

11th Workshop on Political Economy

From 1/12/2017 to 2/12/2017 in Dresden

Organizers

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Jointly organized workshop by CESifo, the Center of Public and International Economics (CEPIE) at the TU Dresden and the ifo Institute – Leibniz Institute for Economic Research, Branch Dresden.

Conference venue

ifo Dresden
Einsteinstraße 3
01069 Dresden
Germany

Program

Friday, 1 December 2017

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|---------------|---|
| 12.45 – 13.00 | Welcome Address |
| 13.00 – 18.00 | Working Group Sessions |
| 18.15 – 19.15 | Keynote Lecture
MARTIN PALDAM (Aarhus University) |
| 20.00 | Conference Dinner |

Saturday, 2 December 2017

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| 09.30 – 12.00 | Working Group Sessions |
| 12.15 – 13.15 | Keynote Lecture
TOKE S. AIDT (University of Cambridge) |
| 14:00 – 14:15 | Poster Session |
| 14.15 – 15.00 | Working Group Sessions |
| 15.00 | End of Conference |



Brandenburg
University of Technology
Cottbus - Senftenberg



Welcome Address

12.45 - 13.00 CHRISTIAN LESSMANN (TU Braunschweig)

Working Group Sessions 1 and 2

- 13.00 - 14.30 **Regulation** (room 1.5) **The Effect of Interest Group Pressure on Regulatory Decisions**
 THOMAS STRATMANN (George Mason University)
Discussant: Felix Grey (University of Cambridge)
- The Making of Financial Regulation - Voting on the U.S. Congress**
 JOAO RAFAEL CUNHA (University of Cambridge)
Discussant: Tim Sofke (TU Braunschweig)
- Electoral Cycles** (room 1.7) **Power Politics: Electoral Cycles in German Electricity Prices**
 TILL STOWASSER (LMU Munich)
Discussant: Katharina E. Hofer (University of St.Gallen)
- The Dark Side of Tax Progressivity: The Impact of Fiscal Flexibility on Tax Manipulation**
 TOMMASO GIOMMONI (Bocconi University)
Discussant: Rossana Merola (International Labour Organization)

Coffee Break

Working Group Sessions 3 and 4

- 14.45 - 16.15 **Bargaining** (room 1.5) **Dynamics of the Market for Corporate Tax-Avoidance Advice**
 KAI A. KONRAD (Max Planck Institute for Tax Law and Public Finance)
Discussant: Thomas Stratmann (George Mason University)
- Corporate Lobbying for Environmental Protection**
 FELIX GREY (University of Cambridge)
Discussant: Marcel Thum (TU Dresden)
- Resource Curse** (room 1.7) **Is there a Fiscal Resource Curse? Resource Rents, Fiscal Capacity and Political Institutions**
 ANTONIO SAVOIA (University of Manchester)
Discussant: Martin Gassebner (Leibniz University Hannover)
- More Oil, Less Quality of Education? New Empirical Evidence**
 MOHAMMAD R. FARZANEGAN (Philipps-Universität Marburg)
Discussant: Jonathan Old (ifo Dresden)

Coffee Break

Working Group Sessions 5 and 6

- 16.30 - 18.00 **Corruption** (room 1.5) **Typology of Dictatorship, Corruption, Revolution and Economic Reforms**
 ELISE S. BREZIS (Bar-Ilan University)
Discussant: Till Stowasser (LMU Munich)
- Corruption and the Shadow Economy: Friends or Foes?**
 OGUZHAN DINCER (Illinois State University)
Discussant: David Bauer (ifo Dresden)
- Democratic Institutions** (room 1.7) **Culture, Diversity, and the Welfare State**
 KLAUS GRÜNDLER (University of Würzburg)
Discussant: Sandra Achten (TU Braunschweig)
- Machine Learning Indices, Democratic Institutions, and Economic Growth**
 TOMMY KRIEGER (University of Konstanz)
Discussant: Ilari Määttä (TU Braunschweig)

Coffee Break

Keynote Lecture I

18.15 - 19.15 **What do we know about the democratic transition?**

(room 1.5)

MARTIN PALDAM (Aarhus University)

Chair: Christian Lessmann (TU Braunschweig)

20.00 Conference Dinner at the Restaurant "Radeberger Spezialausschank"

Saturday, 2 December 2017

Working Group Sessions 7 and 8

09.30 - 10.15 **Trade Policy** **Politicized Trade: What Drives Withdrawal of Trade Preferences?**

(room 1.5)

MARTIN GASEBNER (Leibniz University Hannover)

Discussant: Sofia Tsarsitalidou (University of Ioannina)

Regional Favoritism

(room 1.7)

Multilateral Lending to European Regions: Who Gets the Funds and What are the Effects?

