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German Institute for Economic Research | Annual Report

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# DIW Berlin Annual Report 2009



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# The President's Preface

## The Global Recovery is Green

The discussion of global headline issues has become a fixed element of economic policy debate, and questions related to the environment are certainly no exception. There are great expectations that investment in environmentally conscious technologies represents one way out of the global economic downturn, and could herald the beginning of a green economic boom. The German Institute for Economic Research (DIW) has an established tradition of placing the economic analysis of sustainable energy, transportation, and ecological strategies at the center of its research and advisory services. In 2009, we began a collaborative effort with the international Climate Policy Initiative (CPI) in order to further intensify research in this area.

Global economic development is attended by serious ecological challenges, challenges which represent a trillion dollar market, with opportunities for growth and innovation particularly ripe in emerging markets and the developing world. Companies that produce environmentally conscious products will emerge as winners in this structural transformation. Yet thinking about our ecological future should not be reduced to the issue of climate change alone. The political world tends to have a short attention span and regularly shifts priorities, increasing the risk that capricious political winds could undermine the nascent development of a “Green New Deal.” Ecological investments should not become permanently dependent on government subsidies. The ecological modernization of our economy will only be sustainable if the projects that are pursued are subject to competition under the same market rules and standards that apply to every other endeavor.

Though it came as welcome news that Germany invested 13.1 billion euros to expand renewable energy in 2008 – 20 percent more than the year before – we must also recognize that the proportion of public appropriations directed to these projects was disproportionately high. The new ecologically friendly drive systems that have been much in the news lately – such as electric- and natural gas-powered vehicles – can for the foreseeable future only be made economically viable in the mass market by means of massive government aid. But the likelihood of carrying through on ambitious ecological proposals in a period of empty public coffers remains uncertain. Any ecological program aiming for long-term economic success must abide by the rules of the marketplace. So the lesson is clear: market-based incentives, yes – perpetual subsidies, no.

The opportunities offered by a broad program for green growth are enormous. Conservative estimates show that in 2004 worldwide expenditures for environmentally responsible goods and investments in renewable energy amounted to more than US\$580 billion – with almost half of that coming from Europe, and a quarter from North America and Asia, respectively. A DIW study has determined that, by 2020, worldwide expenditures on environmentally friendly goods could increase at a rate three times that of the rest of the world economy. According to a scenario that forecasts low rates of expenditure on environmental protection, expenditures are estimated to rise by 2020 to US\$1.2 trillion. In an alternate scenario that forecasts high rates of expenditure, the market is expected to be worth US\$1.9 trillion by 2020. Investments will be focused on infrastructure and construction; on new transportation concepts, ranging from mass transit systems to more fuel-efficient automobiles; on waste and water management technologies; as well as on environmentally friendly industrial plants.

According to UN calculations, for example, worldwide investment in renewable energy alone came to US\$155 billion in 2008, primarily for projects in geothermal energy, wind and solar power, as well as bio-fuels. This total is four-times that of 2004 – while the long-term growth potential for



Prof. Klaus F. Zimmermann, President of DIW Berlin

environmental projects in the Third World is significantly greater than in Europe. In regional terms, by 2020 the center of green activity will move markedly toward Asia, but also toward North America.

Anyone who wants a “Green New Deal” must recognize that environment and development go hand-in-hand. The visionary “Desertec” project, which seeks to generate electricity on a wide scale in the North African Desert, provides a vivid example of the sort of reciprocal dependency this implies – but also demonstrates the potential for mutual benefit. It also illustrates that Germany is well positioned in the competition for leadership in ecological know-how. In many areas, we have a significant competitive edge. More than a sixth of world trade in green technology is now in the hands of German companies. Moreover, profits derived from the new wave in green products more often than not go to small and mid-sized companies that are focusing on highly complex technological solutions to existing problems – and reaping ever greater rewards for their efforts around the world. In 2006, 1.8 million Germans were working in some capacity in the area of environmental protection. Through a consistent pursuit of ecological policies, this number could easily double by the year 2020. However, since these are for the most part highly specialized types of jobs, they will not make up for employment losses in the more traditional industrial and service sectors. In particular, the new “green market” will provide only limited opportunities for less-qualified job seekers, who remain the Achilles heel of our labor market. Even so, the rich prospects it offers to a technologically advanced and export-oriented economy like Germany are clearly compelling.

The effective demand in Germany for environmentally friendly goods is currently around US\$75 billion. Given favorable developments, this could increase to as much as US\$171 billion by 2020. Demand for environmentally responsible goods made in Germany will be determined to a significant degree by exports. Eighty percent of wind-turbines produced in Germany, for example, are slated for export. Furthermore, the global market share held by German companies in biogas facilities lies at 45 percent; in photovoltaic facilities, this figure is 41 percent. Even though Germany currently enjoys a leading role in many segments of this sector, competition for the future of green technologies is only just beginning. The United States, in particular, is likely to become aggressively engaged in this area in the near future. The Obama administration has already earmarked \$11.5 billion in economic stimulus for ecological restructuring, to be directed toward such things as

renewable energy, building modernization, and the upgrading of the electric power grid. And the US is currently engaged in a major campaign to recruit German engineers. Meanwhile, Germany has designated 13.2 percent of its stimulus program for green investment. In Germany, experts expect that the greatest potential gains will be mainly among service industries in the environmental sector. The German Environment Ministry predicts that companies active in this area could increase their annual revenues from 123 billion euros at present to 300 billion euros by 2020.

Worldwide appreciation of the links between economic and ecological development has never been greater than it is today. If we really want to, we can indeed create a greener future for ourselves. The development of innovative environmental technologies is the prerequisite for a conversion to a climate-conscious economy. The World Climate Conference in Copenhagen made it clear once again that climate goals can only be achieved if all national economies, including those in the developing world, can agree to the transformation of their economic systems. Even though the meeting in Copenhagen failed to produce a new climate accord, effective international cooperation is still a central component in the race against climate change. In order to achieve concrete transformational goals, it is necessary to try out various mechanisms and put in place needed political instruments for dealing with the challenge we face. Pertinent economic analysis can draw upon a broad spectrum of experience from within Europe and on proven international cooperation. In the absence of an international analytical framework, the measures being considered by individual countries cannot be effectively formulated or implemented.

#### **International Networking More Important Than Ever**

The climate protection debate underscores the growing importance of international economic policy analysis. Nowadays there are practically no national economic analyses that do not take into account the relevance of international factors. The global economic crisis in particular has demonstrated quite plainly that in a globalized world of economics and finance, worldwide research and advisory networks are more necessary than ever. Today, reliable analysis of business conditions, promising innovation strategies, and effective environmental protection policies require a global perspective.

This does not mean that the national dimension of economics can be ignored. Nevertheless, decisions about future economic policy strategies increasingly are being made in Brussels, Peking, and Washington, D.C., and these cities are, therefore, the natural points-of-reference for the institute's internationalization strategy.

In order to meet global challenges, DIW has begun to internationalize its research and advisory activities. Washington, D.C. is a special focus of this effort, where the presence of the International Monetary Fund and the World Bank make the city the point-of-origin for numerous economic policy decisions that affect the world as a whole. Moreover, first-class universities and think tanks are also located in the city. In order for DIW to raise its profile both in Washington and in the US in general and to develop its relationships with research institutions on the opposite side of the Atlantic, DIW can draw upon a privileged collaborative relationship with DIW DC. The purpose of this collaboration is to support DIW in research and communication, the internationalization of scholarship, and in postgraduate education.



Due to the international financial crisis, economic policy advising stood at the center of DIW's activities in 2009. Among others, the president advised both German federal authorities as well as the Conference of German Ministers-President. Photo: Klaus F. Zimmermann and Alan Krueger, Chief Economist des US-Finanzministeriums.

DIW DC is an independent, American non-profit institution which was founded on DIW's initiative in 2007. In addition to its supervision of DIW's doctoral program – which involves, among other things, internships lasting several months at American institutions – DIW DC has facilitated and organized a range of DIW research activities. Among these are the German Day on Development, held in cooperation with the World Bank for the second time in 2009, and the presentation of the “German Innovation Indicator” during the conference “Innovation, Science, and Technology Policies in a Post-Crisis World.” Working in close cooperation with DIW DC, DIW remains committed to intensive participation in research and policy activities in the US capital. In 2009, DIW concluded its first collaboration agreement with a Washington, D.C.-based university. The agreement with George Washington University aims to intensify collaborative endeavors and promote an exchange of doctoral students and other researchers between the two countries, and, in the process, further strengthen Berlin's role as a location for research. Contacts with other institutions have already been initiated as well.

Other focal points of DIW's efforts toward international networking lie in Brussels and Peking. In Brussels we have successfully pursued further development of a collaborative relationship with our partner institute, the Center for European Policy Studies (CEPS). In addition, DIW maintains contacts with other Brussels-based institutions (such as BREUGEL and the Brussels offices of the Leibniz Society) and is a member of an array of European networking associations (EUROFRAME, ENEPRI, FEMISE, etc.). Moreover, DIW's president and the head of the institute's Department of Energy, Transportation, and Environment regularly serve in an advisory capacity to the EU Commission's president. The European networking effort, which draws on decades of tradition and experience, has already provided DIW with significant rewards. Together with other European research institutions, DIW's various departments are currently involved in ten EU projects. The Department of Macro Analysis and Forecasting, for example, is in charge of an international consortium of eight European institutions now engaged in the project “Financial Systems, Efficiency and Stimulation of Sustainable Growth.”

In Peking, the institute has been searching to establish a working partnership with a Chinese research institution. In December 2006, the president of DIW was named honorary professor at Renmin University of China – an advantageous point of departure for networking in the Asian region. For many years the institute has nurtured scholarly contacts with universities in Peking, Shanghai, Hong Kong, and Xiamen. The exceptionally dynamic development of research institutions in the region shows great potential for the exchange of academics and doctoral students and for collaborative research projects. In 2009 we also began a close dialogue with the German embassy in Peking.

#### Expert Advice in High Demand

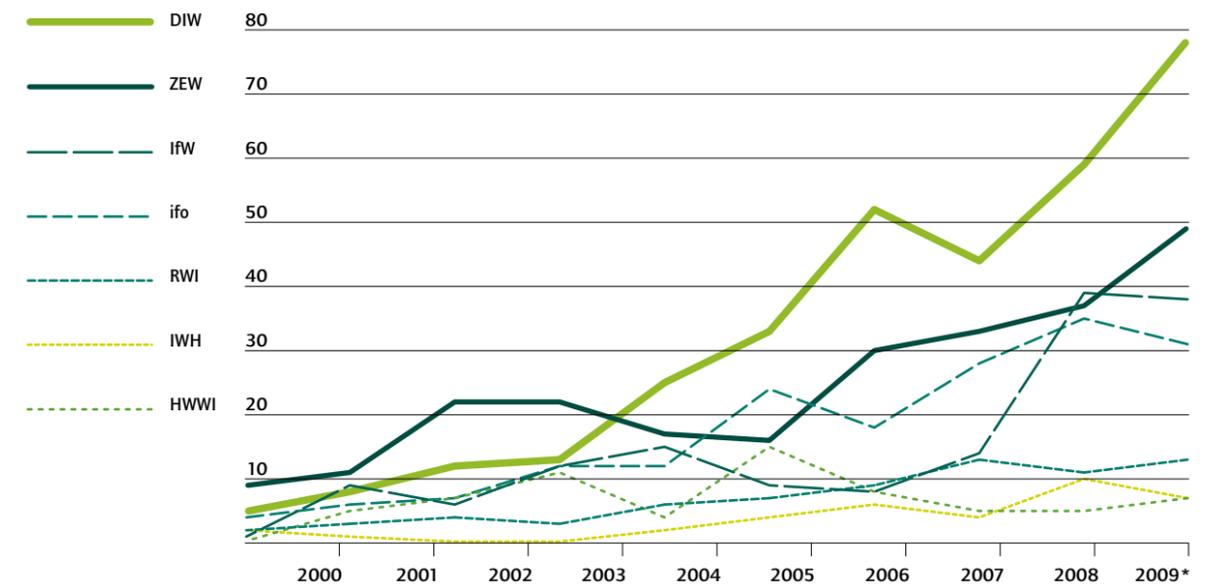
Due to the international economic and financial crisis, economic policy advising stood more than ever at the center of the institute's activities in 2009. Turbulence on the financial markets, which reached their peak with the collapse of Lehman Brothers and the tumult that event produced, resulted in an increased need among both political elites and the general public alike for immediate and intellectually rigorous economic analysis. DIW's economic expertise was then and remains today much in demand both at the national and state levels in Germany, as well as internationally. Thus, the institute's president took part in advising federal authorities on the state of the economy at a national economic summit. And in January, serving in his capacity as chair of the ARGE labor institute, he moderated the Federal Ministry for Economics and Technology's regular meeting ("Jour Fixe") with economic research institutes, a meeting in which DIW exercised a leading role. As representative of DIW, the president was also invited to the February 2009 hearing on Germany's second stimulus package held by the Budget Committee of the German Parliament and, in March of the same year, served in an advisory capacity to the Conference of German Ministers-President.

In addition, DIW took part in public discussion on the economic and financial crisis by presenting a series of its own proposals, all of which met with great public interest. Among those of particular note were "Europe's Bank Crisis: A Call to Action" (DIW Weekly Report 41/2008), "Agenda for a New Financial Market Architecture" (DIW Weekly Report 51-52/2008) and "German Bad Bank Plan: Government Should Take Over Toxic Assets at Zero Cost" (DIW Weekly Report 13/2009). And in late November 2009, came publication of the book, *Finanzmärkte nach dem Flächenbrand* ("Financial Markets After the Conflagration"), by Dorothea Schäfer and Klaus F. Zimmermann, which summarizes the initiatives taken by DIW relating to this issue.

#### Doctoral Program Expansion

The Graduate Center of Economic and Social Research (GC), established in 2006, has in recent years developed into a program held in high regard both at home and abroad. During 2009, the Center was able to further develop its relationship with universities in Berlin and Washington, D.C. Through the establishment of new collaborative arrangements at the HU Berlin – with Prof. Dr. Bernd Wegener and the Graduate School of Social Science – the GC was able to enhance its reputation in sociological studies. Prof. Jürgen Schupp has been given responsibility of overseeing the sociology curriculum on behalf of DIW. The doctoral studies program in Washington, D.C. has expanded collaboration with George Washington University through the auspices of Prof. Amelie Constant, vice dean of the Graduate Center at DIW.

Twenty students were accepted into the doctoral studies program in this year, the fourth year since its inception – with the total number of program applicants rising above 250 for the first time. This development underscores the popularity and successful evolution of the Graduate Center as an insti-



Rapid rise in the number of SSCI publications. \*preliminary  
Source: Annual reports of the institute and calculations by DIW.

tution for the instruction of capable, economics-oriented doctoral students within the framework of an internationally oriented curriculum. In order to ensure continuing interest among highly qualified doctoral candidates, the CG aims to enhance and refine its institutional structure. In this regard, the further development of the CG will be directed in particular toward interdisciplinary instruction as well as the development of a research program that takes into consideration localized concerns.

#### Scholarly Excellence

An especially gratifying development in 2009 was the positive evaluation given by the German Council of Science and Humanities to the Socio-Economic Panel Study (SOEP) for the latter's activities as a service organization and element of Germany's research infrastructure. In its statement, the Council emphasized that the SOEP represents a vital and unique research infrastructure for German social, economic, and behavioral sciences and is highly regarded abroad. With respect to competitiveness, the reviewers recommended additional investment in the SOEP in order to secure and further develop this vital research infrastructure. In particular, the reviewers recommended that the SOEP increase the scope of its survey to cover to 20,000 households. This recommendation expresses explicit recognition of the first-class service provided by the SOEP in collecting and processing household survey data, which is in turn based on first-class research as well as targeted and selected policy guidance.

