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1. Editorial

The Institutes constitute important pillars of the University of St. Gall. They provide the infrastructure for research, are the main units for consultancy work and afford opportunities to young researchers to develop their academic profile. The SIAM is no exception to this general rule. We aim to attract consultancy projects which not only provide financial support but also give important inputs to our research, through challenging mandates and a rich data base for further research papers. Our publications over the past years are proof of this mutually beneficial relationship. We have repeatedly emphasized the importance of high quality research for our applied consultancy activities in the editorials of past Annual Reports.

In this editorial, we would like to highlight our efforts to foster young scientists. The results are remarkable. Alain Thierstein was collaborator at our Institute until 1998 and he is now professor at the Technical University in Munich. After leaving our Institute in 2002, Lars P. Feld now holds the Chair of Public Finance at the University of Heidelberg. Patrick Puhani, who worked at our Institute until 2004, is currently professor of Econometrics and Labour Economics at the University of Hannover. Ulrich Müller has been assistant professor at Princeton University since 2003. Markus Frölich accepted an offer to be a full professor at the University of Mannheim in 2007. Sangeeta Khorana has been lecturer of International Business at the School of Management and Business of the University of Wales since 2006. At the time of writing this editorial, two doctoral students who have recently finished or are going to finish their PhD have a good chance of receiving an offer to become assistant professor at a foreign university. We are pleased to see such a success, and would like to congratulate our former collaborators for their academic achievements.

What does this mean for our Institute? First, this success is a sign of a supportive environment for internationally competitive research. This is what we aim for and it is good to see positive results. It is a mutually beneficial relationship. While we offer good opportunities, young researchers, those named above as well as a long list of doctoral students who did not chose the academic track, provide valuable inputs to our activities. But their contribution goes beyond direct research support. Young scientists who gain positions at other universities build an international network which is not only important for the long-term impact of our Institute, but also for the HSG as a whole. We are therefore determined to continue this path.

We do not want to close without expressing our gratitude to the authorities and all collaborators. The Canton of St. Gall provides us with a high degree of autonomy which facilitates both our research and international orientation. This is a governing structure for which we are thankful to the authorities. Our thanks go also to the members of the Governing Board, chaired by Professor Peter Nobel, and of the Institute’s Association of Sponsoring Institutions, chaired by Erika Forster, member of the Swiss Upper Chamber, that support us financially and give us valuable suggestions and advice. Last but not least, our special thanks go to all our collaborators and staff. Without their ongoing high commitment we could not maintain our high level of activity.

St. Gallen, 4 March 2008

Prof. Dr. Simon J. Evenett  Prof. Dr. Heinz Hauser

Prof. Dr. Gebhard Kirchgässner  Prof. Dr. Michael Lechner
2. Staff

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Executive Board

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Prof. Dr. HENZ Hauser
Prof. Dr. GEBHARD KIRCHGÄSSNER
Prof. Dr. MICHAEL LECHNER

Departments

International Economics

Prof. Dr. HENZ Hauser
CHRISTOF BÖHLER (until 31 January)
ANDREAS BÖHM (since 1 October)
INGO Borchert
CLAUDIA BRÜHWILER
ETIENNE HUBER (until 31 January)
ANDREA MÄCHLER

Prof. Dr. SIMON EVENETT
AGUSTIN CORNEJO (since 1 October)
STEFANIE HOFMANN
MICHAEL MEIER
MALWINA NOWAKOWSKA (since 15 June)
MARIA MAGDOLNA TARISKA (until 12 June)

Economic Policy

Prof. Dr. GEBHARD KIRCHGÄSSNER
THOMAS MAAG
Dr. SILIKA PROHL (until 31 March)
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Labour Market and Econometrics

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Beatriz Brügger (until 28 February)
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Alexandra Krebs (until 30 June)
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Darusch Tafreschi (since 1 September)
Petra Thiemann (since 1 December)
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Stephan Wiehler (until 30 September)
Conny Wunsch

Research Fellows

Prof. Dr. Lars P. Feld
Prof. Dr. Patrick A. Puhani
Prof. Dr. Jeffrey Smith
Prof. Dr. Jürgen Wolters

Research Associates

Dr. Christoph A. Schaltegger
Dr. Sacha Wunsch-Vincent
Dr. Thomas A. Zimmermann

Advice Service for Empirical Economic Research

Dr. Markus Frölich

Secretariat

Edith Memeti-Keller (until 30 November)
Gabriela Schmid
Rita Widler (since 1 December)
3. Research Activities