ZAREH ASATRYAN (ZEW Mannheim)

Discussant: Maddalena Davoli (Goethe University Frankfurt)

Coffee Break

Working Group Sessions 9 and 10

10.30 - 12.00 **Refugees** **Not Welcome Anymore: The Effect of Electoral Incentives on the Reception of Refugees**

(room 1.5)

MATTEO GAMALERIO (University of Warwick)

Discussant: Max Viskanic (Sciences Po Paris)

Dismantling the "Jungle": Refugee Relocation and Extreme Voting in France

MAX VISKANIC (Sciences Po Paris)

Discussant: Matteo Gamalerio (University of Warwick)

Institutional Reform

(room 1.7)

Institutional Reform and Depositors' Portfolio Choice Evidence from Bank Account Data

MICHAEL BERLEMANN (Helmut Schmidt University Hamburg)

Discussant: Burak Erkut (TU Dresden)

Financial Literacy and Education: Evidence from the German Reunification

JIA HOU (Goethe University Frankfurt)

Discussant: Jan Schnellenbach (BTU Cottbus-Senftenberg)

Coffee Break

Keynote Lecture II

- 12.15 - 13.15 **Conflict, Mass-mobilization and Political Expedience: Democratization in Oligarchies**
(room 1.5)
TOKE S. AIDT (University of Cambridge)
Chair: Gunther Markwardt (TU Dresden)

Lunch Break

Poster Session

- 14.00 - 14.15 **Poster 1** **Identifying Covariates of State Repression in the Presence of Model Uncertainty**
(room 1.5)
MARTIN ROESSLER / PATRICK ZWERSCHKE (TU Dresden / TU Dresden)
- Poster 2** **Political Borders**
(room 1.5)
PAUL SCHAUDT (Leibniz University Hannover)

Working Group Sessions 11 and 12

- 14.15 - 15.00 **Civil Liberties** **Do Sanctions Lead to a Decline in Civil Liberties?**
(room 1.5)
ANTONIS ADAM (University of Ioannina)
Discussant: Paul Schaudt (Leibniz University Hannover)
- Monitoring** **Shirk or Work? On How Legislators React to Monitoring**
(room 1.7)
KATHARINA E. HOFER (University of St.Gallen)
Discussant: Oguzhan Dincer (Illinois State University)

Keynote Lectures

Friday, 1 December 2017, 18.15 – 19.15, Room 1.5

What do we know about the democratic transition?

MARTIN PALDAM
(Aarhus University)

Saturday, 2 December 2017, 12.15 – 13.15, Room 1.5

Conflict, Mass-mobilization and Political Expedience: Democratization in Oligarchies

TOKE S. AIDT
(University of Cambridge)

Working Group Sessions

Friday, 1 December 2017, 13.00 – 14.30, Room 1.5

The Effect of Interest Group Pressure on Regulatory Decisions

STEVEN MONAGHAN / THOMAS STRATMANN

George Mason University / George Mason University

Certificate of Need (CON) laws currently prohibit entry or expansion of health care facilities in 35 states and the District of Columbia. In a lengthy process, medical providers must prove to regulators that their new services and equipment are needed. Medical providers, who succeed, are effectively guaranteed market power, and thus are able to acquire economic rents. These economic rents create an incentive for medical providers to engage in rent seeking. Using recent data from Georgia, Michigan, and Virginia, we examine whether political campaign contributions made by medical providers affect the likelihood of their CON proposals being approved. Our results are among the first to consider the effect of campaign contributions on industry regulation.

Keywords:

JEL Classification:

The Making of Financial Regulation – Voting on the U.S. Congress

JOAO RAFAEL CUNHA

University of Cambridge

This paper studies the voting patterns of congressmen on financial regulation between 1991 and 2014. It uses the most comprehensive dataset ever assembled on campaign contributions from the financial sector and it is the first study taking a long-term perspective and that controls for the business cycle. It shows that campaign contributions are the strongest driver of congressional voting.

