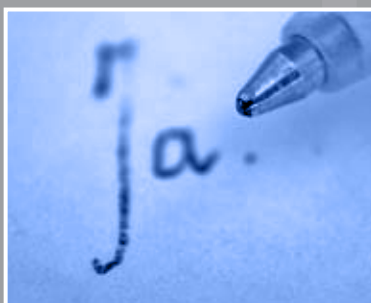




27th–30th March 2008
Jena • Germany

EPCS



The Annual Meeting of the
European Public Choice Society

Program

Organisation: www.conventus.de/epcs

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Sponsors and Exhibitors

We thank the following institutions for their friendly support:

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- Deutsche Bundesbank, Frankfurt am Main (D)
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- Max Planck Institute of Economics, Jena (D)

Welcome to Thuringia

Welcome address by Dieter Althaus, Prime Minister of Thuringia, for the conference volume of the 2008 Annual Meeting of the European Public Choice Society

Once again Thuringia plays host to the world in 2008. I am delighted to say that the annual convention of the European Public Choice Society will take place – after England, Finland and the Netherlands – this year in Jena, in the powerful “Center of Germany”. This meeting of international scientists adds yet another additional highlight to the festivities of the Friedrich-Schiller-University on the occasion of its 450th anniversary.

The European Public Choice Society made an excellent decision to choose Thuringia! The Free State is renowned for its outstanding performance networks at the point of intersection between science, the economy and politics.



The well-placed university and research infrastructure is an important fundament for this purpose. Nine universities as well as renowned institutes such as the Max-Planck-Institute, Fraunhofer-Institute, and Wissenschaftsgemeinschaft Gottfried Wilhelm Leibniz as well as further research institutes shape the scientific landscape of Thuringia. With their scientific work they initiate innovation processes in the economy and, thereby, contribute substantially to the excellent reputation of the Free State as a location for technologies.

The powerful Center of Germany, the “Science Factory Thuringia”, has increasingly been shaped by businesses that take advantage of the chances and opportunities of new technologies. Thus, they fully meet the requirements needed to survive in global competition. Without continuous new economic and technical innovations, the economic structure of Thuringia with its successful small and medium size companies could not have developed this well in the past if this was not the fact. The solid growth during the past years proves: We are on the right path!

To further increase the competitiveness of Thuringia, regional initiatives and networks offer their support. The Foundation for Technology, Innovation and Research Thuringia (STIFT), the Wirtschafts- und Innovationsportal (WIP) or the initiative “Wirtschaft, Wissenschaft, Forschung” are noted here respectfully.

At the same time, political institutions also benefit from these networks. Their work is based on the information of relevant trends and existent local potential – after all, continuously securing the economic and technological competitiveness is the foremost point on the agenda for the state government.

With its distinctive networking activities, Thuringia provides impulse for knowledge and technology transfer and at the same time facilitates the co-operation between science and industry in innovation and science clusters that are viable for the future. Events, such as the annual convention of the European Public Choice Society, corroborate that we are able to form alliances reaching far beyond the borders of the Free State and thus make our contribution in accordance with the Lisbon-Strategy.

In this spirit, I wish you lively discussions, interesting abstracts and presentations and of course, lasting impressions during your stay in the beautiful state of Thuringia and further successful efforts at the point of intersection between science, the economy and politics.

A handwritten signature in dark ink, appearing to read 'Dieter Althaus'. The signature is fluid and cursive, with a prominent 'D' and 'A'.

Dieter Althaus
January 2008

Welcome

Dear Colleagues,

it is an enormous pleasure to welcome you to the Annual Meeting 2008 of the European Public Choice Society in Jena. Our conference is jointly hosted by the Max Planck Institute of Economics and the Friedrich-Schiller-University.

This year's program looks very promising. We look forward to a highly policy relevant plenary lecture by Friedrich Schneider on the shadow economy, a couple of plenary panel discussions on equally important topics (European policy as well as global trade and development problems) and more than 220 papers in parallel Sessions, covering all aspects of collective decision-making. As the quality of submitted papers was generally high, the program committee only needed to reject 7 per cent of the submissions. I wish to thank the committee members very much and am proud that the conference attracts so many excellent scholars.

Jena is more than appropriate to host a conference on Public Choice. It has a long standing history as University town. We currently celebrate the 450th anniversary of the Friedrich-Schiller-University. It is worth mentioning that leading German contributors to world-wide economic policy discussions have been in Jena, e.g. Wilhelm Röpke as a professor, Karl Marx as a doctoral student and the young Walter Eucken. The City of Jena has been chosen as this year's nation-wide Science City. Moreover, Jena has always been an innovative place with deep cooperation between the University and the local firms; the names of Ernst Abbe, Carl Zeiss and Otto Schott are well-known all over the world. Finally, the City can look back at a long cultural and civic history; again a few examples: Goethe and Schiller met here first, Hegel was working here, and the 1989 revolution benefited significantly from the "Zivilcourage" of Jena's civil society.

You hopefully will be able to grasp a little bit of the City's vibrant atmosphere during our Meetings and experience fruitful discussions and a pleasant stay. All necessary information can be obtained in this program or at the information desk. Please, do not hesitate to contact me if you have any needs or problems.

Andreas Freytag
March 2008

Thursday, March 27th, 2008

- 1700 Welcome by *Andreas Freytag* (University of Jena)
 Welcome Address by *Klaus Dicke* (Rector University of Jena)
 Plenary lecture by *Friedrich Schneider* (University of Linz), jointly organised with the MPI Jena
 The Devil is in the Shadow: Do institutions affect income and/or productivity or only official income and official productivity?
 Aula (University main building; Fürstengraben 1, 07743 Jena)
 Chair *Ulrich Witt*, Max Planck Institute Jena (D)
- 1900 Reception at the Town Hall, opening address by the Mayor of Jena, Dr. *Frank Schenker*

Friday, March 28th, 2008**0830–1000****Parallel Sessions A**

- A 1 Development I
- A 2 Evolution I
- A 3 Labour Market I
- A 4 Committees
- A 5 History
- A 6 Growth I
- A 7 International Economics I
- A 8 Corruption I

1000–1030

Coffee break

1030–1200**Parallel Sessions B**

- B 1 Development II
- B 2 Evolution II
- B 3 Labour Market II
- B 4 Voting I
- B 5 EU I
- B 6 Growth II
- B 7 International Economics II
- B 8 Corruption II
- B 9 Legal System I

1200–1215

Coffee break

1215–1345**Parallel Sessions C**

- C 1 Taxation I
- C 2 Behavioural I
- C 3 Illegal Activities
- C 4 Voting II
- C 5 EU II
- C 6 Growth III
- C 7 Climate Protection I
- C 8 Corruption III
- C 9 Legal System II

1345–1430

Lunch, board meeting

1430–1600**Parallel Sessions D**

- D 1 Taxation II
- D 2 Behavioural II
- D 3 Sport and the Economy
- D 4 Voting III

Program Overview

- D 5 EU III
- D 6 Business Cycle I
- D 7 Climate Protection II
- D 8 Economics of Conflict I

1600–1615 Coffee break

1615–1745

Parallel Sessions E

- E 1 Social Policy I
- E 2 Behavioural III
- E 3 Immigration
- E 4 Politicians I
- E 5 EU IV
- E 6 Business Cycle II
- E 7 Economics of Terror
- E 8 Economics of Conflict II

1800–1815 Teaching of Public Choice in the Latinamerican Countries
Lecture hall 2 *Jose Casas Pardo*

1815–1945 Panel on The Future of Monetary Policy in an Enlarged European Union
Lecture hall 2 Participants *Sylvester Eijffinger, Manfred J.M. Neumann, Pierre Siklos*
Chair *Jacob de Haan*

Saturday, March 29th, 2008

0900–1030

Parallel Sessions F

- F 1 Development III
- F 2 Money I
- F 3 Public Sector Economics I
- F 4 Politicians II
- F 5 Federalism
- F 6 Reform I
- F 7 Credit Markets
- F 8 Economics and Religion – NEAR I

1030–1100 Coffee Break

1100–1230

Parallel Sessions G

- G 1 Social Policy II
- G 2 Money II
- G 3 Public Sector Economics II
- G 4 Politicians III
- G 5 Index Buildings
- G 6 Reform II
- G 7 IPR
- G 8 Economics and Religion – NEAR II

1230–1315 Lunch

1315–1330 Presidential Address
Lecture hall 2

Program Overview

1330–1400
Lecture hall 2

ECPS Members' meeting

1430

Social program: Excursion with a guided tour through Weimar entitled "UNESCO World Heritage Sites"

1930

Conference dinner, Volkshaus Jena

Sunday, March 30th, 2008

0830–1000

Parallel Sessions H

- H 1 Education
- H 2 Money III
- H 3 Public Sector Economics III
- H 4 Fiscal Rules
- H 5 Happiness
- H 6 Institutions
- H 7 International Organisations

1000–1030

Coffee break

1100–1230
Lecture hall 2

Panel on Globalisation and Underdevelopment in the 21st Century: Challenges for the Public Choice Community
Participants *Roger Congleton, Philip Harms, Vani K. Borooah*
Chair *Lars P. Feld*

End of the conference

1100–1230

Excursion to The Buchenwald Memorial (optional, extra cost: 18 EUR)

Program and Abstracts

Friday, March 28th, 2008

08³⁰–10⁰⁰

Parallel Sessions A

Session A1

Development I

Lecture hall 6

Chair *Martin Paldam*, University of Aarhus, Economics, Aarhus (DK)

Sovereign debt disputes. Testing the role of political institutions in debt crisis resolution

C. Trebesch^{1,2}, H. Enderlein², L. Müller²

¹Humboldt University of Berlin, Economics, Berlin (D)

²Hertie School of Governance, Economics, Berlin (D)

This article aims to identify which political and economic factors explain aggressive government behaviour towards international investors in times of financial distress. The cornerstone of our analysis is a novel, comprehensive index that measures government behaviour towards creditors during sovereign debt crises since 1980. Overall, our preliminary results indicate that, once the default has occurred, democratic governments are more likely to act non-cooperatively towards foreign creditors. We interpret this as evidence for high domestic audience costs in crisis situations. In contrast, elections, government orientation (left vs. right) and the size of IMF credits do not seem to play a role.

Discussant: *G. Pehnelt*

Financing vaccine research in developing countries – Public good approach

D. Sonntag¹

¹University, Economics, Chemnitz (D)

This paper examines whether funding developing countries' own vaccine-related activities can resolve shortcomings in vaccine research. We analyse the interaction between the best-shot public good "developing an AIDS vaccine" and financial assistance in a Nash game. The paper shows that income policies are not hampered. Consequently suboptimal provision can be overcome. It indicates that financing developing countries' efforts in vaccine research is an alternative to uncoordinated research among countries to accelerate the development of a vaccine.

Discussant: *H. Pitlik*

The demand for transparency: An empirical note

H. Pitlik¹, B. Frank², M. Firchow^{2,3}

¹WIFO, Vienna (I)

²University of Technology, Clausthal (D)

By encouraging socially wasteful rent seeking and corruption, natural resources abundance might not be a blessing but a country's curse. A recent attempt to impede these practices of corruption with theft is the Extractive Industries Transparency Initiative (EITI). The purpose of this organization is to verify and fully publish company payments and government revenues from oil, gas, and mining. Using a probit estimation technique the paper analyses empirically the political and socio-economic factors which determine a country's participation in EITI.

Discussant: *M. Paldam*

Session A2

Evolution I

Lecture hall 5

Chair *Bengt-Arne Wickström*, Humboldt-Universität Berlin, Institute für Finanzwissenschaft (D)

Ideologically desirable vs. evolutionarily sustainable economic roles of governments

P. Pelikan¹

¹Prague University of Economics, Prague (CZ)

Darwinian evolution has endowed humans, like other social species, with the need to form societies, but, unlike most of these species, not with sufficiently complete instructions for what societies. Instead, it has endowed them with abilities to create and adapt to a broad variety of societies, and seemingly left them free to determine, by a combination of chance and deliberate choices, the form of their societies themselves. In the long run, however, many of these forms failed and had to be reformed or transformed. The variety of sustainable forms of human societies has thus been proving much narrower than it might at first appear to be. The search for the rare sustainable forms is viewed as a quasi-Darwinian evolution, run by a variety of imperfectly informed institutional trials that are tested according to quasi-natural selection criteria. What makes the trials imperfectly informed (but not entirely random!) is that they are usually generated by different ideological beliefs and wishes without solid analytical support. The search is difficult and not guaranteed to succeed. The main difficulty

is that the selection criteria are twofold – external, requiring a certain minimum of economic efficiency, especially dynamic (adaptive), and internal, requiring a certain minimum of political approval – while most of the known institutional forms in most environments appear unable lastingly to succeed on both accounts. The paper specifies both the selection criteria in more detail, finds some of the properties that sustainable forms of societies in function of their environments are required to have, and discusses the possible features of such forms, with particular attention to the extent and contents of the economic roles of government. It finds reasons why evolution is likely to disappoint both socialists and classical liberals, and ventures a rough hypothesis on what institutional forms with what economic roles for government might prove sustainable.

Discussant: *B.-A. Wickström*

Regulatory agencies and regulatory risk

G. Knieps¹, H.-J. Weiss¹

¹University of Freiburg, Freiburg (D)

The aim of the present paper is to show that regulatory risk is due to discretionary behaviour of regulatory agencies caused by a too extensive regulatory mandate provided by the legislator. The normative point of reference and a behavioural model of regulatory agencies based on the positive theory of regulation are presented. Regulatory risk about the future behaviour of regulatory agencies is modelled as the consequence of the ex ante uncertainty about the relative influence of interest groups in the regulatory process. The problem of regulatory risk is analysed separately in competitive network areas and in non-competitive network areas. For both cases a specific measure of regulatory risk is proposed. But, measurement and compensation are different issues. The impossibility of compensating for regulatory risk is demonstrated. Finally, the disaggregated regulatory mandate is presented as an institutional reform approach.

Discussant: *R. Joosten*

Science as a social process: The perspective of constitutional economics

V. Vanberg¹

¹Walter Eucken Institute

This paper takes a constitutional economics outlook at science as an evolutionary social process. The adopted perspective is ‘economic’ in the sense that it assumes the agents in the science-arena to act on their self-interest and that it seeks to explain the aggregate social outcomes that result from the interaction of such self-interested agents, given the constraints they face. It is ‘constitutional’ in the sense that its analytical focus is on how the constitutional constraints of science, i.e. the working rules of the enterprise, affect the kinds of results that the social process of science can be predicted to produce. From this perspective the paper seeks to clarify the relation between a methodology or philosophy of science that inquires into the standards that define science as a truth-seeking enterprise and a naturalistic-sociological outlook at science that emphasizes the ambitions, other than truth-seeking, that actually motivate the players in the science arena as well as the social influences to which they are subject, ambitions and influences that tend to corrupt their scientific objectivity. Special attention will be paid to the analogy that is often drawn between the workings of the ‘invisible hand’ in science and in markets. A central argument will be that, in the case of science just as in the case of markets, two kinds of questions must be distinguished. Namely, on the one hand, the question of how science and markets work as evolutionary social processes under defacto given conditions, including the prevailing institutional-constitutional constraints, and, on the other hand, the question of what kind of institutional-constitutional conditions would be required in order for science and markets to serve their desired social function. In terms of this distinction naturalistic accounts of the social process of science can be said to focus on the first question, while methodological arguments on the standards of scientific inquiry are concerned with the second. In a sense similar to Adam Smith’s notion of political economy as “the science of a legislator” methodology, so interpreted, can be said to be concerned with identifying the kinds of constitutional constraints that scientific communities should adopt if the competitive efforts of their members are to advance the growth of knowledge.

Discussant: *M. Wohlgemuth*

Shifting constitutional interests – How much do we need to know about them?

C. Schubert¹, U. Witt¹

Max Planck Institute of Economics

In constitutional political economy (CPE) the citizens’ constitutional interests determine the objects and regulations of the social contract under which the citizens pursue their economic activities. Following the traditional preference subjectivism in economics, the content of the constitutional interests is widely left open. However, this approach is unnecessarily restrictive. When agents are able to innovate, additional information is needed to uphold CPE’s core construct of a social contract, used as a tool to develop policy advice directed to citizens. The reasons are first that innovations are likely to affect the agents’ given constitutional interests through pecuniary and technological externalities in an as yet unknown way. This fact can only be accounted for with some material hypotheses on the given preferences, in particular risk preferences. Second, innovations are likely to also influence the agents’ preferences themselves – and, hence, to induce shifting constitutional interests – in an as yet

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unknown way. This effect can only be accounted for on the basis of some hypotheses on which preference changes are possible and likely and which ones are not, as well as hypotheses on the likely welfare impact of alternative preference paths.

Discussant: *U. Witt*

Session A3

Labour Market I

Lecture hall 6

Chair *Santanu Gupta*, XLRI, School of Business and Human Resources, Economics, Jamshedpur (IND)

Job reservations and career choices

S. Gangopadhyay¹, S. Gupta²

¹India Development Foundation, Gurgaon (IND)

²XLRI, School of Business and Human Resources, Economics, Jamshedpur (IND)

We examine the effect of introduction of reservations in formal sector jobs for a section of the population whose access is limited due to high training costs. Although reservations succeed in having a better representation of the disadvantaged group in the formal sector, it does not necessarily translates to higher incomes for the group as a whole. Reservations have no impact on aggregate income if only sections of each population type apply for formal sector jobs or the whole population applies. Reservations decrease aggregate income if the whole population of the general category and a section of the disadvantaged category apply for formal sector jobs after reservation. Reservations increase aggregate income if everyone from the disadvantaged category and some from the general category apply for a formal sector job after reservation. In situations where low representation of disadvantaged sections arise due to explicit discrimination in hiring, job reservations may go a long way to ensure equality of opportunity. We look into evidence from job reservations in India to support our case.

Discussant: *S. Baumann*

Are the labour supply and the efficiency of the welfare state related? A real effort experiment

S. Ottone¹, F. Ponzano²

¹University of Eastern Piedmont, POLIS, Alessandria (I)

²University, POLIS, Alessandria (I)

The aim of this paper is to provide experimental evidence about the labour supply in welfare states with different levels of efficiency. To do so we use the strategy method in a between subject protocol implementing a real effort experiment. In our preliminary results we find that people do not increase the level of labour supply as the efficiency increases even if the preferences about the welfare state changes.

Discussant: *H. Feldmann*

Employment protection: The case of limited enforceability

F. Baumann¹

¹University of Tübingen, Economics, Tübingen (D)

This paper shows that the effects of employment protection critically depend on its enforcement. For this purpose, we capture evasion of employment protection via market exit in a setting of monopolistic competition. We find that the number of firms entering the market depends on firing costs only in the case of imperfect enforcement of employment protection. Furthermore, the possibility to circumvent firing restrictions by exiting the market mitigates the adverse efficiency effects of employment protection and can reverse the sign of the change in employment associated with an increase in firing costs.

Discussant: *S. Renaud*

Session A4

Committees

Lecture hall 7

Chair *Elisabeth Schulte*, Mannheim University, Department of Economics, Mannheim (D)

Communication in committees: Who should listen?

E. Schulte¹

¹Mannheim University, Department of Economics, Mannheim (D)

In a collective decision framework, we study communication among individuals with heterogeneous preferences and private, decision-relevant information. We compare two decision procedures, which differ with respect to the extend to which decision makers can exchange information. If information disclosure is observed by decision makers with different preferences, individuals may strategically withhold information. In this

case, a committee member's silence arouses the other members' suspicion. As a consequence, in case of residual uncertainty, individual votes may be less sensitive to observed information than if the possibility to exchange information between individuals with different preferences is prohibited. We show that limiting the individuals' access to communication may yield a higher expected social surplus than full access.

Discussant: *M. Widgren*

Measuring indirect reciprocity: Whose back do we scratch?

*L. Stanca*¹

¹University of Milan Bicocca, Economics, Milan (I)

This paper presents an experimental investigation of strong indirect reciprocity. We examine both generalized indirect reciprocity and social indirect reciprocity, in a setting where reciprocal behavior cannot be explained by strategic motivations, using a variant of the strategy method to control for differences in first movers' actions across treatments. We find evidence of strong reciprocity within each treatment, both for strategies and decisions. Generalized indirect reciprocity is found to be significantly stronger than social indirect reciprocity and, interestingly, direct reciprocity. This finding is interpreted as reflecting the relevance of first movers' motivation for second movers' reciprocal behavior.

Discussant: *E. Schulte*

Axiomatizations of a positional power score and measure for hierarchies

F. Steffen^{1,2}, *R. van den Brink*³

¹University of Liverpool, Management School, Liverpool (GB)

²University of Hamburg, Centre for Conflict Resolution (CCR), Hamburg (D)

³Free University, Department of Econometrics and Tinbergen Institute, Amsterdam (D)

Recently, we demonstrated that the existing approaches for the analysis of positional power in hierarchies are in general inappropriate. Being membership-based they are inherently simultaneous. Hence, they cannot be extended to decision-making mechanisms which allow certain actors to terminate a decision before all others have been involved. As this class of sequential decision-making mechanisms is particularly relevant for hierarchies, we suggested an action-based approach and derived a power score and measure for this class. In this paper we provide axiomatizations for our score and measure for one of the most studied decision models: that of binary voting. Moreover, we show that one can obtain both for these models as so-called permission values in TU-games.

