors (companies, citizens, government) and (2) the societal framework conditions they are facing and creating. That is, while innovations are aimed at the market and are ultimately created by enterprises, companies operate within a complex set

of framework conditions shaped, for instance, by university research, government regulations and consumer preferences. The team of DIW Berlin thus identified seven important areas (education, research and development, financing innovations, networking of innovation actors, implementation of innovations in production, regulations that promote innovations and competition, and innovation-friendly demand) which define the framework conditions in a national innovation system. The quality of these conditions determines the innovative capacity of companies, which, acting together with the state and the citizens, configure this innovation system themselves. The overall indicator thus summarizes seven components of innovative capacity on the system side and three on the actor side.

By narrowing down this broad approach, a composite score results for Germany's innovative capacity as compared internationally the *Innovation Indicator for Germany*. Germany's overall

innovative capacity was given an 'average' ranking in the middle of the field. Taken by itself, 6th place for the innovation indicator, following the United States as leader, three Scandinavian countries and Japan is not yet cause for worry. However, the relatively low score of 4.66 (on a scale of 1 to 7) indicates, held against that obtained by the United States (7), but also Finland (6.01) and Sweden (5.83), that Germany suffers from considerable disadvantages in innovative capacity when compared to these front-runners. "A country such as Germany, whose growth and prosperity are based on innovations to a substantial degree, must strive to achieve a top position in the world, not necessarily in the ranking, but definitely with an indicator score that is close to the maximum," says Prof Werwatz.

Due to the stepwise, modular construction of the overall indicator, the contributions which the individual areas of the innovation system and the key actors made towards the overall 6th place fin-

Innovation, Manufacturing, Service

Innovation, that is new products and services or new ways of organizing production, is of prominent importance for growth and prosperity in highly developed industrial countries. Innovations are relied upon to give their companies the competitive advantage and to create the high-wage jobs needed to maintain and even improve their high standard of living. Germany is no





Dr Dorothea Lucke addressing the Industrial Conference

Uwe Hetzner

lence as well as breadth. The northern European countries, positioned in front of Germany, have proven that this is possible even in difficult times.“

ish can be identified. In this manner, an ‘innovation profile’ for Germany was derived. Accordingly, particular advantages are given on the systems side in the areas of implementation of innovations (documented by the success innovative German manufacturers enjoy on global markets) and networking; serious disadvantages were pinpointed in the education sector and where the financing of innovations is concerned. Surprisingly, Germany’s worst ranking was on the actors side, in the innovation-relevant behavioral patterns and attitudes of the population. The German deficits are grave also due to the fact that the countries making up the front-runner group are ahead not in a few but in many areas. But they also serve as ‘role models’. As Dr Heike Belitz, Senior Researcher in the project, puts it: “Substantial improvements require persistent efforts, both in terms of excel-

Industrial Conference

On May 12 and 13, 2005, DIW Berlin’s Industrial Conference was held for the first time in a conference center located in the heart of Berlin. Around 60 experts from businesses and associations participated in this event. DIW Berlin presented its economic forecasts for the time ahead until 2006 with respect to the situation of the global and the German economy on the one hand, and looked into the development of the industrial sector as a whole and its various branches on the other hand. After that, business associations’ experts reported on the current state of affairs in their respective areas of trade and provided forecasts of how they think the production in their industries will fare until 2006. Estimates of the two sides did not differ substantially for 2005; DIW Berlin reckons with a 1.9 per cent hike in production against business experts’ 1.7 per cent predictions. However, business experts are somewhat more pessimistic when looking at 2006—they only predict a 1.4 per cent hike—than DIW Berlin with 1.9 per cent. This spring conference’s special focus was on the “working hours debate”. The business experts reported how their member companies deal with the factor working hours. Towards the end of the conference, this topic attracted once again the participants’ attention. In his inspiring contribution, Prof Axel Werwatz of DIW Berlin put the working hours factor into a broader economic perspective. Katharina Heuer, Head of the Personnel and Training Strategy of the German public railroad company Deutsche Bahn AG, gave examples practiced in her company of how working hours can be managed in a more efficient way.

Fostering the dialog between the business and science communities is the aim of the Industrial Conference. As an established and distinguished forum for experts who are interested in estimations of current economic trends at global, regional, and sectoral level, as well as the consequences for the German economy, the conference has been held twice yearly in Berlin since 1960. The scientific coordination of the event by DIW Berlin and the active participation of the business community constitute the event’s seal of quality and also its unique selling point. The conference provides a comprehensive and detailed picture of the current economic situation, while in the future greater emphasis will be placed on illustrating the structural challenges facing sectors and enterprises.