Keywords: financial regulation; political economy

JEL Classification: G2, G28, D72, P16

Friday, 1 December 2017, 13.00 – 14.30, Room 1.7

Power Politics: Electoral Cycles in German Electricity Prices

FLORIAN ENGLMAIER / ELISABETH HINREINER / ANDREAS ROIDER / **TILL STOWASSER**

LMU Munich / University of Regensburg / University of Regensburg / LMU Munich

We provide evidence that German public energy providers, over which municipality-level politicians hold substantial sway, systematically adjust the pricing of electric energy in response to local electoral cycles. In the run-up to elections, electricity prices set by these public utilities systematically decrease compared to the prices set by privatized utilities which are unconnected to local politicians. In the three years after an election, public utilities set relatively higher prices than private energy providers. This pattern is in line with both, an artificial reduction in prices before an election that needs to be countermanded by future price increases, and an artificial postponement of market-driven price increases until after the election is over. To establish these results, we make use of a unique and novel dataset that covers the universe of German electricity prices between 2003 and 2013. Identification of the electoral cycle in electricity prices is facilitated by the rich variation in municipal elections dates and the existence of a comparable group of non-public utilities. Our results suggest that government-controlled firms may represent a viable alternative to – often unavailable – standard public-finance instruments for local politicians to influence their popularity before elections.

Keywords: regulated industries, local government, political business cycles, political connectedness, public utilities, energy markets, government ownership of firms

JEL classification: D72, D73, H44, H72, H76, K23, L33, L94

The Dark Side of Tax Progressivity: The Impact of Fiscal Flexibility on Tax Manipulation

TOMMASO GIOMMONI

Bocconi University

The goal of this paper is to study the impact of tax progressivity on the practice of political budget cycle, at the municipal level. In particular, we explore whether an increase in fiscal flexibility, i.e. the capacity of decision-maker to set different tax rates to distinct groups of tax-payers, leads to higher levels of tax manipulation. We exploit an Italian reform of the local personal income tax (PIT), flat before the intervention, allowing mayors to introduce different tax rates for distinct groups. We take advantage of the staggered timing of local elections to estimate a Diff-in-Diff model and we find that the reform consistently amplifies political budget cycle of local PIT: average preelectoral tax rate declines by around 10% compared to tax mean. Furthermore, we estimate a Triple-Diff analysis where we use (pre-determined) income concentration level as a reform mediator and main results are confirmed. In terms of mechanisms, it emerges that flexibility plays a crucial role as mayors strategically increase it before elections and that politicians seem to play different strategies with diverse wage groups as high income rates are subject to larger manipulation than moderate ones. These results reveal a negative side of fiscal flexibility as it may lead to higher level of tax manipulation with larger amount of diverted public resources.

Keywords:

JEL classification:

Friday, 1 December 2017, 14.45 – 16.15, Room 1.5

Dynamics of the market for corporate tax-avoidance advice

KAI A. KONRAD

Max Planck Institute Munich

This paper studies the dynamics of the market for corporate tax avoidance products with tax accounting firms that may innovate new tax-avoidance products and other firms that may imitate these products with some time lag. The government can regulate and implement effective anti-avoidance regulation, also with some lag. A moderate regulatory time lag may lead to a stationary equilibrium with innovation and regulation in each period. An even larger regulatory time lag may lead to an equilibrium with fluctuations. Periods with much tax avoidance at low prices and no innovation interchange with periods with a moderate level of tax avoidance, much innovation, high profits in the accounting sector, and regulatory activity. The equilibrium analysis highlights the existence of synergies between highly innovative tax accounting firms and governmental tax regulation, with the innovative tax-accounting firms benefitting from governmental regulation.

Keywords: corporate taxation, tax avoidance, anti-tax-avoidance regulation, innovation, competition among tax accountants

JEL classification: M48, H26

Corporate lobbying for environmental protection

FELIX GREY

University of Cambridge

Much of the time, firms lobby against environmental protection, but there are major exceptions to this rule. DuPont, the leading ozone polluter in the 1980s, lobbied for a complete ban of its product. In 2015, in the run up to the Paris Agreement, Europe's six largest oil and gas companies lobbied for a global carbon price. This kind of political support is often pivotal for governments trying to protect the environment. I offer an explanation for this phenomenon, suggesting firms behave as they do in order to steal market share from their rivals. I develop a simple model in which a polluting firm makes a clean technology investment and then lobbies successfully for strong environmental protection, since this will shift market share away from its rival who has not made the clean investment. The key result is that there are situations where it is only because of firms' lobbying that environmental protection is achieved, and this raises welfare.