Discussant: *G.J. Natvik*

Communication and decision-making in committees: A dynamic approach

*A. Pitsoulis*¹, *G. Werthebach*²

¹Brandenburg University of Technology, Cottbus (D),

²University of Siegen, Siegen (D)

Our topic is the modeling of talk as transmission of information between groups of agents who are going to vote on passing a motion. We contribute to the literature on communication in a committee by proposing dynamic system, thus adding the dimension of time to the hitherto static models of committee interaction. Our method combines elements derived from dynamic conflict models and epidemiological models. In this paper the process of private and public communication between two factions in a committee or similar decision-making body is modelled as differential equation systems. The systems we propose reflect different communication technologies as well as the availability of information re-garding voters' preferences. With the help of two workhorse models we explore the effects of different institutional arrangements. The models are then used to explore the dynamic dilemma of regulating debate: there clearly is the need to communicate long enough for the vote to reflect the true preference of the majority. If the need to communicate long enough is satisfied by a right to communicate, the latter can be exploited with the aim to obstruct decision-making by preventing a vote. Government by discussion may thus be ineffective if no-one can stop people talking. It may, however, be ineffective too if someone can stop people talking, because institutional safeguards against obstructionism suffer from a rules-versus-discretion-problem: both rules and discretionary powers can be exploited in order to distort the outcome of the vote.

Discussant: *P. Poutvaara*

Program and Abstracts

Session A5

Lecture hall 8

History

Chair *Toke S. Aidt*, University of Cambridge, Faculty of Economics, Cambridge (GB)

The taxman tools up: An event history study of the introduction of the personal income tax in western europe, 1815–1941.

T. Aidt¹, P.S. Jensen²

¹University of Cambridge, Faculty of Economics, Cambridge (GB)

²University of Southern Denmark, Department of Border Regions studies, Sonderborg (DK)

The introduction of income taxation was a landmark in the development of the fiscal state in Western Europe and elsewhere. This paper presents an event history study of the adoption of the income tax in 11 Western European countries between 1815 and 1941. We find evidence that social learning, reductions in tax collection costs and to a lesser extent spending pressures played a significant role for the adoption decision. Surprisingly, we also find evidence that the extension of the franchise reduced the likelihood of adoption of the income tax.

Discussant: *J. Heckelman*

Searching for commonalities: The historical origins of parliamentary and presidential systems

M. Lacombe¹

¹Brazilian Chamber of Deputies, Legislative Counsel (BR)

One tenet of the new institutionalism is: Different institutional arrangements lead to different results. Parliamentary and presidential constitutions lead to different power organizations and relationships between the executive and legislative branches. Yet, if we look to their historical origins, in the nineteenth century, there is no intrinsic difference in terms of power organization between constitutional monarchies (where parliamentary systems come from) and presidential systems. Historically, parliamentary systems consolidate themselves when the king loses his veto power. However, the loss of veto power was not immediately reflected in the constitutional charter: it might take decades to be registered in written texts. Hence in constitutional terms, the basic difference between the two systems restricted itself to the case whether the head of state was a hereditary one (as in the case of monarchical constitutions) or not. Today it is common to see as distinctive of presidential system the head of state carrying the functions of head of government, but it would be mistaken to think kings didn't carry affairs of state in constitutional monarchies, sometimes even after the consolidation of parliamentary systems. The British Kings took active role in state affairs until 1834, when their capacity to influence national elections waned. However, even after they preserved their influence in international affairs. In Sweden, the first Bernadotte was an active ruler, although governing with parliamentary consent. His grand son would give up commanding international affairs after a huge crisis that would jump the left to power and democratize the Swedish political system by the end of WWI. But Swedish kings would interfere in foreign policy until the end of the World War II. In Denmark, the King would resign to govern and take the lead in military affairs after the Schleswig-Holstein defeat and the victory of the social democrats, in 1905. The Belgian Kings would consider military affairs their prerogative until the second world war, prompting a crisis after the conflict, that almost led the regime to an end. The influence of the military in the presidential regimes is notorious, but the first presidential systems were created without organized corps. Warlords in Latin America tried to create armies for their own benefit. But this was not easy. Countries as Colombia, were so fragmented, that didn't allow for a national armed force until the end of XIX century. Moreover, looking at historical evidence is difficult to say military influence in constitutional monarchies was small. In the British case the nobility was able to monopolize higher posts in the military administration, influencing military affairs until the beginning of the 20th century. There are also the extreme cases of Germany and Italy, where the military lost political influence only after tragic defeats. Finally, in monarchies as Luxembourg and Netherlands, the decline of the military was due to ascension of female head of states. Hence, the difference between the two systems is due to historical events that surrounded countries that adopted these systems and not a consequence of intrinsic qualities of these institutional arrangements. The methodology of the paper is based on comparative and economic data for countries in North America, Europe and Latin America, during the XIX century as detailed comparative information on the institutional evolution of both constitutional systems in the observed countries.

Discussant: *G. Brady*

On the Transition to democracy in nineteenth century europe (draft of chapter 19 of perfecting parliament)

R. Congleton¹

¹Public Choice, Economics, George Mason U/Fairfax (VA) (USA)

This chapter provides statistical evidence that helps assess the power of the models of institutional change developed above using aggregate national data on political and economic liberalization. The historical narratives developed above (e.g. in the previous several chapters) suggest that many of the factors given prominence in the model of institutional reform are present in the countries of interest: New production technologies were gradually adopted, liberal political and economic ideas gradually became more influential, interest groups lobbied for various liberal reforms including constitutional ones, and both democracy and market life emerged gradually and became significant factors in the life of most persons in the societies that emerged by WWI. Liberalization of markets and politics were interdependent phenomena.

Discussant: *T. Aidt*

Session A6
Lecture hall 9

Growth I

Chair *Martin Karlsson*, University of Oxford, Institute of Ageing, Oxford (GB)

Representation without taxation? Informal cooperation and the spanish devolution

*J. Costa i Font*¹

¹London School of Economics and Political Science, London (GB)

The set up of devolution structures in some western countries is argued balance-out the so called “strategy of equality” with the “strategy of diversity”. Devolution is often questioned in the grounds of limited effects on the efficiency and equity of the public sector along the territory. This study examines the arguments behind devolution and undertakes an empirical assessment using Spain as an example. We examine three specific examples from the Spanish case: that of education, health and security policy. Our argument is that devolution although costly to set up, enhances efficiency effects and gives rise to a reduction of geographical inequalities in the long run. However, there the extent to which efficiency take place depends on the degree of fiscal as well as political responsibilities. Furthermore, we argue that central government coordination can crowd out informal cooperation. The Spanish example can speak to other experiences of decentralisation around the western world.

Discussant: *R. Ricciuti*

Devolution in (non-)democracies

*A. Libman*¹

¹University of Mannheim, CDSE, Mannheim (D)

The paper models the process of devolution in a politically asymmetric country, where a region and the central government bargain over the distribution of tax revenue. The main focus is to study the differences in tax revenue split and the possibility to prevent secession in democratic federations with non-democratic regions, in non-democratic federations with democratic regions and in pure non-democracies and democracies. Moreover, it finds that undermost political settings large regions, regions with low secession costs and regions significantly different from the rest of the country are able to receive a higher share of the tax revenue.

Discussant: *H. Seldadyo*

Deducing from deductions: a less taxing approach to explaining growth

*M. Karlsson*², *A. Bergh*¹

¹Ratio, Stockholm (S)

²University of Oxford, Institute of Ageing, Oxford (GB)

The empirical evidence on the effects of taxes on growth is weak and contradictory. One reason is that the role of institutions has often been ignored, and another one is that the endogeneity problem - i.e. the tax burden being determined simultaneously with GDP - has not been addressed appropriately. In this paper, we seek remedies to both problems. Using dynamic panel data techniques, and including a new set of instruments for the tax burden, we estimate the effects of taxes on growth. We also analyse to what extent institutions and taxes are complements or substitutes in the growth equation.

Discussant: *A. Libman*

Session A7

International Economics I

Lecture hall 221

Chair *Arye Hillman*, Bar-Ilan University (IL)

The paradox of weakness in international trade negotiations

*N. Ziegler*¹, *B. Dluhosch*¹

¹Helmut-Schmidt-University, Economics, Hamburg (D)

In his seminal contribution to game theory and its applications, *The Strategy of Conflict*, Thomas Schelling suggested that, instead of weakening, a strong internal opposition may actually strengthen one's own position in international negotiations. Rather than restricting the representative's scope of action, it in fact enlarges his opportunity set by squeezing out concessions from the opposite party. In this paper, we apply Schelling's idea to a two-level political-economy general-equilibrium trade model with increasing returns in which producers and consumer-laborers have opposing interests with respect to trade liberalization. We show that the threat of a more protectionist and producer-oriented strategy, backed by the veto-power of the national parliament or congress, may indeed result in a more favorable outcome from the perspective of the trade representative - provided the domestic opposition is not too harsh and the trade representative not too liberal in which case the commitment device loses its credibility.

Discussant: *A. Hillman*

Program and Abstracts

On the optimal size of integration areas

*T. Apolte*¹

¹University, Economics, Münster (D)

In this paper the optimal size of economic as well as political integration areas is analyzed from two different points of view. It is assumed that integration areas are run by political institutions which, in turn, come at certain decision-making costs. From the point of view of what is called an "insider optimum" net utility of a representative citizen in an average member country of an integration area should be maximized. From the point of view of what is called a "global optimum" net utility of a representative citizen in the average of all countries of a certain region, i.e. those countries which are members of the respective integration area as well as those who are not, should be maximized. In an economic integration area the benefit of which stems from economic integration the insider-optimum size falls short of that in a global optimum, so that the integration area remains too small from a point of view of all countries of the respective region. In a political integration area, however, in which the benefits from integration stem from an improvement in international security, it is the other way round. These integration areas tend to grow too much compared to a global optimum.

Discussant: *N. Ziegler*

Illegal Trade in the Iranian economy: Evidence from a structural model

*M.R. Farzanegan*¹

¹Dresden University of Technology, Dresden (D)

This study investigates the main causes and indicators of smuggling in both import and export sections of the Iranian Economy and estimates of absolute index of smuggling in Iran during the period of 1970–2002. To this effect, I have applied the Multiple Causes -Multiple Indicators (MIMIC) econometric modelling by LISREL software which enables me to do a comprehensive analysis of the latent variable of smuggling. The main results of this paper indicate that the rate of fine for smuggling and the total unemployment rate have negative and significant effects on smuggling and that the tariff burden has a positive effect on smuggling. Regarding the measurement part of the model, smuggling has a negative effect on real governmental revenues and import price index. Furthermore, the positive effect of smuggling on the petroleum product consumption is also significant. The relative size of smuggling varied from about 6 to 25 percent of total trade in Iran.

Discussant: *T. Apolte*

Session A8

Corruption I

Lecture hall 222

Chair *O. Azfar*, City University of New York (USA)

Disrupting systemic corruption: theory and case studies

*O. Azfar*¹

¹City University of New York (USA)

The standard anti-corruption approach states that increases in accountability and wages reduce corruption. We show that in a model where senior officials are allowed to become corrupt, the standard anti-corruption remedies of wage reform and increasing accountability become ineffective, or even counterproductive. Furthermore, the creation of a hierarchy may actually increase corruption. However, some other forms of external accountability can disrupt systemic corruption. We follow this theoretical model with case studies, of the medieval Catholic Church and modern-day Peru and Kenya, which highlight both the structure of systemic corruption and the possibilities of disruption.

Discussant: *B. Mahagoonka*

Making sense of corruption: Hobbesian jungle, bribery as an auction, and DUP activities

*K. Beckmann*¹, *C. Gerrits*¹

¹Helmut-Schmidt-Universität (UniBw), Institute für Finanzwissenschaft, Hamburg (D)

The public choice literature tends not to include the welfare of politicians and bureaucrats in the objective function of their normative models. If one does so, however, two major differences between corruption and lobbying emerge: (a) with the latter the losing bidder has to pay, too, while this is not the case with the former; (b) the former is essentially a transfer, while the latter basically involves socially wasteful (DUP) activities. We present a formal argument to show that, if lobbying and corruption are substitutes, combating corruption can reduce welfare because it crowds in relatively more wasteful lobbying activities. An extended discussion provides a fresh perspective on why corruption is harmful, and when it is not harmful.

Discussant: *M. Felgenhauer*

Whither corruption? A meta-regression analysis study*A. Saleh¹, N. Campos¹*¹Brunel University, Economics & Finance, London (GB)

In the last decade or so, economists started paying a great deal of attention to the issue of corruption in developed and developing countries. A number of theoretical models have been proposed and these have been accompanied by an even larger number of econometric analyses of the economic determinants and consequences of corruption. In this paper, we focus our attention on the econometric evidence regarding the impact of corruption on economic performance (the latter measured by per capita GDP growth rates). The underlying debate is whether corruption “greases or sands the wheels of commerce” or, in our case, whether it helps or hinders growth. For this paper we put together a data set comprising 465 coefficients of the effect of corruption on economic growth from 41 different empirical studies. We use this data set to understand the effects of differences in estimation methods and econometric specification features on the significance and magnitude of the effect. We also pay special attention to the possibility of publication bias and to the important measurement issue uncovered by recent research (which stresses the differences between the uses of subjective vis-à-vis objective measures of corruption). Our main finding is that although publication bias is severe, there seems to be a true strong effect of corruption on growth. Moreover, we find evidence that the way corruption is measured significantly affects its empirical relationship with growth.

Discussant: *M. Gassebuer*10⁰⁰–10³⁰

Coffee break

Friday, March 28th, 2008**10³⁰–12⁰⁰****Parallel Session B****Session B1**

Lecture hall 6

Development IIChair *Elise Brezis*, Bar Ilan University, Economics, TA (IL)**Corruption, growth and the asian paradox: Micro-level evidence from Indonesia***J. Hanoteau¹, V. Vial¹*¹Euromed Marseille School of Management, Marseille (F)

Using Indonesian manufacturing panel data covering the Suharto era- 1975-1995, this paper assesses the impact of plant-level bribe plants' output and productivity growth. We consider the three sub-periods corresponding to oil boom, deregulation, and post-deregulation. Supporting the view of an “Asian paradox”, we find that bribes, as a percentage of value added, have a positive and statistically significant effect on plant output and labour productivity growth. In addition, this positive effect of bribes increases over the entire period, with a peak during the deregulation era. As the average bribe decreases over the period, we interpret this as the improvement of the efficacy of the bribing system helped by the liberalisation of the economy. This efficacy improvement can be explained by a transformation of the relation of political influence and a strengthening of the long term contract built between the firms and the government.

Discussant: *C. Trebesch***Will China leapfrog the west? A political economy perspective on innovations and inventions***E. Brezis^{1,2}*¹Bar Ilan University, Economics, TA (IL)²Bar Ilan University, Ramat Gan (IL)

The purpose of this paper is to analyze the dynamics of Chinese economic growth. The rapid development of China during this decade has led some scholars to wonder if China is going to leapfrog the Western world, and if it is to become the next leader.

This paper shows that if in the short and medium run, and during periods of innovations, China is growing quickly and is converging to the output of a developed country; in the long run, this will not be the case. The parameters that lead to high growth today are also the parameters that will detract from higher growth in the future, with the main one being the repressive apparatus.

Discussant: *D. Sonntag*

Program and Abstracts

Democratization in resource dependent economies: A theoretical framework

M. Nili¹, I. Riahi¹

¹Sharif University of Technology, Management and Economics, Tehran (IR)

Recent theories of democratization argue that social conflict over the redistribution of income is the key for understanding democratic transition and consolidation. We develop a model of democratization in a resource rich developing economy, with two sets of players: the rentier state and the mass of population. We show that in equilibrium, a number of political outcomes including revolution, democratization, consolidated nondemocracy and repression are possible. Further, the structural factors of economy are important determinants of political equilibrium. This conditional model of democratization may contribute to a better understanding of political resource curse.

Discussant: *H.-J. Weiss*

Session B2

Lecture hall 5

Evolution II

Chair *Ulrich Witt*, Max Planck Institute of Economics, Jena (D)

Public opinion formation in policy issues. An evolutionary approach

F. Fatás¹, D. Saura¹, F. Vázquez²

¹Universidad de Zaragoza, Zaragoza (E)

²Universidad Autónoma de Madrid, Madrid (E)

In this paper we seek to shed new light on the social process of political opinion formation from an evolutionary perspective. Drawing on previous contributions in evolutionary economics, we propose a model in which heterogeneous agents (citizens) collectively learn and modify their opinions about the most convenient size of public expenditure for the economy. The assumption of bounded rationality on the part of agents gives social interaction, institutional transparency and the citizens' political memory a key role in the dynamics of public opinion formation on this policy issue. It is argued that approaching political economy from an evolutionary perspective indeed makes a difference in comparison with static approaches such as those proposed in the realm of public choice theory. The structure of the paper is as follows: in Section 1, we argue that approaching political processes from an evolutionary perspective may be a fruitful way to overcome certain theoretical shortcomings both in public choice theory and in evolutionary economics. In Section 2, we claim that several theoretical features should be considered by an evolutionary approach to political processes: bounded rationality and heterogeneity on the part of agents, selective normative and factual learning by the collective as a socially contingent process, and the interpretation of public opinion formation as an emergent property from an evolving social system. We devote Section 3 to a model which takes into account these theoretical features. The dynamic analysis carried out in Section 4 reveals the existence of two regimes characterized by different time evolutions for public opinion in the model. Depending on the parameter values, either public opinion displays persistence and ongoing endogenous transformation in a more or less complex way, or it stabilizes in a rather homogenous state of opinion concerning the most suitable size of public expenditure. Section 5 then discusses to what extent the amplitude of the range of political opinions supported in a society may influence the complexity of the social political process, affecting the time evolution of public expenditure which can turn into a chaotic regime, generating unpredictable, erratic dynamics of the public opinion evolution. Finally we present some interesting conclusions and relevant implications derived from the analysis of the model.

Discussant: *P. Pelikan*

Criminal behaviour and social evolution

B.-A. Wickström¹

¹Humboldt University Berlin, Berlin (D)

In a society with two types of individuals, honest ones and criminals, individual behavioural patterns are individually decided upon through interaction with the rest of society. In deciding its behavioural pattern, an individual considers the behaviour of individuals in individual encounters, aggregate behaviour in society – the norm –, as well as the gains from criminal activity. It is shown that dynamically stable equilibria with a low and a high crime rate can obtain under various assumptions. It is further demonstrated that a small exogenous increase in the gain from crime may lead to a non-reversible structural change with a substantial increase in criminal behaviour in society.

Discussant: *C. Schubert*

Patience, fish wars, rarity value & allee effects*R. Joosten*¹¹University of Twente, Enschede (NL)

In a Small Fish War two agents interacting on a body of water have essentially two options: they can fish with restraint or without. Fishing with restraint is not harmful; fishing without yields a higher immediate catch, but may induce lower future catches. Inspired by recent work in biology, we introduce into this setting rarity value and Allee effects. Rarity value means that extreme scarcity of the fish may affect its unit profit 'explosively'. An Allee effect implies that if the population size or density falls below a so-called Allee threshold, then only negative growth rates can occur from then on. We examine equilibrium behavior of the agents under the limiting average reward criterion and the sustainability of the common-pool resource system. Assuming fixed prices at first, we show that patience on the part of the agents is beneficial to both sustainable high catches and fish stocks. An Allee effect can not influence the set of equilibrium rewards unless the Allee threshold is (unrealistically) high. A price mechanism reflecting effects of the resource's scarcity, is then imposed. We obtain a rather subtle picture of what may occur. Patience may be detrimental to the sustainability of a high fish stock and it may be compatible with equilibrium behavior to exhaust the resource almost completely. However, this result does not hold in general but it depends on complex relations between the Allee threshold, the dynamics in the (interactive) resource and price systems, and the actual scarcity caused if the agents show no restraint.