3.1 Section International Economics

Directors: Prof. Dr. **Heinz Hauser**

Prof. Dr. **Simon J. Evenett**

Researchers:
CHRISTOF BÖHLER (until 31 January)
ANDREAS BÖHM (since 1 October)
INGO BORCHERT
CLAUDIA BRÜHWILER
ETIENNE HUBER (until 31 January)
ANDREA MÄCHLER

AGUSTIN CORNEJO (since 1 October)
STEFANIE HOFMANN
MICHAEL MEIER
MALWINA NOWAKOWSKA (since 15 June)
MARIA MAGDOLNA TARISKA (until 12 June)

Secretariat:
EDITH MEMETI-KELLER (until 30 November)
RITA WIDLER (since 1 December)

From left to right:
Prof. Dr. Simon Evenett, Rita Widler, Andrea Mächler, Michael Meier, Malwina Nowakowska, Claudia Brühwiler, Andreas Böhm, Stefanie Hofmann, Dr. Thomas Zimmermann, Prof. Dr. Heinz Hauser
A) General Objectives of Our Research

Prof. Dr. SIMON EVENETT and Prof. Dr. HEINZ HAUSER co-chair the International Economics Section. Both share a strong belief that the Institute’s activities should be based on rigorous theory but have a strong policy orientation.

Much of our research is devoted to developing a better understanding of the multilateral trading system and its consequences for international commerce and the wealth of nations. An important objective is to undertake research that is of interest to scholars, policy-makers, leading business people, and members of civil society who follow developments in the multilateral trading system. As a result, our research often draws upon institutional knowledge and recent policy proposals while, at the same time, using microeconomic tools and econometrics. In this respect, a challenge often faced is to maintain academic rigour without losing the non-academic audience for our research. The dissemination of our research to many different fora is a complementary objective, and we go to considerable lengths to present our research not only at academic conferences and international organisations such as the OECD, WTO, UNCTAD, World Bank, and regional development banks, but also to non-specialist audiences. Given the diverse audiences for our research findings, it should not be surprising that our writings are published in a wide range of different formats and sources, including our own publications, the journal Aussenwirtschaft and the WTO-News.

B) The Team

Prof. SIMON EVENETT, Ph.D. is Professor of International Trade and Economic Development. He serves on the Programme Commissions for the Department of Economics’ Ph.D. Programme for Economics and Finance and the HSG Executive School of Management, Technology and Law. Furthermore, he teaches in many different courses with an international orientation in various teaching programmes of the HSG. His research interests cover international trade and related policy areas.

Prof. Dr. HEINZ HAUSER has chaired the International Economics Section since 1981 (since 2005 jointly with Prof. Dr. SIMON EVENETT). He is a member in the Programme Committee of the Bachelor and Master Programme in International Affairs and Governance where he mainly teaches international economics courses. Furthermore, he is the managing editor of the journal Aussenwirtschaft and the WTO-News. In his research, he concentrates on institutional questions regarding the WTO and its dispute settlement process.

After his departure from the Institute, Dr. THOMAS ZIMMERMANN was elected Research Associate. He continues to support the publication of the WTO-News – the newsletter he initiated and developed in the following years with great care. On behalf of the Institute, he also teaches in management seminars on international economy.

INGO BORCHERT is close to finishing his PhD. He is a graduate of the Gerzensee doctoral programme and has joined the new PhD programme in Economics and Finance. He received a one-year grant from the Swiss National Research Foundation to continue his studies at American and British universities from February 1, 2006 until January 31, 2007. After his return, he again joined the Institute’s research team in international economics and teaches courses in this area.

CLAUDIA-FRANZISKA BRÜHWILER is teaching assistant to Prof. Dr. HEINZ HAUSER and in this capacity, she is in charge of the administration of the very intensive core course International Regimes in the Master programme International Affairs and Governance.
ANDREAS BÖHM has a political science background and is currently working on a research project on the topic “Judicial Governance in the WTO”.

ANDREA MÄCHLER is teaching assistant to Prof. Dr. HEINZ HAUSER and supports his activities for the Centennial Group on world market integration of emerging economies.

STEPHANIE HOFMANN-KOTHMILLER supports Prof. Dr. SIMON EVENETT in research and teaching. Since fall 2006, she has also been editorial assistant for the journal Aussenwirtschaft.

MICHAEL MEIER is research assistant to Prof. Dr. SIMON EVENETT and has taken the responsibility as editorial assistant of WTO-News.

MALWINA NOVAROWSKA is research assistant to Prof. Dr. SIMON EVENETT.

CHRISTOPH BÖHLER, ETIENNE HUBER, MARIA MAGDOLNA TARISKA and AUGUSTIN CORNEJO supported Prof. Dr. HEINZ HAUSER and Prof. Dr. SIMON EVENETT in selected projects.