Keywords: lobbying, environmental policy, political economics

JEL classification: D72, H23, Q58

Friday, 1 December 2017, 14.45 – 16.15, Room 1.7

Is there a Fiscal Resource Curse? Resource Rents, Fiscal Capacity and Political Institutions

TANIA MASI / **ANTONIO SAVOIA** / KUNAL SEN

University of Milano-Bicocca / University of Manchester / University of Manchester

While several studies have focused on the effect of natural resources on economic development, less attention has been paid to their effects on other development outcomes. We contribute to this literature by studying the impact of resource rents on fiscal capacity, i.e., the ability of states to raise revenues from broad tax bases. We posit that natural resource rents reduce the incentives to invest in fiscal capacity. However, political institutions that limit the power of the executive, by reducing rulers' discretion over the use of resource revenues, may mitigate, neutralise or reverse such negative effect. We provide empirical support for this hypothesis using panel methods covering the period 1981-2011 and 98 developing countries. Moreover, we show that the effect of resource rents is likely to work mainly through institutions that make the tax system accountable and transparent to the citizens.

Keywords: state capacity, fiscal capacity, resource curse, institutions, economic development

JEL classification: O4, P5, N4

More Oil, Less Quality of Education? New Empirical Evidence

MOHAMMAD REZA FARZANEGAN / MARCEL THUM

Philipps-Universität Marburg / Technische Universität Dresden

The resource curse hypothesis suggests that resource-rich countries show lower economic growth rates compared to resource-poor countries. We add to this literature by providing empirical evidence on a new transmission channel of the resource curse, namely, the negative effect of rents on the quality of education. The cross-country analysis for more than 70 countries shows a significantly positive effect of oil rents on the quantity of education measured by government spending on primary and secondary education. Hence, the underspending hypothesis championed by Gylfason (2001) no longer holds with newer data. However, we find a robust and negative effect of oil rents dependency on the current objective and subjective indicators of quality of education, controlling for a set of other drivers of education quality and regional dummies. Despite spending significant shares of GDP on education, oil-rich countries still suffer from an insufficient quality of primary and secondary education, which may hamper their growth potentials. The significant negative effect of oil rents dependency on education quality can be explained by both the demand (e.g., skill acquisition) and supply (e.g., teacher quality) side channels.

Keywords: oil rents, resource curse, quality of education, quantity of education

JEL classification:

Friday, 1 December 2017, 16.30 – 18.00, Room 1.5

Typology of Dictatorship, Corruption, Revolution and Economic Reforms

ELISE S. BREZIS

Bar-Ilan University

The purpose of this paper is to analyze how the various types of dictatorship affect corruption, economic systems and economic reforms. We show that the various choices faced by different types of autocratic regimes lies in the dynamics of survival of the dictator regimes, and whether they choose transition to democracy. So this paper focuses on the relationship between on one hand, the type of dictatorship, and on the other hand the decision of the ruler, whether to preserve its dictatorship or to start a transition to democracy.

In this paper, dictatorship regimes are divided into two main categories: single-power and multiple-power regimes. This research will show that multiple-power regime ultimately will start a transition to democracy, while single-power will preserve their dictatorship. The key element for the type of equilibrium chosen is the efficiency of the military capacity.

Keywords: dictatorship, autocratic regimes, corruption, revolutions, economic reform, military capacity

JEL classification: H1, H56, H82, P51, P26

Corruption and the Shadow Economy: Friends or Foes?

BIBEK ADHIKARI / OGUZHAN DINCER

Illinois State University / Illinois State University

What forces the businesses to hide in the shadows? There are two competing theories trying to explain this behavior, one identifying high tax burden and the other corruption as the main force. As Friedman et al. (2000) and Dreher et al. (2008) argue, according to the first theory, businesses are simply not willing to pay high taxes and keep all of their profits to themselves. According to the second theory, they are actually willing to pay taxes, but not willing to pay bribes.

In this study, we investigate the relationship between corruption and the size of the shadow economy in U.S. states using a new and novel Shadow Economy Index (SEI) which is developed based on satellite data on night lights.

