ABSTRACTS 1/2010

Vision of the future of the welfare-state

Gerd Habermann **JEL-No: A13**

The essay demonstrates the social and economic structures that evolve from the ideas of the welfare state. The rule of a certain idea of man is given attention. The result is a to a large extent stabilized society, which however therefore lacks in vitality. Through the erosion of the market economy and the monopolization of "social aspects" by the state the welfare state tends to be self-destructive, even demographically. The present far-reaching financial crisis could accelerate this development, but it also offers a chance for a fundamental rebound.

The future of the welfare state – parting from illusions?

Norbert Berthold **JEL-No: F02, H50, I30**

Globalisation is a major driver of economic growth. Moreover it accelerates the structural change of economies. In the course of this development market participants face the need of more flexibility and an increase of individual risk. In this paper I argue that the primary target of the welfare state still is to provide equity. This can only be accomplished by increasing its efficiency. Therefore the welfare state should focus on its core competences. The provision of social security should be left to the market. The Nordic countries prove that it is possible to combine equity and efficiency in an open economy.

The future of the welfare-state

Wolfgang Weigel **JEL-No: K20, K31, I38**

The dynamics of the welfare-state is not only reflected in the level, the distribution and the structure of public expenditures. Because of the predominant role of government legislation ought to be encompassed as well. Law and Economics provides appropriate tools for both, the analysis of performance and the design of legal norms.

The paper highlights particularly problematic fields of the welfare state and gives an outline of the application of both the economic analysis of law and the close relative, regulatory impact analysis.

"Useful Illegalities" in Corporations from a Law and Economics Perspective

Martin Gelter/Kristoffel Grechenig **JEL-No: K22, K42**

Entrepreneurship sometimes involves violations of legal norms, such as parking prohibitions. According to the prevailing view in the legal literature, the agent or manager (and not the company) is required to bear the costs, even if the activity was beneficial ex ante for the company. This approach is problematic from a social welfare perspective. Since the company and its owners keep the benefits, they have an incentive to choose the optimal activity level only if they also bear the costs. Thus, for any violation of a law that seeks to internalize negative externalities, the fine should be borne by the firm. If the manager is required to pay the fine, the activity level will drop below the optimal amount. This argument has been well understood for a breach of contract, where courts and legal commentators generally accept that the company (and not the manager) has to pay damage awards to the counterparty.

Investment in education for a sustainable welfare state? Austria and Germany compared

Arne Leifels/Johannes Vatter **JEL-No: H52, H68, J18**

Inspite of incisive reforms during the last decade sustainability of social security systems is far from accomplished, neither in Germany nor in Austria. The large post-war cohorts will reach retirement age within the next thirty years, succeeded by a continually shrinking labour force. As a means to alleviate this demographic pressure on social security systems, investment in education is widely perceived to have promise – improving productivity and risk behaviour. There is, however, hardly any time left to tackle the problem through this distinctly preventive channel. While Austria has been allocating more resources to various branches of the education system for some time, Germany in particular must act quickly. Yet both countries need accompanying structural education reform and further adjustment of their pension systems to realise the possible returns to education investment.

Russian FDI

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In transition period Russian Federation became one of the major world exporters of capital mainly of foreign direct investments (FDI). Until the beginning of the 21st century Russia was net importer of capital and mostly illegal. But in the current decade the situation has fundamentally changed. Some Russian companies as transnational corporations (TNC) and transnational banks (TNB) have made large foreign direct investments abroad and mainly outside of the post-Soviet space (countries of the Commonwealth of independent space usually are unofficially called “near abroad”). Most of them are extractive industry companies. That is an important indice of the well-known structural problem of Russian economy. But Russian business community especially big companies aim their FDI not only to expand but also sectorally and regionally to diversify. The article illustrates the scope, dynamics, sectoral and country structure, evolution, trends and perspectives of FDI in Russia. So Russian TNC and TNB can be regarded as actual and potential investors of FDI.

Debt to Asset Ratios in Europe: A Cross-Country Comparison based on Firm Level Data

Matthias Stöckl **JEL-No: G32, H25, H32**

The equity capitalization of Austrian companies is often criticized for being insufficient to guarantee financial security especially in times of financial distress. This paper contributes to this debate by comparing debt to asset ratios in 24 European countries. Additionally, we examine if the reductions in the nominal corporate tax rates implemented

over the last years in 17 European countries were accompanied by an increase in the share of equity financed investments as hypothesized by trade-off-theory. The empirical analysis builds on a sample of 457.000 European firms as compiled by the AMADUES-database. The results can be summarized as follows. Capital structures of Austrian firms are broadly in line with other European countries contradicting the notion of Austrian firms relying excessively on debt to finance investment. Furthermore, we find that the majority of countries which lowered the corporate tax rate saw also a reduction in the average debt to asset ratio backing theoretical expectations.