Discussant: *V. Vanberg***Competitive grants and learning under model uncertainty and positive transaction costs – A simulation approach using genetic algorithms***I. Bischoff*¹University of Gießen, Gießen (D)

Consider a federation with numerous regions and a federal government. The regional governments provide a service that comprises of a complex mix of policy instruments and has to be specially tailored to meet the requirements of its regional addressees. Examples of these types of policies are programs for the youth to reduce unemployment and crime rates or micro-level labor market programs. The regional welfare gains depend on the resources spent on the service and the combination of policy instruments – the latter being expressed in a vector that states the intensities of applying the different policy instruments. The functional relationship between welfare, resource inputs and policy vector is unknown *ex ante*. It has to be discovered in real experiments. Overall welfare depends on the speed of learning. This paper compares two different institutional settings for learning. In setting 1, the regions control all resources and each region follows its own beliefs when choosing their policy vector. From one period to the next, the regions learn from their own policy experiment and from those of other regions. In setting 2, the central government controls part of the resources available to provide the public service and grants extra means to regions which – in the opinion of the central government – apply adequate policy vectors. The regions are free to decide on their policy vector but they face incentives to favour policy vectors that the central government considers adequate. We assume that the central government has technologies of learning which are superior to the ones available to the regions. Therefore their intervention may accelerate the process of learning. On the other hand, the prospect of receiving grants from the central government distorts the learning by regions and induces rent-seeking behavior among them thereby reducing the resources available for the provision of the public service. We apply genetic algorithms to simulate learning under setting 1 and setting 2. The research-guiding question is: Under which circumstances does the intervention of the central government speed up the process of learning and when does the "federal laboratory" function better without this intervention? First results indicate that the answer depends on a number of factors. One crucial factor is the dispersion in competitive grants among regions. Giving high grants to a small number of regions proves inefficient because it results in high rent-seeking costs without substantially increasing the speed of learning.

Discussant: *G. Knieps***Session B3****Labour Market II**

Lecture hall 6

Chair *Vani Borooah*, University, School of Economics and Politics, Belfast (IRL)**Comparing levels of job satisfaction in the countries of eastern and western europe***V. Borooah*¹¹University, School of Economics and Politics, Belfast (IRL)

Against the plethora of studies of the factors influencing job satisfaction, this paper makes three contributions. First, in contrast to most studies of job satisfaction which are country-specific, the scope of this paper extends to 33 different countries. Comparing different countries on the basis of their mean job satisfaction scores ignores inequality in the distribution of scores between the countries' individual respondents: the paper's second contribution is to construct "equity-sensitive" job satisfaction scores for each country and, using these indicators, to compare their achievements with respect to job satisfaction. The third purpose of the paper is to answer the question posed in the title. The reason that West European countries have higher levels of job satisfaction compared to East European countries could, in part, be because they are better endowed

Program and Abstracts

with the “attributes” that promote job satisfaction; it could also, in part, be due to the “responses” of workers in West European countries, to a given set of attributes, being more conducive to job satisfaction than the corresponding responses of workers in East European countries. In this paper we estimate the relative importance of attributes and coefficients in determining differences in levels of job satisfaction between the two sets of countries. We do this by using the estimates from an ordered logit model to decompose the probability of being at a particular level of satisfaction into its “attributes” and “coefficients” parts. The empirical foundation for the study is provided by data for over 20,000 employed respondents, pertaining to the year 2000, obtained from the 1999-2002 Values Survey Integrated Data File.

Discussant: *J. Hanoteau*

The effects of hiring and firing regulation on unemployment and employment: Evidence based on survey data

*H. Feldmann*¹

¹University, Economics, Bath (GB)

We use the results of surveys among senior business executives to measure the strictness of hiring and firing regulations. The survey data are more likely than objective indicators (used in almost all previous studies) to correctly capture the de facto strictness of these regulations and their relevance to the performance of the labor market. Using data from 19 industrial countries for the period 1992 to 2002, we find that more flexible regulations are likely to lower unemployment and to increase employment rates. While the effects on the general population appear to be modest, the effects on female, young and low-skilled workers seem to be substantial.

Discussant: *L. Nedelkoska*

Dynamic efficiency of supervisory board codetermination in germany

*S. Renaud*¹

¹Friedrich-Schiller-University Jena, Jena (D)

The aim of this paper is to consider the implications of structural changes, e.g. changing skill-composition of the labour force, on the economic advantages and disadvantages of supervisory board codetermination in Germany. Theoretical considerations and an overview of the empirical literature on supervisory-board-codetermination are given in the first part of the paper. The second section deals with the empirical evidence of the theoretical effects. The basic idea is to compare the long-term differences in productivity and profitability of companies with quasi-parity codetermination to companies which are only obliged to give one-third of their supervisory board seats to labour-representatives. Interestingly, the switch from one-third to parity codetermination seems to increase both productivity and profits. In the longer term, the productivity effect does not seem to change, while the profit effect shows an improving path. Keywords: productivity, profitability, supervisory board, codetermination

Discussant: *V. Borooah*

Employment protection and temporary work agencies

*M. Mechtel*¹, *N. Stähler*², *F. Baumann*¹

¹University Tübingen, Economics, Chair of Public Finance, Tübingen (D)

²Deutsche Bundesbank, Frankfurt (D)

It is often claimed that high employment protection is a key feature to explain the emergence of temporary work agencies. We argue that the opposite can be true. In a world with search frictions, employment protection for regular employed workers can decelerate the emergence of temporary work agency employment even though they – and the firms hiring workers from a temporary work agency – are not directly affected by employment protection. This results as employment protection for regular jobs enables temporary work agencies to exploit their better bargaining position and increase their lending fees.

Discussant: *S. Gupta*

Session B4

Lecture hall 7

Voting I

Chair *Gisle James Natvik*, University of Oslo, Economics, Oslo (N)

Aggregation of correlated votes and condorcet's jury theorem

*S. Kaniovski*¹

¹Austrian Institute of Economic Research (WIFO), Vienna (A)

This paper proves two theorems for homogeneous juries that arise from different solutions to the problem of aggregation of dichotomous choice. In the first theorem, enlarging a jury improves its competence for negative correlation. For positive correlation an enlargement can be beneficial up to a certain size, beyond which it becomes detrimental. The second theorem finds a family of distributions for which correlation has no effect

on a jury's competence. The approach allows us to compute the bounds on a jury's competence as the maximum and minimum probability of it being correct for a given competence and dependence structure.

Discussant: *P. Kurrild-Klitgaard*

Voting on government production

G.J. Natvik¹

¹University of Oslo, Economics, Oslo (N)

I analyse a framework where voters choose how to spend public resources on capital and labor in order to produce two public goods. Voters disagree about which goods to produce. When capital and labor are complements in producing public goods, a current majority that disagrees with the future majority will dissave in physical rather than financial capital. Political turnover renders the stock of physical capital for public production too low and inefficiently combined with labor. In contrast to conventional wisdom, balanced budget rules do not mitigate the inefficiencies caused by political instability.

Discussant: *J. Laine*

Estimating uncertainty in strategic voting

M. Herrmann¹

¹Mannheimer Zentrum für Europäische Sozialforschung, Political Science, Mannheim (D)

Real world simple plurality elections rarely bear out the strong Duvergerian prediction that, in equilibrium, only two competitors receive votes. Recent advances in strategic voting theory demonstrate that voter uncertainty about party support may lead to limited strategic voting and, hence, incomplete desertion of third parties. This is the first attempt to empirically estimate uncertainty in strategic voting. Calibrating a model of strategic voting (Myatt and Fisher 2002a) to data on voting results from three-party simple plurality elections in East-German constituencies, we find that (a) voters do vote strategically and (b) voters operate under high levels of strategic uncertainty. These results support the proposition that uncertainty about party support impedes formation of Duvergerian equilibria.

Discussant: *F. Steffen*

Voting paradoxes under proportional representation: Evidence from eight danish elections

P. Kurrild-Klitgaard¹

¹University of Copenhagen, Department of Political Science, Copenhagen (DK)

Abstract: We analyze voter preferences for eight General Elections for the Danish parliament by using survey data to investigate the possible presence of five types of social choice paradoxes that may occur in list systems of proportional representation. Two serious paradoxes fail to manifest themselves, while three others occur with different frequencies. One paradox always occurs, namely for the social ordering of political parties based on pair-wise comparisons to be significantly different from that of the allocation of seats according to a principle of proportional representation. This result challenges the common view that a party that receives more votes than another must be presumed to be the one preferred by a majority. Keywords: Social choice; voting paradoxes; voting procedures; electoral systems.

Discussant: *J.L. Garcia-Lapresta*

Session B5

Lecture hall 8

EU I

Chair *Gerrit Koester*, Humboldt University, Economics, Berlin (D)

Who's afraid of an EU tax and why? – Determinants of tax preferences in the european parliament

S. Osterloh¹, F. Heinemann¹, P. Mohl¹

¹Centre for European Economic Research (ZEW), Mannheim (D)

The idea to establish an EU tax is a prominent option in the reform debate on the EU own resources system. This contribution explores the question which motives shape the support for an EU tax among policy makers. We make use of a unique data base: A survey among Members of the European Parliament (MEP) which resulted in a response of some 150 of the representatives. Our results confirm an important role for party ideology but they also demonstrate that both individual and country-specific characteristics are important to understand the support for or rejection of an EU tax. In the light of our findings the hope that a tax based own resource could overcome a narrow national perspective on the budget is poorly founded.

Discussant: *C.B. Blankart*

Program and Abstracts

Refocusing the EU budget – An institutional view

G. Koester¹, C.B. Blankart¹

¹Humboldt University, Economics, Berlin (D)

There is little disagreement that the EU budget should be refocused. Redistributive agricultural and structural spending should be reduced in favor of more public good spending as the Boege and Sapir reports demand. We use a public choice analysis to show how the actual budgetary rules led to deadlock, which makes a refocusing of the budget very unlikely. We demonstrate how Member States became net payers and net receivers, and why the underlying coalitions were fairly stable and will remain so under the Treaty of Lisbon. We propose an additional budget voted by veto to overcome the deadlock.

Discussant: *S. Voigt*

The strategic euro laggards

M. Gregor¹

¹IES, Charles University, Economics, Prague (CZ)

Putting aside macroeconomic benefits and costs of a monetary union, are there any extra incentives for policy-makers to postpone or impede entry into the EMU? Which strategic factors catalyze or hinder entrance in the Eurozone? This paper contributes to the analysis of the EMU entry that is completely out of the optimal currency area literature. We focus on how timing of EMU entry is strategically used in international bargaining. We first challenge the established idea that ERM-II allows an entrant to play a mixed strategy with a threat of currency crisis, and consequently improve upon a bargaining outcome in the division of total benefits of membership. We argue that the improvement of bargaining outcome rather comes up with the government's ability to signal unwillingness to entry, and thereby address a hold-up problem with the private sector. To act as an EMU laggard and harm domestic firms is an equilibrium strategy that is motivated by bargaining with the old EU members.

Discussant: *A. Belke*

Session B6

Lecture hall 9

Growth II

Chair *Jac Heckelman*, Wake Forest University, Winston-Salem (USA)

The connection between democratic freedoms and growth in transition economies

J. Heckelman¹

¹Wake Forest University, Winston-Salem (USA)

The Freedom House democracy index is often used in regression analysis to estimate the relationship between democratic freedoms and growth. The index is comprised of two broad categories for political rights and civil liberties. However, the relationship between the underlying types of rights and liberties to growth remains unknown. A newer alternative democracy index developed by Freedom House specifically for the transition nations is compared to the original democracy index. The two are highly correlated but the latter entails a greater breakdown across six democracy areas including civil society, judicial framework, media independence, corruption, electoral process, and governance. Except for corruption, each is found to be individually significant in separate growth regressions, but when all are included simultaneously, only greater freedom in electoral process is significantly correlated with higher growth, and greater freedom in judicial framework is significantly correlated with lower growth. The remaining areas are not statistically significant.

Discussant: *J. Fidrmuc*

The political competition and economic performance puzzle: Evidence from the OECD countries and the Italian regions

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²Università di Firenze, Studi sullo Stato, Firenze (I)

We test Besley, Persson and Sturm's (2006) theory of the relationship between political competition and economic performance, according to which, when the predominance of an ideological dimension creates a political rent, the party exploiting it selects lower quality politicians whose policy choices worsen economic performance. The theory has so far received support at the level of subcentral governments. We extend the test at the level of the national governments of OECD countries using the fall of the Berlin Wall as exogenous shock to political competition, but fail to find empirical support for the predictions of the theory. We refine the original Besley, Persson and Sturm model to provide an explanation for this dichotomy in empirical findings, and test again the model on data from a sample of 15 Italian Regions, where the shock is provided by the radical institutional reforms to Italian regional governments of 1995. There again we find evidence that higher political competition improves economic performance, through the choice of more efficiency-oriented policies.

Discussant: *M. Karlsson*

Geography, governance, and income level: A multilevel approach*H. Seldadyo*¹¹University of Groningen, Economics, Groningen (NL)

Debate over the effects of institutions and geography on income is revisited. The debate says that one is more important than the other. Using multilevel analysis, this paper finds that regional-level institutional variation and country-level geographical characteristics can explain income differences across nations. Similarly, regional-level geographical characteristics and country-level institutional variation also determine standard of living. This paper provides evidence that both geography and institutions are equally important. Geography may matter and governance may also matter; but none of them matters exclusively.

Discussant: *J. Fischer***Session B7 International Economics II**Lecture hall 221 Chair *Dominik Duell*, Freie Universität, Jean Monnet Center of Excellence, Berlin (D)**U.S. trade policy and the power to negotiate – A model of presidential power***D. Duell*¹¹Free University, Jean Monnet Centre of Excellence, Berlin (D)

Separation of power and the system of checks and balances create a situation of shared authority over decision-making by different branches of government in the political system of the United States. By taking into account the political tools available to the U.S. President, I argue that U.S. Congress has a hard time to secure its position in making political decisions in areas impacted by domestic as well as international economic concerns. By referring to the case of trade policy in a simple game-theoretical model, I show that the President is more powerful than Congress within the legislative bargaining framework by using his constitutional veto power, outside by employing strategic pre-action in form of agenda setting and unilateral action, and internationally through his power to negotiate. U.S. Presidents of the last six decades had the power to influence the political struggle in such a way that their most preferred policy outcome, usually a liberal trade agenda, came about. Presidents connect interdependencies stemming from a global economy and domestic politics of redistribution efficiently to implement freer markets.

Discussant: *C. Henning***Determinants of agricultural protection in an international perspective: The role political institutions***C. Henning*¹¹University, Agricultural Economics, Kiel (D)

This paper studies the role of political institutions in determining the political success of agriculture in avoiding taxation or attracting government transfers in developing and industrialized countries, respectively. The model is based on a probabilistic voting environment, where in industrialized countries rural districts are less ideologically committed than urban districts, while in developing countries urban districts are less ideologically committed than rural districts. As a consequence, in industrialized (developing) countries rural (urban) districts are pivotal in determining the coalition that obtains a majority, whereas urban (rural) districts are pivotal within the majority itself. In bargaining at the legislature, this generates a conflict between the government, who will tend to favor rural (urban) districts, and its parliamentary majority, that will be dominated by urban (rural) concerns. As district size grows and the electoral system converges to a pure proportional system, both of these biases are attenuated. Overall, an opposite nonlinear relationship between district size and agricultural subsidies on the one hand and district size and taxation on the other hand follows, i.e. in developing countries taxation of agriculture first increases and then decreases with district magnitude, while in industrialized countries agricultural subsidization first increases and then decreases with district magnitude. Moreover, the impact of district magnitude on the level of agricultural subsidization is attenuated in presidential when compared to parliamentary systems, while the level of agricultural taxation is amplified in presidential systems. Empirical results from cross-country analysis including 37 countries over 20 years mainly support our theory.

Discussant: *T. Apolte*

Program and Abstracts

Session B8

Corruption II

Lecture hall 222

Chair *Robert Neumann*, Technical University of Dresden – Institute for Sociology, Dresden (D)

What do we measure if we measure corruption? A multi trait multi method approach for pinpointing the validity of aggregated corruption indices *R. Neumann*¹

¹Institut für Soziologie, Dresden (D)

This study scrutinizes the construct validity of three corruption indices by assessing their discriminant and convergent validity in reference to democracy and the shadow economy with a Multi-Trait-Multi-Method technique. It turns out that prominent indices of corruption (such as the Corruption Perception Index) do not only measure a country's level of corrupt activities but also the degree of democracy due to their multidimensionality. While the convergent validity of corruption indices is warranted, discriminant validity must be considered as rather low. This implies problems like collinearity if multidimensional constructs are used for multivariate analysis.

Discussant: *P.-G. Méon*

Firm-level evidence on corruption and innovation in Sub-Saharan Africa

*Prashanth Mahagaonkar*¹

¹Max Planck Institute of Economics, Jena (D)

While innovation has been identified as a boost for economic growth for many economies, there is general lack of research in the ways corruption affects innovation activity. Particularly with respect to the African continent that is striving to reconcile with instability and poverty, this issue seems to be of utmost importance. This paper provides a firm-level empirical analysis into this issue basing on the arguments of Schleifer & Vishny (1993). Using a newly available dataset on African firms, it is shown that corruption and taxation have a negative effect on product innovation and the effect of corruption on product innovation is more than that of taxation.

Discussant: *A. Dreher*

Greasing the wheels of entrepreneurship? The impact of regulations and corruption on firm entry

*M. Gassebner*¹, *A. Dreher*¹

¹ETH, KOF Swiss Economic Institute, Zurich (CH)

The paper investigates whether the impact of regulations on entrepreneurship depends on corruption. We first test whether regulations robustly deter firm entry into the markets. Our results show that some regulations are indeed important determinants of entrepreneurial activity. Specifically, more procedures required to start a business and larger minimum capital requirements are detrimental to entrepreneurship. Second, we test whether corruption reduces the negative impact of regulations on entrepreneurship in highly regulated economies. Our empirical analysis for a maximum of 43 countries over the period 2003–2005 shows that corruption is beneficial in highly regulated economies. At the maximum level of regulation among our sample of countries, corruption significantly increases entrepreneurial activity. Our results thus provide support for the 'grease the wheels' hypothesis.

Discussant: *R. Neumann*

Session B9

Legal Systems I

Lecture hall 223

Chair *Peter Grajzl*, Central European University, Economics, Budapest (HU)

Writing for the waste basket? Motives for introducing private member bills in France

*M. Brunner*¹

¹University, Politics and Management, Konstanz (D)

In parliamentary systems, the production of law is widely dominated by government: Most bills that actually become a law are prepared in the ministries and initiated by cabinet. But still, there is a considerable number of bills that are also introduced by opposition parties (as a whole) or their individual members of parliament, as well as by government party backbenchers. What are their motives to introduce legislation even though their chance to become a law is so negligible? This paper addresses this question analyzing data on bill introduction in France between 1997 and 2002 applying count models.

Discussant: *C. Guerriero*

The choice in the lawmaking process: Legal transplants vs. indigenous law*P. Grajzl*¹¹Central European University, Economics, Budapest (HU)

We develop a model of lawmaking to study efficiency implications of, and variation in, jurisdictions' decisions to develop law indigenously or to transplant law from other jurisdictions. Emphasizing features of the lawmaking process and the local political environment, we show that inefficiencies arise due to heterogeneity of affected interests and politicians' inability to select from an exhaustive variety of foreign laws. We find that greater homogeneity of affected interests decreases the likelihood of inefficient indigenous lawmaking, but has an ambiguous effect on the likelihood of inefficient transplantation. Greater adaptability of a legal system, however, reduces the likelihood of both inefficient indigenous lawmaking and inefficient transplantation. We also find that corruption matters neither for efficiency implications nor for politician's choice of the lawmaking process. Our results support the view that local conditions are a crucial determinant of the appropriate path of legal reform.

Discussant: *M. Brunner***The evolution of legal systems: On heterogeneity, vengeance and the moral sentiments***C. Guerriero*¹¹Cambridge, Economics, Cambridge (GB)

I develop a theory of anti-criminal behaviours bridging heterogeneity in extrinsic utility and empathic responses (to explicit and implicit rules of conduct) with a consumption value of punishment and rewards. The two modes of regulation are substitutes (complements) if the disutility suffered by the undeterred population from the introduction of formal laws is too large. The shape of the empathy, act utility and cultural concern densities determine both the settings conducive to multiple norms and the relation among secularization, globalization and the level of deterrence. When formal rules are politically selected and the political process deteriorates enough, extremist groups gain power and formal laws either leave harmful actions unpunished or profitable trades unexploited.

Discussant: *P. Grajzl*

1200–1215

Coffee break

Friday, March 28th, 2008**1215–1345****Parallel Session C****Session C1****Taxation I**

Lecture hall 4

Chair *Friedrich Heinemann*, ZEW, Mannheim (D)**The globalization of tax policy: What german politicians believe***F. Heinemann*¹¹ZEW, Mannheim (D)

The process of globalization has an important impact on national tax policies. Most of the literature on taxation of capital in open economies does not focus directly on the political decision making process and assumes that the desired tax policy is responding to objective underlying tradeoffs. Based on an original survey of members of German national parliament (Bundestag) in 2006/7 we document a strong ideological bias among policy makers with respect to the perceived mobility of international tax bases (mobility of real capital and shifting of paper profits). Ideology via party affiliation influences also directly and indirectly the perceived national autonomy in tax setting and preferences for a EU minimum tax for companies. There seems little consensus as to what the efficiency costs of capital taxation in open economies are, even though our survey falls in a period of extensive debate about and actual adoption of a company tax reform bill in Germany.