We find that there is a complementary relationship between corruption and the size of the shadow economy across U.S. states supporting the results of Johnson et al. (1998) and Friedman et al. (2000) which use cross country data.

Keywords:

JEL classification:

Friday, 1 December 2017, 16.30 – 18.00, Room 1.7

Culture, Diversity, and the Welfare State

KLAUS GRÜNDLER / SEBASTIAN KÖLLNER

University of Würzburg / University of Würzburg

We show that culture and diversity strongly influence welfare systems around the globe. To disentangle culture from institutions, we employ regional instruments as well as data on the prevalence of the pathogen *Toxoplasma Gondii*, linguistic differences, and the frequency of blood types. The generosity of the welfare system is higher in countries with loose family ties and individualistic attitudes, high prevalence of trust and tolerance, and low acceptance of unequally distributed power. Apart from their direct effects, these traits also exert indirect impact by influencing the transmission of inequality to redistribution. Finally, we show that redistribution and diversity are linked non-linearly: moderate levels of diversity impede redistribution, while higher levels offset the negative effect.

Keywords: culture, redistribution, diversity

JEL classification: H11, I38, Z1, D31

Machine Learning Indices, Democratic Institutions, and Economic Growth

KLAUS GRÜNDLER / **TOMMY KRIEGER**

University of Würzburg / University of Konstanz

We compile data on election outcomes and political rights for 180 countries and the period from 1960 to 2014. To transform the raw data into continuous and dichotomous measures of democratic institutions, we propose a machine learning algorithm. The properties of this novel aggregation technique are discussed in detail. In particular, we demonstrate that the application of conventional aggregation techniques leads to less precise measures of democracy. We use our indices to provide new insights on the relationship between democratic institutions and long-run economic growth. Our empirical findings suggest that democracy is growth-enhancing. Sound economic institutions and improved human capital accumulation appear to be the most important transmission channels. Furthermore, we examine how differences in the measure of democratic institutions affect the empirical results on the democracy-growth-nexus. We observe that (i) the coefficient estimates are smaller when we apply a dichotomous index, (ii) the estimated growth-effect is more pronounced when we use a concept of democracy that includes information on horizontal accountability (e.g. independence of media and judiciary) or liberty rights (e.g. freedom of movement and religion), and (iii) estimation results are upward-biased when we apply an index that is based on a conventional aggregation technique.

Keywords: machine learning, support vector machines, indexes, democracy, democratic institutions, economic growth

JEL Classification:

Saturday, 2 December 2017, 09.30 – 10.15, Room 1.5

Politicized Trade: What Drives Withdrawal of Trade Preferences?

MARTIN GASSEBNER / AREVIK GNUTZMANN-MKRTCHYAN

Leibniz University Hannover / Leibniz University Hannover

While it is well understood that industrialized countries use aid to grant political favors, little research covers alternative channels such as trade policy towards developing countries. We analyze eligibility investigations and revoking of U.S. General System of Preferences (GSP) benefits to see whether political friends of the U.S. get a favorable treatment. While countries politically aligned with the U.S. are equally likely to be investigated, they are significantly less likely to have their benefits suspended.

Keywords:

JEL classification:

Saturday, 2 December 2017, 09.30 – 10.15, Room 1.7

Multilateral Lending to European Regions: Who gets the funds and what are the effects?

ZAREH ASATRYAN / ANNIKA HAVLIK

ZEW Mannheim / University of Mannheim

We study the politics of allocation decisions within a major multilateral lending institution, and then seek to estimate the effects of its lending on regional income. Our focus is the European Investment Bank (EIB) – “The Bank of EU” which is the largest, yet often neglected, multilateral lending institution in the world. We use administrative data on over 8,500 loans – in 2015 summing to around 77 billion Euros of new commitments – aggregated to the level of European regions. We exploit information on the regions of origin of about 500 national representatives at the EIB's Board of Directors since 1959 – the decisive body for loan approvals – and show that upon appointment the probability to send back a loan to their region of origin increases by 15-20% on the extensive margin. This effect vanishes once a representative leaves the Board. The appointments of representatives at the Board is nominated by the EU Member States and not by regions, and usually follows a term of five years. Therefore, we exploit the exact timing of this home-bias phenomenon as being plausibly orthogonal to regional income dynamics, and show that this particular type of public lending has positive but economically small effects on regional income.