C) Own Publications

1. Journal Aussenwirtschaft

The Institute publishes the journal Aussenwirtschaft and can already look back on 62 volumes. Since its start, the journal has been developed as a publication meant to bridge the gap between theory and practice. This aim manifests itself in a number of characteristics: The journal addresses with priority topics that play an important role in the economic policy discussion. The contributions should be well-founded in theory but – through their presentation – easily accessible for practitioners. It is also an important goal of the journal to present research contributions or economic policy statements made by members of the Institute to a wider public.

Issue II contained three articles on objectives and content of regional preferential agreements which had been presented at a research conference in December 2006. Contributions investigating the monetary consequences of large current account imbalances also had some priority. Apart from these topics, a large area was covered in 2007, with articles ranging from international investment, a systemic evaluation of the WTO Biotech case and a critical analysis of the Swiss ban on parallel imports, to European competition policy and budget support in development aid. However, we still follow the rule that the journal Aussenwirtschaft should be a valuable source of information for interested academics and practitioners alike.

2. Newsletter WTO-News

In addition to the journal Aussenwirtschaft, our newsletter WTO-News is another important instrument to position the Institute internationally. On four pages, two important issues related to the international economic order are discussed. The contributions deal with systemic WTO questions and comment on important dispute settlement cases. Moreover, short book reviews provide information on new literature that is worth reading.

In 2007, two issues were distributed. Prof. Dr. SIMON EVENETT wrote commentaries on The New EU Trade Policy in No. 15 and Trade Disputes with China in No. 16, while Prof. Dr. HEINZ HAUSER commented two WTO disputes, the EU – Biotech Case in No. 15 as well as new developments in the US – Gambling Case in No. 16. Since the WTO-News constitutes a very efficient instrument for making the Institute’s voice heard (the newsletter is distributed in electronic and paper form to approximately 4000 well-selected addresses), we plan to increase the number of issues in the future.
**D) Research Focus WTO**

The International Economics Section has primarily been dealing with WTO related questions over the past few years. Prof. Dr. HEINZ HAUSER has published papers addressing institutional issues. Prof. Dr. SIMON EVENETT is currently managing a multi-year research project on the accession process of new members. In addition, this research focus is supported by dissertation projects of our staff members as well. Dr. AXEL FLASBARTH analysed empirically important questions concerning the inclusion of labour standards in the world trading order. Dr. ALEXANDER ROTTINGER examined the general tension between binding rules and flexibility in the WTO order. Dr. THOMAS ZIMMERMANN looked at the proposals for a reform of the WTO dispute settlement system put forward since 1995 and analysed their potential systemic implications for the WTO. Dr. SACHA WUNSCH-VINCENT provided one of the first comprehensive studies on the treatment of digital content services in the WTO. Dr. SANGEETA KHORANA analysed the efficiency of preferential rules of access for development, using data on Swiss agricultural imports, while Dr. XUAN LI’s dissertation covered the protection of traditional medical knowledge, including a case study for China. Finally, Dr. SIMON SCHROPP recently finished his dissertation with a thorough law and economics analysis of the WTO agreements and institutional structure. Further projects are work in progress.

By focusing several dissertation projects on one common thematic area, it is possible to yield synergies and to facilitate the exchange of ideas among doctoral students. For the Institute, this leads to the creation of a research programme that is mainly made possible through the self-financed work of our doctoral students.

**E) Current Projects of Prof. Dr. SIMON EVENETT**

1. **Analysis of regional trade agreements and Word Trade Organization (WTO)**

A large part of Prof. Dr. SIMON EVENETT’s research effort in 2007 was devoted to various analyses of different trade agreements and the ongoing Doha Round of multilateral trade negotiations at the WTO. With respect to the latter, Prof. Dr. SIMON EVENETT drafted a number of well-cited papers and notes analysing the factors responsible for the deadlocked negotiations. Like 2006, the year 2007 began with an uptick of optimism as the prospects for the Doha Round but as the months went by it became clear that the so-called G4 (the United States, the European Union, Brazil, and India) were unable to come to an agreement on the outlines of a multilateral deal. Negotiations reverted back to WTO ambassadors in Geneva and little progress has been subsequently made. Professor Dr. SIMON EVENETT argued that a number of interlocking factors were responsible for this deadlock, none of which are likely to change much in 2008 (see "Reciprocity and the Doha Round: Lessons for the Near Term and After"). The findings of this and related research have been presented to international conferences, to senior policymakers, and discussed in the media and on the internet.