The quality of DIW's research expertise was demonstrated through the large volume of publications produced during 2009. The institute's scholars published a total of 78 professional articles in journals listed by the Social Science Citation (SSCI) and Science Citation Indexes (SCI) (see figure). This was 20 articles more than the number published in the previous year, thus enabling the institute to maintain its leading position among German economic research institutions. The institute was thereby able to fulfill for the first time the evaluation committee's target that one



A panel of experts discussed economic conditions in Germany in 2010. From left to right: Henning Krümmey (from *Wirtschaftswoche*, a business news magazine), Michael Burda (Humboldt University), Klaus F. Zimmermann (President of DIW Berlin), Nick Clegg (British Deputy Prime Minister), Henrik Enderlein (Hertie School of Governance), and Michael Eilfort (Stiftung Marktwirtschaft).

peer-reviewed publication be achieved per full-time-equivalent researcher. The Scientific Advisory Board and Board of Trustees also credited the institute with significant progress in the attainment of its publication goals. Let me extend my heartfelt thanks to all those involved for their work and dedication.

The effort to strengthen energy and climate research through collaboration with the Climate Policy Initiative (CPI) is being conducted in a cross-departmental context with the goal of significantly improving scholarly excellence. Dr. Karsten Neuhoff, a leading international expert from the University of Cambridge, was enlisted to head the CPI's European chapter, which is embedded at DIW. The CPI is developing methods for comparing and assessing climate policies and applying them within a European context. A close collaborative effort with DIW is being established within the scope of a new cross-disciplinary group. This ten-year initiative is being supported by the Soros Foundation. The endeavor reinforces the institute's longstanding commitment to play a leading role in this field of research.

In 2009 Dr. Georg Weizsäcker joined DIW, further strengthening the quality of the institute's research. Dr. Weizsäcker is a lecturer at the London School of Economics and received his Ph.D. from Harvard University. His research interests are in the areas of experimental economics, game theory, and behavioral economics. The work of the newly formed cross-disciplinary research group is also supported by an array of young researchers. Within a short period of time, DIW has managed to recruit a group of first-class and internationally well-positioned researchers, who, together with DIW's various research departments, significantly enhance the institute's level of expertise.

#### **Innovative, Rigorous, Internationally Recognized Research**

Since 2000, DIW has continuously strengthened its research activities. Greater emphasis has been placed on empirical research in order to provide our policy advising activities with a sound scientific footing. In addition, we have systematically internationalized our research and promoted the education of young academics through the development of our own doctoral program. In terms of scholarship, the institute is now in an excellent position to aggressively take on the newest

challenges facing our globe. A range of new cross-disciplinary fields of research were established last year in order to stimulate new ideas in research and policy advising. In addition to the focus on climate research described previously, the cross-disciplinary research unit of "Education" has been established, and placed under the direction of Prof. C. Katharina Spiess (SOEP and Free University of Berlin). This research unit is devoted to examining pertinent educational issues from a microeconomic perspective. Macroeconomic research at DIW has been supplemented through the creation of the cross-disciplinary research unit of "International Macroeconomics." This unit, which is headed by Dr. Ansgar Belke, a professor of economics at the University of Duisburg-Essen, is focused on studying the business cycle and international monetary system.

The broad spectrum of interdisciplinary research topics that are explored by many talented and bright minds is a distinguishing characteristic of DIW. Yet aside from its human resources, the institute benefits from its location at the heart of Berlin, which helps it to fulfill the obligation, set down in its charter, to provide first-class research and advisory services. Building on these strengths, we will continue over the coming years to develop DIW as an innovative, academically rigorous, and internationally recognized economic research institute. I would like to take this opportunity to thank all of my colleagues at the institute as well as the associates of DIW for the dedication they have shown. Working together we have accomplished much. I am convinced that through continued close collaboration we will successfully advance the institute's goals in the period of development that lies ahead.



# A Focus on New Ideas

The recruitment of three new staff members in the summer of 2009 marked the start of a broad effort to bring a new level of dynamism into DIW's scientific work. At the heart of the effort is the Quality Initiative Group, which will help to improve the academic atmosphere at DIW through its publications and collaborative activities with the research departments.

What is a "quality initiative"—and does DIW need one? In some respects, the term is a misleading one, for it can imply a need for improvement. Yet the initiative has little to do with any effort to quantitatively measure quality. Rather, it reflects DIW's broader strategic priority of fostering a research culture of an international caliber, one that is on par with the standards set by international leaders in economic research—establishments such as the Brookings Institution in Washington, D.C. and Institute for Fiscal Studies in London, and publications such as *Econometrica* and the *Quarterly Journal of Economics*. Achieving this goal doesn't just require lots of time and new ideas. A drive to produce publications that contribute to fundamental debates in economics is also essential. So while the goal of achieving international renown in economic research may sound high-flown, ultimately it all boils down to being passionate about one's day-to-day work, about the will to constantly improve, and about achieving new insights that also have relevance for current political problems and debates.

Ms. Nottmeyer, you were recently involved in a behavioral experiment on "hidden slopes." What questions were you trying to answer? And what were the results?

In the experiment we explored whether participants were able to understand stochastic processes and recognize hidden risks. Many participants made decisions after incorrectly assessing the slope of a distribution, an error that could have severe consequences in the real world. Our results indicate that such errors actually occur quite frequently.

The quality initiative is one aspect of DIW's efforts in this area. Together with the DIW Graduate Center, the Climate Policy Initiative (CPI), as well as the research departments, the Quality Initiative Group has been organizing numerous activities to promote the sharing of research methods and results. In a new seminar series known as the DIW Graduate Center Masterclasses, internationally renowned researchers are regularly invited to present on scientific issues at a Ph.D. level. These one-day seminars cover a broad range of topics, from various research methods, such as panel econometrics and dynamic optimization, to research topics with an applied value, such as trust games to analyze decision-making problems and dynamic models in empirical industrial economics.

In addition, two reading groups also convene regularly: one concerned with theoretical research, the other with empirical issues. In the groups, DIW economists discuss the new literature in their respective fields of study. In this forum for knowledge exchange, participants are encouraged to draw connections between their work. In this way, the reading groups contribute to an improved culture of academic discussion beyond the boundaries of the Institute's research departments while also facilitating the development of new insights and ideas. A third element of the quality



Research Director Georg Weizsäcker and Dr. Tanika Chakraborty are two members of the Quality Initiative Group that was launched at DIW in 2009.

initiative at DIW is the seminar in advanced microeconomics that was held at the DIW Graduate Center by Georg Weizsäcker, who was named research director of the quality initiative in August of 2009.

Alongside these new seminars and events, the Quality Initiative Group conducts its own specialized research. Current topics of study include: testing of the rational expectations hypothesis; the labor market effects of language acquisition; structural models for the evaluation of welfare policies; expectation formation among financial market investors; herd effects in financial markets; optimal mechanisms for allocation problems with multiple indivisible goods; optimal strategies for applying to university in Germany; and many more.

The goal of establishing an academic culture of worldwide renown is certainly not one that can be achieved over night. Yet all of the necessary tools are in place. The new group has begun its work and noticeable progress is being made. Ultimately, in assessing its work, the Group—like the Institute as a whole—will have to focus on the marketability of its activities. For although researchers often like to focus on niche subfields, in knowledge production competitiveness is also essential.

# A Countercyclical Business: The Financial Markets Research Group

“Currently, international financial markets are going through the crisis of the century, the end of which is not yet in sight. Profound changes in the banking sector and in the architecture of international financial markets are looming ahead. The problems raised by the crisis are extremely complex and tightly interwoven with each other. It does not take clairvoyant powers to predict that assessing the crisis will occupy several generations of researchers.”

These were the first lines of the April 2009 newsletter of DIW Berlin’s Quarterly Journal of Economic Research (VJH). Assessing the crisis is naturally a key concern of the Financial Markets Research Group. In 2009, as in previous years, the Group published a number of papers in SSCI journals. In this connection, the global financial system was the central focus of the Group’s work.

The Group was involved in crisis management efforts at a very early stage, proposing concrete solutions in various publications and newspaper columns. Prominent publications authored by the Group on the crisis include: the DIW Wochenbericht article “The Nordic Banking Crisis of the 1990s: Mixed Experiences with Bad Banks” by Rolf Ketzler and Dorothea Schäfer; the DIW Wochenbericht article “A German Bad Bank Plan: Government Should Take Over Toxic Assets at Zero Cost” by Dorothea Schäfer and Klaus F. Zimmermann; and the article by Dorothea Schäfer, the director of the Group, titled “Financial Markets in Upheaval: Crisis and Reorganization,” published in the March 2009 issue of DIW’s Quarterly Journal of Economic Research.

## Financial Markets Research Group

Basic research and research-based advising are core activities at DIW Berlin. Alongside the work performed in individual departments, cross-departmental collaboration—such as that undertaken in the Financial Markets Research Group—is essential to the pursuit of these activities.

The financial system is essentially the product of financial intermediaries, households, firms, the regulatory and legal system, and government policy. The financial system should fulfil the following functions:

- the efficient allocation of savings;
- the efficient distribution of risk;
- the reduction of informational asymmetries.

The massive expansion of financial markets has led to an intense debate among economists and politicians during the past 25 years regarding the relationship between the design of the financial system and economic growth. The Financial Markets Research Group is intimately involved in this debate. It employs new insights from financial intermediation research to explore the peculiarities of the German financial system as well as to analyze the effects of financial market integration upon market efficiency and economic growth. Based on its research, the Group aims to derive concrete recommendations for a more efficient financial system—and, in this way, to provide reliable policy advising.



How did we get here? What needs to be done? Since the start of the crisis, these two questions have stood at the heart of research conducted by Dr. Dorothea Schäfer and Prof. Klaus F. Zimmermann.

In addition, the Group shared its insights regarding financial markets and the need for reform with international researchers, politicians, investors, and interested members of the public at varied venues, including the *Tag der politischen Kommunikation*, an open house event at DIW Berlin; the EUROFRAME 2009 Conference in London and Germany; the “Germany Week” of the German-American Fulbright Commission in Berlin; and an investors’ conference held in Neuruppin, outside Berlin. The Group also gave presentations at the annual meetings of the European Economic Association in Barcelona and the German Finance Association in Frankfurt.

An additional milestone of the past year was the publication of a book by Klaus F. Zimmermann and Dorothea Schäfer on the financial crisis and its lessons, titled *Finanzmärkte nach dem Flächenbrand*. Even though a half year has elapsed since the appearance of the book, the jacket summary has lost none of its timeliness:

“The consumer culture of the United States and German frugality represent just one side of the coin—on the other side are dubious mortgages, massive credit expansion, and banks with extensive toxic assets. The end result has been dramatic rescue actions, such as that witnessed in the case of the German banks Hypo Real Estate and HSH Nordbank, as well as entire banking systems that can no longer survive without government life support.”

The book also explores how the taxpayer has become hostage to the health of the international financial system; how to dispose of toxic assets; the future health of the Landesbanken; the effects of the crisis on the real economy; and the principles upon which the architecture of financial markets must be reformed.

# DIW Key Events in 2009

## Wednesday, January 7

### Economic forecast

DIW presented its quarterly forecast of economic trends. Press conference with Klaus F. Zimmerman, Christian Dreger, and Stefan Kooths.

## Wednesday, January 14

### Making Peace Work

DIW's Tilman Brück and Tony Addison of the University of Manchester presented their new book in cooperation with the United Nations Association of Germany.

## Wednesday, January 21

### Wealth Inequality in Germany on the Rise

A report drafted by DIW Berlin on wealth distribution in Germany was presented by the Hans Böckler Foundation in a press conference with Joachim R. Frick and Markus M. Grabka.

## Wednesday, January 28

### Government Pension Reform to Combat Old-Age Poverty

Press conference with Klaus F. Zimmermann and Friedrich Breyer of the University of Konstanz.

## Friday, January 30

### Youth conference on environmental issues

Claudia Kemfert engaged in discussion with 90 teenagers at the European Youth Climate Summit.

## Thursday, February 5

### Storms, Floods, Earthquakes: How Europe Can Protect Itself From Natural Catastrophes

Press conference with Gert G. Wagner and Reimund Schwarze.

## Thursday, February 12

### Visit from the Chancellery of the Berlin Senate

The presiding mayor of Berlin, Klaus Wowereit, engaged in a discussion with young DIW researchers.

## Wednesday, February 25

### Carbon Taxes: Good for the Planet, Not Bad for the Economy

Berlin Lunchtime Meeting with Ralf Martin of the London School of Economics and Siegfried Gelbhaar, a Bundestag representative (Free Democratic Party). The event was sponsored by DIW Berlin, the Institute for the Study of Labor (IZA), OECD Berlin Centre, London-based CEPR, and Anglo-German Foundation.



"I am pleased that DIW is making a contribution to Berlin's renewed growth—as a representative of economic expertise, as a research institution, and as an employer," said the governing mayor of Berlin, Klaus Wowereit, during his visit.



Washington, D.C.: Ralph Bühler and Uwe Kunert presented a DIW Berlin study on transportation-behavior trends and determinants in Germany and the United States.

## Thursday, March 12

### Are Long Prison Sentences Effective Against Crime? An Economic Analysis of Criminal Justice in Germany

Press conference with Hannes Spengler of Technische Universität Darmstadt.

## Tuesday, March 17

### Conference on positive trends in Berlin's development

Event sponsored by Berliner Volksbank in cooperation with DIW Berlin and the Society of Friends of DIW Berlin.

## Tuesday, March 24

### A New Regulatory Order for Financial Markets

Press breakfast on the occasion of the London World Financial Summit and for the presentation of DIW Berlin's Quarterly Journal of Economic Research (1/2009): Financial Markets in Upheaval, with Klaus F. Zimmermann and Dorothea Schäfer.

## Wednesday, April 1

### Corporations in the Crisis: Are Upper Management Positions Now More Accessible to Women?

The Federal Ministry for Family Affairs, Senior Citizens, Women, and Youth released a report drafted by DIW Berlin on women and men in the upper echelons of the private sector. Press conference with Elke Holst.

## Wednesday, April 15

### Economic forecast

DIW Berlin presented its quarterly forecast of economic trends. Press conference with Klaus F. Zimmerman, Christian Dreger, and Stefan Kooths.

## Thursday, April 16

### A Transatlantic Look at Transportation Behavior and Sustainable Municipal Transportation: What the US and Germany Can Learn From Each Other

Ralph Bühler and Uwe Kunert presented a DIW Berlin study on transportation-behavior trends and determinants in Germany and the United States. The event was sponsored by the German Embassy and the Brookings Institution in Washington, D.C.

## Thursday, April 30

### The Consequences of Germany's Hartz IV Labor Market Reforms

Symposium presented by DIW Berlin's Socio-Economic Panel Study and the German Consortium in Statistics, featuring Hans-Jürgen Andre of the University of Cologne, the Bundestag representative Klaus Brandner (Social Democratic Party), Peter Höfflin of the Protestant University of Applied Sciences in Ludwigsburg, Thomas Lampert of the Robert Kohn Institute, as well as DIW's Viktor Steiner and Gert G. Wagner.

## Wednesday, June 3

### Time for Family

With the aim of promoting sustainable family policies, Ursula von der Leyen, the Federal Minister for Family Affairs, Senior Citizens, Women, and Youth, presented her memorandum "Time for Family." Press conference with C. Katharina Spiess.