Keywords: regional favoritism, political economy of international organizations, government owned banks, European Investment Bank, European Union

JEL Classification: D72, F4, O4

Saturday, 2 December 2017, 10.30 – 12.00, Room 1.5

Not Welcome Anymore: The Effect of Electoral Incentives on the Reception of Refugees

MATTEO GAMALERIO

University of Warwick

The recent refugees' crisis highlights the importance of studying the political determinants of immigration policies. Motivated by the literature, which shows that immigration affects voters' behaviour (i.e. demand side), but which is silent on immigration policies (i.e. supply side), I study how electoral incentives affect the reception of refugees. I exploit two features of a reception policy (SPRAR) promoted by the Italian Home Office: 1) municipalities decide whether to host refugees; 2) the timing of the decision is established by the Home Office. Combining the exogenous timing with staggered municipal elections, I find that the probability of opening a reception centre is 24 per cent lower for mayors in the final year of the term (i.e. just before elections). The effect is driven by municipalities with higher pre-existing shares of extreme-right voters, migrants and rich individuals, higher unemployment and level of trust. On the other hand, the emigration rate and the number of firms reverse the negative effect. This is consistent with the evidence that the reception of refugees can be used to counterbalance the population decline and attract fiscal grants that could benefit firms in the hospitality sector. Finally, I provide suggestive evidence that the inefficiencies generated by electoral incentives can affect the reception of refugees in the medium and long run.

Keywords: immigration, refugees' migration, refugees' reception, electoral incentives

JEL classification: R23, J61, D72, C23.

Dismantling the “Jungle”: Refugee Relocation and Extreme Voting in France

PAUL VERTIER / **MAX VISKANIC**

Sciences Po Paris / Sciences Po Paris

Can a small scale inflow of refugees affect electoral outcomes? If yes, do those effects have local spillovers? More specifically, what impact did the relocation of refugees from the Calais “Jungle” to temporary refugee-centres (CAOs) in France have on votes in favour of the right wing party “Front National” in the 2017 presidential election? We find that the presence of a CAO reduces the vote share increase of the Front National by about 13.3 percent compared to other municipalities. Given that we find no impact on local economic activity, those estimates point towards the contact hypothesis (Allport, 1954). In order to estimate the impact of refugee relocation on political outcomes we use an instrumental variables approach that relies on the size of holiday villages present in municipalities. Since this initial holiday villages were determined historically, the exclusion restriction is arguably warranted. There is evidence that the effects on electoral outcomes spatially dissipate. Exploring some heterogeneous effects, we find that negative effects on the vote share of the Front National are stronger in larger municipalities with a higher share of immigrants and a higher share of younger people. To the contrary, the negative effect is lower in cities, which volunteered to welcome migrants, which received more of them, and which were in contact with refugees for a shorter period of time.

Keywords: political economy, voting, migration, EU; France, refugees

JEL classification: C36, D72, J15, P16, R23

Saturday, 2 December 2017, 10.30 – 12.00, Room 1.7

Institutional Reform and Depositors' Portfolio Choice Evidence from Bank Account Data

MICHAEL BERLEMANN / MARC-ANDRÉ LUIK

Helmut Schmidt University Hamburg / Helmut Schmidt University Hamburg

In this paper we employ the natural experiment of German Division and Reunification in order to study the effect of institutional reform on the decision to hold risky assets. We present empirical evidence indicating that even 16 years after German Reunification risky portfolios of East and West German bank customers differed systematically, even after controlling for wealth and other socio-demographic factors. While these differences are especially pronounced for bank customers with experiences in the former communist system, even the younger generation of East Germans still differs remarkably from their West German counterparts in terms of risky asset choice. Thus, informal institutions tend to have long-lasting effects on portfolio behavior.

Keywords: institutional reform stockholding puzzle portfolio choice bank data informal institutions

JEL classification: P34 D14 G11 G21

Financial Literacy and Education: Evidence from the German Reunification

MADDALENA DAVOLI / JIA HOU

Goethe University Frankfurt / Goethe University Frankfurt

A growing body of literature shows the importance of financial literacy and how it affects households' choices. However, little attention has been given to the determinants of different levels of financial literacy within a country. Our paper wishes to contribute filling this gap by understanding the determinants of heterogeneity in financial literacy scores across Germany. By exploiting the unique set-up of German reunification, we suggest that the gap is not only to attribute to a geographical heterogeneity within Germany, rather to a different institutional framework, which reflected onto the educational system of the GDR and thus, on the possibility to acquire financial education at the individual level. Hence, we claim education to be the channel through which institutions and financial literacy are related in this specific context and we find some evidence in support to this hypothesis.