Energy, Transportation, Environment

The Russian-Ukrainian gas supply conflict in 2006 and the oil transport conflict between Russia and Belarus in 2007 have illustrated that energy supply has taken on a political side as well. Over 80 percent of today's primary energy consumption is based on non-renewable fossil fuels such as coal, oil and gas. If we do not change our behaviour and technologies, fossil fuel consumption will remain as high as today. Since the major oil and gas reserves are located in only few areas of the world, importing countries would become more vulnerable to supply disruptions and, consequently, energy price shocks. Furthermore, the burning of fossil fuels emits CO₂ along with other greenhouse gases and plays a major role in climate change. Future energy sources must be clean and competitive. Secure, reliable and affordable

energy resources are fundamental for sustained economic development. The Intergovernmental Panel on Climate Change (IPCC) has proven the real and serious threat of global warming. Therefore, emissions must be reduced immediately. In addition, the world's growing demand for energy poses a major challenge for energy and environmental policy. To meet these challenges, we must transform the entire energy market. A more efficient use of existing technologies will be required along with significant scientific and technological innovation and an accelerated adoption of new energy technologies. Germany's president of the G8 and EU in 2007 has announced to take energy security and climate change seriously.

The department's mission is to find economically feasible guidelines to improve energy efficiency, to substitute fossil energy, and to evaluate energy, transportation and environmental policy options to reach these goals.

A major challenge is to strive for future energy sources which are climate friendly, secure, economically feasible and competitive. Particularly in Germany, restructuring of the power supply is urgent to avoid stranded investments. "Germany needs urgently an energy policy road map which guarantees both security and climate protection" said Claudia Kemfert, the head of the department, in media interviews. "Germany faces the challenge to boost renewable energy, phase out nuclear power and make coal technologies more environmental friendly within the next 20 years. A secure, clean and cheap energy supply is only feasible if R&D expenditures are drastically increased." Promoting renewable energy is crucial. Germany has successfully promoted renewable electricity by a feed-in fee system, according to the renewable energy law. In comparison to other promotion policies a feed-in fee system is most efficient and effective. This promotion scheme should be improved further, to allow for wider integration of renewable energy within the electricity supply system.

In 2006, two energy blackouts disrupted the power supply in Germany. In addition, electricity and gas prices in Germany are higher than in other European countries. Although Germany introduced a regulatory authority eight years after



Prof Dr Claudia Kemfert, Head of Department Energy, Transportation, Environment

the beginning of the liberalisation, prices are still too high due to insufficient competition. Claudia Kemfert said, “An independent regulation authority should control energy prices in Europe”. The policy is still open to debate whether or not Germany will implement the unbundling of vertically integrated energy companies.

In 2006, climate policy was high on the political agenda, both nationally and internationally. The European Union is a pioneer in climate change policy. The Europe-wide carbon emissions trading system constitutes the key element of a common strategy which can serve as a blueprint to similar systems in other nations. However, after a period of high and volatile CO₂ prices, the market for emissions allowances collapsed in 2006. This confirms that more ambitious emissions targets and an appropriate distribution system of emissions allowances defined by national allocation plans (NAP) are essential. The emissions trading system must be improved, as the national allocation plans feature several weaknesses and emissions permits were not auctioned before. Claudia Kemfert and Jochen Diekmann wrote in a joint weekly report: “In future attempts, more effective emissions reduction targets and an increasing auctioning of emissions allowances are necessary”.

In order to solve both challenges of energy security and climate protection, innovative technologies must be developed. “Not only does renewable energy play an important role in electricity production, but so does clean coal technologies (carbon capture and storage, CCS) and combined heat and power technologies (CHP)” wrote Barbara Praetorius and Katja Schumacher in a project report for the Ministry of Research and Education.

Since transportation is the source of 20% of total CO₂ emissions, it too plays an important role in climate change policy. “Therefore, it is crucial to spread the use of alternative fuels and technologies such as hydrogen and fuel cells” Uwe Kunert and Domenika Kalinowska point out. Further-

more, fuel efficiency and the transportation infrastructure must be improved. “We assess policy options – especially road pricing and congestion pricing – to find out alternative ways for a sustainable transportation system”, confirms Heike Link.

Like never before, both climate change and energy security are top priorities on the policy agenda. Especially in Germany in 2007, with the EU presidency and the G8 leadership both issues will be dominant. Germany needs to convince its partners that both issues can be jointly solved without economic harm.

Supporting European Climate and Energy Policy

European climate policy and energy policy play a dominant role, especially also during the EU presidency in 2007. A European project ADAM (Adaptation and Mitigation strategies for Europe) with 55 European and international research institutions investigate the economic impacts of climate policy and adaptation measures as well as the impacts of individual sectors, particularly the electricity sector.

Funded by the European Commission, ADAM is an integrated project running from 2006 to 2009 that will lead to a better understanding of the trade-offs and conflicts between adaptation and mitigation policies. ADAM will support the European climate policy in the next stage of international climate policy negotiations. Therefore, a whole variety of models is used to assess the impact of climate change and climate change policies. On the one hand are global climate/economy models that are able to analyze the impacts of policies on e.g. international trade and temperature rise. On the other hand are models that are more concerned with the detailed representation of the most relevant industries in order to be able to assess impacts on certain nations, industries and stakeholders. Results of both types of models are subsequently used to design reasonable scenarios while taking the possible influence of stakeholders into account.

