



Research Unit Public Finance, Social Security Systems, Income and Wealth Distribution

Our Topics

If we are to solve the challenges facing our society, such as public debt crisis and demographic change, first of all we need a sound theoretical and empirical analysis of public budgets and social insurance systems. Responding to this need, the researches of the unit 'Public Finance, Social Security Systems, Income and Wealth Distribution' examine the fiscal consequences of specific government policies, analyse the incentive and distribution effects for companies and private households and evaluate governmental redistribution policies.

Our aim is to develop ideas for effective long-term financial policies and reliable and efficient social insurance coverage for the major risks in life such as old age, illness and long-term care. In the European context this requires a profound analysis of the Member States' regulatory framework in order to understand interdependencies between varying national subsystems.

Our Findings

Social Security Systems

The ageing of the European population will have a considerable impact on the sustainability of the Member States' pay-as-you-go financed social security schemes. Therefore, it is important to focus on long-term scenarios when reforming social security systems like old age provision or health care.

In our study about the demographic challenge for the Member States' public pension schemes we put an emphasis on the nation-specific elements of old age provision. As they differ in various aspects, we argue that pension policy should remain a national issue. However, the Commission's reporting can encourage transparency and

might help to induce necessary debates within the Member States.

Pay-as-you-go financed health insurance schemes will suffer from demographic change as well. It is therefore particularly important to leverage efficiency reserves e. g. by cross country healthcare. A reason why this is used so little is that Member States' health systems have been focused on national level until now instead of making full use of the healthcare infrastructure within the common market.

Healthcare Industry / German Pharmaceutical Industry

Demographic change is not only a matter of social security systems but also of safe-guarding Germany's ability to attract business investment. With this in mind, the unit 'German Pharmaceutical Industry' investigates location criteria for the health industry in Germany, taking the pharmaceutical sector as an example.

Income and Wealth Distribution

Using European microdata we have analysed the redistributive effects of levies and monetary social transfers in Germany and other EU Member States. The results indicate that the incidence of income redistribution in Germany is significantly above average. Whereas Western Europe, Scandinavia and certain Eastern European countries have a high degree of redistribution, in the Baltic States and the countries of Southern Europe the level is significantly lower.

Public Finance and Tax Policy

Besides the public debt crisis, the issue of profit shifting is a case of major importance for international tax policy. Tax competition makes it possible for multinational enter-

prises subject to taxation in different countries to minimise their tax burden.

Keeping this in mind, unfair tax competition is not only a phenomenon of small islands in the Caribbean Sea. 14 member states of the EU offer multinational companies so called preferential tax regimes for income derived from intellectual property, i.e. trade marks, licenses and patents. These patent or license boxes have mainly emerged in the past decade.

Tax discounts in Europe

Tax rates in percent, 2016

	General corporate tax rate on profits	Reduced corporate tax rate on profits derived from licenses and patents
Italy	31.4	15.7
France	35.4	15.5
Portugal	22.5	11.3
Hungary	20.6	10.3
Spain	25.0	10.0
UK	20.0	10.0
Switzerland	12.7	8.9
Belgium	34.0	6.8
Ireland	12.5	6.3
Luxembourg	29.2	5.8
Netherlands	25.0	5.0
Cyprus	12.5	2.5
Liechtenstein	12.5	2.5
Malta	35.0	0

Note: Tax rates including local taxes; Switzerland: Canton Nidwalden.

Source: German Federal Ministry of Finance, EY, Canton Nidwalden

The EU Commission's initiative on harmonising taxation of multinational enterprises in Europe comes in time. However, reflecting these findings there is only a low incidence of tax avoidance in Germany.

Selected publications

Beznoska, Martin / Hentze, Tobias, 2017, Demographic chance and income tax revenue in Germany: a microsimulation approach, Public Sector Economics, vol. 41, no. 1, 2017, p. 71-84

Beznoska, Martin / Hentze, Tobias, 2016, Tax Policy – The Fiscal Revenue Effects of International Tax Planning, IW-Kurzbericht 25/2016, Cologne

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Kochskämper, Susanna, 2017, Why is it used so little? National hindrances to cross-border healthcare in the EU, IW policy paper 4/2017, Cologne

Kochskämper, Susanna (in cooperation with Demary, Markus), 2017, A new chance for private pension saving? IW-Kurzbericht 54/2017, Cologne

Kochskämper, Susanna / Pimpertz, Jochen, 2015, Live Long and Prosper: Demographic Change and the Political Implications of Europe's Pension Crises, Wilfried Martens Centre for European Studies (publisher), Brussels

Stockhausen, Maximilian (in cooperation with Neidhöfer, Guido), 2018, Dynastic Inequality Compared – Multigenerational Mobility in the US, the UK and Germany, Review of Income and Wealth, forthcoming

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