Discussant: *N. Stähler***Overlapping tax revenue, local debt control and soft-budget constraint***T. Ithori*¹¹University of Tokyo, Economics, Tokyo (J)

This paper investigates how the soft budget constraint with grants from the central government to local governments tends to internalize the vertical externality by stimulating insufficient local expenditure when both the central and local governments impose taxes on the same economic activities from public investment. The theoretical model incorporates local governments' rent-seeking activities in a multi-government setting with

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and without central controls on local borrowing. Two channels through debt issuance and public investment cause the soft budget outcome. In the unrestricted scheme of local debt issuance we have the positive effect on public investment and debt issuance although it would also stimulate wasteful rent seeking activities. In the restricted scheme of local debt issuance the soft budget case may not stimulate public investment since its effect through debt issuance is absent. In either case the soft budget constraint is welfare improving if the marginal valuation of central public goods is relatively small and/or the tax share of local government is relatively small.

Discussant: *L. Stanca*

Single versus multiple prize contests to finance public goods: Theory and experimental evidence

L. Stanca¹, M. Faravelli²

¹University of Milan Bicocca, Economics, Milan (I)

²University of St Andrews, Economics, St Andrews (GB)

This paper investigates single and multiple prize contests as incentive mechanisms for the private provision of public goods, under the assumptions of income heterogeneity and incomplete information about income levels. We compare experimentally a one-prize contest with a three-prize contest in a case where theory predicts that several prizes maximise revenues. We find that, contrary to the theoretical predictions, total contributions are significantly higher in the one-prize contest. The better performance of the single-prize contest is largely explained by the contributions of high-income individuals: a single prize provides a more effective incentive for richer individuals than three smaller prizes.

Discussant: *F. Heinemann*

Taxing deficits to restrain government spending and foster capital accumulation

N. Stähler¹

¹Deutsche Bundesbank, Economics, Frankfurt am Main (D)

In a dynamic model of fiscal policy, social polarization provokes a deficit bias. Policy advisors have recently proposed that governments running a deficit should be forced to generate additional tax revenue. We show that this deficit taxation reduces the deficit bias as it internalizes the externality different lobby groups impose on others. The mechanism described here is not due to the political risk of being elected out of office because the private sector dislikes taxation. Lower government spending and the resulting reduced deficit bias augment capital accumulation.

Discussant: *T. Ileri*

Session C2

Lecture hall 5

Behavioural I

Chair *Alain Marciano*, University of Reims Champagne Ardenne (F)

Happiness and public choice

Bruno Frey¹

¹University of Zurich (CH)

What insights can be gained from happiness research for a psychologically informed Public Choice? This is the question this paper addresses. An important subject is whether the government should maximize aggregate happiness and whether the income of the rich should be heavily taxed (as suggested by Robert Frank and Lord Layard).

Discussant: *M.J. Holler*

The economics of emotions in politics

M. Wohlgemuth¹

¹Walter-Eugen-Institute, Freiburg i. Breisgau (D)

By modelling the behaviour of political agents in terms of rational choice, Public Choice has to a large extent weeded out emotions. At the same time, observers of political debates, party conventions, propaganda, agitations, or normal voter behaviour find politics to be powered by emotion rather than informed by rational calculation. In this paper, I want to provide an account of the role of emotions in politics that combines some basic psychological intuition with some equally basic opportunity-cost reasoning.

Discussant: *P. Salmon*

Towards behavioral public choice: Guilt aversion and accountability in the lab*L. Corazzini*¹¹University of Padova, Dipartimento di Scienze Economiche "M. Fanno", Padova (I)

Mimicking standard features of electoral accountability and selection models, we conduct a computerized laboratory experiment in order to identify the influence of behavioral motivations on democratic outcomes. We find that elected candidates act more in line with the public interest, the more favorable their approval rates are. By contrast, this systematic positive relationship is not observed if the appointment is unintentionally determined by computer. These results suggest that a substantial fraction of candidates is motivated by guilt aversion; the results consequently provide a behavioral rationale for elections fostering political representation in indirect democracies. We discuss the implications of these findings for the design of democratic institutions.

Discussant: *A. Hyard***Session C3 Illegal Activities**

Lecture hall 6

Chair *Andreas Buehn*, Tu Dresden, Faculty of Business Management and Economics, Dresden (D)**MIMIC models, co-integration and error correction: An application to the french shadow economy***A. Buehn*¹, *F. Schneider*²¹Tu Dresden, Faculty of Business Management and Economics, Dresden (D)²Johannes Kepler University of Linz, Department of Economics, Linz (A)

Policy-makers often argue that the shadow economy is responsible for economic damage and the erosion of tax and social security bases. Estimation of the size and development of the shadow economy has thus attracted much attention in recent years. To do this, multiple indicators multiple causes (MIMIC) models are frequently applied to time series data. Our paper, for the first time, considers the co-integration equilibrium relationship and the error correction short-run dynamics between the variables in a MIMIC model estimation. Using France as our example, we demonstrate that this approach produces more accurate estimates about the shadow economy.

Discussant: *P. Schwarz***Money launderers and tax havens: Two sides of the same coin?***P. Schwarz*¹¹Sachverständigenrat, Wiesbaden (D)

This paper investigates whether tax havens have also an incentive to provide low regulation standards in order to foster black money activities. Using a new dataset on money laundering regulation, the results of this study show that tax haven and money laundering services coincide within the same country. This effect is especially observable for regulative instruments which increase the detection probability of money laundering, whereas in the case of regulations on the general punishment of money laundering the complementary relationship is weaker, perhaps due to a "false friends"-effect. When classifying tax havens across their GDP per capita, we see that especially poor tax havens supply both services because the gains from their tax haven status are low compared to the well-established tax havens.

Discussant: *J. De Haan***The not so dark side of trust: Does trust increase participation in the shadow economy?***P.-G. Méon*¹, *J. D'Hernoncourt*²¹Université Libre de Bruxelles (ULB), Dulbéa, Bruxelles (B)²Université Libre de Bruxelles (ULB), CEESE, Bruxelles (B)

This paper studies the relationship between the size of the shadow economy and generalized trust. From a theoretical standpoint, that relationship may be either negative, positive or insignificant. When it is tested on a cross-section of countries, both developed and developing for the year 2004, it appears significantly negative. That relationship is robust to controlling for per capita GDP and for a large set of policy and institutional variables, to changing the estimate of the shadow economy and the estimation period, and to controlling for endogeneity.

Discussant: *B. Chiarini***Tax rates and tax evasion: An empirical analysis of the structural aspects and long-run characteristics in Italy***B. Chiarini*¹, *E. Marzano*¹, *F. Schneider*²¹Dipartimento di Studi Economici, Università "Parthenope", Napoli (I)²Johannes Kepler University of Linz, Department of Economics, Linz-Auhof (A)

The availability of official time series of the Italian evaded VAT base (Ministry of Finance) for the period 1980–2004, allows us to investigate em-

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pirically the long-run characteristics of the tax evasion and the relationship with the tax burden. We focus on three important issues not analyzed so far. First, exploiting cointegration techniques, we quantify the elasticity between tax evasion and the average tax rate in Italy. Second, we comment the complex dynamic interaction between tax burden and tax evasion, to ascertain whether in the Italian experience there is evidence of any "vicious circle" between them. Last but not least, using different measures of aggregate economic activity as reference variable in estimating the average tax burden, we investigate the size and the dynamics of the over-burden traceable back to tax evasion.

Discussant: *E. de Jong*

Session C4

Lecture hall 7

Voting II

Chair *John Ashworth*, Durham University, Economics and Finance, Durham (GB)

Sequential consensus for selecting qualified individuals of a group

J. García-Lapresta¹, M.A. Ballester²

¹Universidad de Valladolid, Economía Aplicada, Valladolid (E)

²Universitat Autònoma de Barcelona, Economia i Història Econòmica, Bellaterra, Barcelona (E)

In this paper we analyze a group decision procedure that follows a recursive pattern. In the first stage, the members of a group show their opinions on all the individuals of that group, regarding a specific attribute, by means of assessments within an ordered set, e.g. the unit interval or a finite scale. Taking into account this information, some aggregation operators and a family of thresholds, a subgroup of individuals is selected: those members whose collective assessment reach a specific threshold. Now only the opinions of this qualified subgroup are taken into account and a new subgroup emerges in the implementation of the aggregation phase. We analyze how to put in practice this recursive procedure in order to provide a final subgroup of qualified members. We have considered the minimum as aggregation operator. Thus, the collective assessment is just the worst of the individual assessments. This idea corresponds to qualify individuals whenever all the individual assessments reach the fixed threshold.

Discussant: *M. Herrmann*

Understanding voters' preferences: How the electorate's heterogeneity affects prediction accuracy and wishful thinking among politicians with respect to election outcomes

J. Ashworth¹, B. Heyndels², D. Jottier²

¹Durham University, Economics and Finance, Durham (GB)

²Vrije Universiteit Brussel, Economics, Brussels (B)

This paper considers whether heterogeneity is a source of error in politicians' predictions of electoral outcome. The proposition is tested using predictions of electoral share made by Belgian politicians. The results indicate that there is systematic optimism in prediction and this is particularly true for those in opposition where this optimism dominates all other factors. However, there is evidence to support the heterogeneity proposition amongst politicians in power as prediction errors are higher the more contested, in terms of the number of parties, the election and the greater the complexity of in terms of size of the municipality. It is also shown that the experience of the politician works against a general tendency to over-prediction optimism.

Discussant: *I. Bischoff*

Political decision making and party competition under model uncertainty: A dynamic framework

L.-H. Siemers¹, I. Bischoff²

¹RWI Essen, Essen (D)

²University of Gießen, Economics, Gießen (D)

We analyze the political decision making of parties facing intertemporal party competition. We allow for differences of valence among the parties and the dynamic updating of the valence perception of the voters. In the final setting, parties and voters do not know the correct functioning of the complex system an economy represents and hence are forced to learn about it. To understand the economic system parties and voters apply mental models. Voters have no incentive to update their mental models and only update their perception of a party's valence. Parties, however, have great incentive to learn about the economy's functioning. In our preliminary results, we show that economically better policies will only proposed in equilibrium instead of more popular ones if the time horizon of parties is long enough and particular constellations are fulfilled.

Discussant: *E. Dubois*

Yardstick competition: Which neighbours matter?*E. Dubois¹, S. Paty²*¹University of Lille 2, CERAPS, Lille (F)²University of Lille 1, EQUIPPE, Villeneuve d'Ascq (F)

This paper aims at testing the existence of yardstick competition by estimating a fully specified vote-function on a panel data set of 104 French local governments from 1989 to 2001. When comparing the performance of their incumbent to the one of their neighbours, voters might consider their close geographical neighbours but also the nearby cities that are similar according to some socio-economic characteristics such as population size. The estimation results show that voters sanction their incumbent if their own local housing tax is high. Moreover, we find that voters reward their incumbent when neighbouring cities that are similar in terms of demographic characteristics have high local taxes.

Discussant: *J. Ashworth***Session C5****EU II**

Lecture hall 8

Chair *Urs Brandt*, University of Southern Denmark, Environmental and Business Economics, Esbjerg (DK)**Power centralisation and rent-seeking in the EU***U. Brandt¹, G.T. Svendsen²*¹University of southern Denmark, environmental and business economics, Esbjerg (DK)²University of Aarhus, political science, Aarhus (DK)

At Lisbon in 2000, EU set itself a new strategic goal, namely to become the world's leading economy within a decade. We argue that one fundamental barrier to the fulfilment of this dream is the fact that power is centralised in the Commission (the bureaucracy) rather than the Parliament (the directly elected members). The basic idea in our theoretical model is that a political system, which centralises power, lowers the cost of rent seeking and therefore leads to more economically harmful redistribution as reflected in the annual EU budget. Here, the two main redistribution policies (Common Agricultural Policy and the Structural Funds) consume more than four fifths of the total budget. Thus, if the EU is to achieve its strategic goal from Lisbon, a strong cure is needed to reduce redistribution and encourage more free trade. The simple cure for this 'EU disease' is simply to strengthen the decision-making power of the Parliament at the expense of the Commission. In this way, power would be spread out between the democratically elected members of the Parliament, rather than concentrated on a few bureaucrats. Such constitutional change and power decentralisation would increase the costs of lobbyism in particular and thereby reduce distortions of policy outcomes, clearing the road for free-trade policies and economic growth in the new Millennium.

Discussant: *N.F. Maaser***The logic of the CAP: Politics or economics?***C. Henning¹*¹University, Agricultural Economics, Kiel (D)

This paper derives an applied general political economy model incorporating a model of political decision-making into a computable general economic equilibrium model. Political decision-making among a set of legislators is modeled via a mean voter decision rule derived from a modified non-cooperative legislative bargaining game of a Baron-Ferejohn type. Legislators' preferences are endogenously derived from political support maximization, where policies translate into legislators' support according to a political transformation surface. Each surface reflects specific economic framework conditions of legislator's constituency. The model allows a simultaneous analysis of political and economic factors determining policy outcome. Applying the model to simulate future Common Agricultural Policy (CAP) under various political and economic scenarios results in: (i) MTR-reform will not be stable in the future. In particular, EU-enlargement and technical progress imply further reforms in 2013 corresponding to further liberalization of CAP and a further shift towards the second pillar. (ii) These general trends would be attenuated by increased world market prices, while additional WTO restriction would amplify these trends. (iii) Compared to economic and international policy factors, constitutional reforms, e.g. a higher participation of the European Parliament in CAP decision-making, have only moderate impact on future CAP, while changed financial rules would significantly reverse general policy trends implying a budget reallocation from the second to the first pillar.

Discussant: *U. Brandt***Lobby cartels and the status quo***N.F. Maaser¹*¹Institut für Allokation und Wettbewerb, Hamburg (D)

In order to influence EU policy decisions national interest groups both lobby their national political institutions and participate in supranational lobby organizations (Eurogroups). It is however not clear which strategy is more effective. This paper uses a simple model of decision-making with agenda-setting to study the relationship between lobby contributions and influence under a 'solitary'/national and a 'cartel'/Eurogroup

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strategy. Based on this model, a novel factor in the formation and stability of lobby cartels is identified. The key results are that, (i) a small status-quo bias among legislators will increase the lobbyists' incentives to cooperate; and (ii) lobby cartels might engage more often in lobbying on issues where the 'climate' in the legislature does not promise much success.

Discussant: *J. Casas Pardo*

Session C6

Lecture hall 9

Growth III

Chair *Jan Fidrmuc*, Brunel University, Economics and Finance, Uxbridge (GB)

The relevance of judicial procedure for economic growth

B. Hayo¹, S. Voigt¹

¹Philipps-University, Marburg (D)

It is argued that a number of judicial procedures increase the predictability of court decisions. This is conjectured to induce more transactions and higher investment levels which should, in turn, lead to higher growth. This paper asks whether the factual implementation of various judicial procedures has any significant and robust effects on economic growth. All in all, 15 procedural devices like the right to counsel, the right to present a defense, the presumption of innocence, and the right to appeal are analyzed. On the basis of 67 countries, it turns out that timeliness, written – as opposed to oral – procedures, and the right to counsel have a robust positive effect on growth, whereas the number of independent procedural actions as well as the presumption of innocence have negative effects on growth. Our results partially contradict the results of former studies based on the Lex Mundi dataset.

Discussant: *P. Nannestad*

Nurturing the market economy? The impact of EBRD investments on growth in post-communist countries

J. Fidrmuc¹, C. Hurst¹

¹Brunel University, Economics and Finance, Uxbridge (GB)

The European Bank for Reconstruction and Development (EBRD) was set up in 1991 with the aim to foster private sector development and encourage the development of the market economy in the post-communist countries of Central and Eastern Europe. To this effect, the EBRD has spent over 20 billion Euros on loan and equity finance for both private and (to a lesser extent) public investment projects in its target countries during the first ten years of its existence. In this paper, we assess the return on this investment in terms of economic development in transition economies. In particular, we investigate the relationship between EBRD investments and economic growth using detailed data on EBRD activities in 27 post-communist countries. The (preliminary) findings are very interesting and somewhat surprising. On the one hand, EBRD loans (accounting for some 80% of EBRD activities) indeed seem to translate into higher growth. Equity finance, on the other hand, has an insignificant or even negative impact on growth, suggesting that the EBRD may be choosing to acquire equity shares in projects that result in a low or negative value added. In further work, we intend to explore also the impact of EBRD activities on economic liberalization, democratization and institutional change, as well as the determinants of EBRD involvement itself.

Discussant: *B. Hayo*

Fiscal federalism, decentralization and economic growth: A meta-analysis

L.P. Feld¹

¹University, economics, Heidelberg (D)

The distribution of competencies between the different levels of a federal system may have remarkable effects on economic growth, because mainly the regions of a country contribute to national economic development. Thus, a government's economic policy is reasonably shaped along regional lines. The theoretical discussion in economics focuses however on the efficiency aspects of a decentralized provision and financing of public services; rarely the argument is raised that decentralization or federalism increases growth through a higher ability of the political system to innovate and to carry out reforms. After a discussion of the theoretical arguments on federalism and growth, we address the empirical question in this paper how important the assignment of decision making powers and the design of fiscal federalism are for economic development. Finally, on the basis of existing theoretical and empirical studies on economic growth and federalism, open questions and possible ways of answering them are presented.

Discussant: *M. Wrede*

Session C7 Climate Protection ILecture hall 221 Chair *Torsten Giersch*, Wedel University of Applied Sciences (D)**From Lindahl's garden to global warming: How useful is the Lindahl approach in the context of global public goods?***T. Giersch*¹¹University of Applied Sciences, Economics, Wedel (D)

In what sense is the Lindahl approach useful for analyzing global public goods? After introducing the positive and normative parts of the Lindahl approach we look at the relation to the Nash-Cournot model of voluntary provision. An integration of both blurs the subtle difference between an explicit bargain about the cost sharing and the implicit bargain by providing individual quantities of the collective good. We take a closer look on the possible relevance of this difference in relation to problems of global public goods that are usually seen more in line with a private provision process not envisaged by Lindahl.

Discussant: *L. Wangler***Allocating allowances in the EU emissions trading scheme: A political economy analysis for germany***N. Anger*¹, *U. Oberndorfer*¹, *C. Böhringer*²¹Centre for European Economic Research (ZEW), Mannheim (D)²University of Oldenburg, Oldenburg (D)

This paper assesses political economy aspects of allowance allocation in an emissions trading system. A common-agency model of the role of interest groups in emissions trading suggests that sectors represented by more powerful lobby groups face a lower regulatory burden in terms of less stringent allowance allocation. An empirical analysis of the EU Emissions Trading Scheme confirms these findings for a large sample of German firms: Employing instrumental variable estimation techniques we show that German industries represented by stronger industrial associations were allocated higher levels of allowances in the first phase of the EU Emissions Trading Scheme. Moreover, we investigate the role of emissions and employment levels for the resulting sectoral allowance allocation and investigate the impact of various interaction effects. We find that large German emitters that were represented by powerful interest groups received a preferential allocation treatment within the EU Emissions Trading Scheme.

Discussant: *T. Giersch***The links between governance, socio-economic factors and deforestation in tropical countries: A contribution for the REDD mechanism***G. Cunha Zeri*¹¹Max-Planck Institute for Biogeochemistry, Jena (D)

The disappearance of forests in tropical countries is determined by the interaction of numerous and complex agents and driving forces, many of them originated outside the forestry sector, which diverge within and across countries and regions, and also change over time. Consequently, every action aiming for reducing emissions from tropical deforestation should properly take into account the national and regional circumstances, as well as the appropriate and realistic policies and economic instruments. The reducing emissions from deforestation and degradation (REDD mechanism) could provide an effective climate protection mechanism under a Post-Kyoto regime for Non-Annex I countries. However, its effectiveness is not only conditioned on the knowledge about the deforestation trends, which is necessary to choose an appropriate baseline method, but also on the correct identification of the indirect driver forces. Such indirect causes are related to government policies and socio-economic factors, which have contributed to the forest disappearance and also became difficult the implementation of successful mechanisms to deal with this situation. The main goal of this study is providing a statistical analysis to show the relationships between tropical deforestation and the governance and socio-economic indicators, in order to support the development of efficient incentives to reduce forest loss in the tropics as well as the conceptualization of policies and mechanisms to establish new patterns of social, economic and political development in these regions. Improving governance in developing countries is crucial for the success of the REDD mechanism. However, good governance needs not only to be prescribed; rather it must be part of the whole process.