## Tuesday, June 16

### Economic forecasts and policy advising

Background discussion with interns at the business newspaper *Handelsblatt*, hosted by experts from DIW's Macro Analysis and Forecasting Department.

#### Thursday, June 18

##### Predicting the present

Hal Varian, chief economist at Google International, gave a talk at DIW Berlin about how Google search activity can be analyzed to derive information about the state of the economy.

#### Wednesday, June 24

##### Assessment of Work Migration From the New EU States and Opportunities for Germany

Berlin Lunchtime Meeting with Federal Minister Olaf Scholz, Klaus F. Zimmermann, Martin Kahanec of the Institute for the Study of Labor (IZA) and Thomas Hanke from the business newspaper Handelsblatt. The event was sponsored by DIW Berlin, the Institute for the Study of Labor (IZA), OECD Berlin Centre, London-based CEPR, and Anglo-German Foundation.

#### Thursday, June 25

##### Let the Best Argument Win: Political Communication Day 2009

DIW Berlin was one of the 50 participants in Political Communication Day 2009. DIW Berlin researchers provided insights into their everyday work, presented brief lectures, and engaged in discussion with the public.



Hal Varian, Google's chief economist, visits DIW Berlin in June 2009.



Vanessa von Schlippenbach, a specialist in industrial economics, at the DIW Berlin Roundtable in July 2009.

#### Monday, July 13

##### DIW Berlin Roundtable

Seven minds from DIW Berlin discussed their scientific work and its practical social usefulness.

#### Wednesday, July 29

##### Economic forecast

DIW Berlin presented its quarterly forecast of economic trends. Press conference with Klaus F. Zimmermann, Christian Dreger, and Stefan Kooths.

#### Sunday, August 23 – Thursday, August 27

##### Annual Meeting of the European Economic Association and Econometric Society European Meeting in Barcelona.

DIW researchers participated in the annual meeting of the EEA-ESEM at the Barcelona Graduate School of Economics, and gave numerous presentations.

#### Thursday, August 27

##### The Economy in Eastern Germany 20 Years after the Fall of the Berlin Wall

At the Berlin Wall Memorial, DIW Berlin presented its Quarterly Journal of Economic Research (2/2009). Press conference with Klaus F. Zimmermann, Karl Brenke, Carel Mohn, Joachim Ragnitz of the ifo Institute of Economic Research, and Karl-Heinz Paqué, a professor at the University of Magdeburg and the former minister of finance in Saxony-Anhalt.

#### Tuesday, September 8 – Friday, September 11

##### Annual meeting of the Verein für Socialpolitik

DIW Berlin took part in the annual meeting of the Verein für Socialpolitik (Social Policy Association), contributing some 20 papers.

#### Wednesday, September 30

##### Fairness and Trust in Work Relationships

Berlin Lunchtime Meeting with Armin Falk of the University of Bonn and Hilmar Schneider of the Institute for the Study of Labor (IZA). The event was sponsored by DIW Berlin, the Institute for the Study of Labor (IZA), OECD Berlin Centre, London-based CEPR, and Anglo-German Foundation.

#### Thursday, October 8 – Friday, October 9

##### Industrial Conference 2009

At the Industrial Conference, representatives from businesses, trade associations, and the field of economics analyze the growth of the German economy and its branches. In 2009 the conference focused on energy and infrastructure policies, and featured DIW's Klaus F. Zimmermann and Christian von Hirschhausen, Tuomo Hatakka of Vattenfall Europe AG, Reinhard Göhner of the Federation of German Industries (BDI), Tobias Just of Deutsche Bank Research, the journalist Ursula Weidenfeld, and many others.

#### Friday, October 9

##### Regional Economic Outlook for Europe

DIW Berlin Seminar with Helge Berger of the IMF, Christian Dreger, and Carel Mohn. The event was sponsored by DIW Berlin, the Institute for the Study of Labor (IZA), OECD Berlin Centre, London-based CEPR, and Anglo-German Foundation.

#### Monday, October 12

##### Economic forecasts and recommendations for economic policy action

DIW Berlin presented its quarterly forecast of economic trends. Press conference with Klaus F. Zimmermann, Christian Dreger, Claudia Kemfert, and Dorothea Schäfer.

#### Tuesday, October 20

##### Innovation and Productivity in SMEs: Empirical Evidence for Italy

Bronwyn Hall of the University of California, Berkeley, gave a lecture at the DIW Berlin seminar series "IO/Finance."



Bronwyn Hall of UC Berkeley lectures at the IO/Finance Seminar in October 2009. The event was jointly sponsored by the DIW Berlin departments "Information Society and Competition" and "Innovation, Manufacturing, Service."

#### Thursday, October 22 – Saturday, October 24

##### Non-Cognitive Skills: Acquisition and Economic Consequences

The Socio-Economic Panel Study (SOEP) hosted the 3rd conference of the Leibniz Research Network at DIW Berlin. The members of the organizing committee include Nobel Prize winner James Heckman of the University of Chicago.

#### Tuesday, November 3

##### What Consumer Policy Should Look Like For Actual Consumers—And What It Might Learn From Research

Press conference on the occasion of the publication of DIW Berlin's Quarterly Journal of Economic Research (3/2009), with Dorothea Schäfer, Christian Wey, and Kornelia Hagen.

# The Research Departments: Focal Areas in 2009

## Wednesday, November 4

### Tackling the Job Crisis—The 2009 OECD Employment Outlook and Prospects for Germany

Berlin Lunchtime Meeting with Stefano Scarpetta, the OECD, and Gerhard Bosch of the University of Duisburg-Essen. The event was sponsored by DIW Berlin, the Institute for the Study of Labor (IZA), OECD Berlin Centre, London-based CEPR, and Anglo-German Foundation.

## Friday, November 20

### Financial Markets after the Conflagration

Presentation of the new monograph by Dorothea Schäfer and Klaus F. Zimmermann. The press conference featured Otmar Issing, chief economist of both the Bundesbank and European Central Bank and chairman of the German government's Expert Group on a "New Financial Architecture."

## Monday, November 9 – Tuesday, November 10

### Twenty Years After the Fall of the Berlin Wall: An Assessment of Living Conditions in Germany

On the 20th anniversary of the fall of the Berlin Wall, the Social Indicators section of the German Sociological Organization (DGS), in collaboration with the SOEP, invited participants to its conference to assess the consequences of unification on living conditions in the old and the new federal states.

## Wednesday, November 25

### How Do You Google Competition? Search Engines at the Intersection of Increasing Concentration, Innovation Incentives, and Consumer Benefits

Berlin Lunchtime Meeting with Ferdinand Pavel of DIW econ GmbH, Wolfgang Sander-Beuermann of the University of Hanover, Dorothee Belz of Microsoft EMEA, and Klaus Ahrens of pilot 1/0 GmbH. The event was sponsored by DIW Berlin, the Institute for the Study of Labor (IZA), OECD Berlin Centre, London-based CEPR, and Anglo-German Foundation.

## Tuesday, November 10

### "More Than Business-Cycle Research"

The Berlin newspaper Tagesspiegel published a special supplement devoted to DIW Berlin.

## Wednesday, November 11

### A new network for environmental action: The Climate Policy Initiative (CPI) Berlin

In 2009, DIW Berlin was chosen by the CPI to host one of its regional offices for the assessment and international comparison of climate policy. At this press conference, CPI representatives provided an introduction to the organization's work.

## Wednesday, December 2

### The Century Ahead: Four Global Scenarios

How can sustainable development be defined and quantified? How do we know which path we should take to achieve it? At this DIW Berlin Seminar, Rich Rosen of the Tellus Institute in Boston presented four scenarios for the year 2100.

## Tuesday, November 17

### New Topics, New Faces

New members of DIW Berlin introduced themselves at a press conference with Alexander Kritikos, Karsten Neuhoff, Dorothea Schäfer, C. Katharina Spiess, and Georg Weizsäcker.

## Monday, December 7

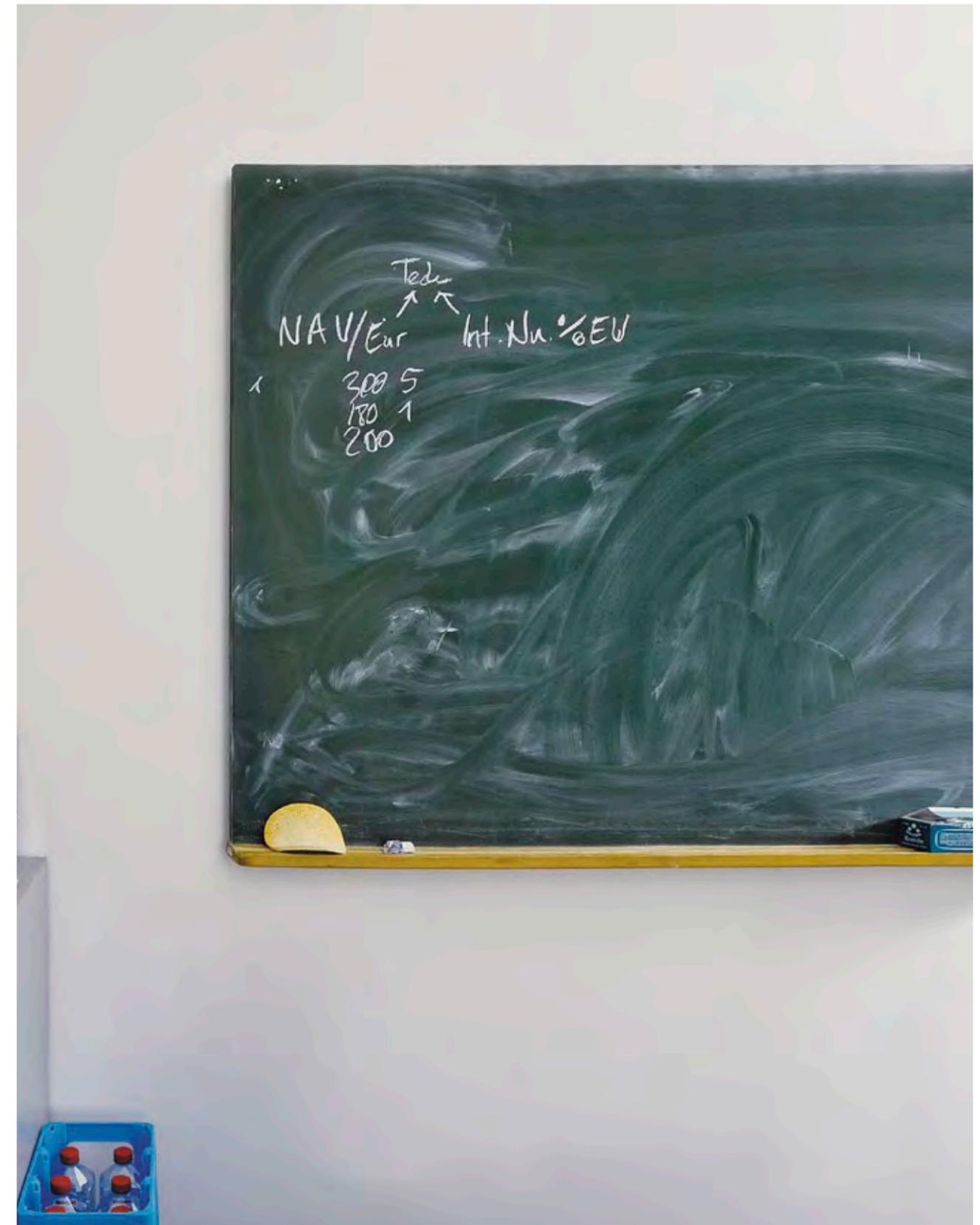
### Strong Signs of Growth in the Logistics Sector

The BVL/DIW Logistics Indicator for the fourth quarter of 2009 was released.

## Wednesday, December 16 – Thursday, December 17

### DIW End of Year Summit

Workshop and forum for internal and external researchers working in fields of research studied at DIW Berlin.



# Department of Macro Analysis and Forecasting

## Identifying the forces that drive economies

The continuous analysis and forecasting of regional, national, and global economic growth remained a focal area of this department's work over the past year. The department's economists produced four comprehensive economic forecasts in 2009 for the global economy, the euro zone, and Germany. The public need for this work is enormous, since good forecasts can improve the foundation for decisions made by politicians, households, and firms.

The department continued to improve the quality of its forecasting over the past year. On the one hand, economic developments contributed to this improvement. Following a decline in GDP triggered by financial-market shocks, Germany now finds itself again in somewhat calmer seas. On the other hand, the department expanded its forecasting toolbox to improve its ability to predict crises. Expectation indicators, for example, are now weighted more heavily in DIW Berlin's monthly economic barometer. The numerous leading indicators available for Germany are concentrated into a single index in order to estimate production growth.

**Dr. Bernoth, the stability of the euro has been shaken by the financial crisis for the very first time. How do you rate the European Central Bank's response?**

The financial crisis is probably the greatest challenge faced by the ECB since its inception. Due to dramatic capital losses, the interbank market came to a virtual standstill, and even solvent banks faced considerable payment difficulties. The ECB loosened monetary policy in the euro zone and provided generous liquidity. In this way it contributed substantially to the stabilization of the financial system and helped to soften the economic downturn. The most recent decision to purchase bonds from countries battered by the crisis is a stabilization measure without precedent at the ECB. The challenge in coming months and years will be for the ECB to demonstrate its political independence in order not to risk its credibility. Furthermore, the ECB cannot miss the right moment to tighten monetary policy. Otherwise there will be a risk of inflationary tendencies.

While the department's forecasting is strongly reliant on econometric methods, it is also supplemented with external expert knowledge—in order, for example, to take impending legislation into account. Using this combined approach, it is possible to specify areas of uncertainty in point forecasts, and thus to evaluate forecast error. In addition, DIW economists employ simulation models to experimentally assess the impacts of government policy and economic shocks.

In order to enhance the reliability of its policy recommendations, in 2009 the department incorporated additional microeconomic techniques into its modeling toolbox. Among other things, these techniques enable the calculation of endogenous production potential—i. e. the production level that would prevail if short-term competitive distortions in product and factor markets were overcome. Production potential is of critical importance to monetary policy so that inflation risks can be recognized early on. Production potential is also important in budgetary policy for the estimation of medium-term trends in government spending and revenues. The department's current modeling



Dr. Kerstin Bernoth, an expert on the fields of money demand and financial integration, and Prof. Christian Dreger, Department Head.

framework represents a substantial improvement over past filtering processes, which do not take the broader economic environment into account. This multi-year research project is supported by the Leibniz Association.

## International research projects and networking

Also in 2009, as part of the EURO-FRAME research network, the department's business-cycle experts presented projections for economic growth in the euro zone. Aside from DIW Berlin, the network includes the Netherlands Bureau for Economic Policy Research (CPB), Austrian Institute for Economic Research (WIFO), French Economic Observatory (OFCE), National Institute of Economic and Social Research (NIESR) in London, Economic and Social Research Institute (ESRI) in Dublin, Research Institute of the Finish Economy (ETLA) in Helsinki, Center for Social and Economic Research (CASE) in Warsaw, and the Kiel Institute for the World Economy. In the area of model development the department also enjoys a longstanding partnership with IHS Global Insight, a leading international provider in the field. The Micro Analysis and Forecasting Department represents DIW Berlin within the Association of European Conjuncture Institutes (AIECE), a consortium of 37 European economic research institutes, and is involved in the FEMISE network (Forum Euroméditerranéen des Instituts de Sciences Économiques), which studies economic growth in the countries of the Mediterranean region.

