

## **Strukturierte Kreditprodukte und die Finanzkrise 2007**

*Luise Breinlinger/Ines Fortin*

**JEL-No: G01, G15, G24**

Das außerordentliche Wachstum des strukturierten Kreditgeschäfts veränderte das Finanzsystem. Es förderte die Disintermediation und dürfte Auswirkungen auf das aggregierte Kreditangebot gehabt haben. Seit Ausbruch der Finanzkrise im Sommer 2007 steht der strukturierte Kreditmarkt in deren Zentrum. Seine Schwächen, die verbunden waren mit Risikoquantifizierung, Risikomanagement und Anreizproblemen, wurden von der Krise unterstrichen bzw ans Licht gebracht. Zur Ableitung einiger praktischer Risikomanagement-Implikationen untersuchen wir – gegeben deren Bedeutung für die Risikoquantifizierung – im zweiten Teil ein empirisches Beispiel zu Abhängigkeitsmustern. Wir demonstrieren, dass Credit Spread Abhängigkeiten während der Krise teilweise dramatische Anstiege aufwiesen, und dass die Notwendigkeit zur adäquaten Berücksichtigung gemeinsamer extremer Spread Bewegungen besteht, welche im Rahmen konventioneller Schätzungen nicht erfolgt. Verbesserte Risikomess- und -managementstandards können zur Verringerung der Friktionen im strukturierten Kreditmarkt beitragen.

## **Reform of Financial Supervision and Monetary Policy from an Austrian Economics View-point**

*Karl Socher*

**JEL-No: G01, G21, G24, G18, G28, E46, E58, E32**

According to the views of Austrian Economics financial crisis are caused by state failures. The state has not fulfilled its tasks or has intervened too much. The necessary task for the state for the financial market is the protection of private property and the transactions, i.e. for protection of savings, without intervening in the transaction. For deposit banks, an additional state task is the protection of the whole payments system against systemic shocks like bank-runs. Therefore, money-creating deposit banks have to be better protected against high risks than the other financial market and investment banks. Therefore, it is proposed to (re-)introduce the separation principle of the Glass-Steagall act between deposit and investment banks.

Monetary policy may have learnt from the experiences of the crisis of 2000 and 2008 and should act already against overheating in the asset markets.

## **Financial Fragility and Crises in Post-Transition Countries**

*Hubert Gabrisch*

**JEL-No: E51, G21, P34**

Contagion was only the trigger of the unexpectedly severe crisis in European post-transition countries. Rather, increasing financial fragility of the countries since 2001, after their banking and financial sector was overtaken by international financial institutions, was the origin. Euphoric expectations induced an asset price inflation followed by an increasing debt burden of the private sector, which was fueled by net capital inflows. This study argues that simple concepts of demand reduction do not offer any way out of the crisis. A second transition is necessary, which establishes a new growth model being robust against speculative capital flows and offering high growth rates.

## **The Crisis, Banks, and Monetary Policy: Selected Aspects of an Interim Crisis Assessment in Year t+2**

*Peter Mooslechner*

**JEL-No: E32, E5, G2**

The first signs of an emerging international financial crisis became apparent in early August 2007. This crisis – the most severe economic downturn since World War II – has long since reached the real economy. While the current situation cannot be compared with the developments from 1929 to 1933, today – like then – many questions remain unsolved and economic policy solutions are urgently needed. Taking stock of developments in the year t+2, this contribution focuses on three aspects: the characteristics of the crisis, the role of the banking system, and the monetary policy response. Overall, economic policy responded quickly and correctly to the crisis, which was primarily triggered by developments associated with financial market structures. This is why at present, stabilizing the financial system and reducing real economic repercussions are the top priorities. At the same time, however, it is also imperative that we develop better structures that will reduce the vulnerability of our economic system.

## **Socio-psychological Pitfalls and the Financial Crisis**

*Henning Klodt*

**JEL-No: G 150, A 120**

Traditional economic theory has tried to explain speculative bubbles as the result of rational economic behavior – and has failed. This calls for the integration of socio-psychological patterns, which allow capturing irrational behavior in economic analyses. The paper suggests four fundamental psychological pitfalls derived from the theory of cognitive dissonance, which might be at the roots of the present financial crisis and which should better not be ignored by monetary policy makers.