Professor Dr. SIMON EVENETT continued his analysis of the factors shaping the policies of the European Union and the United States towards regional trading agreements. This has taken on a particular urgency given the decision of the European Commission to launch negotiations on free trade agreements with Korea, India, and selected South East Asian nations. Moreover, the loss of so-called Fast Track authority by the United States Administration has potentially left the field wide open for European Union negotiators. Whether or not they will be able to capitalise on this opportunity is a matter
that Professor Dr. SIMON EVENETT has considered in his research, along with other matters. More generally, Professor EVENETT has dwelt on the relevance of strategic analyses of treaties and on the implications of a multipolar world economy (comprising China, India, and the United States) on the conduct of commercial diplomacy. Towards the end of the year Professor EVENETT collaborated with Prof. RICHARD BALDWIN PhD, University of Geneva (HEI), and Dr. PATRICK LOW, Chief Economist of the WTO, on a project that examined the ways in which measures to lessen discrimination in international trade have been spread through certain regional trade agreements. This research suggests that the emphasis on the discrimination created by eliminating tariffs in free trade areas may be misplaced and that a richer explanation might guide policymaking. Moreover, some suggestions were made as to how to "multilateralise regionalism".

Professor Dr. SIMON EVENETT also served on two international trade-related commissions during 2007. The first commission was an advisory group to the then French Trade Minister, Mrs CHRISTINE LAGARDE. The second included membership of the Warwick Commission into the future of the multilateral trading system. Both commissions produced reports that are now publicly available.

F) Major Publications


3. Research Activities

3.2 Section Economic Policy

Director: Prof. Dr. Gebhard Kirchgässner

Researchers:
THOMAS MAAG
Dr. SILIKA PROHL (until 31 March)
THORSTEN UEHLEIN

Secretariat:
GABRIELA SCHMID

From left to right:
Thomas Maag, Prof. Dr. Gebhard Kirchgässner, Thorsten Uehlein, Gabriela Schmid
A) General Objectives of our Research

In 2007, the activities of our group concentrated mainly on two areas. First, our research in the field of political economy was continued. In the context of scientific policy advice, issues of federalism were clearly predominant. Work in this area was done again in cooperation with former colleagues of our Department, namely Prof. Dr. LARS P. FELD (University of Heidelberg, Germany), and Dr. JUSTINA A.V. FISCHER who spent 2007 at the Stockholm School of Economics with the support of a Marie Curie grant. Secondly, a substantial part of our time was again, and for the last time, dedicated to the annual report of the Swiss Council of Economic Experts (Kommission für Konjunkturfragen) presided by Prof. Dr. GEBHARD KIRCHGÄSSNER since 2004. As this expert group was dissolved by the Swiss Federal Council at the end of 2007, its annual report concentrated on its history. Apart from these two main strands of activity, a significant part of our resources was invested in completing the English version of a textbook on time series econometrics, written in collaboration with Prof. Dr. JÜRGEN WOLTERS (Free University of Berlin, Germany), as well as in the elaboration of the English version of Homo Oeconomicus to be published in 2008.

Also to be mentioned is our work in connection with the large research project on Work, Ageing and Welfare of the University of St Gall which made the foundation of the St Gall Centre for Ageing, Welfare, and Labour Market Analysis (SCALA) possible. Prof. Dr. GEBHARD KIRCHGÄSSNER is currently acting as speaker of this research centre and leading its Economic and Political Determinants of Welfare research unit.

B) The Team

PROF. DR. GEBHARD KIRCHGÄSSNER is the director of the Department for Economic Policy. From 2004 to 2007, he was also president of the Council of Economic Experts of the Swiss Government. In his research, he focuses on current topics in economic and especially fiscal policy, on questions of political economy, in particular in connection with the Swiss institutions of direct democracy and federalism, as well as on basic methodological questions in economic and social sciences.

THOMAS MAAG joined our group in April 2006. He was a doctoral student at our University, and last year, he was active in the framework of SCALA. As of the end of 2007, he left our group to take up a position at the Center of Economic Research at the Swiss Federal Institute of Technology Zurich.

SILIKA PROHL, who was a team member since July 2005, completed her dissertation on the sustainability of public finances and left our Institute at the end of March 2007.

THORSTEN UEHLEIN has been a team member since autumn 2003. In his dissertation, he explores issues of tax competition in the European Union.

C) Projects

1. Political Economy

As already mentioned, our work in the area of economic policy advice focused mainly on questions of federalism or public finances in federal systems, respectively. The first project was concerned with an evaluation of the Canton of Zurich and its position within inter-cantonal tax competition. With this aim in mind, a study was conducted which formulated prolegomena for a future tax strategy for this
Canton. This document later served as an essential basis for the future tax strategy of the Canton of Zurich which was announced on September 28, 2007.