In the case study P3c of the ADAM-project, the European electricity sector is investigated through the prism of computable general and partial equilibrium models. One of these models is termed EMELIE which stands for Electricity Market Liberalisation In Europe. EMELIE is an oligopolistic electricity market model which has been currently extended to cover all countries of the European Union and to simulate investment decisions. EMELIE will incorporate the most promising technologies for the reduction of greenhouse gases from electricity generation. Amongst these are fossil fuel power plants with the possibility of carbon capture and storage (CCS), biomass combustion plants and wind power plants. Furthermore, in the near future it is necessary to account for the development that is made when a certain technology is applied more frequently, - the so called learning by doing effect.

The latest EMELIE-studies for the ADAM-project focus on natural gas and coal fired power plants with and without CCS and reveal relatively low abatement costs when compared to the use of renewable energies. The results of the model runs confirm an analysis carried out by Katja Schumacher who explains: “CCS could be economically viable at a CO₂ price in the range of 30 to about 50 €/t”. In addition, the calculations with the help of the EMELIE model show the crucial dependence of the technological choice on the development of the fossil fuel prices. By the year 2025 the use of natural gas fired power plants will be advantageous if the natural gas prices are - in accordance with IEA projections - comparatively low and the CO₂ price is above 20 €/t. However, current natural gas prices favour the use of coal technologies.

Charging for the use of transportation infrastructure in Europe: How to implement an economic idea

Transportation is one of the largest factors affecting trends in global warming, population shift, development and land-use planning. A more efficient transport sector – where costs, benefits and charges are better understood and reflected within policy – contributes to the mitigation of these trends.

The GRACE project, a 3 years research project funded under the 6th framework programme of the EU was launched in 2005. In this project, a team of researchers from 15 institutions throughout the EU – universities, research institutes and consultancies – led by the University of Leeds, collaborate on issues surrounding the implementation of infrastructure charges in transport.

GRACE follows a stream of research and policy advise projects such as PATS, DESIRE, UNITE and REVENUE, all of which funded by the European Commission with the aim to facilitate the implementation and monitoring of charges for usage of the transportation system. The idea to use economic instruments to mitigate transport problems such as environmental damages, accidents and congestion, raises several questions: Whom to charge for what, at what levels to set charges, how to spend revenues, and how to gain public and political support for such a policy.

“Optimal pricing for the use of transportation infrastructure is one of the oldest issues of transport economics. It originates in 1920 when Arthur C. Pigou published his pioneering work on tolls,” explains Heike Link, leader of the DIW team. “The topic has recently become an important political issue. Although the idea of mitigating transport problems with economic instruments is not new, there are a variety of implementation problems which bear considerable potential for innovative academic research.”

The DIW team is involved in three different areas of the GRACE project. It provides policy-makers with new and refined information on the social marginal costs of transport infrastructure use which can serve as a quantitative basis for infrastructure charges throughout the EU. Furthermore, policy-makers need a complete picture of the average social costs of transport infrastructure use, in order to monitor the effects of tolls but also to serve as a knowledge-base on upper limits for the fees. The project addresses a new and largely un-researched issue crucial for implementation: The optimal degree of complexity of transport fees. Previous work has identified that the fees would need to be rather complex to reflect marginal social cost accurately. In contrast to this theoretical requirement, research has shown that simple pricing schemes are more acceptable than complex ones. “The question is to what degree people correctly perceive and act on pricing schemes of varying complexity,” says Heike Link. “There are a variety of factors which influence choices between complex and simple tariffs. For example, the mental ability to approximate unknown complex prices by using simple heuristics, the personality type and the transaction costs involved in the decision process. This can be observed in several sectors such as the telecommunications, the internet, and the booking of low cost (low frills) airline tickets.”



hen Diekmann,

German Socio-Economic Panel Study (SOEP)

When running surveys of household wealth, we are faced with the universal problem that aggregate wealth is clearly lower than that found in the national accounts (NA). As a result, corresponding

analyses of the distribution of wealth and power may be distorted. Joachim R. Frick, the Deputy Head of the SOEP Department says: “This is not only a problem from an academic point of view, but it could also result in wrong political conclusions being drawn if such figures were used to form the basis of the Federal Government’s 3rd Poverty and Wealth Report. For this reason, work was carried out on the problem as shown by the longitudinal survey of the SOEP in the year 2006”.

There are a number of reasons for the under-recording of wealth in surveys.

First, some interviewees do not state their wealth at all or misstate it with or without intent. From our analysis of income distribution, we know that such behavior is more common among people with above or below average levels of wealth. In order to counter this problem of underrecording, advanced methods for the “multiple imputation” of missing values are used, so that both the aggregate and the distribution of wealth are presented in a less distorted way.

Second, households with extremely high levels of wealth are usually not included in random samples, although, in theory, they could be. We do not know of any sample in the world in which a billionaire is included. However, this does not necessarily mean that samples are distorted; it is just a reminder of how few billionaires there are in Germany and elsewhere. Even in the large microcensus, you will hardly find anyone of this type due to the given sampling probability of 1 percent.