Discussant: *N. Anger***National electorates and international environmental agreements***S. Rossignol*¹¹University Paris, Paris (F)

The dispute about the aftermath of the Kyoto protocol aimed at reducing global warming proves the difficulty to reach international agreements about environmental issues. In this paper we relate this difficulty to the differences in the structural characteristics of national electorates. We set up a political economy model of a two-country world economy, where an international environmental agreement on environmental taxes has to be bargained by the two national elected leaders; the two national electorates decide whether to ratify the agreement obtained by the leaders. In the case of no ratification, each country deals with the environment non-cooperatively. The outcome of the political process depends on the national income distributions and impacts of environmental quality of individual welfare, on the type of agreement being bargained and the

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type of bargaining process. We prove that any agreement involves higher taxes in both countries than in the case of no-agreement. Depending on the type of agreement which is at stake, an agreement may or may not be reached, in particular if the political process involves a constraint on tax rates. If feasible, an IEA may generate losers in either countries. However there is no unambiguous relationships between the extent of inequality and the relative gains for the median voters.

Discussant: *G. Cunha Zeri*

Session C8

Corruption III

Lecture hall 222

Chair *Mike Felgenhauer*, Mannheim University, Economics department, Mannheim (D)

Safety nets against corruption

M. Felgenhauer¹, H.P. Grüner¹

¹Mannheim University, Economics department, Mannheim (D)

We study how institutions should protect themselves against the external influence from lobbies. We analyze internal decision mechanisms that are widespread in practice: unanimity or simple majority voting, a hierarchy and an advisory system. Institutions face a tradeoff between the quality of information aggregation and the effectiveness of barriers against external influence. We provide a ranking of the different schemes. Some of them are equivalent even though the agents' decision power differs. In high stake decisions, institutions should sacrifice on the quality of information aggregation in order to better protect the decision making process from outside influence.

Discussant: *B. Grofman*

Selecting less corruptible bureaucrats: A quasi-auction approach

A. Hu¹, L. Zou²

¹Universiteit van Amsterdam, General Economics, Amsterdam (NL)

²Universiteit van Amsterdam, Business Studies, Amsterdam (NL)

A government official's propensity to corruption, or corruptibility, can be affected by his intertemporal preference over job benefits. Through a dynamic model of rent-seeking behavior, this paper examines how endogenously determined corruptibility changes with monitoring intensity, salary growth, and discount factor for expected future income. The paper illustrates credible circumstances in which the less an official values his job the more he seeks rents. This negative relation suggests a simple quasi-auction mechanism for selecting less corruptible public servants. While straightforward to implement, the quasi-auction also tends to circumvent the corrupt influence that is often associated with standard auction of jobs.

Discussant: *E. Zimmermann*

Random audit programs and game-theoretic models: Establishing ex-ante corruption control

M.F.M. Lopes¹, G.F. Lichand¹

¹Getulio Vargas Foundation, Center for Policy and Economics of the Public Sector, Sao Paulo (BR)

Corruption has been a major concern worldwide for decades. In response, Brazil and many other countries have set up agencies focused on corruption control, oversight and prevention. In this study, we seek to analyze the actions and responsibilities of Brazilian General Comptroller's Office (CGU), established in 2003, and to develop an extension of the current policy in order to enhance ex ante corruption and mismanagement control. The idea here presented is that common sense to increase the probability of a municipality being selected for an audit during a mayor's term, thus assuring that every local executive authority will be investigated at least once during its mandate, may be more than the probability level required for mayors to adopt good management choices. We develop a theoretical model of strategic interaction between mayor and the General Comptroller's Office, highlighting the factors that condition mayor's choices and conducting a cost-benefit analysis concerning CGU's policy decisions. A novel database based on audit reports for health transfers is drawn upon for illustration of players' response to current levels of parameters.

Discussant: *C. Vanberg*

Session C9 Legal Systems IILecture hall 223 Chair *Thomas Bräuninger*, University, Political Science, Mannheim (D)**Checks and balances at the OK corral: Restraining leviathan***A. Basu Choudhary¹, M. Reksulak², W.F. Shughart II³*¹Virginia Military Institute, Department of Economics & Business, Lexington VA, (USA)²Georgia Southern University, Economics, Statesboro GA, (USA)³University of Mississippi, Department of Economics, University, MS (USA)

The second amendment of the US constitution is often interpreted by lawyers as a way of reducing the state monopoly on coercive power. We model a state trying to corner the market for coercive power. This state faces potential entrants (empowered by the second amendment) who are trying to reduce the market power of the state. We use this contestable markets approach to show that even with the second amendment the state can wield a monopoly on coercive power. This suggests that the role of the second amendment as a bulwark against a rapacious state may be a romantic fantasy – albeit one that the US Supreme Court seems to have bought into.

Discussant: *M. Brunner***Governments, parliaments, and legislative activity***T. Bräuninger¹*¹University, Political Science, Mannheim (D)

Various strands of literature in comparative politics suggest that there is a differential impact of the type of government and their supporting legislative coalitions in parliamentary democracies, e.g. in terms of their size and ideological heterogeneity, on the potential to induce policy change. Most studies in this area, however, focus on governments as agenda-setters, possibly neglecting the role of parliaments in policy-making. Moreover, the most striking empirical evidence is drawn from analyses of the formation and duration of coalition governments or their impact on pecuniary aspects such as fiscal or budgetary outcomes. In this article, we address the broader question as to what the consequences of patterns of legislative conflict on the legislative activity of governments as well as parliamentary actors are. Through a simultaneous analysis of the success and event history of about 19,000 legislative bills in four parliamentary and semi-presidential systems (Belgium, France, Germany, and the United Kingdom) from 1986–2003, we demonstrate that institutional and partisan settings of legislative processes have a discriminating impact on the potential of both the executive and parliament to induce policy change. Methodologically, our contribution to the literature on legislative policy-making is to study both the incidence and timing of law-making in one model.

Discussant: *M. Reksulak*

1345–1430

Lunch, board meeting

Friday, March 28th, 2008**1430–1600****Parallel Session D****Session D1 Taxation II**Lecture hall 4 Chair *Peter Schwarz*, Sachverständigenrat, Wiesbaden (D)**Bargaining over the avoidance of double taxation: Evidence from german tax treaties***P. Schwarz², T. Rixen¹*¹WZB, Berlin (D)²Sachverständigenrat, Wiesbaden (D)

Previous empirical studies have mainly focused on tax competition and have neglected the role of tax cooperation in international taxation issues. Building on recent research we show for up to 46 tax treaty partners of Germany that the bargaining outcomes in double taxation agreements (DTAs) depend on investment asymmetries between the countries. A transition from a purely symmetrical country pair to a situation where FDI flows only in one direction would increase on average the negotiated withholding tax rate by roughly 5%-points. Our results are robust with regard to the concept of investment asymmetries (either in shares or levels) and to different operationalizations (FDI stocks or sales). In addition, we show that bargaining on DTA outcomes is not only about the limitation of withholding tax rates but also about the definition of a Permanent Establishment (PE).

Discussant: *T. Koenig*

Program and Abstracts

(Post-)materialistic values and the mix of capital and labour taxation

T. Koenig¹

¹University of Hannover, Department of Economics, Hannover (D)

We contribute to the recent trend in public economics which tries to take account of social values in order to explain policy outcomes by examining the role of postmaterialism, a value concept that has been broadly used in other social sciences but not so far in economics. We utilize this concept to explain the mix of capital and labor taxation chosen in a society. Following Inglehart (1997), we define postmaterialism as the relative importance that an individual ascribes to immaterial values over material things. We incorporate this notion into a simple tax model for an open economy. We show that greater emphasis on immaterial values will lower the ratio of capital to labor taxes. Subsequently, we test our theoretical results empirically, using a panel data set comprising 18 OECD countries over the period 1981-2001. The parameter estimates for our postmaterialism proxies developed from the World Values Surveys exhibit the predicted signs; moreover they are highly significant in all regressions. Thus, our empirical analysis supports our central hypothesis that postmaterialism is a determinant for the tax mix chosen in a society.

Discussant: T. Bräuninger

Tax competition and income segregation – Evidence from Switzerland

F. Somogyi², C. Schaltegger¹, J.-E. Sturm²

¹Swiss Federal Department of Finance, Bern (CH)

²ETH Zurich, KOF Swiss Economic Institute, Zurich (CH)

In this paper, we use community-level data from the Swiss canton of Zurich to study the influence of income taxes on the choice of residence of households. The fact that Swiss communities can individually set tax multipliers shifting the progressive tax scheme which is fixed on the cantonal (federal state) level enables to study the effect of differences in income taxation on the locational choice of households within a small and economically and culturally homogeneous region. Using cross-sections of the years 1995 and 1999, we find substantial evidence for income sorting in the Canton of Zurich.

Discussant: J. Schnellenbach

Session D2

Lecture hall 5

Behavioural II

Chair *Christoph Vanberg*, Max-Planck-Institute, Jena (D)

How ethics may influence the provision of public goods

M. Pickhardt¹

¹Chemnitz University of Technology, Chemnitz (D)

In this paper I give some insights regarding problems and benefits that may emerge when ethics play a role in the provision of public goods. I provide some background concerning the notions of 'public goods' and 'ethics' and then proceed with a few examples regarding three alternative ethical impact channels: behavioral norms, access to essential goods and limits of consumer sovereignty. Among other things, I show that the interaction of different ethical motives may lead to a Pareto-optimal voluntary contribution environment.

Discussant: K. Beckmann

Spatial heterogeneity and absence of spending complementarity in French local overlapping jurisdictions

M.-E. Binet¹

¹University, Economics, Rennes (F)

Many countries exhibit multilevel local public sectors with potential interactions between the different tiers. Estimations based on the conditional demand model à la Turnbull and Djoundourian (1993) and using data from different countries give evidence of complementarity between local spending at different levels. This article offers a new test of that result with French data at the communes and départements levels. However, contrary to previous tests, our estimation strategy allows spatial heterogeneity in the demand behaviours and corrects the bias in the t-statistics due to the high number of communes relative to départements. Results show that the hypothesis of systematic spending complementarity between these two levels of local government in France is rejected by the data.

Discussant: M. Pickhardt

Session D3
Lecture hall 6

Sport and the Economy

Chair *Caroline Buts*, Vrije Universiteit Brussel, Micro Economics, Brussels (B)

Government decentralization and athletic incentives: the case of former communist countries

*C. Buts*¹

¹Vrije Universiteit Brussel, micro economics, Brussels (B)

We study the effects of government structure on track and field performances. Thereto we analyze the evolution of market shares of Eastern European countries that underwent a change to more or less decentralized government using IAAF top hundred year lists. We obtain the following results: On the one hand, the group of countries that experienced a transition to a more decentralized structure, i.e. Czechoslovakia, the Soviet Union and Yugoslavia, perform better than nations without such an institutional change. On the other hand, more centralization in Germany leads to lower top level athletics performance.

Discussant: *M. Viren*

The case for government lotto monopoly

*M. Viren*¹

¹University of Turku, Department of Economics, Turku (FIN)

This paper deals with government lotto monopoly which is the dominating feature in practically all countries. The paper presents an overview of arguments which are used to support the government monopoly, on the one hand, and arguments which used to favour some sort of free competition arrangement, on the other hand. The paper also presents empirical evidence on economies of scale and scope in the lottery industry which, in turn, are important in assessing the possibilities of having a competitive market solution instead of a natural monopoly in the case where legal restrictions were abolished. The analyses deal with both European and US state lotteries for the period of last fifteen years. Thus, costs functions are estimated from annual panel data which consists of up to 500 observations. The analyses show that there are evidence on both economies of scale and scope both in Europe and in the U.S. The importance of this result is considered from the point of view of regulation of natural monopolies. It is also considered whether government lotto monopolies could be replaced by appropriate tax instruments.

Discussant: *M. Breuer*

Public lotteries and the promotion of sport in Germany

*M. Breuer*¹

¹University, Sport Science, Jena (D)

Disregarding the juridical aspects of public lotteries in Germany it can be stated that among the federal states several nonprofit organizations benefit from the revenues generated by the German Lotto-Toto-Block. Moreover the promotion of sport – especially non-professional sport – can be identified to be the most important recipient of benefits. The current rule implicates several problems which should be analyzed in this article. On the one hand this is the public interest in games of chance in a case where revenues from lotteries substitute taxes while on the other hand it is the regressive effect of lotteries.

Discussant: *C. Buts*

Session D4
Lecture hall 7

Voting III

Chair *Matthias Wrede*, University of Marburg, Marburg (D)

Voting for mobile candidates

*M. Wrede*¹

¹University of Marburg, Marburg (D)

This paper analyzes inter- and intraregional redistribution in a centralized state using the citizen-candidate model. It focuses on conflicting interests among regions and among differently mobile citizens. If discrimination with respect to the place of residence and with respect to the degree of mobility is possible, diversity of interests is high. Under the plurality rule and with sincere voting the largest socioeconomic group of citizens supplies the winning candidate and discriminates against all other groups. However, if discrimination with respect to the degree of mobility is constrained, mobile citizens gain power and interregional redistribution is reduced.

Discussant: *S. Hanke*

Program and Abstracts

Electoral competition in representative democracy

*J. Laine*¹, *G. Laffond*²

¹Ecole Nationale de la Statistique (ENSAI), Economics, Bruz (F)

²Conservatoire National des Arts et Métiers, Paris (F)

We study three games of electoral competition in representative democracy, formalized as a two-tiers voting procedure. Such procedure may produce outcomes that would not emerge from a referendum-type vote. We investigate how this potential inconsistency affects strategies of parties which seek to maximize their number of seats at Parliament. Competition in direct democracy is captured by a zero-sum game, where a party wins when receiving more than half of the votes. The existence and nature of equilibria is studied for three possible extensions of this game to representative democracy. Each relates to a specific definition of payoff under mixed strategies.

Discussant: *M. Gregor*

Economic effects of direct democracy in local Germany

*S. Hanke*¹

¹Humboldt-University, Public Finance, Berlin (D)

This paper first shows that direct democracy at German local level determines the economic outcome. After the construction of indices for different direct democratic participation rights according to Stutzer (2000), their effects on expenditures and economic growth will be estimated for 1997. The results show that strong initiative right leads to significantly higher administrative expenditures. But this increase has no impact on economic growth. On the other hand, the stronger the control of politicians via referendum, the lower are capital budgets and investment expenditures. These changes strongly influence the economic growth, even if the sign is not clear. It depends on model specification.

Discussant: *N. Potrafke*

On the allocation of responsibility by votes

*M. Holler*¹, *J. Alonso-Meijide*²

¹University of Hamburg, Institute of SocioEconomics, Hamburg (D)

²University of Santiago de Compostela, Department of Statistics and Operational Research, Lugo (E)

The paper discusses assumptions and conditions for allocating responsibility by means of voting. It relates responsibility to power and power to freedom of choice. Power in a voting body is identified by the Public Good Index, given that the result of policy making can be seen as a public good. The substitution of mergeability by the weighted monotonicity property in the definition of this index suggests relating the cardinality of sets, implicit to the measurement of power, to comparing sets and relations of set inclusion. This allows for the application of results from the measurement of power to the specification of freedom of choice and to connect the "world of agents" with the "world of opportunities", i.e., a very fundamental description of politics.

Discussant: *M. Wrede*

Session D5

Lecture hall 8

EU III

Chair *Mika Widgren*, Turku School of Economics, Economics, Turku (FIN)

Inter-institutional and intra-institutional influence in European union decision making

*F. Turnovec*¹, *J.W. Mercik*², *M. Mazurkiewicz*²

¹Charles University in Prague, Institute of Economic Studies, Prague (CZ)

²Wrocław University of Technology, Institute of Industrial Organization, Wrocław (PL)

Distribution of voting power in the Council of Ministers is a bad proxy of national influence in European Union decision making. Simplified models of consultation and co-decision procedures as voting games are formulated, reflecting fact that together with Council also Commission and European Parliament are important actors in the EU decision making. Legislative procedures change inter-institutional distribution of power (among Council, Commission and Parliament), reducing power of the Council, and at the same time changing intra-institutional power in the Council (relative power of the member states compared to the Council voting without taking into account Commission and Parliament).

Discussant: *M. Widgren*

Strategic power in the EU council in consultation and codecision procedures*S. Napel², M. Widgren¹*¹Turku School of Economics, Economics, Turku (FIN)²University of Bayreuth, Bayreuth (D)

The bulk of quantitative EU decision-making literature has concentrated on analysing the Council of Ministers (CM) which is the main decision-making body of the EU. These studies started to mushroom in the early 1990s and are mostly inspired by EU enlargements and institutional reform where, indeed, the Council was the key institution. A few other studies evaluate national and/or political parties' influence in the European Parliament (EP). There are also some attempts to evaluate inter-institutional relations and intra-Council power distribution of power using cooperative composite game approach but they have been unsatisfactory as cooperative games do not fit to analysis of decision-making procedures that have strategic elements and determine inter-institutional relations in the EU. In this paper, we evaluate the distribution of power within the Council of Ministers in spatial context. We do, however, approach the issue very differently from all existing studies. Although our main emphasis is in the power distribution in the Council, in our evaluation, we don't make the assessment in isolation of the other EU institutions. Specifically, we use a procedural inter-institutional non-cooperative framework of EU decision-making where also the CM members act strategically to evaluate CM as an integrated part of EU decision-making. This extends the literature that concentrates only on intra-institutional distribution of power in CM. Moreover, we extend the previous analyses by considering weighted voting in the Council in spatial inter-institutional set-up.

Discussant: *D. Leech***The double majority voting rule of the EU reform treaty as a democratic ideal for an enlarging union: An appraisal using voting power analysis***D. Leech¹, H. Aziz¹*¹University of Warwick, Coventry (GB)

The Double Majority rule in the Treaty is claimed to be simpler, more transparent and more democratic than the existing rule. We examine these questions against the democratic ideal that the votes of all citizens in whatever member country should be of equal value using voting power analysis considering possible future enlargements involving candidate countries and then to a number of hypothetical future enlargements. We find the Double Majority rule to fail to measure up to the democratic ideal in all cases. We find the Jagiellonian compromise to be very close to this ideal. Keywords: European Union; Reform Treaty; Nice Treaty; Qualified Majority Voting; Power Indices.

Discussant: *F. Turnovec***Session D6**

Lecture hall 9

Business Cycle IChair *Linda Veiga*, Universidade do Minho, Economics, Braga (P)**Election results and opportunistic policies: An integrated approach***T. Aidt¹, F. Veiga², L. Veiga²*¹University of Cambridge, Economics, Cambridge (GB)²Universidade do Minho, Economics, Braga (P)

The literature on political business cycles suggests that politicians systematically manipulate economic and fiscal conditions before elections. The literature on vote and popularity functions suggests that economic conditions systematically affect election outcomes. This paper integrates these two strands of literature. We use Rogoff (1990)'s model of the rational political business cycle to derive the two-way relationship between the win-margin of the incumbent politician and the size of the opportunistic distortion of fiscal policy. This relationship is estimated, for a panel of 275 Portuguese municipalities (from 1979 to 2001), as a system of simultaneous equations (by GMM). The results show that (1) opportunism pays off, leading to a larger win-margin for the incumbent; (2) incumbents behave more opportunistically when their win-margin is small. These results are consistent with the theoretical model.

Discussant: *G. Eusepi***Political budget cycles and the budget process – Evidence from the German states***S. Margraf¹*¹Humboldt University, Wirtschaftswissenschaften, Berlin (D)

This paper explores and compares the factors behind deficit planning and actual deficit spending in the West German states from 1977 to 2006. Exploiting a large set of economic and political variables the empirical approach leads to the robust conclusion that different determinants are responsible in different steps of the budget process. In line with recent studies we find evidence that common economic and to a minor degree state specific economic development is responsible for deficit planning and spending. Furthermore there is little evidence for the political business cycle theory in actual deficit

Program and Abstracts

spending. But if one controls for political determinants in the phase of budget planning and budget execution political budget cycles significantly break through. Politicians seem to strategically apply the budget process for signalling fiscal discipline and for hiding additional deficit spending.

Discussant: *L. Veiga*

Political institutions and economic volatility

*J. Klomp*¹

¹University of Groningen, Faculty of Economics and Business, Groningen (NL)

We examine the effect of political institutions on economic growth volatility, using data 95 countries over the period 1960–2005, taking into account various control variables as suggested in previous studies. Our indicator of volatility is the relative standard deviation of the growth rate of GDP per capita. The results of a heterogenous dynamic panel model indicate that democracy is negatively related to economic volatility. We also find that some dimensions of political instability and policy uncertainty increase economic volatility.

Discussant: *L. Feld*

Session D7

Climate Protection II

Lecture hall 221

Chair *Sigve Tjøtta*, University of Bergen, Economics, Bergen (N)

Do collective actions clear common air? The effect of international environmental protocols on sulphur emissions

*S. Tjøtta*¹

¹University of Bergen, Economics, Bergen (N)

We consider the effects of voluntary international environmental protocols on emissions with regard to the 1985 Helsinki Protocol and the 1994 Oslo Protocol on the reduction of sulphur oxides. Our analysis utilizes panel data from 30 European countries for the period 1960–2002. We divide these countries into “participants” and “non-participants”, i.e., those that did and those that did not ratify the specific protocol. We use a difference-in-difference estimator that focuses on the difference in emissions before and after signing a specific protocol and compares it with this difference for non-participant countries. Difference-in-difference estimation methods rely on annual data and may induce serial correlations in the variables. We use randomly generated placebo protocols to test the estimated effects. In a panel data regression model, where we include country and year dummies, the effect of the Helsinki agreement in reducing sulphur emissions is around three per cent per year, and the effect of the Oslo agreement is around four per cent per year. Correcting the standard errors for serial correlation in both dependent and independent variables is important and overlooked in the previous empirical literature on the evaluation of international agreements.