A review of the current situation revealed that this Canton is very tax-friendly as far as annual personal incomes are concerned in the range of about 80,000 to 250,000 Swiss Francs. Maintaining this advantage is of high importance to the Canton in order to avoid migration of this population group to other Cantons. In contrast, the Canton’s corporate taxation is much less favourable. However, as the Canton of Zurich can bring into play its other locational advantages, it is still very attractive for firms and its corporate income tax revenue is considerable.

On the whole, our study showed that at the moment, no measures are urgently needed to avoid a deterioration of Zurich’s position within inter-cantonal tax competition. There are a number of areas for potential reforms, though. From an all-encompassing point of view, the most urgently needed measure to be introduced would be tax deductibility of childcare costs up to a realistic amount. This would largely be self-financing. This reform, however, cannot be implemented by the Canton itself as it would require a revision of the Swiss Tax Harmonization Act.

In March and April, Prof. Dr. Gebhard Kirchgaessner travelled twice to Ethiopia on behalf of the Forum of Federations, an international organisation with headquarters in Ottawa, Canada, of which Switzerland also is a member. He was asked to advise the second chamber of that country, the House of the Federations, in the elaboration of a new formula according to which the national government would distribute its grants among the 10 regions. The existing allocation formula has brought about a severe imbalance. Smaller regions received considerably more financial resources per capita than larger ones. Yet these allocations account for about 85 percent of the regions’ overall revenues due to the fact that they have very low own tax revenues. A new scheme was therefore required, together with a plan for a transition period.

The new scheme was required to be strongly inspired by the Australian model, meaning that expenditure needs should play a central and much more important role than revenue capacity. The financing requirements of the regions are calculated according to a set of criteria both for current and future investment expenditure and then allocated accordingly. A commission appointed by the Ethiopian Parliament finally agreed on an allocation formula and a transition plan which were both unanimously adopted by the House. However, this new allocation formula suffers as well from severe shortcomings, the main problem being that at least in the mid- and long-terms, it will create wrong incentives. However, a more incentive-compatible solution could not gain acceptance, at least not in the short run. In the meantime, those regions which are to receive considerably less resources in the future have started to become politically active. It is therefore no surprise that demands for a further revision of the allocation formula have already been expressed.

The third project in this area focused on our northern neighbour country, Germany. Prof. Dr. Gebhard Kirchgaessner was invited as an expert to a public hearing before the Committee on the Modernisation of Federation-Länder Financial Relations (Federalism Reform II) of both chambers of the German parliament, held on June 22, 2007. He was asked to answer a questionnaire with 226 questions mainly concerning issues of debt restriction in the Länder as well as their revenue competence. An analysis of the current situation showed that the first and foremost element of a potential reform would be the abolition of the so-called joint taxes in order to separate better the finances of the national government from those of the single Federal States. In Germany today, the Federal parliament as well as the majority of the State governments (whose representatives constitute the Upper Chamber of the German government) decide jointly on the amount and the allocation of the most important taxes, i.e. the personal and corporate income taxes as well as the value added tax. This means that with regard to these domains, neither the Federal Republic nor all the States together, let alone any single State, have the right to levy their own taxes. This system can lead to blockades, in particular, if the two Houses of the Federal Parliament are dominated by different majorities. Preventing such blockades
would constitute an important step towards a reform of German federalism. For the time being, it does seem likely though that this measure will not be implemented.

Other works in the area of economic policy dealt with tax morale. Especially in German-speaking countries, tax morale is often (largely) equated with tax compliance. While the first describes a person's moral convictions with regard to taxes, the second denotes actual behaviour, and both do not necessarily need to be congruent. This issue is particularly interesting for Switzerland. On the one hand, it has been known for quite a long time that direct democracy has a significant positive impact both on tax morale and tax compliance. This should mean that both should be particularly pronounced in Switzerland. On the other hand, according to surveys, tax morale has dramatically deteriorated since the beginning of the 90's. In an international comparison of tax morale, Switzerland is now positioned among the lowest third of all compared countries. It is not clear in what way this has had an effect on tax compliance. Empirical investigations about the amount of tax evasion or the size of the underground economy in Switzerland do not give a clear answer to this question.