Third, official aggregate statistics such as the NA are by no means free of error. Considerable portions of the statistics are estimated due to a lack of primary data. With this in mind, problems inherent to the NA alone show that it is not surprising that aggregate wealth, which is extrapolated from household surveys, does not correspond to the values of the NA. There is also a definitional problem: wealth is not established for the private household sector in the case of the NA, but is usually estimated for the national economy, in-



Prof Dr Gert G. Wagner,
Head of Department SOEP and
Research Director at DIW Berlin

cluding nonprofit organizations such as churches and trade unions. In fact, a significant portion of property and financial assets is not held by private households. For this reason, it is necessary to adjust NA aggregates in advance in order to make a proper comparison. “That is an art in itself”, says Dr Markus Grabka, who works together with the Bundesbank, which “adjusted” the German NA for the Luxembourg Wealth Study (LWS).

The Luxembourg Wealth Study is a new project of LIS, which compiles a cross-national database of wealth in private households. With regard to the data currently in the database, LWS has made an effort to present verification rates for the

different samples and countries in a form which makes comparison as easy as possible. In addition to extensive documentation, these revised and wholly imputed data on wealth are available to all users of the SOEP throughout the world for their own research.

Since the new recording of wealth in 2002, the SOEP has not only made it possible to achieve a more accurate representation of wealth (even by international standards), it has also resulted in the adoption of an innovation which is otherwise found only in the form of the British Household Panel Study. In the case of the SOEP, wealth is recorded at an individual level, but can also be ag-



Senior Research Associates PD Dr Joachim R. Frick, left, and Dr Markus M. Grabka

gregated and analyzed at a household level as a result of the recording of all members of a household. Therefore, gender-specific and intra-partnership questions for which there have so far not been any answers can be resolved. When wealth aggregated at a household level is differentiated into men and women, the difference in terms of per capita wealth is relatively small. In the case of individual wealth, a very different picture is reached: Men have a much higher level of wealth than women. This difference is largely the result of married couples in which men make, on average, about 50,000 more euros in regard to net wealth than their wives. At the same time, unmarried men and women essentially have the same wealth. Markus M. Grabka says that determinants of this “gender wealth gap” are currently being

examined in several research projects at the DIW and in conjunction with partners in the Luxembourg Wealth Study. “Among other things, this is part of a project which is being financed by the Hans-Böckler-Stiftung (Hans Böckler Foundation)”.

Missing values

“Missing values” are a plague with all surveys, whether they are conducted by official statistical bodies or scientific bodies. If, for example, a sample on wealth is taken and there is no consistent imputation of the missing values, which arise when a person says that they have a particular category of wealth without actually stating their wealth, the aggregate will be underestimated since observations are entered as 0 even if people are known to have wealth. There are two possible solutions: Either all observations which include missing values are discarded or the missing values are imputed in a consistent way.

Because there is a structural difference between those who state everything and those who state nothing or only something, “we have in the case of SOEP opted for imputation, as we would not only lose statistical power as a result of the “discarding” of observations, but we would also produce distorted results”, explains SOEP Director Gert G. Wagner. If this is consistently implemented using the latest available methods, it can be seen that the SOEP will arrive at a verification rate of 70% in the case of net wealth, including the high income sample. Thus, the SOEP is in the same region as the official Income and Expenditure Survey (EVS) which has been stated in 2002, which specializes in surveying of income and wealth. The SOEP is even marginally better than the EVS. In international terms, the SOEP is clearly above average, which can, among other things, be attributed to the fact that, particularly in the area of wealth, a specifically “high income sample” records some very large amounts of wealth in a much better way than is the case with the usual surveys; and this is also reflected in the aggregate.

If one considers the individual components of wealth, it is possible to conclude that financial assets throughout the world are recorded in a unsatisfactory way. However, in the case of non-financial assets, many surveys are in the region of 90% or even more than 100%. This is also achieved in the case of the SOEP. Debt is also recorded in a very satisfactory way. “In fact, it is only “financial assets” which are a tricky problem because of the impenetrable nature of their

structure in many households”, stresses Dr Joachim R. Frick. However, with a verification rate of about 34%, the SOEP is much better than most other foreign databases, with one exception: the highly specialized US Survey of Consumer Finances (SCF) is slightly better. “With regard to this, it should also be borne in mind that some financial assets which are included in the national accounts (NA) are not actually recorded in household surveys, as households are not even aware of these components of wealth. This is, for example, the case with the capital stock of private health insurance”, explains Markus M. Grabka.

Academic Relations

Collaboration with individual scientists as well as universities and research establishments is a key element of the strategy of DIW Berlin to expand academic research," says Prof Dr Klaus F. Zimmermann, President of DIW Berlin, referring to the academic relations of the Institute. "A cornerstone of this strategy is to recruit scientists to act as Research Directors, Research Professors, Research Affiliates and Visiting Fellows for specific projects and training tasks for DIW Berlin and to involve them in close collaboration with the scientists at the Institute." Three interdepartmental research groups are being led by Research Directors who perform a cross-section of tasks, such as the co-ordination of research and the production of publications. In close collaboration with the Research Departments, they co-ordinate research work and develop new topics and/or methods which DIW Berlin presents through its various products. Other tasks include the training and guidance of post-doctoral and post-graduate scientists. In 2006, 45 research professors and 20 research affiliates were affiliated with DIW Berlin.