Discussant: *K. Bizer*

Strategic trade policy as response to climate change? The political economy of climate policy

*L. Wangler*¹, *A. Freytag*¹

¹Friedrich-Schiller-University, Chair of Economic Policy, Jena (D)

This paper discusses the political economy of the climate change debate. The objective is to come to a better understanding of why at international levels (e. g. the G-8 summit in Heiligendamm) climate change was one of the main topics at the agenda, despite the fact that climate change cannot be solved by only eight participating countries, even if these eight countries are considered as the “biggest” in the world. The problem of climate change is a supranational one and needs supranational cooperation. Using a strategic trade policy framework, the paper theoretically and from a positive perspective explains why countries like Germany are more engaged in policies related to climate change than other industrial countries, which also have signed the Kyoto Protocol.

Discussant: *H.-P. Weikard*

Sticks and carrots for the design of international climate agreements with renegotiations

*H.-P. Weikard*¹, *R. Dellink*²

¹Wageningen University, Social Sciences, Wageningen (NL)

²VU University Amsterdam, Amsterdam (NL)

This paper examines stability of international climate agreements under an optimal transfer rule and renegotiations. The optimal transfer rule suggested to stabilise international environmental agreements (Eyckmans and Finus 2004, Weikard 2005) is no longer optimal when agreements are renegotiated. We determine necessary and sufficient conditions for self-enforcing sequences of agreements. If the conditions are met, then transfer payments can be arranged such that no country wants to change its membership status at any stage. In order to demonstrate the applicability of our condition we use the STACO model, a 12-regions global model, to assess the impact of well-designed transfer rules on the stability of an international climate agreement.

Although there are strong free-rider incentives, we find a stable grand coalition in the first commitment period in a game with one round of renegotiations.

Discussant: *R. Eichenberger*

Session D8 Economics of Conflict I

Lecture hall 222 Chair *Magnus Hoffmann*, University, Institute of Microeconomics, Hannover (D)

World on fire? Democracy, globalization and ethnic violence

*R. Jong-A-Pin*¹

¹University of Groningen, Economics, Groningen (NL)

Recent studies suggest that democracy and globalization lead to ethnic hatred and violence in countries with a rich ethnic minority. We examine the thesis by Chua (2003) that democratization and globalization lead to ethnic violence in the presence of a market-dominant minority. We use different data sets to measure market dominant minorities and employ panel fixed effects regressions for a sample of 107 countries over the period 1984–2003. Our model contains two-way and three-way interactions to examine under which conditions democracy and globalization increase violence. We find no evidence for a worldwide Chua effect, but we do find support for Chua's thesis for Sub-Saharan Africa.

Discussant: *M. Hoffmann*

The social benefit of war

*M. Hoffmann*¹

¹University, Institute of Microeconomics, Hannover (D)

Recent findings in economic theory show that cooperation (settlement) between two identical players with conflicting interests in a valuable and contestable resource always Pareto dominates violent dispute (war), given that cooperation is presented using a symmetric bargaining norm. Necessary conditions for settlement to arise are the destructibility of war, and the costless and exogenous enforcement of any agreement made by the two players. We show that endogenous enforcement of the agreements alters the incentives of the players to bargain. This causes a shift in the Pareto frontier so that – under certain conditions – war Pareto dominates settlement.

Discussant: *R. Wintrobe*

Contested water rights

*E. Ansink*¹, *H.-P. Weikard*¹

¹Wageningen University, Social Sciences, Wageningen (NL)

In international river basins, there are many disputes on the property rights of water, leading to inefficient water allocation. In this paper we argue that contested water rights are obstructing water trade. To show this, we use a conflict model in which property rights of water are contested, because countries have overlapping claims to water. In the model, countries can spend their resources on production, which also requires water, or fighting. The equilibrium of this model is inefficient as both countries spend a positive amount of resources on fighting, which is not productive. In this inefficient equilibrium countries have two options. Either they bargain to achieve an efficient allocation of water, or they stick to their claims, waiting for third-party intervention which would allocate the water in an equitable way. The results show that for certain parameter combinations, countries prefer not to bargain an efficient allocation. Instead, they remain in the inefficient equilibrium, where water is contested. Two new features of this paper are the application of conflict models to the issue of water rights and the introduction of (overlapping) claims in non-cooperative bargaining problems.

Discussant: *R. Jong-A-Pin*

After the war: An experimental study of post-conflict behavior

*J. Lacombe*¹, *F. Lagos*¹, *E. Reuben*², *F. van Winden*³

¹University of Granada, Granada (E)

²Northwestern University, Evanston (USA)

³University of Amsterdam, Amsterdam (NL)

Most models of conflict concentrate on the allocation of resources between production and war. After a conflict, winners take control of the resources of the losers. In this paper we show experimentally that this simplification misses an important component, namely the defeated player's reaction. We find that, if given the choice to destroy their resources, many prefer to do so rather than leave them to the winner. Given this, incentives to invest in war change and lower levels of conflict are achieved. Furthermore, with repeated interaction, post-conflict behavior serves as a form of communication which promotes peaceful future outcomes.

Discussant: *T. Weiland*

Program and Abstracts

1600–1615 Coffee break

Friday, March 28th, 2008
1615–1745 Parallel Session E

Session E1 Social Policy I
Lecture hall 4 Chair *Jan Schnellenbach*, Ruprecht-Karls-Universität Heidelberg, Alfred-Weber-Institute, Heidelberg (D)

Still a director’s law? On the political economy of income redistribution

*J. Schnellenbach*¹
¹Ruprecht-Karls-Universität Heidelberg, Alfred-Weber-Institute, Heidelberg (D)
George Stigler (1970) provided a theoretical basis for the alleged empirical regularity found by Aaron Director that income redistribution runs from the poor and the rich to the middle classes. His model is however only applicable to describe modern representative democracies under relatively strong and unrealistic assumptions, which makes alternative equilibria of income redistribution equally plausible. In this paper, we survey the theoretical and empirical literature on the political economy of income redistribution with a particular focus on the more recent results from the comparative political economics literature. The comparisons between presidential and parliamentary democracies, majoritarian and proportional representation systems, direct and representative democracy or federalism and Unitarianism are the most important distinctions to be looked at. In addition, we analyze the impact of these different institutions on income redistribution econometrically by drawing on three different data sets. In contrast to the largest part of the comparative political economics literature, we do however not measure income redistribution by particular spending programs or redistributive taxation, but instead by Gini coefficients which allow to focus on the income redistribution achieved by the state.

Discussant: *P. Mohl*

Income inequality and redistributive spending – An empirical reinvestigation

P. Mohl¹, O. Pamp²
¹ZEW, Public Finance, Mannheim (D)
²FU Berlin, Jean Monnet Centre of Excellence, Berlin (D)
The link between income inequality and governmental redistribution is still intensely researched and debated. Starting with the median-voter-hypothesis, a plethora of theoretical models have been developed during the last three decades to identify and explain possible causal relationships. The empirical evidence so far has been mixed however. The aim of this paper is to review the existing literature on inequality and redistribution, explicate the theoretical causal mechanisms identified so far, and provide a comprehensive, rigorous empirical test that overcomes some of the shortcomings of other empirical studies. Using panel data on 17 OECD countries over the time period of 1975-2004, we find robust evidence that income inequality is positively associated with redistribution. We looked not only at different spending categories but also at the share gains of different income deciles. Most importantly, we also find evidence for Director’s law. Hence, income is redistributed from the rich and from the bottom 10 per cent of the income ladder towards the middle classes.

Discussant: *O. Rosin*

Democracy, debt and disorder. Towards the end of political “Generosity”

G. Eusepi¹, L. Giuriato¹
¹Sapienza University of Rome, Rome (I)
Unquestionably, the existing welfare state, as has evolved in a four-decade span, is destined to collapse unless redistribution enters a new constitutional contract to smooth the intergenerational conflicts that grew out of the presuppositions of Harvey Road. A key insight is that under the spell of intergenerational solidarity, fiscal illusion has perpetrated a violation of the intergenerational equal treatment. The paper, in its initial part, highlights how concentration of expenditures and intertemporal dilution of costs by means of debt creation have provided the ambience to turn democratic order into intergenerational disorder. It goes on to analyze the evolution of the Italian public debt and the background of the elements that have generated intergenerational disorder. Despite the data on the Italian public finances during a one-hundred-fifty-year span show that governments have widely resorted to public debt, there are marked differences between public debt policies before and after the 1970s. The paper suggests that intergenerational order collapsed ever since the Italian governments embraced the presuppositions of Harvey Road.

Discussant: *F. v. Winden*

Session E2
Lecture hall 5

Behavioural III
Chair *Torsten Weiland*, Max Planck Institute of Economics Jena (D)

Drawing on neuroeconomics to explain anomalies in development economics

*S. Chand*¹

¹University of Oslo, Oslo (N)

Standard paradigms in development economics are based on neoclassical rational decision-making procedures. However, nEuroeconomics challenges these views, arguing that getting desired responses from agents will require attending to the psychological underpinnings of their behaviour. There is a dearth of formal treatments of this viewpoint, which this paper attempts to address. A decision-making model for the individual is set up which emphasizes the importance of affect in determining choices. To give concrete expression to the formulation an example is constructed that refers specifically to income earning activities. Some macroeconomic implications for income distribution are noted and illustrated with reference to Russia.

Discussant: *N. Große*

The neuroeconomics of voting: First neurophysiological evidence of different sources of utility in voting

C. Neuhaus^{1,2}, *B. Weber*^{1,2}, *I. Bischoff*³

¹Life & Brain Center Bonn, NEuroCognition, Bonn (D)

²University of Bonn, Bonn (D)

³University of Giessen, Institute for Public Finance (Economics II), Giessen (D)

Which motives drive the decision of a voter to approve or reject a proposal? Two different sources of utility are discussed in the public choice literature: The instrumental voter chooses the proposal which yields the highest utility if pursued. The motivating utility of the expressive voter results from the act of voting itself rather than from the outcome of the ballot. We conducted an fMRI experiment which investigates nEurophysiological activation in the moment of expressing one's opinion. First results show different patterns of neural activation for instrumental voters and expressive bandwagon voters, supporting the assumption of different sources of utility.

Discussant: *S. Chand*

Impact of inclusion of the group in the self on the process of group-based goal pursuit

*S. Täuber*¹, *A. Mummendey*¹, *K. Sassenberg*¹

¹Friedrich-Schiller-University Jena (D)

Groups set norms and pursue goals; however, the carrier of group goals is the individual. Thus, the group goal is pursued via individual behavior on behalf of the group. Oftentimes, groups pursue goals of long-term nature, e.g. political parties that want to gain power, or football teams that want to be promoted to a higher league. In such contexts, the individual group member makes important decisions regarding how to adjust the group goal following intermediate drawbacks or successes. The aim of the present research is twofold: First, the process of group goal setting over time is analyzed systematically. Second, inclusion of the group in the self is related to individual behavior shaping this process. The complete sequence of goal setting, goal adjustment, and performance in group contexts was tested in three studies: A scenario study (N = 110, time points = 2), a minimal group experiment (N = 170, time points = 4), and a field study (N = 16, time points = 22). Results show that the relation between individual and group-level decisions was influenced by factors representing inclusion of the group in the self, namely collectivism, self-construal, and identification. Moreover, strong gender differences in decision making on behalf of groups were observed. These findings are discussed in light of groups as guides for individual behavior and their implications for the long-term pursuit of group goals.

Discussant: *C. Neuhaus*

Cheap talk and secret intentions in a public goods experiment

*W. Gäuth*¹, *M. Vittoria Levati*¹

¹Max Planck Institute of Economics, Strategic Interaction Group, Jena (D)

In a public goods experiment, subjects can vary, over a period of stochastic length, two contribution levels: one is publicly observable (their cheap talk stated intention), while the other is not seen by the other subjects (their secret intention). When the period suddenly stops, participants are restricted to choose as actual contribution either current alternative. Based on the two types of choice data for a partners and a perfect strangers condition, we confirm that final outcomes strongly depend on the matching protocol. As to choice dynamics, we find that they are affected by player types.

Discussant: *S. Täuber*

Program and Abstracts

Session E3

Immigration

Lecture hall 6

Chair *Giuseppe Russo*, University of Salerno, Department of Economics and Statistics, Fisciano (I)

Voting over selective immigration policies with immigration aversion

*G. Russo*¹

¹University of Salerno, Department of Economics and Statistics, Fisciano (I)

The claim that skilled immigration is welcome is often associated to the increasing adoption of selective immigration policies. I study the voting over differentiated immigration policies in a two-country, three-factor general equilibrium model where there exist skilled and unskilled workers, migration decisions are endogenous, enforcing immigration restriction is costly, and natives dislike unskilled immigration. According to my findings, decisions over border closure are made to protect the median voter when her capital endowment is sufficiently small. Therefore I argue that the professed favour for skilled immigration veils the protection for the insiders. This result is confirmed by the observation that entry is rationed for both and unskilled workers. Moreover, immigration aversion helps to explain the existence of entry barriers for unskilled workers in countries where the majority of voters is skilled. Keywords: immigration policy, multidimensional voting, Condorcet winner. Jel classification: D72, F22, J18.

Discussant: *T. Renstrom*

Governmental activity, integration, and agglomeration

*I. Ott*¹, *S. Soretz*²

¹Research Institute, Economics, Hamburg (D)

²University of Hannover, Economics, Hannover (D)

This paper analyzes, within a regional growth model, the impact of productive governmental policy and integration on the spatial distribution of economic activity. Integration is understood as enhancing cooperation between the regions, and it describes the extent to which one region may benefit from the other region's public input, e.g. the extent to which regional road networks are connected. Both integration and the characteristics of the public input crucially affect whether agglomeration arises and if so to which extent economic activity is concentrated: As a consequence of enhanced integration, agglomeration is less likely to arise and concentration will be lower.

Discussant: *G. Russo*

Political equilibrium social security with migration

*T. Renstrom*¹, *L. Marsiliani*¹

¹University of Durham, Economics, Durham (GB)

We analyze the consequences on social security of immigration in a micro founded parliamentary democracy. The underlying economic model is an overlapping-generations economy, where individuals differ in preferences over a public good (as well as in age). Social security, as well as the public good is funded by labour- and capital taxes. We find that in an economy with positive population growth, immigration increases the social security payment (per old). On the contrary, an economy with (small) population decline will experience a decline in social security if immigration is large enough. The reason is that immigration in the latter case alters the political majority.

Discussant: *I. Ott*

Session E4

Politicians I

Lecture hall 7

Chair *Bruno S. Frey*, University of Zurich (CH)

Overprotected politicians

*B.S. Frey*¹

¹University of Zurich (CH)

This paper argues that politicians are overprotected. The costs of political assassination differ systematically depending on whether a private or a public point of view is taken. A politician attributes a very high (if not infinite) cost to his or her survival. The social cost of political assassination is much smaller as politicians are replaceable. Conversely, the private cost of the security measures is low for politicians, its bulk – including time loss and inconvenience – is imposed on taxpayers and the general public. The extent of overprotection is larger in dictatorial than in democratic countries.

Discussant: *F. Padovano*

Flexible pensions for politicians*M. Müller¹*¹ETH Zurich, CER-ETH, Zurich (CH)

It may be difficult to motivate politicians in their last term. To solve this problem, we propose a triple mechanism involving political information markets, flexible pensions, and democratic elections. An information market is used to predict the potential re-election chances of the politician. Pensions depend on the price in the information market and thereby motivate the politician to act in a socially optimal manner. We show that, on balance, the triple mechanism increases social welfare. Finally, we discuss several ways to avoid the manipulation of information markets.

Discussant: *A. Auberger***Politicians' salaries and candidate selection: An empirical analysis***P. Poutvaara², K. Kotakorpi¹*¹University of Tampere, Tampere (FIN)²University of Helsinki, Economics, Helsinki (FIN)

In this paper, we estimate the effect of pay for politicians on who wants to become a politician. We take advantage of a considerable 35 percent salary increase of Finnish MPs in the year 2000. The main argument for this salary increase was that by increasing salaries of elected politicians, it would be possible to attract more skillful candidates. Whether this has actually been the case has not been studied previously. We have collected information on the age, gender, education, occupation and electoral success of all parliamentary and municipal candidates in four parliamentary elections (1995, 1999, 2003 and 2007) and four municipal elections (1996, 2000 and 2004). For a subset of candidates, we have also collected income data. This panel data on two sets of candidates in subsequent elections allows us to perform a difference-in-difference analysis to estimate what effects, if any, the salary increase appears to have had on the composition of the set of candidates in the parliamentary election, and on the composition of elected MPs.

Discussant: *B.S. Frey***Session E5**

Lecture hall 8

EU IVChair *Peter Nannestad*, Aarhus University, Dept. of Political Science, Aarhus (DK)**Where have all the flowers gone? The locational choice of high-skilled immigrants within the EU-15 countries: Some empirical evidence on the Roy-Borjas model***P. Nannestad¹*¹Aarhus University, Dept. of Political Science, Aarhus (DK)

Increasing immigration into western countries over the last 25 years has re-kindled scholarly and political debates over the economic consequences of such immigration for the receiving countries. So far, research has come up with diverging empirical results. There seems, however, to be agreement on one point: the economic impact of immigration is strongly dependent on who the immigrants turn out to be. Thus the skill-level based sorting of immigrants into various host countries can be expected to be highly relevant. Borjas has proposed a sorting model in which the skill composition of migration depends on the second moments of the income distribution in the sending and the receiving countries, provided that skills and income are correlated in both. Previous empirical tests of this model have failed to turn up consistent results. Using data from the OECD Migration Database on the educational levels of immigrants from EU-15 countries into other EU-15 countries the paper shows that the skill-level based sorting of this immigration is consistent with the core prediction from the Roy-Borjas model. This result also obtains when controlling for network (or herd) effects, which are often marshaled as alternative explanations of the locational decisions of immigrants.

Discussant: *A. Marciano***The early european "federalism": Ambiguities of talks about how to walk towards a political union***A. Marciano¹, J.-M. Josselin²*¹Université de Reims, Reims (F)²Université de Rennes, Rennes (F)

Program and Abstracts

Back to Bismarck: shifting preferences for intragenerational redistribution in OECD pension systems

S. Traub¹, T. Krieger²

¹Universität, Bremen (D)

²Universität, Paderborn (D)

In this paper, we investigate the relationship between changes of efficiency, income inequality and life expectancy on the one hand and changes of the preference for intragenerational redistribution in the pension system measured by the Bismarckian factor. The empirical analysis is done for a sample of 20 OECD countries using LIS microdata for the time period 1985–2000. A supplementary laboratory experiment confirms the causal relationships identified in the empirical analysis.

Discussant: *B. Tyrefors*

Session E6

Lecture hall 9

Business Cycle II

Chair *Jeroen Klomp*, University of Groningen, Faculty of Economics and Business, Groningen (NL)

Political business cycles in the new keynesian model

F. Milani¹

¹University of California, Irvine, Economics, Irvine (USA)

This paper tests various Political Business Cycle theories in a New Keynesian model with a monetary and fiscal policy mix. All the policy coefficients, the target levels of inflation and the budget deficit, the firms' frequency of price setting, and the standard deviations of the structural shocks are allowed to depend on 'political' regimes: a pre-election vs. post-election regime, a regime that depends on whether the President (or the Fed Chairman) is a Democrat or a Republican, and a regime under which the President and the Fed Chairman share party affiliation in pre-election quarters or not. The model is estimated using full-information Bayesian methods. The assumption of rational expectations is relaxed: economic agents can learn about the effect of political variables over time. The results provide evidence that several coefficients depend on political variables. The best-fitting specification is one that allows coefficients to depend on a pre-election vs. non-election regime. Monetary policy becomes considerably more inertial before elections and fiscal policy deviations from a simple rule are more common. The results overall support the view of an independent Fed that avoids taking policy decisions right before elections. There is some evidence, however, that policies become more expansionary before elections, but this evidence seems to disappear in the post-1985 sample. The estimates also indicate that firms similarly delay their price-setting decisions until after the upcoming Presidential election.

Discussant: *R. Martins*

Political budget cycles and election outcomes

J. Klomp¹

¹University of Groningen, Faculty of Economics and Business, Groningen (NL)

In this study we examine if governments can manipulate the election outcome before elections with an expansionary fiscal policy. In a multilevel model we find that governments can significantly manipulate the election outcome through government spending and the budget deficit, but not with government revenue. Government spending has also an indirect effect through election year economic growth. The results indicate that voters are myopic because they are sensible to pre-election manipulation, but also rational because they punish average budget deficits.