2. History of the Swiss Council of Economic Experts

The Swiss Council of Economic Experts was originally founded in 1932 as the Commission for Observation of Economic Development (Kommission für Konjunkturbeobachtung) and was subordinated to the Swiss Federal Department of Economic Affairs. In 1995, it was renamed the Council of Economic Experts (Kommission für Konjunkturfragen), and in 1980, it was raised in status, becoming a Commission of the Swiss Federal Council. On November 29, 2006, the Federal Council decided to dissolve the Council of Economic Experts by the end of 2007, thereby ending an almost 75-year long tradition of active economic policy advice in Switzerland. According to the Federal Council, its functions shall be taken over by other bodies.

Right from the start, the Council of Economic Experts was mandated with two tasks: observation of economic development and economic policy advice. Over time, the latter became more important as is also illustrated by the renaming of the Commission in 1965, as well as the raising of its status in 1980. Both tasks are also described in Article 4 of the Federal Law on the Observation of Economic Development (Bundesgesetz über die Konjunkturbeobachtung) of June 20, 1980.

At the very beginning, the expert group concentrated mainly on economic observation. In view of the unfavourable data situation at the beginning of the 30's, the Council of Economic Experts committed itself first to the collection and preparation of these data. However, the situation changed over the course of time. Other institutions such as the Swiss National Bank and the Federal Statistical Office began to collect and publish ever more economic data, rendering this activity increasingly less important and, finally, even redundant for the Council of Economic Experts. This development was also bound to happen since this task could not be accomplished permanently by a Council whose members, in accordance with the Swiss Militia System, all perform additional professional functions. Furthermore, the foundation of the Research Group of the Swiss Federal Institute of Technology Zurich (KOF) in 1938, which is co-financed by the Federal government, led to the emergence of an institution whose declared mission was – and still is – the observation of economic development. In contrast to the Council of Economic Experts, the KOF also disposes of the necessary resources. Last but not least, a recently established group within the Swiss State Secretariat for Economic Affairs (SECO) also concentrates on the analysis of economic development and has also been providing forecasts for economic development for some years now. All these developments contributed to the fact that economic observation for the Council of Economic Experts became more and more secondary and economic policy advice gained importance.

Even though they tend to blend into each other, three stages can be distinguished with regard to the political views of the Council of Economic Experts: a corporatist, Keynesian and a post-Keynesian stage. This evolution not only depends on the development of business-cycle theory but also on actual
economic development. The main factor for the transition from the Keynesian to the post-Keynesian position, for instance, was the fact that by the 90’s at the latest, the Council became convinced that the Swiss growth problem could hardly be solved by demand side policies. The reason for this was that economic problems were rather located on the supply side and that, in a small open economy like Switzerland, demand can hardly be influenced by fiscal policy.

This change is also manifested itself by the fact that, in the 90’s, there were still attempts to influence economic development by means of two business cycle programmes, while the Federal Council’s growth package, launched in 2004, abstains from such demand side and completely relies on supply side measures – in spite of the fact that during the formulation of this package, growth problem was not considered to be under control yet, even though the economy recovered temporarily at the end of the 90’s.

With the abolition of the Council of Economic Experts in Switzerland, there will, at least for the time being, no longer exist an independent institution which can almost officially on its own take position on current economic policy issues. Research groups in government departments, as proposed by the Federal Council as a substitute, are not as independent as the Council was and they cannot become active of their own volition. While research supported by the Swiss National Science Foundation, which was also suggested as a substitute by the Federal Council, is independent, it will hardly ever provide short-term contributions to current issues of economic policy. Its strength clearly lies in the longer-term perspective. In the area of economic policy advice – though not necessarily in that of observation of economic development – the dissolving of the Council of Economic Experts therefore leaves a vacuum and it will be interesting to see if, how and by whom it will be filled in the future.

3. Methodical basis of economic and social sciences

One of our projects in this area has dealt with the relationship between politics and sciences viewed from an economic perspective. Its results showed that the traditional understanding of this relationship as held by many scientists, including economists, does not withstand closer examination. Politics is not as reserved as is often desired, and neither can such a reticence seriously be expected. Furthermore, the image which many scientists have of other scientists – and thereby of themselves – corresponds little to reality. In reality, scientists are neither better nor worse than other human beings, meaning that they look primarily to their own advantage just as everybody else does. This is not changed by the fact that they do so under the conditions of a scientific process which differ from those a politician faces in a political process or a businessman in an economic process. Neither is it influenced by the possibility that scientists (might) follow other individual objectives. Only by accepting this reality can it become possible to develop a meaningful understanding of the interaction between science and politics and in particular of the structure and the importance of economic (policy) advice. It then also becomes clear that even though all protagonists involved in this process are bound by their own interests, objectivity is not doomed to be (completely) lost. It all depends on a coherent organisation of this process – and this is where the competition between scientists plays an essential role.