During the past year, the department continued to expand its international ties in the area of business-cycle research. For example, DIW economists are coordinating an international research team whose participants include the University of Tübingen, the Munich-based ifo Institute, Ghent University, the CEPII Research Center in Paris, Cambridge University, the International Center for Economic Growth (ICEG) in Budapest, and the Institute for Market Studies in Sofia. The project is pursuing the question of how financial market institutions affect heterogeneous households and firms and how economic policy can be shaped in integrated financial markets.

In addition, the department continued its work on two key projects under the EU's Seventh Framework Program for Research. In the "Financial Systems, Efficiency, and Stimulation of Sustainable Growth" (FINESS) project, the aim is to study the influence of financial markets on the growth of



Each month, the department lead by Prof. Christian Dreger publishes the DIW Economic Barometer, which estimates current growth trends prior to the release of official statistics.

the real economy. The connection between monetary policy and price trends in asset markets stood at the center of research activities in 2009. Researchers have demonstrated a connection between excessive credit availability and speculative price bubbles in the real estate market. However, this does not necessarily mean that monetary policy should use changes in asset prices per se as a basis for decision-making. Metrics for evaluating the nature of price increases are essential if policy decisions that place an unnecessary brake on the growth of the real economy during upturns are to be avoided.

The “Intangible Assets and Regional Economic Growth” (IAREG) project is aimed at achieving a better understanding of the importance of intangible assets for innovation, competition, growth, and productivity. In this project, the department is collaborating with universities in Barcelona, Hanover, Pécs, Sussex, Vienna, St. Étienne, Cagliari, Tartu, Tampere, as well as the Max Planck Institute of Economics in Jena. Economists are constructing indicators to measure human capital and analyzing options for economic policy that promotes regional growth and innovation. Additional research projects under the EU’s Framework Program for Research are currently in the application phase.

#### Scientific Conferences

The department hosted two conferences over the past year. As part of the FINES project, a conference took place in Berlin in which current project findings were discussed with leading European researchers. In December the department also conducted its macroeconometric workshop, which was directed primarily at young researchers from Germany and abroad.

#### What is the cost of violent conflict?

In 2009 the Department of International Economics continued to conduct leading edge research and provide policy advice on global issues. The department’s research agenda addressed key global challenges, from terrorism, war, and post-war reconstruction to poverty and household coping under stress. These issues were mostly examined at the household level. A number of research projects were successfully continued or completed last year—and, in this way, new findings with salience for DIW’s policy advising activities were obtained. The geographical scope of the department’s projects extends across Europe to Asia, Africa, and Latin America. Two new research projects were begun in 2009 that are particularly illustrative of the department’s work: first, a study on the global cost of conflict; and second, an analysis of the effects of economic transformation on households in Central Asia.

#### What impact does conflict have on economic outcomes?

The effects of violent conflict on civilian populations—death, injury, and other direct and indirect consequences—are immense, and pose a significant challenge to humanity. In the spring of 2009 the department embarked on a new two-year research project aimed at analyzing the global costs of conflict. The project, titled “The Global Economic Cost of Conflict” ([www.diw.de/gecc](http://www.diw.de/gecc)), is funded by the German Foundation for Peace Research (DSF) and is coordinated by the head of the department, Prof. Tilman Brück. The research team includes Dr. Olaf J. De Groot and Dr. Carlos Bozzoli.

#### Dr. Olaf de Groot, how can one measure the costs of conflict?

The method I use to calculate the costs of conflict assumes that these costs are as large as the economic losses they entail. For example, the destruction of an expensive “bridge to nowhere” is worth less than the destruction of a small road that is pivotal for trade. So in order to estimate conflict costs, I estimate what would be the output of countries in absence of conflict and compare that to the true output. The difference between these numbers constitutes the costs of conflict. Using this approach, I can also take into account that some conflicts may actually have positive effects.

In the project, researchers aim to estimate the global economic costs of mass violent conflict. To this end, concrete cost estimates at the country level as well as across time are being produced. Researchers are also looking at different socioeconomic channels through which conflict affects economic outcomes in both the short and long run. The consequences of armed violent conflict on all key physical human needs that can be expressed in monetary terms are taken into account. The analysis focuses on indicators such as GDP to measure economic costs, yet also considers the impact of conflict in terms of forgone prosperity in conflict countries and neighboring states. As the impacts of conflict rarely stop with a ceasefire or at a country’s borders, a comprehensive approach is necessary to account for all conflict legacies.



"I'm interested in research results that help change social conditions," says Professor Tilman Brück, Head of the department International Economics. "Only policy based on solid facts can show people the way out of crisis and poverty."

By providing transparent and concrete estimates of the economic effects of conflict, the project team will draw attention to the opportunity costs of violent conflict, emphasizing the need for early and effective conflict prevention and mediation. The findings of the project should also help to elucidate the channels through which conflict exerts its impacts, thus contributing to a strong scientific basis for policies that address and counteract the negative spiral of violence and underdevelopment produced by conflict. The importance of meeting the global challenges posed by violent conflict can hardly be overestimated.

#### How does economic transformation affect households in Central Asia?

In 2009 the department launched a project titled "Economic Transformation, Household Behavior, and Well-Being in Central Asia: The Case of Kyrgyzstan" ([www.diw.de/kyrgyzstan](http://www.diw.de/kyrgyzstan)), supported by the Volkswagen Foundation. The project aims to investigate well-being and household behavior in Kyrgyzstan, and at improving research capacities within the Central Asian region. The research team currently consists of Prof. Tilman Brück, Dr. Susan Steiner, and Damir Esenaliev.

To date, little is known about the implications of the profound economic changes in the Central Asian region for the welfare and behavior of individuals and households, mostly due to the lack of high quality panel data on individuals and households. With this new project, the department aims to make a valuable contribution to research in this field and to provide high-quality analysis for policy development. To achieve these goals, the project's researchers, led by Prof. Tilman Brück, will work with local partners in Kyrgyzstan to collect panel data from approximately 3,000 households in the country over a period of three years. The data cover will cover information on demographics, welfare, expenditures, and the labor market experiences of individuals and households. Analysis of the data will focus on four areas—poverty, inequality, coping strategies, and labor market developments—with an emphasis on short-term dynamics, such as transitions in and out of poverty, income mobility, and unemployment duration.

The project is a collaboration between the Department of International Economics at DIW Berlin, Humboldt University of Berlin, the Center for Social and Economic Research (CASE), and the American University of Central Asia, the latter two of which are based in Bishkek, Kyrgyzstan.

Capacity building activities represent an important and integral element of the project. Throughout its duration, the project will aim to extend the research capacity of the local partnering institutions. Furthermore, the study is expected to produce knowledge spillovers for the wider academic community in the Central Asian region. Research seminars and training sessions will be held in Bishkek and open to researchers throughout the region, and the assembled dataset will be available to the academic community.

Ms. Wald, in your doctoral dissertation you're researching the ongoing conflict in Columbia and its impacts on the day-to-day existence of many Columbians. What are the effects of the conflict on the behavior of labor market participants?

We've been investigating the consequences of the conflict on self-employment in poor, predominantly rural regions. The self-employed in Columbia mostly work in the informal sector—as street vendors, for example—or they farm small plots of land. In our study we found out that Columbians have a greater propensity to abandon self-employment in communities with higher levels of conflict than in communities with low conflict levels. By contrast, in communities with a high influx of individuals displaced domestically by conflict, the self-employment rate increases. Furthermore, there is a difference in the behavior of men and women: While the murder rate has no impact on the self-employment of women, men tend to abandon self-employment when the murder rate rises.

#### How does insecurity and terrorism affect the economy?

In December 2009, the Department of International Economics concluded a two-year project that helped to establish a European network of experts on the economics of terrorism and anti-terror policies (<http://economics-of-security.eu>). The Network for the Economic Analysis of Terrorism (NEAT) was funded by the European Commission's Directorate-General for Justice, Freedom, and Security (DG JLS). The network has fulfilled a variety of functions for policy makers and for the research community. For example, in 2009 the department organized two workshops to explore recent research in the field and discuss its policy relevance with decision makers from government and from the private and civil society sectors. The workshops focused on topics of particular relevance to the European Union's policy agenda, such as CBRN (chemical, biological, radiological, and nuclear) terrorism and the government use of privately collected data in the fight against terrorism. The network also provided expert policy advice to the European Commission on economic aspects of security issues, and thus assisted in the development of European policy.

# Department of Public Economics

The Department of Public Economics investigates how fiscal and social policies influence the distribution of economic resources as well as the economic decisions of individuals, households, and firms. Empirical analysis based on microdata is a hallmark of the department's work. In recent years the department's economists have developed and improved several models for the simulation of firm and household behavior. The department has used these models to assess important fiscal and social policy reforms. In 2009 the department conducted analytical studies of income and business taxes; wealth taxes; welfare services; as well as the effects of demographic change on the health care system. Work also began on the empirical study of municipal financing structures in Germany—a main focus of the department's future activities.

## How does tax policy influence entrepreneurial activity?

The research area of Fiscal Policy encompasses a broad range of topics concerned with the taxation of households and firms. In a research project commissioned by the German Federal Ministry of Finance, economists working in this research area developed a business-taxation microsimulation model known as "BizTax," which has been used to assess tax-reforms. In order to improve the information available for determining taxable income, DIW economists have compiled and integrated data from company financial statements. These data were previously used in a study that assessed the possible effects of new "earnings stripping" rules.

Dr. Bach, the level at which the German government taxes wealth (property, capital,) is a subject of discussion which flares up at regular intervals. How important are taxes on wealth from a fiscal perspective?

In recent years, revenues from wealth taxes in Germany have corresponded to less than one percent of GDP. Compared with other nations, this percentage is rather low. Across the EU wealth taxes represent two percent of GDP, on average—thus, the wealth-tax burden in many countries is much higher than it is in Germany. The personal taxation of net wealth has a number of drawbacks, however. If one seeks to tax the wealthy to a greater extent, the better solution is to increase taxes on capital income or corporate profits. In this connection, it makes little sense to cite the need to keep German tax rates internationally competitive, as many countries are increasing their taxes on capital gains and corporate profits, or they are at least not reducing them.

The impact of corporate taxes on the investment decisions of firms is another subject of empirical study in this research area. Using data from the financial statements of companies operating in Germany, DIW economists showed that firms react rather strongly to changes in capital use costs (which, in turn, are heavily determined by tax policy and firm financing structures). On the basis of these results, researchers also analyzed the impacts that tax reforms have on the investment demand of firms. In another project, DIW economists began to empirically investigate how changes to the local business taxation (the so-called *Gewerbesteuer*) impact the tax bases of German businesses. Furthermore, within the scope of a new field of research, panel data from German municipalities is being used to conduct a microeconomic investigation of local governments' spending and financing structures.



Prof. Viktor Steiner is the head of the department Public Economics and holds the chair of Empirical Economic Research at the Free University of Berlin.

In a project financed by the German Research Foundation (DFG) concerned with tax policy and entrepreneurial behavior, in 2008 the department investigated the effects of income taxes on self-employed business owners. Last year this project was continued with a new focus on the savings behavior of the self-employed. It was shown empirically that in the case of precautionary savings, savings behavior varies considerably in relation to the assets of the business. There are also marked differences in savings behavior between the self-employed and regular employees.

In a project sponsored by the Fritz Thyssen Foundation, the department's researchers used a sample of income and consumption microdata to develop a microeconomic model for the empirical analysis of household wealth allocation decisions. In the next step of the project, taxation effects will be built into the model in order to simulate how wealth allocation decisions are impacted by changes in tax policy (such as the new German tax on capital income). Another study conducted by the department on wealth taxes in Germany and possible options for reform attracted a great deal of media attention.

## How do gaps in employment affect retirement income?

In the area of social policy, the department's work in 2009 focused on how retirement income will develop in coming years in the face of modifications to retirement policy as well as economic and demographic change. To what extent are gaps in employment and underemployment associated with lower retirement income—particularly when it comes to forecasts for younger age groups? What are the implications of this for social policy? These questions stood at the center of a project financed by the German Public Pension Research Network (*Forschungsnetzwerk Alterssicherung*). The project was conducted using data from the Socio-Economic Panel Study (SOEP) and government pension statistics. Research has shown that over the long-term, a steep decline in income from government pensions must be expected, particularly in East Germany. By contrast, pension incomes will rise but stay at an overall low level for West German women in younger age groups—particularly in the case of low- and medium-qualified workers.



Prof. Viktor Steiner and his team are investigating how governmental action affects businesses and households.

Within the scope of a project financed by the German Research Foundation, the department began an empirical analysis of the relationships between human health, employment status, and wage levels. In a joint research project funded under the EU's 7th Framework Program for Research, DIW economists also conducted an initial assessment of long-term trends in old-age care.

#### Do investments in education reduce the risk of unemployment?

In the research area of Labor Market and Educational Policy, DIW economists continued a German Research Foundation project on the effects of subsidized social-insurance contributions in the low wage sector. Empirical analysis indicates that it is unlikely that the introduction of a minimum wage of 7.50 euros/hour would have the effects hoped for by its proponents in terms of increasing incomes and reducing poverty. Indeed, a minimum wage would induce negative employment effects. Supplementing this research, in 2009 an empirical study also began on the effects of the new minimum wage in the construction sector.

In the area of educational policy, researchers investigated how the existing financial aid system (BAföG) impacts university enrollment as well as the effects of alternate higher-education financing models. Research shows that while the current financial aid system considerably reduces the university drop-out rate, it only slightly increases the chances of enrolling at university and the average period of study. In another project it was shown empirically that private returns to education are considerably higher — particularly among men — when one takes the reduced risk of unemployment associated with increased education into account. These analyses form the basis for future work in the research area concerned with the determinants of fiscal returns to education.

#### Research for a level playing field

In 2009 projects concerned with the regulation of specific sectors, competition policy, and the promotion of information and communication technologies (ICT) represented the main lines of research in this department. In the research area of Competition and Markets, DIW economists investigated the role of individual competition in economic sectors subject to collectivist norms in Germany's social market economy. A key focus of this research was placed on health care and the labor market.

To what extent can health-care reforms lead to more effective competition? This was the key concern of a project funded by the Federal Ministry of Finance in which DIW economists investigated how Germany's long-term fiscal stability could be supported by a more efficient and effective health-care system. A key focus was placed on the study of recent laws aimed at strengthening competition and enhancing the organizational structures of statutory health insurers. These reforms have enabled statutory health insurers and health care providers (doctors, therapists, hospitals, pharmacies, etc.) to enter into new types of contractual relationships. Statutory health insurers, for example, can now negotiate directly with pharmaceutical companies on drug prices. They can also sign selective contracts with doctors and ambulatory health care centers (MVZ) to define specific treatment standards. According to the research conducted by DIW economists, however, these reforms don't do enough to promote competition. The research shows that anti-competitive laws should be applied more rigorously, as insurers and providers are still able to form cartels.

Professor Baake, the last two health-care reforms in 2007 were aimed at promoting competition in Germany's health-care sector. Can one now speak of a "free market" in German health care?

The liberalization achieved under the last two health-care reforms was a move in the right direction. Nevertheless, one still cannot speak of a free market in the German health-care sector. On the one hand, the freedom of action enjoyed by market participants is restricted by legal requirements such as the billing of patients by hospitals based on a fixed register of services as well as the "family doctor model" of ambulant care, in which patients must first visit their family doctor in the event of illness. On the other hand, the country's collective contract system still plays an important role. In addition, competition is not sufficiently protected due to restrictions to the application of German antitrust law. For this reason, anti-competitive agreements can arise. If competition is to actually take place, further reforms are necessary.