## **The big crises – diagnosis and therapy**

*Stephan Schulmeister*

**JEL-No: N1, N2, P1**

Within 18 months a mortgage crisis in the US has turned into a deep crisis of the world economy. This process was driven by the simultaneous devaluation of stock wealth, housing wealth and commodity wealth. The potential for the decline of the respective asset prices had been “built up” during the boom of these prices between 2003 and 2007. The “long swings” of all kinds of asset prices represent a characteristic feature of “finance capitalism”, i. e., that system which has shaped economic development over the past 35 years. Hence, the current crisis represents also a crisis of this system as a whole. The characteristics of “finance capitalism” are in marked contrast to those of “real capitalism”, i. e., that regime which shaped the first half of the post-war period. Finally, the paper presents some measures to mitigate the current crisis in a small economy like Austria.

## **Lehren aus der Finanzkrise – Liegt die Ursache bei nationaler Aufsicht von internationalen Märkten?**

*Lucia Fasiangova/Peter R. Haiss*

**JEL-No: E58, F33, F36**

Domino- und Ansteckungs-Effekte haben die Finanzkrise in die Europäische Union hineingetragen. Während grenzüberschreitende Kapitalflüsse und die internationale Inte-

gration von Finanzmärkten und Marktteilnehmern stark stiegen verblieb die Aufsicht eher auf nationalem Niveau. War diese Diskrepanz zwischen Finanzströmen und Finanzaufsicht ein Katalysator oder Auslöser der Finanzkrise? Auf Basis ausgewählter Literatur und deskriptiven Daten diskutieren wir, inwieweit das Fehlen einer grenzüberschreitenden Finanzmarktaufsicht zur Ausbreitung der Finanzkrise auf die Europäische Union beigetragen hat. Wir sehen in der Schaffung des Europäischen Systems der Finanzmarktaufsicht einen wesentlichen Schritt in die richtige Richtung und schlagen Stakeholder Analyse als geeignete Methode vor, um mögliche Interessenskonflikte zwischen Zielen auf EU- und nationaler Ebene auszugleichen.

## **The Dutch Disease in Financial Intermediation: Is Schumpeter's Banker Sick with Involution?**

*Cord Siemon*

**JEL-No: O16, G24**

Based on an evolutionary approach and according to Schumpeter's theory of economic development, the goal of this article is to shed light on the connection between innovation, financial capital and entrepreneurial activity. Thus, "financial entrepreneurship" will be discussed as the key to overcoming problems of variety as a result of market and behavior risks. Empirically, entrepreneur's early stages are mainly dominated by "bootstrap-finance" and the informal market of venture capital ("business angels"). In this context, the role of money and the process of raising funds has caused some controversy; eg Schumpeter's thesis that the "genuine banker" takes over the role as a financier of innovation (and start-ups) has found no empirical support. The volume of venture capital has risen in the last decades – not least because of economic incentives given by economic policy. However, formal venture capital and bank intermediaries have lost their capabilities to finance seed and start-up stages more and more. This 'involutionary' effect can be regarded as "Dutch Disease of Financial Intermediation". Thereby, this article can be viewed as an evolutionary contribution to a theory of financial intermediation giving answers to questions of utmost importance: Why do financial intermediaries exist at all? How do they act under certain conditions?

## **Mid term problems in the Austrian central government budget**

*Gerhard Lehner*

**JEL-No: H68**

The article analyses the medium term developments in the Austrian Central government budget up to 2013. It is based on the „Bundesfinanzrahmengesetz“, which passed the Parliament some weeks ago, and the „Strategy report“ to this law. It determines limits for the expenditures of the central government for the period 2009/2013. The paper describes some important components of expenditures (social affairs, education, interest on public debt). The strategy report shows that the deficits in the budget will increase considerably in the next years and it will be necessary to reduce it after the crisis. The consolidation has to include the total public sector. The target must be to widen the manoeuvre room in the budgets for the future.

## **Critical successfactors for a more principal-based insurance supervision according to proportional principle**

*Wolfgang Bach/Tristan Nguyen*

**JEL-No: G22, G28, K23**

As a reaction to the worldwide financial crisis, there is an intensive discussion at a national and international political level about how to regulate financial markets more strictly. For the insurance industry these discussions take place in the reform of the European insurance supervision within the ongoing Solvency-II project. While the present insurance supervision in Germany is based predominantly on prescriptive rules, the Solvency-II system stands for a supervision approach which formulates supervision specifications as principle-based requirements. In this context, the principle of the proportionality plays an important role.