On the basis of collaboration agreements with the three Berlin universities, the University of Potsdam and the Viadrina European University in Frankfurt/Oder, DIW Berlin is working with its partners to further expand of research in the Berlin-Brandenburg region. In 2006, close personal links with universities in the region were further strengthened by the joint appointment of a Department Head by DIW Berlin in conjunc-

tion with the Humboldt University of Berlin and a member of the SOEP department with the Free University of Berlin. Prof Dr Georg Meran, Vice-President of DIW Berlin, refers to the fact that the Faculties of Economic and Social Science at the Berlin/Brandenburg universities are also involved with the doctoral programme of DIW Berlin. "We are happy that we have been able to gain such excellent and internationally renowned scientists as Prof Dr Stephen Jenkins, Prof Irwin Collier and Dr Badi Baltagi for the Faculty," says Prof Dr Meran. "With Prof Dr Truong P. Truong, Professor of Economics at the University of New South Wales, Sydney, we have been able to gain a well-known expert in the field of microeconomics, energy and climate change and CGE modelling." Close links to the universities can also be strengthened within the "Initiative for Excellence Competition" founded by the German government to promote top level research and to improve the quality of German universities and research institutions. The institute cooperates with the Graduate School of North American Studies at the Free University of Berlin, which was selected in the first round of the Excellence Initiative in 2006.

Outside the region, there is contact with many research establishments in Germany and abroad. A constantly growing number of projects are conducted by employees of the Institute together with scientists from universities and other research institutes. DIW Berlin belongs to several European research networks, including the European Network of Economic Policy Research Institutes [ENEPRI] and the European Forecasting Research Association for the Macroeconomy [EUROFRAME], to which the most important economic research institutes of the European Union and acceding countries belong. The institute is also actively engaged in the Sixth Framework Program of the EU. Beginning in February 2006, the institute has taken the responsibility for coordinating the EU project ESCIRRU (Economic and Social Consequences of Industrial Restructuring in Russia and Ukraine).

In addition to its scientific networks with individuals and institutions, the Institute regularly organizes a research seminar to support knowledge transfer within the institute and with other

academic institutions. DIW Berlin places strong emphasis on organizing and participating in conferences.

The success of these activities are reflected in a particularly impressive increase in publications. Publications in refereed journals listed in the Social Science Citation Index by DIW Berlin employees increased to 53 in 2006 compared to 34 in 2005. The visibility of DIW Berlin's research work in the academic community is also demonstrated by the presence of the Institute's members at scientific conferences. In 2006 the number of papers presented at the most important national

conferences (German Economic Association) as well as international conferences (European Economic Association and European Meeting of the Econometric Society) showed an increase from 41 to 53, which can be taken as an evidence for future publications. Both examples indicate that there has been much progress over the last years to expand the position of DIW Berlin in the scientific community.



Government Relations

According to its constitution, DIW Berlin must devote equal amounts of effort to research, political consultation and service. While describing the tasks of the Institute in Berlin Prof Dr Klaus F. Zimmermann says, “The key element thereby is the professional combination of research activities and political consultation. The high quality of DIW Berlin’s consulting service is guaranteed through scientific excellence.”

The Institute’s researchers engage in policy advice ranging from speeches and workshops for parties represented in the federal and state parliaments to intimate discussions with the chancellor on specific topics. Classic political consultation in the form of expert reports for politicians, companies, governments and associations is of financial significance to DIW Berlin. By dominating the traditional market for economic surveys, DIW Berlin researchers have privileged access to ministry officials and inside information on the legislative process. “DIW Berlin has generated more revenue than other institutes from policy advice in Germany. With a lead of 20% on the second largest economic think tank active in the political arena, DIW Berlin has a window into most offices of high-ranking government officials”, explains Dr Alexander Fisher, Managing Director of DIW Berlin and member of the Executive Board. Further, this strong national basis is the ideal stepping stone to boost an already significant influence in Brussels.

In Germany, DIW Berlin conducts regular research for Federal ministries. Since 1950 the joint business cycle diagnosis, which is drawn up bi-annually on behalf of the Federal Ministry of Finance, is conducted in close collaboration with the five other leading economic research institutes. Also on a regular basis, DIW Berlin advises the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth on parental money (an allowance for parents who take time off to look after their newborns). An area of major and long-term impact stems from the tax simulation models built at DIW Berlin. Financial changes resulting from tax law modifications are estimated and the results are used for the formulation of Federal tax legislation. The regular adaptation of the model guarantees the accuracy of the model results. Besides this contractual work, several scientists are usually invited by the German Bundestag, ministries of the federal government or the Länder governments to discuss the research results of DIW Berlin on specific topics before committees and commissions.

The regular German-French summits are usually accompanied by a delegation of high-ranking economists of both countries. Since 2003, DIW Berlin together with its French counterpart CEPII (Centre d’Etudes Prospectives et d’Informations Internationales), arrange meetings for economists where they exchange recommendations for common policies.

Additionally in 2006, the evaluation of labor market reforms (so called the Hartz-reform) was completed and has received much political attention. The results were used to revise parts of the assistance program for the promotion of self-employment among the unemployed. Accord-

ing to another study, improvements in the vocational training programs had a positive impact. Participation in this program led to significantly increased employment rates. The promotion of vocational training was a key element of the Hartz reform aimed at the modernization of the German labour market.