#### Competition in the German labor market

In the area of labor market policy, the department's economists continued work on a German Research Foundation project titled "Labor-Union Oligopoly," which is being carried out in cooperation with Dr. Justus Haucap, a professor at the University of Düsseldorf and chairman of the German Monopoly Commission. The project is concerned with the reciprocal relationships between product market competition and the organization of collective bargaining systems. Research within the



"The analysis of competition has become much more complicated. The demand for practice-oriented policy advising is on the rise," says Christian Wey, Head of the Department of Information Society and Competition until March 2010. His team investigates how new information and communication technologies are changing the economy.

project in 2009 was focused specifically on minimum wages in the postal sector and the effects of collective bargaining regimes in the face of international competition. The new minimum wage for workers in postal delivery networks is unique in that wage costs for operators are essentially fixed costs. The department's research suggests that the introduction of the minimum wage in the postal sector has created considerable incentives for operators to strategically use the minimum wage to weaken new competitors.

With regard to the effects of collective bargaining systems, the department's researchers were able to show that when egalitarian regimes fail to take company-specific work productivity into account, they tend to weaken competition. Yet at equilibrium, such systems can improve the profit situation of domestic firms.

#### **Further development of analytical tools**

In a project funded by the German Research Foundation titled "Market Power in Vertical Markets," DIW economists are enhancing the methods used to analyze market and bargaining power. DIW Berlin will participate until 2012 in the project, which is being undertaken in cooperation with the Toulouse School of Economics, the Ecole Polytechnique, and Humboldt University in Berlin. The project is aimed at enhancing models for the assessment of contractual relationships in input markets as well as of the reciprocal feedbacks between these relationships and consumer product markets. Within the scope of this project, DIW economists have begun to examine the following two topics: First, they are assessing how so-called "one-stop-shopping" preferences affect contractual terms (e.g. price structures) between suppliers and retailers. Second, they are examining guarantees concerning product quality in value-added chains as well as the role of private-sector quality standards.

#### **Consumer policy, network effects, and information asymmetries**

In the research area of "Information and Consumers," economists are analyzing the effects of informational asymmetries and demand-side competitive frictions. Through this research, the department hopes to contribute to improved, economically sound consumer policies.

In 2009 the department completed a project sponsored by the Volkswagen Foundation on "Innovation and Coordination." Thanks to the Foundation's support, the department undertook a number of research studies concerned with demand-side impediments to innovation in the ICT sector. In this research, the department illuminated the network effects that can be derived from the end-user need for technically compatible devices and software standards. The researchers have concluded that coordination failures are inevitable due to the fact that consumer decisions for a specific standard are subject to uncertainty. In such an environment, inferior standards can represent the welfare optimum when they minimize social losses that result from coordination failures.

Together with the DIW research professors Claudia Keser and Christian Schade, the department worked on numerous research endeavors concerned with the experimental verification of theoretical concepts in the field of network economics.

The department also completed a working paper on the topic of information sharing and bank entry modes in cooperation with Dr. Caterina Giannetti of Friedrich Schiller University in Jena and Prof. Giancarlo Spagnolo of the University of Rome. The paper empirically examines the effects of regulating informational flows between banks and the possibilities for market entry. The researchers were able to identify a relationship between credit reporting agencies and increased market entry through the establishment of local branch offices (in contradistinction to bank takeovers) in the EU 27 member states. In 2010 this work will be empirically tested with various experimental techniques.

The problems related to information sharing between competitors were the subject of a new study in the department. What incentives do duopolistic producers have to exchange information about consumer traits that are relevant to demand? The research shows that disclosure incentives are heavily dependant on the original distribution of information.

In 2009 the department also published an article on consumer policy in DIW Berlin's Quarterly Journal of Economic Research. The article examined in particular consumer policy in welfare markets and in the area of financial services.

#### **Regulation of network industries**

In 2009 the department also continued its research on competition and liberalization strategies in the postal services sector. This work is being carried out in cooperation with the Brussels-based International Post Corporation. Building on the department's previous work in the area of regulation theory, researchers empirically assessed regulatory regimes and various competitive constellations.

# Department of Innovation, Manufacturing, and Service

## Opportunities and risks in a global economy

The German economy is deeply integrated in the international division of labor. Germany thus profits highly from the welfare effects of globalization. At the same time, the economic crisis has demonstrated Germany's dependency on global economic trends. How will Germany find its way out of the current economic crisis? And how will it develop further in the onward march of globalization? These questions stand at the center of a wide-ranging economic policy discussion, a discussion in which the Department of Innovation, Manufacturing, and Service is closely involved. The findings generated by the department in its international comparative studies are of particular interest for policymakers, business leaders, academics, and the interested lay public.

Germany is specialized in the production of what economists call "medium-high" technologies—i. e. technologies which, over the long term, depend on a relatively large share of investment in R&D. Against this backdrop, the department conducts empirical studies using business microdata, analyzing the behavior of corporations and entrepreneurs—the latter of which have been gaining ever-greater importance in the German economy.

Dr. Belitz, in 2009 DIW Berlin released its indicator of Germany's innovative performance in a cross-country comparison for the fifth time. How does Germany stack up?

Germany is not one of the most innovative nations. In comparison to the front-runners—namely, the US, Switzerland, and Sweden—Germany is clearly lagging behind. Of the 17 countries that DIW Berlin ranked, Germany only landed in 9th place. However, Germany does have its strengths: Our high-technology manufacturers are outstandingly positioned in world markets; our research facilities perform high-quality work; and business and science cooperate closely in the development of new products. But the educational system is underfinanced, regulations do not sufficiently support innovation, and in hardly any other country do entrepreneurs have such a difficult time securing capital for innovative projects.

In its research, the department also considers synergy effects from joint government and private-sector activities in regional and industry-based production clusters. A main focus of the department's research is on innovation potentials and productivity growth in firms as well as in their respective markets and regions. In 2009 the department further expanded its range of research and advising activities with efficiency analyses, particularly in the manufacturing sector and other industries with high innovation potential. Business financing—a topic of intense interest in light of the financial crisis—is an additional emphasis of the department's work.



Since 2008, Prof. Alexander Kritikos has been the Head of the Department of Innovation, Industry, and Service at DIW Berlin.

## Assessing Germany as a location for innovation and production

The ongoing assessment and evaluation of Germany's technological performance in relation to other countries is one of the central tasks of the department. The research activities on this topic area are part of various DIW projects. One of the most important projects is the "Innovation Indicator," a cross-country comparison of the conditions for innovation in 17 OECD countries. Since 2005 DIW Berlin has compiled the Indicator on an annual basis on behalf of the Deutsche Telekom Foundation and the Federation of German Industries (BDI). Last year, Germany ranked 9th of the 17 surveyed countries.

On behalf of the German government's Expert Commission on Research and Innovation (EFI), the department is examining the internationalization of the research undertaken by multinational corporations as well as Germany's technological specialization profile in relation to other countries. Moreover, it is analyzing the correlations between innovation and economic performance based on representative business data. The department is a collaborator in the INNODRIVE research project, which is evaluating business and regional data concerning innovation and economic strength in six European countries—namely, Germany, Finland, Norway, the Czech Republic, Slovenia, and the UK. INNODRIVE is financed under the EU's 7th Framework Program for Research.

Due to Germany's high export quota as well as its specialization in machinery, electrotechnology, and automobile manufacturing, in 2009 the country was particularly affected by the global decline in investment demand. However, international comparative analyses conducted by the department on Germany's competitive position in various sectors suggest that Germany's knowledge-intensive and diversified product portfolio has excellent potential for growth once the economy begins to recover. Yet for this future growth to take place, businesses must continue in the current crisis to invest in research and development—even if it does not reap profits over the short term.

# Department of Energy, Transportation, and the Environment



Prof. Kritikos is regarded as an expert in the area of entrepreneurship and business financing. He helped found the German Microfinance Institute (DMI), and currently serves on its Supervisory Board.

Against this backdrop, the department also researches the parameters and constraints for the acquisition of venture capital. Research activities focus on innovation and growth financing, the role of financing restrictions for start-up companies, and the assessment of financial risks. Unfortunately, in the area of innovation financing Germany does not fare well when compared internationally. The added restraints as a result of the economic crisis call for political action (see the section on the Financial Markets Research Group, page 16).

Economists in the research area of Corporate Finance focus on additional aspects of capital availability and appropriation—studying, for example, to what extent women tend to invest more cautiously than men, or how inheritance influences the survival of small businesses.

## Research for a clean future

Avoiding the negative effects of global climate change is the single greatest scientific and political challenge of this century. Worldwide emissions of greenhouse gases such as carbon dioxide must be halved by 2050; in industrialized nations a decrease of at least 80 percent will be necessary. This demands major changes, especially in the fields of energy and transportation. The economic impacts of climate change and environmental policies are a main focus of the research conducted by the Department of Energy, Transportation, and the Environment. A second key area of research concerns how to improve energy, transportation, and environmental policy tools.

As in previous years, climate policy ranked high on the political agenda in 2009. In this connection, the department provided advising services to both the German federal government as well as to the European Commission—in part through the work of Prof. Claudia Kemfert, who is a member of the EC's High Level Group on Energy and Climate Change.

Mr. Schill, a consortium of companies is planning the construction of enormous solar plants in the deserts of North Africa and the Middle East in order to supply Europe with electricity. What is your assessment of the "Desertec" project?

The basic idea is intuitive: harness renewable energy where it is plentiful and inexpensive. The practical implementation, however, has run into hurdles—not so much due to technical factors, but because of institutional ones. Due to the considerable financial, regulative, and political challenges, one should not overestimate the contribution that will be made by solar electricity imports to Europe's electricity supply. Above all, "desert power" should be consumed in the Mediterranean region, especially in North African countries, which currently make little use of solar power. For Germany, by contrast, renewable energy sources nearer to home are more relevant for the long-term—particularly wind and water power in Central and Northern Europe.

## Further development of methodological techniques

In order to calculate the economic impacts of climate protection measures and the expansion of renewable energy on all sectors of the national economy while also taking technological advances into consideration, the department has been working to enhance its methodological techniques. General equilibrium models such as GTAP-E as well as econometric models like NiGEM were improved over the past year. To analyze long-term global scenarios, the department uses its World Integrated Assessment General Equilibrium Model. Effects on important energy markets are analyzed with partial equilibrium models (e.g. EMELIE, GASM0D). These models were further developed in 2009, primarily with an eye to dynamic factors. In addition, the interactions between the climate change and the financial sector are taking on increased significance. For this reason, the department's economists conducted a project in which they classified, assessed, and mainstreamed the climate-related risks and opportunities for various economic sectors.



Prof. Claudia Kemfert is the Head of the Department of Energy, Transportation, and the Environment at DIW Berlin. In 2009 she moved from Humboldt University to become Professor of Energy Economics and Sustainability at the Hertie School of Governance.

#### Toward a balanced policy mix

To what extent are technology-related measures—such as subsidies for renewable energy—compatible with emissions trading? The reciprocal effects between various policy measures stood at the forefront of the climate policy debate in 2009. Alongside research and development, the targeted subsidy of renewable energy is indispensable in the medium term in order to accelerate innovation and achieve the necessary restructuring of energy supplies. To this end, however, the various measures must be properly coordinated, especially with regard to overall aims, so that a balanced and efficient policy mix can be achieved.

In order to promote European emissions trading, the department's economists have developed concrete policy recommendations that have led, among other things, to the German government's passage of new auction rules in 2009. At the same time, the department has advised lawmakers on the further development of the German Renewable Energy Sources Act (EEG). In this regard, a particular challenge is presented by the market and network integration of renewable energy sources. Through its work, the department hopes to contribute to the goal of reducing emissions while expanding the use of renewable energy in Europe.

Also in 2009, the department's economists publicly advocated a series of policy recommendations concerning the strengthening of competition in the energy industry, the diversification of supply sources, and the expansion of renewable-energy infrastructure.

#### Sustainable mobility

One measure taken to protect the climate in most European countries is the inclusion of carbon dioxide emissions in the calculation of passenger car taxes. In an updated research project the department analyzed the incentive effects of these taxes. It found that while many countries have high tax rates, the German tax regulations for vehicles amended in 2009 are not strong enough to provide sufficient incentives for the purchase of more efficient vehicles. A greater effect can be expected from the European emissions standards for vehicle manufacturers that were passed in 2009.

Within the field of transportation, price systems based on the costs of infrastructure use need to be developed and evaluated. The completed EU research project CATRIN—in which the department participated—developed the quantitative methods necessary in this regard, most notably in the area of techniques for estimating marginal costs. An additional topic of study in the project concerned the microeconomic aspects of cost recovery when pricing is determined according to the principle of marginal cost. The economic distributional effects of a passenger car toll system in Germany were also analyzed in the framework of a general equilibrium model.

In a further study, the project team calculated the transportation costs, transportation revenues, and cost recovery rates for road and rail in Germany in 2007. To this end, economists appraised the methodological tools used to evaluate and allocate infrastructure costs. The current calculations took into consideration new developments, including the introduction of the truck toll in 2005, the revision of the 2006 “Euro-vignette” truck toll directive, as well as the plans of the German federal government for toll pricing. The overall average gave us a cost recovery rate of around 150 percent.

**Dr. Kunert, you have researched motor-vehicle traffic in Germany. How many kilometers do Germans drive by car each year? And how do you assess this number?**

In Germany there are around 41 million passenger cars, which travel up to a total of approximately 585 billion kilometers per year. Alongside mobility by foot and bicycle, as well as with buses and trains, the car is still the number one mode of transport. Despite rising fuel costs, strong dependence on oil, and environmental objectives, car travel remains constant due to the mobility needs of the population.

If we still hope to reach environmental goals, it will be necessary to make greater efforts to improve fuel efficiency and support alternatives to oil-based mobility.

For an international comparison of mobility-behavior trends and determinants, in 2009 the department completed a study together with Rutgers University and the Brookings Institution in which the various impacts of demographics, land use, and policy in the US and Germany were investigated. In addition, as in previous years, the department compiled data sets on transportation and, thanks to its so-called “energy scorecards” (*Energiebilanzen*), provided the German government with a key component of official energy statistics.

# Department German Socio-Economic Panel Study (SOEP)

## From the cradle to the grave: How Germans live, think, and feel

The SOEP is a representative longitudinal survey that has grown since its inception in 1984 to include approximately 20,000 adult respondents living in over 10,000 households. A panel survey is something special in the world of statistics, as information is gathered from the same individuals over an extended period. Over the years, more than 6,000 publications have appeared on the basis of SOEP data—and the number of publications continues to grow, as the scientific value of the data grows with each additional observation year, or “wave.” On the recommendation of the German Council of Science and Humanities, the number of surveyed households will be further expanded over the medium term from 10,000 to include up to 25,000 households. This will further improve the representativeness of SOEP data.

## New services for users of SOEP data

The data gathered in the SOEP are made available to researchers in Germany and abroad for scientific studies. In 2009 the SOEP established the “SOEP Research Data Center” in order to unify its data-sharing services under one roof and make them more user friendly.

Professor Katharina Spiess, education has been a topic of animate discussion for years in Germany. What role do private schools play in Germany's educational system?

Approximately seven percent of all primary- and secondary-school students in Germany attend a private institution. Parents who have earned a college-track secondary school degree (*Abitur*) and who are better off career-wise are increasingly sending their children to private schools. However, this trend has not been observed for parents that hold a non-college-track secondary school degree (*Hauptschulabschluss*). As a result, there is an increasing selectivity in our school system which is certainly undesired.