D) Major Publications


GEBHARD KIRCHGÄSSNER and JÜRGEN WOLTERS, Einführung in die moderne Zeitreihenanalyse, Vahlen, München 2006.


CHRISTOPH A. SCHALTEGGER and BENNO TORGLER, An Exploration of Tax Amnesties Around the World with a Special Focus on Switzerland, Tax Notes International 38 (2005), pp. 1193 - 1203.


3. Research Activities

3.3 Section Labour Market and Econometrics

Director: Prof. Dr. Michael Lechner

Researchers:
THOMAS ADAMS (since 1 September)  ALEXANDER KREBS (until 30 June)
STEFANIE BEHNCKE  Dr. BLAISE MELLY (until 31 July)
BEATRIX BRÜGGER (until 28 February)  DARJUSCH TAFRESCHI (since 1 September)
Dr. EVA DEUCHERT (since 1 December)  Dr. ROSALIA VAZQUEZ-ALVAREZ
DR. MARKUS FRÖLICH  STEPHAN WIEHLER (until 30 September)
MARTIN HUBER  CONNY WUNSCH

Student Research Assistant:
PETRA THIEMANN (since 1 December)

Secretariat:
EDITH MEMETI-KELLER (until 30 November)
GABRIELA SCHMID
RITA WIDLER (since 1 December)

From left to right: Gabriela Schmid, Marc Flockerzi, Martin Huber, Thomas Adams, Dr. Markus Fröhlich, Stefanie Behnke, Conny Wunsch, Darjusch Tafreschi, Dr. Rosalia Vazquez-Alvarez, Dr. Eva Deuchert, Prof. Dr. Michael Lechner
A) Research Goal

The main goal of our research group is to develop and improve the empirical tools commonly used in the analysis of economic data. This allows for a better understanding of economic phenomena, with the additional benefit of providing high quality advice for the implementation of economic policies. To attain this goal we make extensive use of econometric methods and quantitative economic analyses, develop new estimation techniques, and assemble or employ new data sources in the process using, for example, administrative data at the micro-economic level provided by national authorities. We design and implement pilot applications, either independently or in co-operation with various other institutions. Once the usefulness of new tools and data has been established, non-university institutions should be able to employ them in routine applications. We require that all of our projects add to the scientific knowledge base as defined by the standards of the scientific community. With that aim in mind, we expect that each individual project will produce at least one, if not more, publications in respected peer-reviewed scientific journals. In addition, the members of our research group have contributed and will continue to contribute to national and international scientific workshops and conferences. At present, the main focus of our policy-relevant work relates to labour markets, education and health economics. However, this list of research topics is not exhaustive as we are constantly expanding our field of research activities when interesting issues arise.

B) The Team

During 2007, the members of our research team were again active participants in the scientific community. The team contributed to the scientific debate by producing a variety of discussion papers and technical reports, publishing articles as well as participating in and co-organising various scientific conferences. In addition, the group was also engaged in teaching activities in the Department of Economics of the University (HSG). In terms of teaching-related activities, the group has been involved in the creation and implementation of new graduate study programmes. Michael Lechner is now Head of the Economics Department for the next two years. Details of all these activities (both publications and conferences attended) are listed below. In the following, further detailed information is provided on each member of the team.

PROF. DR. MICHAEL LECHNER (at the SIAW since 1998), Professor of Econometrics, leads the team and is Head of the Economics Department.

DR. MARKUS FRÖLICH (since 1998) is a lecturer and adviser on Empirical Research at the Department of Economics (HSG). This position involves responsibility for providing advice on empirical economic research and on the analysis of economic data. The position, which is instrumental for the Department of Economics, is under the auspices of our Institute (SIAW) and thus forms part of our group’s teaching activity. DR. MARKUS FRÖLICH also lectures in the PEF programme. 2007 was his last year at the HSG, as he takes up a full professorship at the University of Mannheim, Germany, in January 2008.

DR. ROSALIA VAZQUEZ-ALVAREZ (since 2003) is a lecturer at the Department of Economics in the Bachelor, MIQE/F and PEF programmes.

DR. BLAISE MELLY (since 2001) left us in September for a one-year research visit at the MIT in Cambridge, Massachusetts.

CONNY WUNSCH (since 2002) very successfully completed her PhD thesis. We are glad that she intends to stay with our group for the upcoming years.
STEPHAN WIEHLER (since 2002) also successfully completed his doctoral thesis. He left us to take up a position at Credit Suisse in Zurich.

DR. EVA DEUCHERT (since 2007) joined us in December. She supports our team as a post-doc in the area of health economics.