Supporters of a more principle-oriented supervision refer particularly to the greater flexibility compared to a rigid rule-based regulation. On the other hand, critical voices claim that principles represent a weaker form of regulation. Due to this apparent disagreement, we try to explain the characteristics and implications of a principle-based supervision. In order to have the desired success within the principle-based supervision, it is important that supervision and supervised insurance firms should have a largely similar basic understanding over the essential aspects for the classification of risk profiles and those solutions which are regarded as adequate for a specific profile.

## **Suggestions for Improving Municipal Debt and Risk Management in Austria**

*Bernhard Grossmann*

**JEL-No: H63, H72, E62**

This article presents the framework for municipal debt and risk management, estimates the level of risk involved in selected municipalities' debt, and portrays the different demands placed on municipal debt management by municipal size. Furthermore, it presents suggestions for improving municipal debt and risk management that are based on the legal and institutional framework in place (authorizations issued by the supervisory bodies of local authorities) and identify a need to regulate financial legal transactions, ways to improve authorization procedures, and options for cooperation between municipalities and the Austrian Federal Financing Agency.

## **Open Innovation as a new model for Innovation: Evidence from Austria**

*Bernhard Dachs/Karl Heinz Leitner*

**JEL-No: O310, O330**

Open Innovation (Chesbrough, 2003) has become a popular notion in innovation and technology management in recent years. As a part of this strategy, Chesbrough assumes that enterprises increasingly open their innovation processes and acquire ideas for new technologies and products from various external sources. This article examines if there is empirical evidence that Austrian enterprises have indeed intensified external search processes and increasingly pursue Open Innovation strategies.

A comparison of results from the Community Innovation Survey over the last 12 years reveals that Austrian enterprises increasingly appreciate external information and knowledge sources for innovation. This change, however, proceeds at a very slow pace. The share of co-operating enterprises remained unchanged for most of the observation pe-

riod and only rises since 2002/04. Customers, clients and competitors are the most important external information and knowledge sources for Austrian enterprises. The role of universities, in contrast, is stagnating.

The average Austrian enterprise has increased the frequency, but also the width of external search by entering co-operations with a broader range of partners. More co-operations with one type of partner did not reduce co-operation with other types of partners. The expansion of external co-operation, however, is limited to domestic partners; the share of co-operation with partners from abroad has changed only little in the last 12 years.

## **The relation between Innovation and Productivity – An Analysis of Austrian Innovation survey Data in an International Comparison**

*Martin Berger*

**JEL-No: D2, J24, O31**

Within the context of an OECD project a working group of 18 countries – including Austria – enquired the relationship between innovation and productivity using micro data from innovation surveys. Thereby, four key questions have been raised: Which factors determine a) the decision of a company to carry out innovation activities, b) the level of its innovation expenditure, c) the size of its innovation output and d) the level of its labour productivity. In order to answer these questions a three stage four equation model has been implemented taking account of selection bias and endogeneity problems. The empirical results show a positive relationship between (product) innovation and labour productivity in all countries: International oriented and large firms that belong to a group have a higher probability to be innovative and display higher innovation expenditures. Moreover, public financial support for innovation and the participation in innovation collaborations result in higher innovation expenditure. The investment in innovation has a positive impact on the turnover with new products, which itself is positively related to labour productivity. Counter intuitively, process innovations do not have an impact on labour productivity.

## **The effect of patents on the subsequent corporate performance**

*Jörg Mahlich*

**JEL-No: O32**

Using panel data of a sample of European pharmaceutical companies, this paper discusses the effect of international patents on subsequent corporate performance. Our empirical result suggests that patent applications have a positive impact on sales growth with a time lag of two to three years. The results are in line with the reviewed literature.

## **The Austrian Tax Reform of 2009 – An analysis of the distributional effects**

*Nicole Höhenberger/Silke Höserle*

**JEL-No: H24, H23**

The Austrian tax reform of 2009 became effective retroactively from January 2009 on and comprises tax relieves totaling 3.2 billion,-. About three-quarter thereof stem from

changes in income taxation. This survey analyses the main characteristics of the new income tax tariff and describes its distributional effects. Moreover it examines to what degree the tax reform 2009 compensates the phenomenon of „cold progression“.