DIW Berlin also has contacts with foreign governments. Political delegations regularly visit the institute to discuss a broad range of economical issues that are covered by DIW Berlin’s re-

searchers. On behalf of the GTZ (Gesellschaft für technische Zusammenarbeit – German Technical Cooperation) or in cooperation with the foundations of the German political parties, some researchers advise governmental institutions in foreign countries themselves. Furthermore, the exchange of ideas with some foreign embassies in Berlin has increased over the last years.



Prof Alfred Steinherr addressing members of the Norwegian Parliament at DIW Berlin



“DIW Berlin provides the International Herald Tribune with up-to-date and valuable information through press releases and direct interviews with leading researchers. It is of immense help that the Institute’s Press Office is always available and always happy to provide us with rapid and expert assistance”, says Judy Dempsey, Berlin

Correspondent for the IHT in Berlin. “As a result, DIW Berlin has become one of our most important contacts on economic policy issues.”

Dörte Höppner, Head of Service Department Information and Organization, states: “Our Press Office is open 24 hours a day, 7 days a week”. She adds, “In this way, we offer a service which will

Media Relations

hopefully persuade journalists to continue to contact us rather than call another institute”.

In 2006, DIW Berlin was mentioned nearly 8,200 times in the press. The Press Office received about 10 queries a day from journalists. Interviews have resulted in other media taking up the news story the following day, leading to greater press coverage. In May, Klaus F. Zimmermann, the President of DIW Berlin, told the *Münchner Merkur* newspaper that he thought that it would be wrong to abolish the “Hartz IV” labor reforms. This is in contrast to his opinion about one euro jobs, which he thought should be ended as quickly as possible. His opinion spurred on the public debate. Other newspapers and agencies took up the news story and repeated it many times during the next few days. As a result, DIW Berlin was not only given enormous press coverage, but was again ready to advise politicians with a fact-based opinion. However, it is not only politicians, but also members of the broader public who benefit from this kind of advice. Through the professional expertise of DIW Berlin, newspaper readers, radio listeners, and TV viewers can understand more of the complexities of applied economics.

Every week, DIW Berlin provides one to two press releases on DIW Berlin’s latest research. The *Wochenberichte* (weekly reports) are particularly popular with journalists. Here they find the analyses and assessments of scientists on current topics in a concise form. When Mechthild Schrooten and Philipp Köllinger confirmed in their *Wochenbericht* (“Export nation Germany – Secure sustainability”) in October 2006, that Germany was again becoming the world leader in exports, the interest of the press was colossal. The Press Office received more than 30 enquiries from journalists, including agencies, newspapers, journals, television, and radio. In his commentary on the topic, Nikolaus Piper of *Süddeutsche Zeitung* said: “It is worth reading the report of DIW Berlin very carefully”. It can really help you to adopt a more rational approach to the expression ‘world leader in exports’”. As a result, DIW Berlin appeared in 15 reports in the newspaper and in more than 150 clippings the next day.

The big media event of 2006 – the World Cup in Germany – also played a role as far as DIW

Berlin was concerned. Gert G. Wagner and Karl Brenke examined the economic effects of the World Cup and were popular interviewees for the national as well as the international press. Many journalists assumed that the sporting event would stimulate demand at home (also as far as the mood was concerned) and would consequently expand the effects of the upturn. However, the experts at the DIW Berlin have not been able to confirm this. “According to our analysis of the macroeconomic effects of the World Cup, an upturn could only occur if the World Cup led to a clear change in consumer and investment behavior as a result of a change in future expectations,” say Wagner and Brenke. “But it is not possible to count on this. Nonetheless, it was not only as a sports cultural event that the 2006 World Cup in Germany was important in terms of social policy. It was another piece of the mosaic in Germany’s transition from an industrial to a service society.”

But not only newspapers and journals report on the work of DIW Berlin. The Institute’s scientists also discuss their work on the radio and television. On almost 500 occasions in 2006, scientists at DIW Berlin stood in front of a microphone and discussed current developments in economic policy. During presentations of the economic forecasts at the beginning and middle of every year, about 25 camera teams and radio reporters throng to the press conferences of DIW Berlin. Claudia Kemfert, Head of the Department Energy, Transportation, Environment, appeared as one of the well-known faces on the political talk show “Berlin Mitte” of ZDF on November 9 together with Siegmund Gabriel, Federal Minister for the Environment, and Utz Claassen, Manager of the Board of ENBW, where they discussed the current energy policy of Germany as well as future energy models.



Prof Claudia Kemfert, right, in the Berlin Mitte talk show on ZDF channel.

ZDF/ Svea Pietschmann

Institutions in Perspective

Publications of DIW Berlin

As a leading economic research institution, DIW's primary objective is to provide decision-makers in politics and industry, scientists, and the general public with up-to-date information on economic affairs. Generally, relevant research results are published in:

Wochenbericht: Presents weekly condensed information on current economic policy issues resulting from the research of DIW Berlin. Available to policy-makers, academics, the business community and ministry officials as well as to the general public, it offers the latest research of DIW Berlin. The range of topics by the Wochenbericht reflects the work of all the departments of the Institute. The first Wochenbericht was published in 1928.