STEFANIE BEHNCKE (since 2004) is making good progress in completing the papers needed for her thesis. In 2008 she will spend a one-year academic visit at the University of York, England.

MARTIN HUBER (since 2006) has made good progress with his PhD thesis.

THOMAS ADAMS, MARC FLOCKERZI and DARJUSCH TAIFRESCHI (since 2007) joined our group as new PhD students.

C) Completed and Ongoing Projects

1. Active Labour Market Policies in Switzerland

During the past four years (2004-2007), the research group had been working on two large-scale research projects on the effectiveness of an active labour market policy in Switzerland. These projects were conducted on behalf of the State Secretariat for Economic Affairs (SECO). Both projects aimed at finding means to encourage the unemployed back into active labour market participation and could be finalised in 2007 by STEFANIE BEHNCKE, Dr. MARKUS FRÖLICH, and Prof. Dr. MICHAEL LECHNER.

The first project examined the efficiency of the Regional Employment Offices (RAV/REO) in Switzerland with the aim of developing suggestions to increase their effectiveness. In particular, we analysed the impact of certain REO characteristics (e.g. organisation) and case worker strategies on jobseekers’ employment chances. The estimates were based on a unique and informative data base merging administrative information from the placement offices (AVAM), the payment system (ASAL) and the pension system (AHV) with data from a written questionnaire that was sent to all case workers and REO managers in Switzerland. This informative data set made it possible to control for jobseeker’s characteristics, characteristics of the REOs and the local labour market.

We were able to identify a few factors that accelerated job finding rates, including a less cooperative attitude of case workers towards their clients as well as direct and gentle contacts with employers. We also examined whether caseworker’s age, gender or education played a role for a successful reintegration but we did not find any significant results for this hypothesis. It could be observed, though, that Swiss unemployed had higher reintegration chances when being counselled by a caseworker of the same gender, age and education. Further results are described in the final report.

The second project, the Statistical Assisted Programme Selection (SAPS), aimed at helping advisors in the Regional Employment Offices (REO) to place job-seekers in an appropriate programme. In 2005, a pilot study was conducted in 21 REO offices. In the framework of this study, randomly selected advisors were provided with individual-specific expected employment outcomes for their clients via an internet-based expert system developed by us. This pilot study was continuing through to December 2005. In 2007, we investigated how the selection of active labour market measures was influenced by SAPS. We did not find any significant differences in the choice of measures between caseworkers who had access to SAPS and the control group. We also compared the average employment rates of the two groups of clients, not finding any differences either.
2. Active Labour Market Policies in Germany

In January 2007, Prof. Dr. MICHAEL LECHNER and CONNY WUNSCH completed a research project which had been conducted on behalf of the Institute for Employment Research of the German Federal Employment Agency. Using micro-econometric techniques and extensive administrative micro-data sets, the project studied the effects of various nationwide vocational education measures on the success of finding employment in Germany for participants in such programmes. The results obtained for programmes conducted in the period 2000-2002 show the typical negative short-run employment effects (so-called lock-in effects) for all programme types we analysed. However, even in the medium run (after 2.5 years) none of the programmes exhibited significant positive effects on employment.

In August 2007, a successor project started which is carried out in cooperation with the Research Data Center of the Institute for Employment Research. Prof. Dr. MICHAEL LECHNER, CONNY WUNSCH, MARTIN HUBER and THOMAS ADAMS investigate the value of firm data for the evaluation of active labour market policies in Germany. For this purpose, previously used individual-level process data of the Federal Employment Agency is combined with different information on firms.

A third project already started in the last quarter of 2006. This project is conducted on behalf of the Federal Ministry for Labour and Social Issues in cooperation with the ZEW, the IAT and TNS Emnid. It focuses specifically on German welfare recipients (so-called Hartz-IV recipients). Prof. Dr. MICHAEL LECHNER, CONNY WUNSCH and MARTIN HUBER analyse the effectiveness of different activation measures, case management concepts and counselling strategies for this specific target group.

3. Active Labour Market Policies in Austria

As of May 2005, we had been conducting an evaluation study in direct co-operation with the Austrian Federal Ministry for Economics and Labour (BMWA). STEPHAN WIEHLER was a key member of this research group headed by Prof. Dr. MICHAEL LECHNER. Using administrative data and modern micro-econometric methods, this project concentrated on the question whether different forms of programmes for different types of participants can lead to different effects on employment or salary, for example. The results indicate that effects not only depend on the programme type, but also on gender, age group and education of the participants. This project is now completed. The findings have been discussed with the Austrian government and the resulting research papers are currently in the usual review processes at international journals.

D) Major Publications