Keywords: financial literacy, socialist education, German reunification, DiD

JEL classification:

Saturday, 2 December 2017, 14.15 – 15.00, Room 1.5

Do Sanctions Lead to a Decline in Civil Liberties?

ANTONIS ADAM / SOFIA TSARSITALIDOU

University of Ioannina / University of Ioannina

In this paper we examine the effect of the imposition of US sanctions on the civil liberties of the targeted country for the period 1972- 2014. To motivate our analysis we build a theoretical model of non-democratic politics, which predicts that sanctions may have an adverse effect on the level of repression. In the empirical section, we use a standard Fixed Effects model and two Matching methods to deal with the problem of selection and pre- sanction adverse dynamics. What we find is that sanctions result to a decline in civil liberties. The results are robust across various specifications.

Keywords: sanctions, democracy, civil liberties

JEL classification:

Saturday, 02 December 2017, 14.15 – 14.45, Room 1.7

Shirk or Work? On How Legislators React to Monitoring

KATHARINA E. HOFER

University of St.Gallen

Legislators face opportunity costs of floor voting in the form of forgone private-sector wages, time invested into relations with interest groups, or leisure. They have incentives to only selectively attend votes. If voters have means to monitor their representatives' attendance, incumbents face the trade-off between shirking while earning non-political rents and deteriorating reelection prospects the more votes they miss.

A 2014 institutional change in the Swiss Upper House facilitating monitoring is used to explore this relation. The introduction of an electronic voting system involved individual decisions on several exogenously defined vote types to be automatically published whereas all other votes remained secret to the public. Pre- and post-reform attendance during secret votes comes from video recordings of all sessions.

Absences become less frequent if legislators' attendance is monitored. The effect is particularly strong among politicians accountable to their constituencies: incumbents running for reelection, full-time politicians, and legislators with few interest groups.

Keywords: shirking; absence, monitoring, transparency, parliament, legislators, accountability

JEL Classification: D72, P16

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Joao Rafael Cunha	University of Cambridge
Maddalena Davoli	Goethe University Frankfurt
Oguzhan Dincer	Illinois State University
Stefan Eichler	TU Dresden
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Matteo Gamalerio	University of Warwick
Martin Gassebner	Leibniz University Hannover, CESifo, KOF
Tommaso Giommoni	Bocconi University
Felix Grey	University of Cambridge
Klaus Gründler	University of Würzburg
Katharina E. Hofer	SEW-HSG, University of St.Gallen
Jia Hou	Goethe University Frankfurt
Sebastian Köllner	University of Würzburg
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Tommy Krieger	University of Konstanz
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Ilari Määttä	TU Braunschweig
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Rossana Merola	International Labour Organization
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Antonio Savoia	University of Manchester
Paul Schaudt	University of Hannover
Jan Schnellenbach	BTU Cottbus-Senftenberg, Walter Eucken Institut
Amelie Schwarzer	TU Dresden
Tim Sofke	TU Braunschweig
Till Stowasser	LMU Munich
Thomas Stratmann	George Mason University
Marcel Thum	TU Dresden, ifo Dresden, CESifo
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How to reach ifo:

By air: From Airport Dresden-International, take the train (S-Bahn) to Dresden Hauptbahnhof (Central Railway Station). Continue with local public transportation (see below).

By rail: Exit the train at Dresden Hauptbahnhof (Central Railway Station) and continue with local public transportation (see below).