In 2009 the department also established the Visiting Young Scholars Program. The program will finance travel and accommodation expenses for a limited number of participants who are interested in a research stay in order to use SOEP data. In addition, the department established a special data archive for the re-analysis of published findings. The data archive is the answer to the stipulation of leading scientific journals that microdata used in published articles be made available to third parties for verification. At the same time, the archive complies with the requirements of German data protection laws—an issue of utmost importance for the SOEP and its survey participants.

## Surveys of children used for the first time

Improvements to the SOEP have been made in recent years to better integrate the principle that individual life histories should be tracked “from the cradle to the grave.” In 2008, a questionnaire for five- to six-year-old children was introduced. And in 2009, families were asked for the first time about the final months of life experienced by newly deceased relatives. This special survey supple-



“The SOEP is an internationally unique knowledge base for the tracking and identification of long-term societal trends,” says Prof. Gert G. Wagner, the head of the SOEP (right). Next to him are Prof. C. Katharina Spiess, director of research in the area of education, and SOEP Survey Manager Jürgen Schupp.

ments DIW’s close collaboration with the Berlin Aging Study (BASE II), in which the SOEP serves as a reference dataset. In 2009 the SOEP survey team also worked intensely on the development of children-centered survey methods and questionnaires.

## Increasing inequality of wealth in Germany

Of all subjects of study, the department’s findings on the distribution of income and wealth in Germany again attracted the greatest degree of interest. The figures testify to a further increase in wealth disparities in Germany, and triggered extensive media coverage. In 2009 the methods used to calculate missing income and wealth data points were improved, so that individuals who fail to provide information on the survey regarding income no longer distort the results at the household level. These improved methods for the calculation of income distribution have already impacted the 2009 report of the German Council of Economic Experts (SVR). This was the eighth distributional analysis released by the Council based on SOEP data.

The differences in the professional life of men and women were also an important research topic for the SOEP department. In 2009 a comprehensive study of men and women in management positions was completed on behalf of the Federal Ministry for Family Affairs, Senior Citizens, Women, and Youth. Concomitant with the completion of this study, the department also released research reports on various related issues, including the influence of children on career opportunities and the satisfaction of mothers as a function of working hours.

## Praise for the SOEP from the German Council of Science and Humanities

In 2009 the Socio-Economic Panel Study was once again evaluated by the German Council of Science and Humanities. In the previous assessment in 2007, the research performance of department members in the field of sociology was compared nationwide. The SOEP received excellent marks. In 2009 the Council evaluated the SOEP’s contribution to Germany’s research environment. Once again the results were extremely positive. The Council described the SOEP’s work as excellent, concluding: “The SOEP represents a central and singular research tool for the German social, economic, and behavioral sciences, and it has earned a strong international reputation.”

In its recommendations for future work, the German Council of Science and Humanities supported the plans of the SOEP survey group to expand the sample size to up to 20,000 households as well as to establish a supplementary panel study on innovation that consists of 5,000 households. In this connection, the aim is to create an even more widely applicable tool for empirically founded, interdisciplinary, and longitudinal research at the intersection of the social, economic, health, and behavioral sciences.

## German Socio-Economic Panel Study (SOEP)

[www.diw.de/gsoep](http://www.diw.de/gsoep)

Department Head: Prof. Gert G. Wagner  
Manager of the Research Data Center: Dr. Joachim R. Frick  
Survey Manager: Prof. Jürgen Schupp

Details about the full range of services offered by the Socio-Economic Panel Study (SOEP) can be found at the DIW homepage. The heart of our service section is the Research Data Center managed by Dr. Joachim Frick. SOEP Survey Manager Jürgen Schupp ([jschupp@diw.de](mailto:jschupp@diw.de)) is responsible for questions concerning contents. Michaela Engelmann ([soemail@diw.de](mailto:soemail@diw.de)) is the contact person for technical questions.

SOEP data is distributed on DVD for research purposes in SPSS, SAS, and STATA formats along with detailed documentation. For analyses requiring more segmented regional information, remote access or an on-site visit are possible.

Training courses for using the SOEP data take place annually both in Germany and abroad. The SOEP Newsletter regularly informs all users of the data about important updates related to the SOEP. Among the online services available are:

- SOEPinfo, an interactive program that provides information about all SOEP variables in addition to programming assistance for processing data,
- SOEPlit, a literature database which permits a search for previous publications based on SOEP data,
- SOEPmonitor, which consists of data series with information on the labor market, education, and income, as well as subjective indicators (e. g. on individuals' living situations),
- methodological reports, questionnaires, documentation of user-friendly variables, and methodological analyses, all as PDF documents.

The SOEP is an infrastructure facility of the Leibniz Association (WGL).





Since 2009, Dr. Cornelius Richter is Head of the Department of Legal Affairs and Human Resources.

The new website has been relaunched in late summer. On the right: Carel Mohn, Head of the Communications Department, at an event of DIW Berlin.

### Communications Department

Department Head: Carel R. Mohn

**Task:** Policy advising is a core mission of DIW Berlin. In order to provide a reliable foundation for economic and social policy debate, the Institute's research findings must be widely available and clearly comprehensible. Facilitating external communication is the goal of this department, whose members come from the spheres of press and public relations, event and office management, and library science.

**Staff:** 28 employees. The longest-standing member has been with DIW Berlin since 1974; the most recent joined the department in 2009.

**Key challenges in 2009:** The function of the Communications Department can be compared to that of the oil in an engine—and in 2009 that engine was running in high gear: A redesigned website with almost 200 subpages was launched; 506 entries were added to the library's new presentation database; and the press office responded to about 2,500 press inquiries. Moreover, a total of 17 press conferences, 7 Berlin Lunchtime Meetings, and many other events were organized; customer service responded to around 620 e-mail requests; and the print office produced tens of thousands of pages; 48 issues of the DIW Wochenbericht were released . . .

### Department of Management Services

Department Head: Rolf Pompe (until February 2010)

**Task:** The Department of Management Services combines financial and controlling activities under one roof. Its day-to-day tasks include budget and financial planning, financial accounting, travel expense accounting, the administration and accounting of grant funding, as well as strategic and operative controlling.

**Staff:** 8 employees. The longest-standing member has been with DIW Berlin since 1975; the most recent joined the department in 2009.

**Key challenges in 2009:** The department worked on the further improvement and transparent organization of administrative processes. In-house training sessions were carried out to better implement budgetary regulations concerning the procurement and awarding of contracts. The development of a data warehouse was successfully completed and will serve as the foundation for reporting systems. The department's main priority in 2009 was once again to serve as a competent and highly regarded point of contact for the executive board, the department managers, the employees, and guests of the Institute in all finance and budgetary matters.

### Department of Legal Affairs and Human Resources

Department Head: Dr. Cornelius Richter

**Task:** The Department of Legal Affairs and Human Resources provides internal services (e.g. contract negotiation and review) to the management board, department heads, employees, doctoral students, and guests of DIW Berlin.

**Staff:** 7 members, of which one is a trainee and one a student. The longest-standing employee has been at DIW Berlin since 1979; the most recent joined the department in 2009.

**Key challenges in 2009:** Last year the department was restructured. DIW Berlin now possesses an independent legal department for the very first time. Furthermore, in 2009 an agreement, now nearly finalized, to transition from the Federal Employees Tariff Contract (BAT) to the German civil-service pay scale (TVöD) was reached. This was an important milestone. To make the department's administrative procedures transparent and streamlined, specialized software was implemented. The department will continue to devote efforts to this area in 2010.

### Department of Information Technology

Acting Department Head: Dr. Alexander Fisher

**Task:** The Department of Information Technology provides secure and stable access to modern ICT systems.

**Staff:** 11 members, of which two are trainees. The longest-standing member has been at DIW Berlin since 1980, the most recent joined the department in 2008.

**Key challenges in 2009:** Within the scope of the Green IT Initiative the department replaced additional single-server units with energy efficient BladeCenter servers. In addition, the department undertook the task of revamping the tape backup system and provided the departments with a high-performance server for statistical calculations thanks to financing provided under Germany's 2009 economic stimulus package. Despite the tight personnel situation, the Service Desk successfully handled about 3,750 requests of DIW Berlin staff members for assistance. In addition, a mammoth project went online—a completely restructured, newly designed, and more accessible homepage for DIW Berlin.

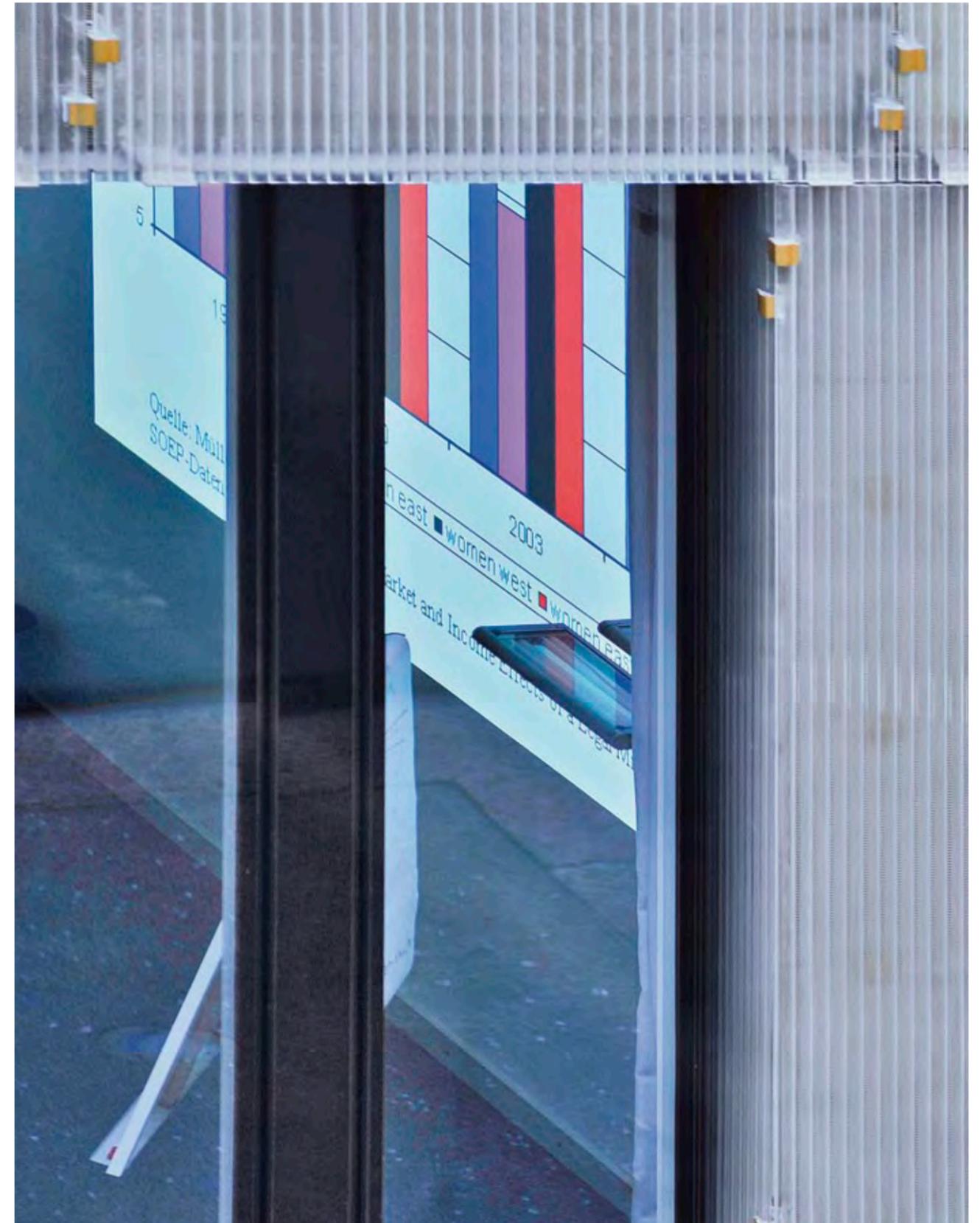
# Sustainability and the Environment at DIW Berlin

In the area of environmental economics DIW has long time been considered one of the leading research institutes in Germany. With the launch of the Climate Policy Initiative's regional office at DIW in October of 2009, this reputation has been strengthened even further. However, DIW doesn't just contribute to research on the economics of environmental and climate protection—as a mid-sized organization with more than 200 employees, the Institute is also concerned about its own environmental footprint.

Since 2008 the Institute has been undertaking targeted efforts to lower the environmental impact of its work and reduce CO<sub>2</sub> emissions harmful to the atmosphere. These measures are being coordinated by the Communications Department.

## In concrete terms, the following steps have been taken:

- Presence-based lighting has been installed in all corridors and bathrooms. This has reduced electricity consumption by tens of thousands of kilowatt-hours per year.
- Two bicycles are now available for appointments in downtown Berlin, helping to support environmentally friendly mobility to act according to the sustainability strategy of the State of Berlin.
- All DIW publications will be shifted to recycled paper until late 2010—the Weekly Report alone requires 1.3 million sheets of paper each year.
- Since the beginning of 2010, office paper requirements have been covered exclusively with certified recycled paper. Considering the Institute's annual consumption of about 2.5 million sheets of paper and the amount of energy required for paper manufacturing, this corresponds to energy savings of some 80,000 kilowatt-hours per year.
- A 2009 energy efficiency analysis of DIW's headquarters certified low consumption values for heating and hot water utilities. Among other things, the Institute would like to further reduce these values with a system that dynamically adapts the supply of hot water to actual needs.
- Thanks to the implementation of the latest technologies, including BladeCenter systems and virtual servers, the Institute has also improved the energy efficiency of its IT systems. When new workstations are purchased, an effort is made to select energy efficient computer equipment and low-consumption TFT monitors.
- The many trips taken by DIW researchers are also associated with environmental consequences. Individual departments have therefore begun to make donations that compensate for the environmental impacts of these trips.



# A New International Network for Environmental Protection: the Climate Policy Initiative at DIW Berlin

Berlin now has a new center for the evaluation of international climate protection efforts: the Climate Policy Initiative's regional office at DIW Berlin, which opened its doors in 2009. Additional centers are planned in San Francisco, Peking, Delhi, Rio de Janeiro, and Venice. This CPI center will profit from its close integration with the scientific work being conducted at DIW Berlin.

## How efficient is local, national, and global climate policy?

The focus of the network is to examine the effects of existing climate protection measures—and how they can be made more effective. The Berlin chapter of the Climate Policy Initiative is directed by the economist and physicist Karsten Neuhoff, who previously led projects in the area of energy markets, emissions trading, and technology policy at the University of Cambridge. Berlin's CPI team also includes the environmental scientist Alexandra Novikova, co-author of the current report of the Intergovernmental Panel on Climate Change. In addition, economist Ferdinand Vieider of the University of Rotterdam, who specializes in the empirical examination of decision-making processes, has moved from the Netherlands to Berlin.

Mr. Grau, in Germany there is a great deal of discussion concerning feed-in tariffs for photovoltaic systems. By contrast, you've said that subsidy programs for industry investment in photovoltaic systems deserve more attention. Why?

Photovoltaic systems have the potential to supply a significant portion of our electricity needs in an environmentally friendly manner, both within Germany and globally. However, in order to exploit the potential of PV systems as effectively as possible, the technology needs to get cheaper in the future. The feed-in tariff—in other words, the compensation paid to individuals who supply electricity to the grid—promotes the integration of PV power into the market. The legislation in this regard is a key topic of discussion because of its focus on a single technology. While a variety of subsidy measures exist to promote industry investment, in Germany these measures don't include requirements concerning innovation or increased R&D.