Weekly Report: Contains selected articles of the Wochenbericht that are of special interest to an international community and are published in English.

Quarterly Journal for Economic Research: In each issue the Quarterly Journal focuses on a current economic policy topic and provides related background information as well as controversial research issues. The articles are from renowned national and international scientists who have specialised in the respective topic. The Quarterlies have been published by DIW Berlin since 1926 and are an ideal source of information for decision makers in business, politics, and administration as the authors relate their contributions to practical experience.

Discussion Papers: Each Discussion Paper deals with a specific economic problem on a scientific basis. A distinguishing feature of these papers is that they present research findings prior to their subsequent publication in national and international scientific journals. The series was introduced in October 1989 and is available electronically via the internet.

Applied Economics Quarterly (Konjunkturpolitik): As an international journal Applied Economics is written in English and provides empirical research from national and international scientists relevant to economic policy. All areas of economics are considered, including social policy, labour and population issues, trade, international finance, stabilization and general growth. The journal's goal is to contribute to current policy debates and enhance economic policy-making by providing a forum for innovative and rigorous empirical research. While the journal is global in scope, it is particularly interested in publishing work on European policy issues.

DIW Berlin: Policy Advice Compact: In this series the research reports of DIW Berlin are published. They are the results of projects conducted for Ministries, the European Commission and other institutions. Additionally, descriptive empirical reports like market analyses or reports on the economical structure are offered.

Data Documentation: Through the basic research of DIW Berlin, data, metadata and databases are compiled in all areas of social and economic sciences. These are presented and are accessible to national and international scientists.

Event Documentation: The events of DIW Berlin including presentations, lectures and speeches of external and internal participants are documented in the Event Documentation for further availability and are available online.



Immigration Policy and the Labor Market

von Wuntsch
Bach | Trabold

Wertmanagement
und Steuerplanung

Society of Friends of DIW Berlin

“We are very pleased with the favorable course which DIW Berlin is taking”, stressed Alexander von Tippelskirch, the Chairman of the Board of the Vereinigung der Freunde des DIW Berlin (= Association of Friends of DIW Berlin) at the General Meeting which was held at the premises of the headquarters of Berliner Volksbank on May 10, 2006. Previously, in his report on the development of the Institute, Prof. Dr. Klaus F. Zimmermann, the President of DIW Berlin, elaborated on the leading position which DIW Berlin occupies among economic research institutes with regard to economic output and consulting services.

An important item on the agenda of the General Meeting was the election of new board members. Three individuals were unanimously elected to serve as members of the board of the Vereinigung der Freunde des DIW Berlin: Andreas Mertke, a fully authorized representative of Berliner Volksbank eG, will be the new Treasurer for the Association. Arne Brekenfeld, a Member of the Board of MetaDesign AG, and Ralf Welt, General Manager of dimap communications Beratungsgesellschaft für Kommunikation und Politik mbH, will support the Board of the VdF. “That we have been able to attract these individuals to our Board is a great advantage to the VdF”, says Dr. Susanne Maria Schmidt, the General Manager

of the VdF. „They represent excellent and very reputable companies, which will strengthen the foundation of the VdF and provide fresh impetus and stimulation.”

The further development of events introduced in the previous year – the Friedensburg Talk and the President’s Dinner – will be key events in 2006 and 2007. The latter is to be expanded into an event which the customers of member companies will also be able to enjoy.

A highpoint of the General Meeting was the awarding of VdF prizes for the best Wochenbericht (Weekly Report) of DIW Berlin and the best academic essay in a refereed specialist journal. Alexander von Tippelskirch awarded Dr. habil C. Katharina Spieß and Katharina Wrohlich the prize for the best Wochenbericht for their joint study “How many childcare places are still needed in Germany?”. Konstantin A. Kholodilin and Vincent W. Yao were awarded the prize for the best essay for their article “Measuring and predicting turning points using a dynamic bi-factor model” which appeared in the International Journal of Forecasting.

The General Meeting ended with a talk by Klaus F. Zimmermann on the subject of “Ethnic Identity of Migrants” which had been published in the Wochenbericht of DIW Berlin at the end of May 2006. Klaus F. Zimmermann showed that women in particular are not well integrated in Germany. Religion also plays a large role with regard to integration: Muslims are much less well integrated than members of other religious groups.

The members of the VdF were also regularly informed in 2006 about the DIW Berlin development as well as about the activities of the VdF: The Newsletter of the VdF appears four times a year and members receive the „Economic Flashlight“ every week with information about the results of current research and the consulting projects of DIW Berlin. Members can also consult the hotline of the VdF at any time if they require information about developments

in economics, economic policy, or economic science.