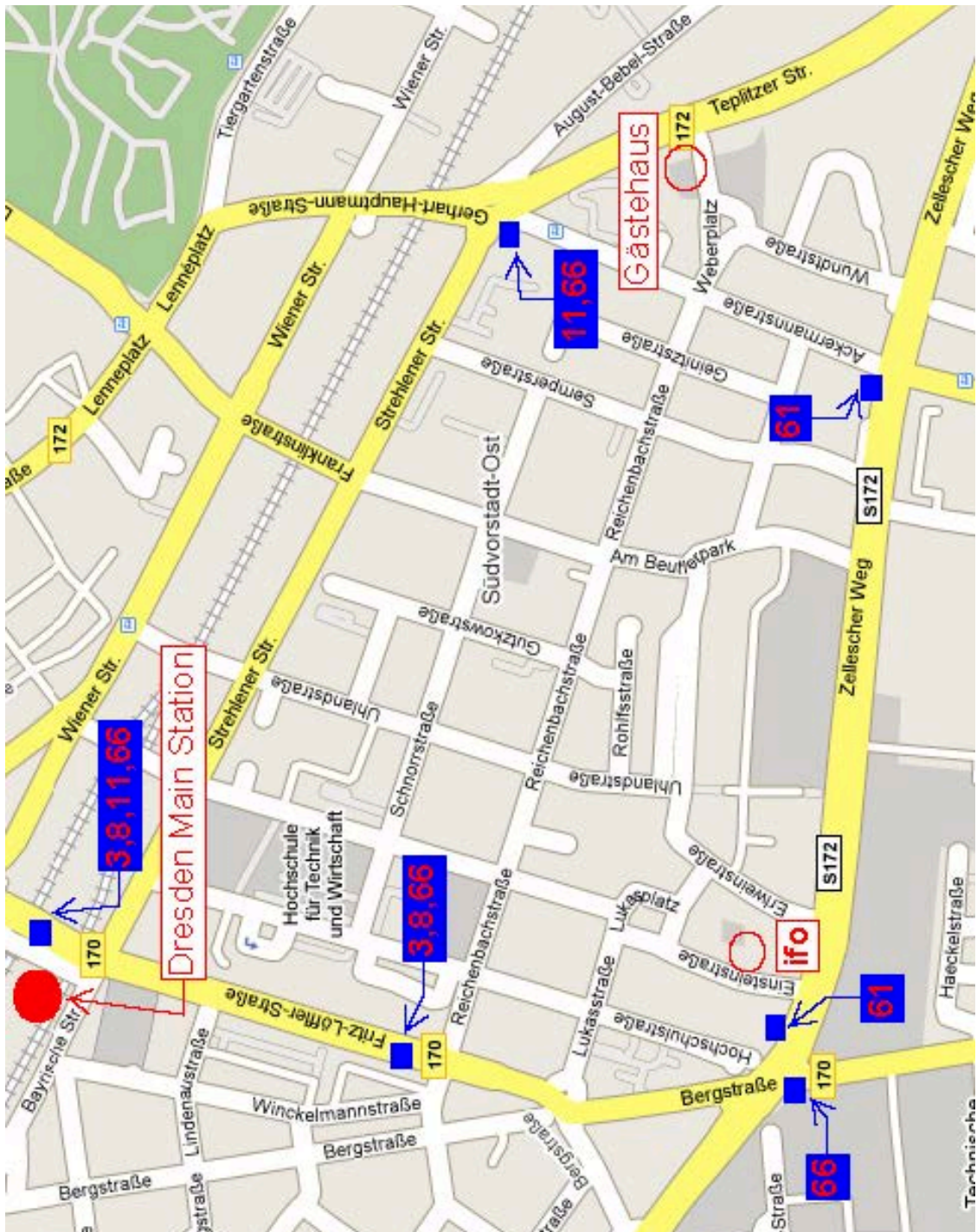
By car: Leave the Autobahn (A17) at the exit "Dresden Südvorstadt" and follow the signs for "Zentrum", "Hauptbahnhof" or "Universität". After ca 3.5 km turn right into Reichenbachstraße at the traffic light (directly at the Orthodox Church). At the second junction, turn right into Andreas-Schubert-Straße and drive up the hill towards Lukas Church. Driving around the church on the right-hand side, you reach Einsteinstraße. The institute is on your left, number 3.

Local transportation: Take the number 3 tram (direction Coschütz) or tram number 8 from the "Central Railway Station" one stop south to Reichenbachstrasse. Get off the tram, walk towards the traffic light and turn left into Reichenbachstrasse. At the second junction, bear right into Andreas-Schubert-Straße and walk up the hill towards Lukas Church. Walking around the church on the right-hand side, you reach Einsteinstraße and the Institute (ca. ten-minute walk).



Gästehaus der TU Dresden

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