## Berlin is increasingly becoming a center for climate research

The founding of the Berlin chapter of the Climate Policy Initiative further strengthens the Berlin-Brandenburg region as a center for research on climate change. The Berlin CPI center joins other cutting-edge research institutes already working in the region, including the Potsdam Institute for Climate Research (PIK) and DIW Berlin's Department of Energy, Transportation, and the Environment, which is headed by Prof. Claudia Kemfert.

On the occasion of the opening of the Berlin CPI center, a two-day international conference took place just prior to the UN Climate Conference in Copenhagen. The focus of the conference was on whether subsidies are more likely to promote or inhibit climate protection. For instance, CO<sub>2</sub> prices



Dr. Karsten Neuhoff, Director of CPI Berlin, arrived at DIW Berlin with his team at the end of 2009.

can only reduce emissions when energy consumption is not subsidized at the same time. For this reason, at the G20 summit in Pittsburgh commitment was made to eliminate energy subsidies.

The Climate Policy Initiative is funded by the Soros Foundation, a philanthropic organization founded by the American investment banker George Soros. The Initiative is a non-profit organization for the research and evaluation of climate policy and is independent from other initiatives of the Soros Foundation.

## Berlin's CPI center: The first research topics

- The improvement of thermal insulation in pre-war buildings is considered to be one of the largest sources of potential energy savings. The Berlin CPI center is examining which policies might best help to promote such retrofitting.
- Europe has set the goal of raising the share of renewable energy it consumes to twenty percent by 2020. CPI researchers are examining if the necessary steps are being taken to reach this goal.
- Europe's emissions trading scheme creates incentives for the manufacturing and financial sectors to take into account the environmental effects of climate change. CPI researchers are examining the trading scheme's implementation with regard to international developments and cooperation.

# Training the Researchers of Tomorrow: the DIW Berlin Graduate Center

Will we succeed in creating an environmentally friendly economy? How can an aging society renew itself—technologically and socially? Which social and economic factors contribute to violent conflicts and terrorism? Difficult questions—and ones that will become all the more pressing for the next generation of researchers. The DIW Berlin Graduate Center of Economic and Social Research provides young economists, social scientists, statisticians, and industrial engineers with the intellectual tools to get to the bottom of these issues.

Nurtured by excellent conditions for research, our doctoral students work towards their degrees in two important world cities: Berlin and Washington, D.C. The interdisciplinary, mainly policy-oriented curriculum combines a year of full-time coursework with two years of intensive research. Internships in Germany and the US are also integrated into the program. The doctoral students gain international experience, learn how to concisely communicate research results, and develop the skills necessary to advise political and economic actors. For this reason, the graduate program at DIW Berlin enjoys a unique academic profile.

**Mr. Zaklan, in your doctoral work you're analyzing the international market for fossil fuels. Is there a global market for coal?**

Coal traded internationally is predominately used for power generation. The market lacks transparency, and is relatively highly concentrated on the supplier side. In addition, logistics plays a central role in market activities, for transportation costs account for a considerable share of import prices. This lack of transparency and the significance of logistic factors can lead to the regional segmentation of a market. However, the empirical analysis of transportation costs as well as export and import prices shows that the forces of globalization have counteracted any tendencies towards segmentation, such that we can already speak of a global coal market.

## 2009 Doctoral Candidates

In 2009 the Graduate Center of Economic and Social Research once again accepted a number of new talented students from Germany and abroad into its doctoral program. These students are presented below.

**Elisabeth Bügelmayer** studied economics in Vienna, Paris, and Berlin. In 2009 she received her Master's degree in economics. In her Master's thesis, she used SOEP data to analyze how the personality traits of parents impact skill formation in early childhood. From 2007 to 2009 Elisabeth worked as a student assistant at the SOEP.

**Damir Esenaliev** studied at Williams College in the US, earning an M.A. in Development Economics. Before he arrived at DIW Berlin, he worked in the economics department of the Kyrgyz Republic Central Bank as well as in the offices of the World Bank in Kyrgyzstan, where he was involved in macroeconomic issues and poverty analysis.



The DIW Berlin Graduate Center's first graduate: Astrid Cullmann is presented with her Ph.D. by Prof. Klaus F. Zimmermann and Prof. Georg Meran. Right: Prof. Georg Meran, Director of the DIW Berlin Graduate Center of Economic and Social Research.

**Christoph Grosse Steffen** studied economics at the University of Münster and at the University of Panthéon Assas in Paris. His studies centered on international economics and international management. In his Master's thesis he analyzed how loans in a local currency impact international project financing structures. Christoph has completed internships at the KfW IPEX Bank, the Federal Ministry of Economics and Technology, and at the IMF.

**Clemens Haftendorn** studied business administration at the Technical University of Berlin with a focus on energy economics. His Master's thesis was concerned with the modeling of energy and resource markets, particularly in the international coal market. Clemens has been working as a research assistant at DIW Berlin since 2007.

**Daniel Kemptner** studied economics at the University of Mannheim and at the University of Toronto. In 2009 he completed his studies at the University of Mannheim with a degree in economics. In his Master's thesis, he examined non-monetary returns to education on the basis of data from the German Microcensus. During his studies, Daniel worked as a research assistant at the Mannheim Research Institute for the Economics of Aging (MEA).

**Antje Kröger** studied international economics and Japanese studies at the Eberhard Karls University in Tübingen. She wrote her Master's thesis on stochastic innovative processes and technologically driven changes in foreign trade. Antje Kröger has completed internships at Daimler Finance in Tokyo, at the German Consulate in Osaka, at the German Institute for International and Security Affairs in Berlin, and at the World Bank in Washington, D.C.

**Jan Marcus** studied economics as well as political and administrative science in Konstanz and Istanbul. In his Bachelor's thesis he analyzed the influence of data collection methods on the Inglehart index of post-materialism. His Master's thesis focused on the correlation between income and life expectancy for women. During his doctoral work at the DIW Berlin Graduate Center, Jan completed internships at the German Federal Ministry for Labor and Social Affairs as well as the Urban Institute in Washington, D.C.



Incoming graduate students are welcomed at DIW Berlin in October of 2009. Left: Carel Mohn, Director of the Communications Department, with Hendrik Hagehorn of the Department of Macro Analysis and Forecasting.

**Florian Mölders** studied economics at the University of Bonn and the University of Florida, specializing in trade relations and econometrics. His Master's thesis was titled "East Asia and the Status of FTAs." Florian previously worked for the aid organization GTZ and at the German Development Institute. During his studies at DIW Berlin, he was involved in a World Bank project concerning urbanization and economic growth.

**Sören Radde** studied economics and philosophy at the University of Bayreuth as well as the University of Paris I Pantheon Sorbonne and earned a Master's degree in Economics from the University of Cambridge. His studies concentrated on macroeconomic models and the macroeconomic function of financial markets. In his Master's thesis he examined the long-term effects of ownership structures in the banking sector on economic development. Sören has gathered professional experience in the private and public sectors—working for McKinsey, the European Commission's Directorate-General for Economic and Financial Affairs, as well as most recently for the IMF.

**Nils Saniter** studied economics as well as peace and conflict studies in Marburg and Buenos Aires. In his Master's thesis he empirically examined if international trade influences wage inequality in the German labor market. At present Nils's research interests are in the area of empirical social sciences, particularly immigration and labor market issues. As a research assistant at the University of Marburg, he participated in the founding of the German-Syrian Master's program "Economic Change in the Arab Region," which was initiated in cooperation with the University of Damascus.

**Anne Schopp** studied international economics in Tübingen and Hyderabad, India. In cooperation with the Potsdam Institute for Climate Research, she examined the relationships between economic growth and atmospheric emissions in India for her Master's thesis. Anne's research interests are in the area of climate and energy economics, microeconomics, and econometrics.

**Andreas Schröder** joined DIW Berlin from the Free University of Amsterdam where he studied economics and geography. In his Master's thesis he studied the inclusion of aviation in the EU's emissions trading system. In previous research work, Andreas has explored questions related to environmental protection and the transport sector as well as innovation. After completing his degree in 2008, he worked at the German Foreign Ministry, the European Commission, and at the US Federal Energy Regulatory Commission.

**Johanna Storck** studied economics at the University of Potsdam and the University of Wisconsin. Her Master's thesis concentrated on the effects of tuition fees on the selection of a university. During her Master's degree studies in the US, Johanna focused on the fields of econometrics and labor market economics. Before and during her graduate studies she completed internships at the UNESCO statistics office in Bangkok, the German Federal Ministry of Economics and Technology, as well as at the Urban Institute in Washington, D.C.

**Paul Viefers** studied economics with a focus in econometrics at the University of Bonn. In his Master's thesis he analyzed the empirical evidence for liquidity spirals during the global financial crisis in 2007 and 2008. During his first year at DIW Berlin he completed an internship at the Federal Ministry for Economics and Technology and at the International Monetary Fund in Washington, D.C.

**Lilo Wagner** studied economics and business administration in Paris, London, and Berlin. In her Master's thesis she analyzed the incentive effects of the tariff system on the market behavior of actors in the German press advertising and delivery system. Lilo Wagner's research interests are in industrial economics and microeconomics.

**Juliana Werneburg** began her studies in sociology at Bamberg's Otto Friedrich University, where she worked as a student assistant at the Global Life Project coordinated by Prof. Hans-Peter Blossfeld. After completing an internship at the Max Planck Institute for Human Development in Berlin, she joined the University of Bielefeld, where she was involved in several research projects. In her Doctoral studies she is analyzing the division of labor between couples using SOEP data.

**Sindu Workneh** studied economic policy analysis at the Addis Ababa University in Ethiopia. Her Master's thesis was concerned with the relationships between soil conservation and poverty in rural households in Ethiopia. Before she joined DIW Berlin, Sindu worked for over four years as a research assistant at the International Food Policy Research Institute (IFPRI) in Addis Ababa.

**Michael Zschille** studied at Dresden Technical University before coming to DIW Berlin in 2009. During his studies in Dresden, he focused on efficiency analysis, regulation management, as well as environmental and energy economics. Michael has completed internships at the Hessian Ministry for Economics, Transport, and Regional Development as well as at the Federal Ministry for Economics and Technology in Berlin. Currently, he focuses on the empirical analysis of grid-bound industries.

# DIW econ — Economic Analysis and Consulting Under One Roof

“DIW econ” is an independent affiliate of DIW that provides individualized economic consulting services. Under the leadership of Dr. Lars Handrich, the company collaborates closely with DIW researchers. In this way, insights from cutting-edge research flow directly into DIW econ’s consulting work. DIW econ’s clientele includes domestic and international companies and associations as well as various governmental bodies.

## DIW econ carries out projects in the following areas:

- Labor market
- Foreign trade
- Berlin’s economy
- Energy industry
- Financial markets
- Health care sector
- ICT and innovation
- Emerging markets, Eastern Europe
- Economic impact analyses
- Regulation
- Postal services
- Telecommunications
- Competition
- Energy efficiency, renewable energy, climate change, and emissions trading

### A new field for consulting services: Energy efficiency and climate protection

In 2009 DIW econ welcomed the energy expert Dr. Petra Opitz to its team. Dr. Opitz advises domestic and international companies as well as governments on regulatory issues, energy efficiency, renewable energies, climate change, and emissions trading. On the occasion of the launch of DIW econ, the Institute organized a two-day workshop in Zeuthen on behalf of the Federal Ministry for the Environment in the fall of 2009. The Kyoto Protocol established three mechanisms to support industrialized nations in reaching their emissions targets: emissions trading, joint implementation (JI), and the clean development mechanism (CDM). The workshop was focused on promoting the development and implementation of program activities within the framework of CDM and JI in East European countries as well as in Central Asia. One point of emphasis was on incentive programs in the area of energy-efficient building renovation. In addition, the workshop sought to clarify basic questions concerning Kyoto’s Program of Activities (PoA). The workshop was attended by technology providers, financial institutions as well as potential project developers in Eastern Europe, the former Soviet Union, and Central Asia.

### Berlin’s economic development: The 2009 Mittelstand Survey

Within the scope of the annual survey that DIW econ performs for Landesbank Berlin, small and medium-sized companies (the so-called *Mittelstand*) are surveyed regarding their current business outlook as well as their investment and financing behavior. More than 1,200 business owners, CEOs, and managers from Mittelstand companies participated in the survey in 2009. Despite the crisis, optimism prevails. The survey even indicated that numerous companies plan to increase their investment activity.



Dr. Lars Handrich is the Managing Director of DIW econ, the policy consulting affiliate of DIW. “I’m primarily interested in research with real-world applicability,” he says.

### Germany’s stimulus measures in the crisis

The economic stimulus package passed by the Bundestag in 2009 is the largest in post-war German history. With the passage of this funding, legislators avowed that it would support German firms during the financial crisis as well as raise the long-term growth potential of the German economy. In the spring of 2009, DIW econ conducted a study on behalf of the Initiative for a New Social Market Economy (INSM) that sought to identify the locations in Germany where the largest investment needs exist, and where investment would reap the greatest benefits. After developing an “optimal” investment program, researchers contrasted it with investments foreseen under the 2009 economic stimulus package. The study identified significant discrepancies between the government’s planned expenditures and the “optimal” investment program. For example, the government program contains provisions for improving road, water, and rail infrastructure. Yet Germany is already positioned very well when it comes to this kind of basic transport infrastructure. By contrast, too little funding is devoted to the qualitative improvement of the education system, energy efficiency, health care, and the expansion of Internet availability (i.e. to rural areas). These are areas in which Germany still needs to catch up internationally.

Building on these results, DIW econ examined the investments of the federal government under the 2009 economic stimulus packages at the state level. It was found that the states of Bremen, Saxony-Anhalt, and North Rhine-Westphalia are doing the best job of investing in increased competitiveness. Yet altogether only 30 percent of the planned investment by the federal government, states, and municipalities can be considered investments in future competitiveness. Some 70 percent of the funding will merely serve to preserve existing infrastructure and resources.

### How information and communications influence economics

In close cooperation with the Department of Information Society and Competition, DIW econ is working on a project titled “e-Business Watch.” Under this EU-financed project, researchers are examining e-business trends and the effects of information and communications technologies (ICT) on businesses in various economic sectors. In an additional EU study, DIW econ analyzed CO<sub>2</sub> emissions in the ICT sector in the European Union.

## False incentives for encouraging broadband network growth

In another project, DIW econ examined the political and regulatory environment for investment in broadband infrastructure. High-performance broadband networks can boost growth and employment. Yet when compared internationally, Germany's broadband infrastructure is only of average quality. For this situation to improve, the prominent role of private investment—in conjunction with government subsidies to promote expansion in disadvantaged regions—needs to be recognized. Policymakers must leverage multiple factors: synergy effects in the construction of infrastructure; partnerships between network operators; and a regulatory framework adapted to regional competitive structures.

Dr. Opitz, together with an expert team you are supporting the Kazakh Environmental Ministry in the development of a national emissions trading system. To what extent have they been able to adopt the EU's emissions trading model?

For legal reasons Kazakhstan is unable at present to make use of the international mechanisms of the Kyoto Protocol. Consequently, the development of an emissions trading system is conceived first and foremost as an incentive for reducing greenhouse gas emissions in the energy industry and in energy-intensive manufacturing in Kazakhstan. In a 2011–2012 pilot phase, the national aim is to lower emissions by sharing the reduction burden equally among all participating companies. The Kazakh government intends to closely pattern its emissions trading system after the EU model. Through their participation, Kazakh companies will be better prepared for international emissions trading.

## International projects: Brunei and Kazakhstan

In 2009 DIW econ also expanded its international policy consulting activities. For more than two years DIW econ has been advising the Sultanate of Brunei, developing an input-output table for the country's Finance Ministry. Furthermore, DIW econ is analyzing domestic production and imports and their impact on employment, energy, and the environment.