Discussant: *F. Milani*

Political determinants of business cycle synchronization

P. Cerqueira¹, R. Martins¹

¹University of Coimbra, Faculty of Economics, Coimbra (P)

The study of the business cycle synchronization determinants has traditionally focused on economic variables such as the degree of openness, financial integration or industrial structure, disregarding other institutional aspects such as political and electoral factors. In this paper we purpose to fill in this gap and test whether several political and/or electoral variables related to elections dates and ideological strand of governments have any effect on economic cycle synchronization between countries using a new synchronization index for panel data. We conclude that the simultaneity of governments of the same ideological strand and government changes have a significant impact on the level of economic synchronization. Furthermore, these variables do not alter significantly the explanatory role of the traditional economic variables, implying that political factors are complementary rather than substitutes of the traditional economic factors.

Discussant: *C. de Clercy*

Session E7 Economics of TerrorLecture hall 221 Chair *Martin Gassebner*, ETH, KOF Swiss Economic Institute, Zurich (CH)**Terrorism and cabinet duration: An empirical analysis***J. Mierau*^{2,3}, *M. Gassebner*¹, *R. Jong-A-Pin*²¹ETH, KOF, Zurich (CH)²University of Groningen, Institute of Economics, Econometrics and Finance, Groningen (NL)³Netspar, Tilburg (NL)

We examine the relationship between terrorism and cabinet duration. Our data set includes more than 2,400 cabinets in over 150 countries in the period 1968–2002. We find a small, but significant, effect of terrorism on the probability of government failure. Furthermore, we find that the impact of terrorism depends on the type of attack and is larger in case of more severe attacks. Marginal effect calculations show that the impact of terror on cabinet duration is larger than the impact of economic variables such as economic growth, but less than the impact of a civil war or a government crisis. Our results suggest that cabinets in countries with high levels of terrorism are particularly vulnerable to terrorist attacks.

Discussant: *R. Deloche***An economic analysis of the Aldo Moro's kidnapping and assassination***R. Deloche*¹, *B. Crettez*²¹University of Franche-Comte, Economics, Besacon (F)²University of Paris X, Economics, Nanterre (F)

Thirty years ago, the Red Brigades kidnapped and killed Aldo Moro. Why have the BR decided to execute their threat to kill Moro, whereas it appears that they have not improved their situation by doing so? Our paper answers this question. We develop an integrated game-theoretic model that captures both the problem of kidnapping for some sort of non-monetary ransom and the problem of assassinations of prominent political figures. We embed our model within the historical evidence surrounding the Moro case. We show that, in the Moro case, there is a continuum of equilibria implying the death of the hostage.

Discussant: *Y. Hou***Forms and causes of terrorism: What do we know?***E. Zimmermann*¹¹Dresden University of Technology, Institute of Sociology, Dresden (D)

First, given the vast and uneven literature on terrorism, this paper aims at a minimal definition of terrorism avoiding, of course, causal factors within the definitional criteria. Second, the same procedure will be applied in differentiating five often interlinked forms of terrorism: (1) politico-ideological terrorism; (2) religious terrorism; (3) ethno-cultural terrorism; (4) single-issue terrorism, and (5) international terrorism. Third, basic explanatory variables suggested in the literature will be discussed at three levels: individual, group, and the macro level of societies. Further, there is a critical assessment of theories claiming to be more general ones. Finally, the consequences of terrorism are left out. They are the subject of another paper by Friedrich Schneider and Tilman Brück that eventually be joined with the present one for an overall assessment of terrorism.

Discussant: *J. Mierau***Decentralization as a disincentive for transnational terror? An empirical test***J.A. Fischer*², *A. Dreher*¹¹KOF, ETH Zurich, Economics, Zurich (CH)²Stockholm School of Economics, Economics, Stockholm (S)

Using panel data for a maximum of 109 countries over the years 1976–2000, we are the first to empirically analyze the impact of decentralization on the occurrence of transnational terror. Taking account of the potential simultaneity between terror and decentralization, our results show that expenditure decentralization robustly reduces the number of terror events in a country, while political decentralization has no impact.

Discussant: *R. Congleton*

Program and Abstracts

Session E8

Lecture hall 222

Economics of Conflict II

Chair *Vikas Kumar*, University of Hamburg, Economics, Hamburg (D)

Designing secession proof state: Conflict over size of provinces

V. Kumar^{1,2}

¹University of Hamburg, Economics, Hamburg (D)

²IGDR, Economics, Mumbai (IND)

Internal distribution of territory is a crucial determinant of territorial stability of a state. In this paper we highlight the constraints imposed by the possibility of secession on internal design of states. Within a rent-seeking model of state we show that central and provincial leaderships in a union have different preferences over the size of provinces, which might lead to centre-province and inter-province boundary disputes even when both parties share the objective of preventing secession.

Discussant: *V. Kozlov*

Window dressing or power-sharing? Legislatures and parties in authoritarian regimes

*S. Michalik*¹

¹Universität Konstanz, Politics and Management, Konstanz (D)

What explains the use of 'democratic' political institutions in authoritarian regimes? Whereas some dictators rule through informal institutions and repression, others employ 'democratic' political institutions like a legislature or elections. There are two different approaches to these variations in authoritarian rule. According to the first, whether a dictator relies on institutions depends on his need for cooperation. An alternative explanation regards institutionalization as window dressing for international actors who shall provide a regime with foreign aid, loans or FDI. This study tests these arguments with a new dataset on elections in 179 authoritarian regimes between 1970 and 2005.

Discussant: *V. Kumar*

Solution of the principal-agent problem under dictatorship: Signals, shirking, and repression

*V. Kozlov*¹, *G. Kalyagin*¹

¹Lomonosov Moscow State University, economics, Moscow (RUS)

This paper sheds light on behavior of dictator and his officials in the soviet type totalitarian dictatorships. It is well-known fact that the plan in the soviet economy actually was a result of intrigues and secret negotiations between interested parties. Usually, direct executors were interested in cutting down plans, but in some cases they aimed to increase them. Particularly it concerns the fact of mass repression under dictatorships and overexpenditure of an administrative resource at elections in non-democratic and quasi-democratic countries. We present the simple model of interaction between principal (dictator) and his agents, which explain these paradoxical facts.

Discussant: *S. Michalik*

Does arbitration blossom when state courts are bad?

*S. Voigt*¹

¹MACIE, Economics, Marburg (D)

It is often conjectured that Non-State Dispute Resolution blossoms when state courts are not independent or are perceived as low quality courts. This conjecture implies a substitutive relationship between state and non-state dispute resolution. An alternative hypothesis argues that both the quality as well as the frequency of use of these two alternative mechanisms are complementary: societies with high quality state courts would also be able to provide high quality non-state dispute resolution. This is the first study that puts these hypotheses to an empirical test. It turns out that the lower the perceived quality of state courts, the less frequently conflicting firms resort to them. Secondly, firms in common law countries turn away from state courts significantly more often than firms in civil law countries. This result sheds doubt on the robustness of results generated within the legal traditions literature. Finally, in states that have created the preconditions for arbitration, businesspeople resort significantly more often to state courts. We interpret this as evidence in favour of the complementarity hypothesis.

Discussant: *K. Winkler*

1800–1815

Teaching of Public Choice in the Latinamerican countries
Jose Casas Pardo

1815–1945
Lecture hall 2

Panel on The Future of Monetary Policy in an Enlarged European Union;
participants *Sylvester Eijffinger, Manfred J.M. Neumann, Pierre Siklos*

Saturday, March 29th, 2008

09⁰⁰–10³⁰

Parallel Session F

Session F1

Lecture hall 8

Development III

Chair *Andreas Freytag*, University of Jena (D)

A meta-analysis of development aid allocation: The effects of income level and population size

*M. Paldam*¹

¹University of Aarhus, Economics, Aarhus (DK)

The effect on aid allocation of the income level and population size in the recipient country is analyzed. The data show that both variables have a significant and robust negative effect, but they explain only a small part of the variation. The main thrust of the paper is a meta-analysis of the large aid allocation literature, where the impact of the two variables is analyzed, controlled for a wide range of factors. By the standard meta-tests, the results converge to much the same as found in our own analysis of the data. The poverty effect is in accordance with stated policies of all donors, while the population effect appears contrary to the stated policy of all donors. The main multilateral donors do not influence this pattern. Indeed, the evidence suggests that the poverty effect is smaller for the multilateral donors. Six main hypotheses are presented to explain the population effect.

Discussant: *J. Ahrens*

Global public goods and foreign aid in the shape of subsidies

*D. Sonntag*¹

¹University, Economics, Chemnitz (D)

In this paper the impact of foreign aid in the shape of subsidies on the efficiency of global health-promoting public goods is studied in non-cooperative multi-stage games. At stage 1, a subsidy which is contingent on some minimum provision level is determined. In later stages, countries choose their contributions to a health-promoting public good and receive a subsidy, if their supply is no less than a threshold. Otherwise, no subsidy is paid. Our analyses indicate that efficient provision levels can be achieved, if a country group with low productivity offers a subsidy to a country group with high productivity.

Discussant: *J.-E. Sturm*

Development aid and international politics: Does membership on the UN security council influence world bank decisions?

*J.-E. Sturm*¹, *A. Dreher*¹, *J. Vreeland*²

¹KOF, ETH Zurich, Zurich (CH)

²Yale University, Department of Political Science, New Haven (USA)

We investigate whether temporary members of the UN Security Council receive favorable treatment from the World Bank, using panel data for 157 countries over the period 1970–2004. Our results indicate a robust positive relationship between temporary UN Security Council membership and the number of World Bank projects a country receives, even after accounting for economic and political factors, as well as regional, country and year effects. The size of World Bank loans, however, is not affected by UN Security Council membership.

Discussant: *M. Paldam*

Session F2

Lecture hall 5

Money I

Chair *Donato Masciandaro*, Bocconi University Milan (I)

The political economy of seigniorage

*F. Veiga*¹, *A. Aisen*²

¹University of Minho, Economics, Braga (P)

²International Monetary Fund, Washington, D.C. (USA)

While most economists agree that seigniorage is one way governments finance deficits, there is less agreement about the political, institutional and economic reasons for relying on it. This paper investigates the main political and institutional determinants of seigniorage using panel data on

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about 100 countries, for the period 1960–1999. Estimates show that greater political instability leads to higher seigniorage, especially in developing, less democratic and socially-polarized countries, with high inflation, low access to domestic and external debt financing and with higher turnover of central bank presidents. One important policy implication of this study is the need to develop institutions conducive to greater political stability as a means to reduce the reliance on seigniorage financing of public deficits.

Discussant: *M. Rodriguez Lopez*

Do markets care about central bank governor changes? Evidence from emerging markets

C. Moser¹, A. Dreher²

¹University of Mainz, Economics, Mainz (D)

²ETH Zürich, Zürich (D)

Based on a new daily data set for 20 emerging markets over the period 1992–2006, this paper examines the reactions of foreign exchange markets, domestic stock markets and sovereign bond spreads to central bank governor changes. We find that the replacement of a central bank governor negatively affects financial markets on the announcement day. This negative effect is mainly driven by irregular changes, sending negative signals about perceived central bank independence. Personal characteristics of the central banker are less important for market reactions. We find no evidence that changes in the central banker's conservatism affect the reactions of the markets.

Discussant: *A. Maslowka*

Event history analysis: New evidence for the political role of the argentinean central bank (1981–2007)

M. Rodriguez Lopez¹

¹University, Faculty of Economics and Social Science, Hamburg (D)

This research inquires when and why the Argentinean Central Bank increases the likelihood for a systematic defeating legal change with a new database for the legal framework of the financial markets (1981–2007). The relevance is because of the lack of central banking literature for developing countries and the important role played by this institution. The methodological approach is based on the Event History Analysis and the literature of Intertemporal Conflict of Interest. Concluding, the political variables like end of presidential mandates and periods have played a more important role than the forecasting of economical crisis for this Central Bank's behavior.

Discussant: *D. Masciandaro*

On the precision of central bank independence measures and their relationship with inflation: Panel data approach

A. Maslowska¹

¹University, Economics, Turku (FIN)

This paper aims to verify empirically the quality of central bank independence measures. Due to the wide criticism of CBI indices and the need for further research on the relation between CBI and inflation, a panel data analysis is performed. After a brief description of imprecisions in CBI measures methodology and their definitions, a comparison is made by evaluating the CBI measures' ability to explain changes in inflation rate in advanced countries, as well as developing throughout the certain period. Final conclusions point to the economic independence measure for advanced and TOR for developing, as the most accurate CBI indices.

Discussant: *F. Veiga*

Session F3

Lecture hall 4

Public Sector Economics I

Chair *Luis Imbeau*, Laval University, Political Science, Quebec (CDN)

Dissonance in fiscal policy: A systematic analysis of the congruence between speech and action in four canadian provinces, 1970–2004

L. Imbeau¹

¹Laval University, Political Science, Quebec (CDN)

The objective of this paper is to explore the relationship between speech and action in the budgetary process of provincial governments in Canada. I ask the following question: does the fiscal conservatism (liberalism) expressed by politicians in their policy speeches correspond to the fiscal discipline (indiscipline) they manifest when they improve (deteriorate) their budget balance? In other words, is there policy consonance or dissonance in the fiscal policy of the governments of Alberta, British Columbia, Ontario and Québec and under which conditions dissonance is useful for the general welfare? I proceed in three steps. First, I review the literature on the relationship between speech and action in the policy process. Second, I propose a conceptualisation of the relationship between speech and action. Based on an analysis of power relationships in the policy process, this conceptualisation tries to identify the conditions of a benevolent dissonance in fiscal policy. Third, I propose an empirical test

of the model measuring fiscal discipline in action and fiscal conservatism in speeches and showing that benevolence follows economic, electoral, and partisan cycles.

Discussant: *A. Afonso*

Income distribution determinants and public spending efficiency

A. Afonso¹, L. Schuknecht²

¹ISEG/UTL-Technical University of Lisbon, Economics, Lisbon (P)

²ECB, Frankfurt (D)

In this paper we examine the impact of public spending, education, and institutions on income distribution in advanced economies. We also assess the efficiency of public spending in redistributing income by using a DEA (Data Envelopment Analysis) non-parametric approach. We find that public policies significantly affect income distribution, notably via social spending, and indirectly via high quality education/human capital and via sound economic institutions. Moreover, for our set of OECD countries, and within a two-step approach, several so-called non-discretionary factors help explaining public social spending inefficiencies.

Discussant: *D. Stadelmann*

The ricardian equivalence versus debt capitalization in local public finance

D. Stadelmann¹, R. Eichenberger¹

¹University of Fribourg, Department of Economics, Fribourg (CH)

Rational and forward-looking individuals know that government debts today mean higher taxes in the future. The Ricardian equivalence at the national level implies that the burden of the debt cannot be shifted between generations as intergenerational transfers allow the future generation to pay back the debts. We argue that at the local level a similar equivalence holds even for non-altruistic individuals but works through a different channel: Landed property persists over time and fiscal differences are capitalized in property values. Our theoretical model predicts that communities with a more favorable asset/debt structure have, *ceteris paribus*, higher property prices. We confirm these predictions empirically using a panel dataset for communities in the Swiss metropolitan area of Zurich.

Discussant: *L. Imbeau*

Session F4

Lecture hall 7

Politicians II

Chair *Fabio Padovano*, Università Roma Tre (I)

Would you trust an Italian politician? Preliminary evidence from Italian regional politics

F. Padovano¹

¹Università Roma Tre, Rome (I)

This paper evaluates the erosion of electoral accountability of the "Governors" of the Italian Regions in three subsequent political moments: 1) the elections; 2) the inaugural speeches of the Governor; 3) their first important policy decision, the long-term regional budget (DPEFR). We use content analysis (Laver et al., 2003) to assess the position of each Governor on a left to right distribution at the moment of the inaugural speeches and of the DPEFR. We then analyze the correlation between the distributions of 1) the electoral results and the inaugural speeches and 2) the inaugural speeches and the DPEFR, under the hypothesis that greater similarity can be interpreted as greater accountability. The analysis detects some erosion of accountability from the elections to the inaugural speeches, and a more serious one from the inaugural speeches to the DPEFR. A series of ANOVA tests suggests that the Region's relative economic position/dependency on transfers from the central governments partly explains such loss of accountability.

Discussant: *M. Müller*

Popularity functions for French rulers (1995–2007)

A. Auberger¹

¹ University of Paris, Paris (F)

In this article, we build and estimate popularity functions for French governments (President and Prime Minister) with the seemingly unrelated regressions (SUR) method over the period 1995:6–2007:4. We show that over this period the unemployment rate has a significant influence on the popularity of French rulers (responsibility hypothesis) but not the inflation rate. We put in evidence the influence of political variables which can be linked to the wearing effect of being in power, to the personality of every ruler, to internal affairs (national strikes, crisis of the "CPE") or to events (world cup of football, conflict in Kosovo).

Discussant: *R. Holcombe*

Program and Abstracts

Session F5

Lecture hall 8

Federalism

Chair *Klaas Staal*, University of Bonn (D)

Federalism, the federalist papers and public choice theory

*M.F.M. Lopes*¹

¹Getulio Vargas Foundation, Center for Policy and Economics of the Public Sector, Sao Paulo (BR)

Abstract: The idea of this research paper is to engage in a broad discussion of federalism and the characterization of human behavior that calls for such a form of organizing the state, both in the Federalist Papers and in Public Choice theory. We intend to explore the roots of federalism, and how Public Choice scholars base their research on the work developed by the Federalists. By evaluating the common grounds of the Federalists and Public Choice scholars, we make some final remarks, confirming the importance of the Federalist Papers as a starting point for modern political and economic thought.

Discussant: *R. Young*

Centralized and decentralized provision of public goods

*J. Feidler*¹, *K. Staal*²

¹University of Bonn, Bonn (D)

²University of Bonn, IIW, Bonn (D)

We model the trade-off between centralized and decentralized provision of local public goods. Centralized decisions are made in a legislature of locally elected representatives, and this creates a conflict of interest between citizens in different jurisdictions. Depending on how we model the legislature, this can result in either efficient, excessive or misallocation of public spending. Decisions are influenced by spillovers and differences in jurisdictional size. Furthermore, we look at the strategic incentives of coalition formation in the legislature.

Discussant: *J. Hanoteau*

Intertwined federalism: Accountability problems under partial decentralization

*M. Joanis*¹

¹University of Toronto, Department of Economics, Toronto (CDN)

Decentralization reforms tend to be partial in nature, leading to the coexistence of multiple tiers of government in public good provision. Electoral accountability in such a context presents voters with the complex task of assessing the respective role of each level of government in the policy outcomes that they observe. This paper analyses the effects of such partial decentralization on accountability using a two-period political agency model. In equilibrium, the benefits associated with the vertical complementarity among governments is weighed against the loss of accountability following from imperfect information and detrimental vertical interactions among levels of government.

Discussant: *K. Staal*

Why do urban issues rise on the federal policy agenda in Canada?

*R. Young*¹, *K. McCarthy*¹

¹University of Western Ontario, London, Ontario (GB)

In recent years, the federal government under Paul Martin Jr. developed a "cities and communities" agenda, with Ottawa prepared to play a much more active role in and with municipalities. The pendulum has swung back under the Harper government, which is far less inclined to intrude into this area of provincial jurisdiction. But these recent developments are not unique. The federal government was active on the urban file in the 1970s through the Ministry of State for Urban Affairs. And there have been other historical instances of federal involvement. This paper explores the factors that are associated with the federal government's interest in urban issues. The time period covered is 1870–2000. The methodology is that common in the agenda-setting literature – lagged correlations. The dependent variable – the place of municipalities and urban issues on the policy agenda – is measured in a variety of ways. The independent variables that we think may be operative are three: rapid population growth in cities, restructuring of municipal systems by provincial governments, and financial stress. The analysis investigates the strength of each factor in placing urban issues on Ottawa's policy agenda.

Discussant: *S. Kaniovski*

Session F6

Lecture hall 9

Reform IChair *Friedrich Heinemann*, ZEW, Mannheim (D)**The impact of trust on reforms***F. Heinemann¹, B. Tanz¹*¹ZEW, Mannheim (D)

In a changing economic environment it is crucial for countries to undertake institutional reforms in order to maintain economic growth and to promote the welfare of their citizens. A wide range of determinants for institutional reforms have been identified. However, the impact of trust on reforms has so far never been addressed. We provide theoretical arguments why trust should influence institutional changes and test the relationship empirically. We find a significant positive relation between general trust and policy reforms. However, the empirical results with respect to trust in certain institutions are ambiguous.