In December 2006, Dr Susanne Maria Schmidt ceased to be the Manager of the VdF. She is returning to the private sector. Her successor is Dr. Alexander Fisher who took office on December 1, 2006. Alexander Fisher, 38, obtained his doctorate from the Faculty of Economics of Europa-Universität Viadrina in Frankfurt/Oder. After working as an investment manager for EM.TV & Merchandising AG, he managed the Staff Division for the Staff & Social Board of Berliner Verkehrsbetriebe (BVG). “The Vereinigung der Freunde constitutes a link between industry and academia, which I think is unique, in this form, in Germany”, says Fisher in his first greeting to the members of the

VdF. „During a time of great global challenges, I would like to do my bit to ensure that more companies are able to benefit from the first-class research and the consulting services of DIW Berlin. In this way, I also hope to meet the expectations of our existing members and to attract new ones. I would like to continue the process of generating a fresh impetus set by my predecessor, with the strengthening of the Berlin foundation of the VdF playing a key role.“



Prof Dr Georg Meran, Dr Alexander von Tippelskirch, and Andreas Mertke at the VdF Meeting.

The Managing Board of the Society of Friends of DIW

The Society of Friends is chaired by Dr. Alexander von Tippelskirch, Chairman of the Supervisory Board at IKB Deutsche Industriebank AG. Deputy Chairman of VdF is Dr. Eric Schweitzer, Managing Chair of Alba AG and President of the Chamber of Industry and Commerce Berlin (IHK). The Treasurer is Andreas Mertke, Executive Manager of Berliner Volksbank. The other members of the Board are Peter Dussmann, Chair of the Supervisory Board, Dussmann & Co. KGaA, Prof. Dr. Michael Hüther, Director and Member of the Executive Board, Cologne Institute of German Economic Research, Hans Jürgen Kulartz, Member of the Executive Board, State Bank of Berlin, Giro Center, Ralf Welt, Managing Director of dimap-communications, Beratungsgesellschaft für Kommunikation und Politik mbH, Arne Brekenfeld, Member of the Executive Board of MetaDesign AG.



The advantages of VdF membership

The membership in the Society of Friends of DIW Berlin (VdF) contains the following benefits:

DIW Berlin Weekly Report

VdF members receive the Weekly Report from DIW Berlin free of charge. The DIW Berlin Weekly Report addresses decision-makers from all sectors of policy, economics, science and administration as well as all persons interested in economic and sociopolitical topics. It gives short and understandable information concerning current economic research.

VdF Newsletter

The VdF Newsletter is published on a quarterly basis and informs you of publications, opinions and research results as well as of events and human resources matters of DIW Berlin.

Economic Flashlight

Once a week you will receive the Economic Flashlight which is sent exclusively to members of VdF. It contains information and opinions of DIW Berlin concerning current topics from the sectors of research and policy advice.

Events

Various events put the members of VdF in a position to inform themselves of and exchange current research findings of DIW Berlin. The Industrial Monitoring Conference, in which members of the VdF can participate, free of charge, aims at promoting communication between economics and science. The conference is a recognized and excellent forum for experts who are interested in the assessment of the current development of the global economy, and its effects on the German economy. The scientific support by DIW Berlin and the active involvement of participants account for the excellent quality of this Conference.

In addition, VdF members receive invitations to the monthly Berlin Lunchtime Meetings, where scientists present their newest research results to an exclusive circle of participants from all sectors of politics, the economy and other associations. At the Annual Meeting of VdF Members, the President of DIW Berlin comments on a current economic topic in his keynote address. Only after the meeting will the keynote address be published in a Weekly Report of DIW Berlin. Since 2004, the Friedensburg Talks have taken place, where VdF members meet well-known persons in a private circle. In addition, we offer the members of VdF a President's Dinner with the President of DIW Berlin, Prof. Dr. Klaus F. Zimmermann.

Data

We provide members of VdF with the current figures on economic development as well as with industry-specific information.

VdF Hotline

Are you looking for research results from a specific study or for a suitable speaker for your event? To spare you the time-consuming search and to be able to immediately answer your questions, we have set up the VdF Hotline for you.

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Die Hoffotografen

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DIW Berlin by the Numbers 2006

No. of refereed articles (SSCI, SCI, AHCI)	53
No. of Discussion Papers	114
No. of articles in Wochenbericht	65
No. of conference contributions/presentations	329
No. of completed doctorates	8
No. of completed habilitations/new professorships	3
No. of conferences/workshops	54
No. of published books	39
No. of published book chapters	61
No. of mission oriented research projects	128
No. of project support(ers)	55
Volume of mission oriented research projects (in thousand €)	5,900
Volume of project support (in thousand €)	2,700
No. of published guest editorials	60
No. of press conferences	9
No. of journalists in press distribution list	1,576
No. of responses to press queries	2,657
No. of mentions in printed media	7,510
No. of TV and radio interviews	494
No. of „hits“ on internet home page	2,278,133
No. of subscribers of DIW-Newsletter	5,890
No. of events	83

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Deutsches Institut für Wirtschaftsforschung (DIW Berlin)
Mohrenstraße 58
10117 Berlin

Telefon +49-30-897 89-0
Telefax +49-30-897 89-200

e-mail postmaster@diw.de
<http://www.diw.de/english>
Registration Court Local Court Berlin-Charlottenburg

Association Register Number 95 VR 136 NZ

Value Added Tax Identification Number DE 136622485