Alongside Turkey and Belarus, Kazakhstan is one of the countries that have had difficulties joining the UN Framework Convention on Climate Change and the Kyoto Protocol. In order to join international climate protection agreements, many countries require external assistance and expert advice. A team of experts under the leadership of DIW econ is assisting the Kazakh Environmental Ministry with political, technical, and operative questions related to the development of a voluntary national emissions trading system (ETS). The Kazakh ETS is designed to prepare Kazakh businesses for inclusion in international emissions trading. In providing these consulting services, DIW econ can build on a wealth of experience with Europe's ETS.

In recent years DIW Berlin has further internationalized its research and advising activities—and, in the process, has risen to meet the demands of an increasingly globalized world. The economic and financial crisis has demonstrated clearly that the analysis of a national economy is impossible without a global context. Economic policy is increasingly debated and formulated at an international level. As the home of the IMF and World Bank as well as numerous leading universities and think tanks, Washington, D.C. is therefore an ideal location for a foreign branch of the Institute.

The Institute established DIW DC in 2007 in order to increase the visibility of DIW Berlin in Washington, D.C. and in the US in general, as well as to develop ties to the US scientific community. As an independent non-profit organization under the leadership of Prof. Amelie Constant, DIW DC supports DIW Berlin in research and communication activities; in the internationalization of scientific work; as well as in graduate training. An integral component of the partnership with DIW DC is the several-month stay in Washington, D.C. in which all students of the Graduate Center participate. While in Washington, D.C., the graduate students work at US political institutions, thus familiarizing themselves with current debate in the US on economic issues. This provides for the growth of personal relationships between DIW Berlin's young researchers and their American counterparts. Such relationships are requisite for continued transatlantic cooperation. Thanks to the permanent presence of DIW DC and its close ties with local research institutions, graduate students are provided with an optimal network of contacts for pursuing their research interests.

In close cooperation with DIW Berlin, DIW DC also participates in the scientific and political life of Washington, D.C. The partnerships established with Georgetown and George Washington University represent an excellent start for the further integration of DIW DC into the American scientific community. In the future, an exchange program will allow researchers on both sides of the Atlantic to stay for an extended period abroad and develop closer ties with partnering institutions. DIW researchers are able to take advantage of numerous training and educational opportunities at universities and think tanks in Washington, D.C. Furthermore, DIW DC currently supports the Institute's research activities in the US and publishes its own research results in DIW Berlin's various publication series.

Topics of research in recent years include:

- Immigration
- Evaluation of labor market programs
- International strategies for finance market reform
- Global business-cycle research
- Energy, the environment, and mobility
- Information society
- Innovation and services
- Health care

The following activities were undertaken in 2009 to expand cooperative ties in Washington, D.C.:

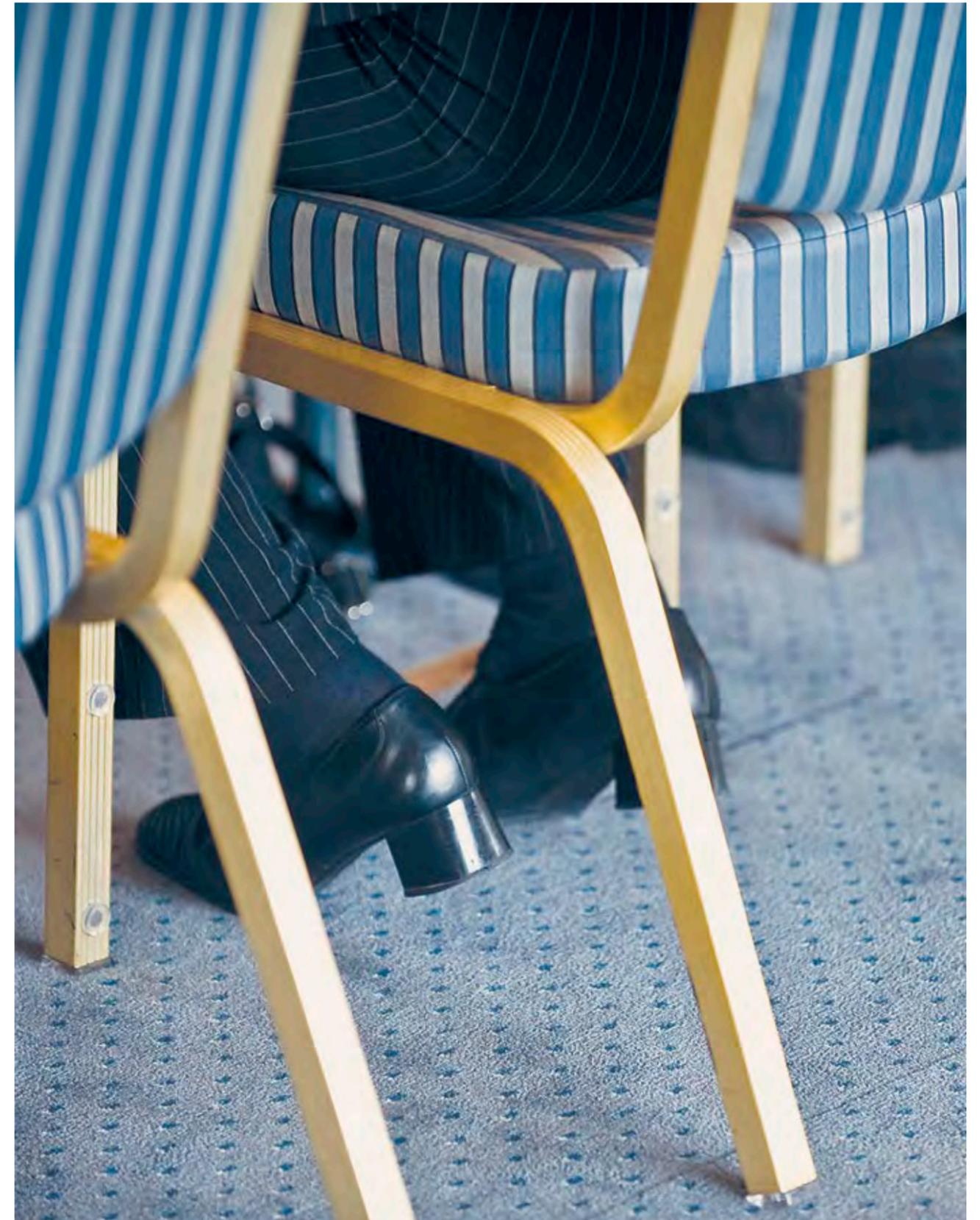
- DIW Berlin's Department of International Economics used DIW DC as a contact to think tanks such as the International Food Policy Research Institute (IFPRI) and the United States Institute of Peace (USIP). In 2009 the department engaged in research collaboration with both



One component of the DIW Berlin Graduate Student Program is a several-month stay in Washington, D.C. Right: The Director of DIW DC, Prof. Amelie Constant.

organizations. In addition, DIW DC supported the department through its ties to the World Bank. In 2010 Tilman Brück, Director of the Department of International Economics, will provide a background paper for the 2011 World Development Report concerning war and development.

- For the second time “German Development Day” was organized in 2009. Together with the World Bank, which was the event sponsor, DIW DC participated in conceptual and organizational planning. The goal of the event was to bring World Bank researchers together with economists from DIW Berlin and the Bonn-based Institute for the Study of Labor (IZA). The “German Development Day” represents an excellent platform for the intensive exchange of ideas concerning current research in the area of development policy.
- The Department of Innovation, Industry, and Service presented the 2009 German Innovation Indicator before an American audience for the very first time. In addition, a conference held at John Hopkins University in 2009 on “Innovation, Science, and Technology Policies in a Post-Crisis World” preceded an annual transatlantic conference on innovation and educational policy.
- DIW DC supported the Department of Energy, Transportation, and the Environment in the organization of a conference on the subject of infrastructure policy that is held each year in cooperation with the University of Maryland and Resources for the Future, a Washington, D.C.-based think tank. On “Transatlantic Infraday,” European and American economists presented their respective research results on energy, environmental, and infrastructure policy. Numerous collaborative research activities between DIW Berlin and leading US universities have resulted as a product of this conference series.



# Members' Meeting

The Members' Meeting is the Institute's highest decision-making body. The association's members support the mission of DIW Berlin through their activities both inside and outside the Institute and pay a membership fee. Permanent members are the Federal Republic of Germany and the state of Berlin. They support the Institute under the Framework Agreement on Research Promotion of November 28, 1975, according to which the Institute receives subsidies in equal part from the federal government and the state of Berlin.

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Federal Ministry of Economics and Technology  
Federal Ministry of Finance  
Federal Ministry of Education and Research  
Federal Ministry of Labor and Social Affairs  
Federal Ministry of Transport, Building and Urban Affairs  
Federal Ministry of Food, Agriculture and Consumer Protection

## **Federal States**

**The State of Berlin**  
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Senate Department for Health, Environment and Consumer Protection  
Senate Department for Economics, Technology and Women's Issues  
Senate Department for Education, Science and Research  
Senate Department for Integration, Labour and Social Issues  
**The Free and Hanseatic City of Hamburg**  
Ministry of Economic Affairs and Employment  
**The Free State of Bavaria**  
The Bavarian State Ministry for Economics, Infrastructure, Transport and Technology  
**The State of Brandenburg**  
Ministry of Economics  
**The State of North Rhine-Westphalia**  
Ministry of Economic Affairs and Energy

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Deutsche Post AG, Bonn  
Deutsche Telekom AG, Bonn  
DGB The Confederation of German Trade Unions, Federal Executive Board, Berlin  
IG Metall, Frankfurt  
IKB Deutsche Industriebank AG, Düsseldorf  
LBB Landesbank Berlin AG, Berlin  
Social Democratic Party of Germany, Party Executive Committee, Berlin  
VdF Society of Friends of DIW Berlin e.V., Berlin  
Vereinigung Rohstoffe und Bergbau e.V., Berlin

# Board of Trustees

The Board of Trustees is comprised of 13 prominent individuals from the fields of science, economics, industrial relations, and public administration. The Board of Trustees supervises and provides advice to the Executive Board. The Board of Trustees is responsible for the appointment and dismissal of Executive Board members as well as for the appointment of members to the Scientific Advisory Board.

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The Scientific Advisory Board is currently comprised of eleven internationally recognized economists and sociologists. It provides advice to the Institute in research-related matters. The Board also evaluates the academic work of the Institute and reports in this regard to the Board of Trustees.

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The work of DIW Berlin has been supported both financially and intellectually by the Society of Friends of DIW Berlin inc. (VdF) since 1951. VdF is recognized as a non-profit society. The objectives of the Society of Friends include partnerships with national and international enterprises, establishing networks and the cooperation between scientists and entrepreneurs. The focus is on the consolidation of these two different worlds, which received new incentives based on some fundamental changes in 2004.

## Spectrum of Services for Friends of DIW Berlin

The exclusive and regular exchange of information between DIW Berlin and its “friends” as well as the communication that takes place between the association’s members is highly valued by all participants and offers a range of opportunities for networking.

Members of the Society of Friends receive the following benefits:

- **Annual subscription to the DIW Wochenbericht:** The Wochenbericht contains information on the current economic research results of DIW Berlin.
- **Events:** A variety of events offer VdF-members the opportunity to receive and exchange information about current research results of DIW Berlin in an exclusive setting, e.g.:
  - the Industrial Conference, a forum for the discussion of the future of German industry and its individual branches
  - the Berlin Lunchtime Meetings
  - the VdF General Meeting
- **DIW Quarterly,** a quarterly newsletter which outlines publications, expert opinions and research results as well as events and internal affairs of DIW Berlin.
- **Data Service:** Upon request, we provide VdF-members with current figures concerning economic development as well as industry-related information.
- **Access** to DIW Berlin’s library and databases

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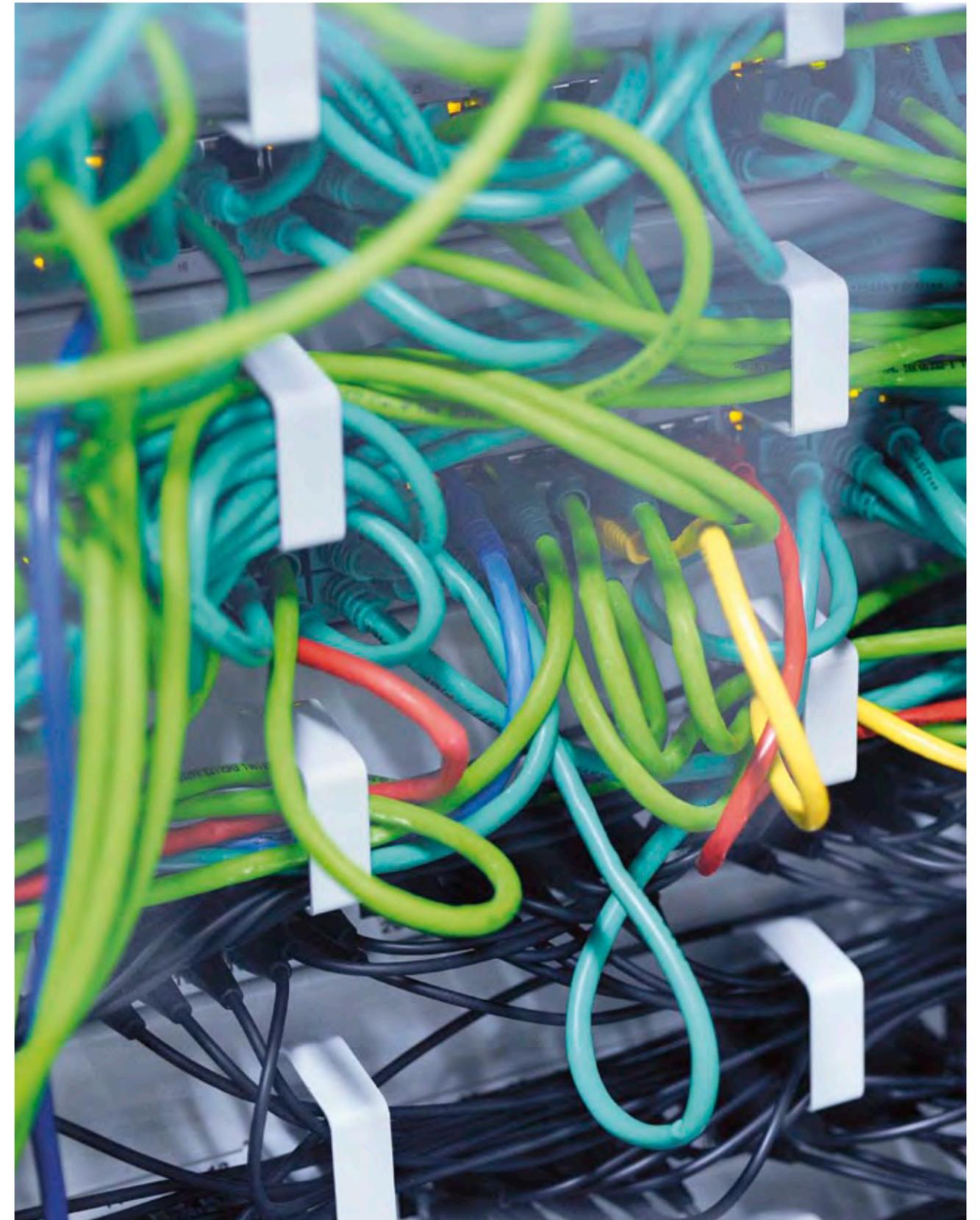
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