Discussant: *L. Siemers***It's not only the economy! The effect of tax reforms on federal elections in Germany 1964-2004***B. Soellner¹, G.B. Koester¹*¹Humboldt University, Economics, Berlin (D)

Does tax policy play a role in federal elections in Germany? Based on a new data-set of the fiscal effects of tax reforms in Germany from 1964 to 2004 we are able to analyze voters' reactions to tax reductions and tax increases. We find that tax reforms play an important role in explaining election results. However governments' attempts to manipulate re-election probabilities by tax reductions before elections fail: our analyses show that voters react strongly to tax burden changes, but take tax reforms within the whole legislative period (and not just in election years) into account!

Discussant: *B. Tanz***Does the housing market react to new information on school quality?***J.H. Fiva¹*¹University of Oslo (S)

This paper analyzes housing market reactions to the release of previously unpublished information on school quality. We find a substantial response in housing prices to the change in the information environment. The main findings suggest that (i) parents care about the value added of schools, and (ii) the school quality indicators provided new information to them. While the effect of publication is robust of to a number of sensitivity checks, the effect does not seem to be permanent.

Discussant: *L. Andersen***Session F7**

Lecture hall 221

Credit MarketsChair *Georgios Chortareas*, University of Athens, Department of Economics, Athens (GR)**Bankruptcy problems with an endogenous estate and the wisdom of the proportional rule***E. Karagozoglu¹*¹Maastricht University, Department of Economics, Maastricht (B)

A new class of bankruptcy problems is introduced in which neither the value of the estate nor the value of total claims is exogenously given. There are two investment tools: risky asset and risk-free asset. Obviously, bankruptcy is a possible event only for the risky-asset. In particular, the return of the risky asset has a simple stochastic structure: with probability π , it brings a high payoff and with probability $1-\pi$ it brings a low payoff. In the case of low payoff, bankruptcy occurs. The total volume of money invested in the risky-asset constitutes the investment volume of the economy (i.e., the financial system), whereas the money invested in the risk-free asset is considered as a leakage from the financial system. Agents who are differentiated by their incomes want to maximize their expected returns by choosing an investment tool to invest their money in. We have two types of agents: n_1 number of agents each with an income w_1 and n_2 number of agents each with an income $w_2 > w_1$. We also have a policymaker who wants to maximize the investment volume in the economy by choosing a bankruptcy rule to be implemented in the case of bankruptcy. The choice of the bankruptcy rule will influence agents' behavior since it affects their expected payoffs. Hence, the policymaker takes into account possible actions of agents when making the bankruptcy rule decision. We employ the proportional rule, the constrained equal awards rule and the constrained equal losses rule. Sequence of moves is: first the policymaker chooses the bankruptcy rule and then all agents choose which asset they invest their money in, simultaneously. We analyze the subgame perfect equilibria of this sequential game. Our main result says that the proportional rule is the only rule among the three rules, which is always a part of the subgame perfect equilibrium. This result

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is robust with respect to distribution of income in the economy. Hence, even if the income distribution was not clearly known by the policymaker, he could safely choose the proportional rule. The main result is also robust with respect to changes in risk-return parameters. In this noncooperative setting, we also showed that the proportional rule is the only rule among the three, which does not increase the ex-post income inequality. Moreover, the proportional rule is, again, the only rule among the three which respects reasonable minimal rights and satisfies reasonable lower bounds on awards. Extensions to more than two types of agents and a larger set of bankruptcy rules are discussed. Further robustness tests on our results are made and implications are discussed.

Discussant: *E.R. Fasten*

The fiscal-financial transmission channel: Asset pricing in Germany

*E.R. Fasten*¹

¹Humboldt University Berlin, Economics and Management, Berlin (D)

Political intervention on asset markets is seldom fully predictable and consequences are hard to grasp. This paper seeks to examine the transmission channel of taxation on economic activity, especially through asset prices using a novel dataset on marginal taxation in Germany, which incorporates modifications of the German tax code between 1972 and 2006. A Johanson-Cointegration Test is performed showing a significant long-term relationship between selected macroeconomic variables, asset prices and the tax system. Hence time-series evidence underlines theoretical contributions and confirms a unique transmission channel for fiscal policy.

Discussant: *G. Chortareas*

Financial regulation and bank efficiency: Evidence from Europe

*G. Chortareas*¹, *A. Ventouri*², *C. Girardone*²

¹University of Athens, Department of Economics, Athens (GR)

²University of Essex, Accounting Finance Management, Colchester (GB)

Financial regulation has been praised or demonized from different strands in the literature. The focus of the literature has been on the effects of capital requirements, regulatory policies and banking supervision on banking system development, banking crises and bank efficiency. In this paper we present evidence on the effects of financial/banking freedom on bank efficiency. In contrast to existing studies the measurement of bank efficiency is not based on accounting ratios but instead is obtained using Data Envelopment Analysis which allows to construct a "best practice" frontier by enveloping the observed data points in the input-output space. We also focus on various/alternative measures of financial freedom to capture the tightness of the regulatory environment. We consider a sample of 27 European countries and obtain banking data from the database BankScope. We uncover strong statistical evidence to support that regulatory restrictions substantively diminish cost efficiency. Our findings are in line with recently produced evidence that strengthening supervision and regulation does not enhance bank efficiency (e.g., Barth, Caprio and Levine, 2006). Nevertheless, our results are in contrast to earlier finds (e.g., Demirguc-Kunt, Laeven and Levine, 2003) that regulatory restrictions tend to boost interest margins.

Discussant: *M. Buehn*

Credit markets and public debt in a federal state

*C.B. Blankart*¹, *E.R. Fasten*¹

¹Humboldt-University, Berlin (D)

The institutional design of German Federation-Länder financial relations, which gave rise to large public deficits over the last decades, is examined with respect to the current political discussion on the implementation of fiscal rules. Possible solutions on containing further indebtedness and their economic implications, as well as alternative strategies, which lead to more sustainable public finances on all government tiers, are discussed. A recent court ruling of the Federal Constitutional Court in Germany, which redefined the bailout probabilities is analysed regarding its implications for the credit market and the allocation of credits for all public entities.

Discussant: *G. Chortareas*

Session F8 Economic and Religion – NEAR ILecture hall 222 Chair *Mario Ferrero*, University of Eastern Piedmont, POLIS, Alessandria (I)**Cult and unobservable extreme sacrifice***M. Ferrero*¹¹University of Eastern Piedmont, POLIS, Alessandria (I)

This paper develops the martyrdom contracts studied in Ferrero (2006) to account for situations in which the state of the world where the decision whether or not to behave like a martyr has to be made is observable only by the interested agent. The novel feature of the model is that it provides rational justification for the cult of martyrs and of heroes, and by extension, for the cult of saints. This cult, however, may get out of control and fuel fanaticism, or acts of martyrdom that are excessive from the point of view of the sponsoring organization. A selective survey of historical evidence provides broad support for the model's predictions.

Discussant: *P. Peireira***Serving god in a largely theocratic society: Rivalry and cooperation between church and king***P. Salmon*¹¹Université de Bourgogne, Laboratoire d'Economie et de Gestion, Dijon (F)

A "largely theocratic society" (LTS) is defined as one in which the main purpose of government is religious and some coercion is used to serve it. Such societies exist at least in the imagination and discourse of some people. The focus is on LTS in which the major religious roles are assigned – partly on the basis of theological interpretations – to priesthood, kingship and community. In the small model presented, the influence of these interpretations on actual outcomes and their appeal to the main actors depend also on the expected configuration of religiously relevant capabilities, assumed to vary in part exogenously and in a part as a consequence of the reactions of the community. The illustrations are mostly sought in the relationship between the papacy and the Christian monarchs.

Discussant: *S. Osterloh***Financing religion as a public choice decision: An explanatory voting game***M. Puchades Navarro*¹, *J.D. Montoro Pons*¹, *J. Casas Pardo*¹¹University of Valencia, Applied Economics, Valencia (E)

Empirical evidence on the structure of religious beliefs or religious practices does not explain the disparity of patterns of relationships between Church and State. We argue that the existence and the extent of State support to the churches is a collective choice. Current levels of governmental implication in church funding are a result of the political process in the working of democratic system. Next we put forward an evolutionary model with a two stages repeated game to determine both public and voluntary church funding. The outcome depends on individual preferences but also on initial conditions and behavioural rules.

Discussant: *M. Ferrero*

1030–1100

Coffee break

Saturday, March 29th, 2008**11⁰⁰–12³⁰****Parallel Session G****Session G1 Social Policy II**Lecture hall 4 Chair *Niklas Potrafke*, Humboldt University, Economics, Berlin (D)**Public health expenditures in OECD countries: Does policy matter?***N. Potrafke*¹¹Humboldt University, Economics, Berlin (D)

This paper examines how policy affects public health expenditures. Analyzing an OECD panel in the period from 1970 to 2004, four political variables are tested: Election years, the ideological party composition of governments, the number of coalition partners and if the ruling government has a majority in parliament. An electoral cycle is detected to be spurious and driven by endogenous election years. Interestingly, the impact of the governments' ideological orientation depends on the time interval considered. Left governments increased spending from 1970 to 1990,

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but decreased it from 1991 to 2004. Expenditures were smaller, the higher the number of coalition partners. Moreover, our empirical results indicate differences in health policy between single OECD countries and thereby confirm case studies. Overall, policy did not affect public health expenditures in a steady way and thus our results also confirm the special characteristics of the commodity health.

Discussant: *J. Klomp*

Effects of governance on health

J. Klomp¹, J. de Haan¹

¹University of Groningen, Faculty of Economics and Business, Groningen (NL)

Background: The importance of good governance for the health of populations has hardly been researched even though major donors and international financial institutions make their aid and loans increasingly conditional upon reforms that ensure 'good governance'. We aimed to analyse the role of governance in improving the health of individuals. Methods: Cross-sectional analysis for 101 countries over the period 2000-2005, using 14 cross-national indicators of the health of individuals as dependent variable and 6 indicators of governance and 8 indicators of the quality of the health care sector as explanatory variables, taking various control variables (like a country's wealth and demographic characteristics) into account as well. The selection of the control variables is based on the general-to-specific approach. As both the dependent and some of the explanatory variables are latent variables, we used Structural Equation Modelling. Results: Cross-national differences in the health of individuals turned out not to be directly related to governance ($P = 0.524$). A higher quality of the health care sector ($P = 0.000$), higher income ($P = 0.000$), better education ($P = 0.000$), and a more equal income distribution ($P = 0.000$) improved the health of individuals. Governance is also not related to quality of the health care sector. However, governance was found to be positively related to income, and therefore had an indirect effect on cross-country differences in the health of individuals. Conclusion: Our results suggest that good governance does not directly affect the health of individuals or the quality of the health care sector. However, through its effect on income governance has an (indirect) impact on health.

Discussant: *B. Krug*

Weight-loss dieting behavior

O. Rosin¹

¹Bar Ilan University, Economics, Ramat Gan (IL)

In light of the widespread phenomena of diet failure and excessive dieting, this paper presents a theoretical economic analysis of the decision-making process on the extent of weight-loss dieting. Our model explains the frequent yoyo effect of losing and regaining weight. Other predictions of the model are that the extent of dieting is an increasing function of initial body weight and income and a declining function of the effort exerted in repeated dieting and the social norms concerning ideal weight. We also offer another reason for the positive association between poverty and obesity and shed light on anorectic behavior.

Discussant: *E. Karagozoglu*

Social expenditures as a political cue ball? OECD countries under examination

N. Potrafke¹

¹Humboldt University, Berlin (D)

This paper examines how partisan politics affect social expenditures in the context of globalization. We explicitly investigate the interaction of government ideology with trade, foreign direct investment and the KOF index of globalization. There are two basic results: First partisan politics did not significantly affect social expenditures from 1980 to 2003, but this effect was not due to globalization. Second we detect policy differences between the eighties and the nineties. Left governments did expansionary policies in the eighties – mitigated by globalization. In the nineties, they became more responsible in general, but globalization did not at all curtail ideological spending policies.

Discussant: *S. Traub*

Session G2
Lecture hall 5

Money II
Chair *Gernot Pehnelt*, Friedrich-Schiller-University, Jena (D)

Remittances in Small Open Economies: Macro Effects under Various Exchange Rate Regimes

C. Ball¹

¹Quinnipiac University, Economics, Hamden (USA)

This paper uses a dynamic small open economy model to study the effects of increased remittance flows on inflation and the real exchange rate in monetary economies. We consider the effects under two alternative exchange rate regimes often found in practice: fixed and flexible. The model predicts that an increase in remittances always leads to a long-run real currency appreciation à la the "Dutch Disease" but a different transition path depending on the exchange rate regime. Likewise the path of inflation always returns to its initial level in the long run but differs during transition across regimes. Under a fixed exchange rate regime, inflation increases initially and then declines while under a flexible regime it does the opposite. This generates different paths for some variables depending on the monetary regime. We then test for these differences in a dynamic panel containing 122 countries. The Panel VAR results suggest that remittances shocks do appreciate the real exchange rate and also have a significant impact on inflation but the short-run results differ in accordance with our theoretical predictions. Given that the testable predictions are in the short-run, not the long-run, we test the dynamic nature of the differences in a 19 country quarterly subsample. The results hold at the quarterly level as well. Furthermore we find that the responses of GDP and the money supply are statistically different across regimes at both the annual and quarterly frequency.

Discussant: *F. Bohn*

Macroeconomics policies, bureaucracy and deregulation the choice of the exchange rate regime

A. Belke¹

¹University of Duisburg-Essen and IZA Bonn, Duisburg-Essen (D)

This paper examines the contemporaneous relationship between the exchange rate regime and structural economic reforms over a period of 30 years. Using panel data techniques, we look at both a broad ("world sample") and an OECD country sample. We investigate empirically whether structural reforms are complements or substitutes for monetary commitment in the attempt to improve macroeconomic performance. Our results suggest that, on average, an exchange rate rule positively correlates with the overall structural reforms and trade liberalization in particular. We do not find a significant and robust impact of exchange rate commitment on labor and product market reform, on the other hand. The results are similar for both the wider, more heterogeneous world sample and the panel of OECD economies. They contradict the hypothesis that exchange rate commitments may have slowed down the pace of structural reform, but neither provide robust evidence that losing the possibility of an exchange rate adjustment promotes labor and product market reforms.

Discussant: *G.B. Köster*

Globalisation and inflation in OECD countries

G. Pehnelt¹

¹Friedrich-Schiller-University, Jena (D)

During the last two decades, the world has experienced a remarkable process of disinflation, with average inflation rates in industrialized countries falling by 10 percentage points and an even sharper decline of the mean rate of inflation in developing countries. Parallel to the decline in inflation rates, a tremendous increase in economic integration – often referred to as globalisation – has been taking place. In this article, we analyse the effects of globalisation on inflation in OECD countries. We theoretically outline different channels through which globalisation may have influenced inflation dynamics and give an overview on the existing empirical evidence on this issue. In the empirical analysis we show that globalisation has contributed to the disinflation process in OECD countries since the 1980s. Inflation rates became much less prone to domestic parameters, especially the domestic output gap. Global factors such as the output gap of the main trading partners became more important in determining national inflation rates. Furthermore, economic freedom and the degree of globalisation are positively related to the disinflation process. Central bank independence seems to have contributed to the decline in inflation rates among OECD countries, but the effect is rather modest. Though the inertia of inflation can still be observed, the persistence of inflation has considerably declined since the early 1990s.

Discussant: *S. Eijffinger*

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Session G3

Lecture hall 4

Public Sector Economics II

Chair *Rupert Windisch*, University of Jena (D)

Does restricting choice in referendums enable governments to spend more?

R. Holcombe¹, L. Kenny²

¹Florida State University, Economics, Tallahassee (USA)

²University of Florida, Economics, Gainesville (USA)

If school boards represent the preferences of the median voter, referendums to approve school expenditures should not constrain school expenditures. If school boards would choose expenditures larger than the median voter's preference, referendums that restrict voters to approving or disapproving a school board's recommended expenditure level will result in expenditures larger than the median voter would prefer. However, Florida used a unique referendum system which guaranteed the median voter's most preferred outcome. Using Florida education expenditures as a benchmark, the evidence suggests that spending was slightly higher in restricted choice referendum states than in Florida.

Discussant: *J. Fiva*

Two are better than one! Individuals' contributions to unpacked public goods

S. Kube¹, L. Corazzini², M. Marechal³, M. Bernasconi⁴

¹MPI for Research on Collective Goods, Bonn (D)

²Bocconi University, Economics, Padova (I)

³Institute for Empirical Research in Economics, Zurich (CH)

⁴University of Insubria, Economics, Varese (I)

Public goods are of paramount importance to economic and societal life, but their provision through private contributions constitutes a major (incentive) problem. The present paper experimentally demonstrates how unpacking provides a possible approach to mitigate this dilemma. Subjects' total contributions increase when a single public good is split into two identical public goods, although marginal per capita returns of contributions are constant across treatments. This finding not only informs NGOs about possible new ways to increase charitable donations – in general, the unpacking effect presented here might potentially be of importance for a broad range of mechanisms involving individually subdividable decisions.

Discussant: *M. Lerocha*

Investment in next generation networks and the role of regulation: A real options approach

A. Gavosto¹, G. Ponte², C. Scaglioni²

¹Fondazione Giovanni Agnelli, Turin (I)

²Telecom Italia, Economics Department, Rome (I)

The current regulatory debate in the telecommunications industry in Europe and elsewhere is dominated by the issue of if and how to regulate next generation networks (NGN) which operators plan to roll out in the near future. The crucial issue is whether an extension of current regulatory obligations onto future networks would hamper the investment by large European operators. The paper applies a real option model to explain the investment decision in next generation networks. One important result of the model is that regulation affects the investment decision only in the initial period when uncertainty is still very high. The real option model has been calibrated with parameters drawn from real data for a new entrant and from educated estimates for an established operator. Four different regulatory regimes and their impact on the timing of the investments have been simulated: a temporary regulatory holiday is shown to be an effective regulatory tool in order to induce immediate investments.

Discussant: *S. v. Engelhardt*

Session G4

Lecture hall 7

Politicians III

Chair *Björn Tyrefors*, Stockholm School of Economics, Stockholm (S)

The governance of politicians and bureaucrats with election and rentseeking

M. Hosoe¹

¹Kyushu University, Economics, Fukuoka (J)

In this paper, the effect of the advice of bureaucrats and the election of politicians on policy decisions. Particularly, I examine how the performance of policy outcomes depends on the ability of policy making of the bureaucrats and politicians. Though most of countries have politician-bureaucrats systems with excellent talents to make much contribution to the development and stability of the societies, it is difficult to make good political

governance. We formalize the model of governance of politicians and bureaucrats with election and rentseeking, and show that bureaucrats with higher ability advise larger project and politicians with high ability decide smaller project in wide ranges.

Discussant: *B. Tyrefors*

Constitutional judicial review and political insurance

*G. Tridimas*¹

¹University of Ulster, Jordanstown (IRL)

Considering constitutional judicial review of policy, the power of courts to annul legislation, as a political insurance mechanism to protect against losses from adverse election outcomes, the paper analyzes three questions: First, under what circumstances a political ruler, who has won an election and the right to propose policies, subjects those policies to the checking powers of an independent judiciary. Second, the net expected gains of a political ruler from granting binary choice to the reviewing judiciary rather than open choice. Third, the equilibrium degree of policy review power granted to the judiciary by the political ruler.

Discussant: *M. Hosoe*

Do politicians free-ride? An empirical test of the common pool model

*B. Tyrefors*¹

¹Stockholm School of Economics, Stockholm (S)

In the twentieth century there was a significant trend towards larger local governments through amalgamations in the western world. Amalgamations provide potential economic benefits but might also give rise to costs driven by opportunistic political behavior. This study uses a compulsory amalgamation reform of municipalities in Sweden to test for such behavior. The reform gives a local government incentives to accumulate debt before the amalgamation takes place, since the cost will be shared by all tax payers in the new municipality. The strength of this incentive to free ride will be determined by the locality's population size, relative to the future size of the new locality. We find an economically large and statistically significant free riding effect and the result is robust.

Discussant: *G. Tridimas*

Session G5

Lecture hall 8

Index Buildings

Chair *Stanley Winer*, Charleton University (CDN)

A fully general index of political competition

*B. Grofman*¹, *P. Selb*²

¹University of California, Irvine, Political Science, Irvine (USA)

²University of Zurich, Political Science, Zurich (CH)

As Selb (forthcoming) observes, the standard measure of (posterior) competitiveness in elections used in plurality contests, namely the difference between the winner and the second place finisher, has no "self-evident counterpart in multi-member PR districts." Following lines similar to Taagepera and Grofman (2003) we identify six properties that any index of competition should satisfy and then offer a new measure that satisfies all six properties which is applicable to virtually any electoral rule. We then apply our new and more fully general index of political competition to data from PR elections in Switzerland to see the extent to which the index of competition is correlated with levels of voter turnout.

Discussant: *S. Winer*

Economic freedom in terms of kinds of government actions: An empirical investigation

*J. Kapás*¹

¹University of Debrecen, Economics, Debrecen (HU)

This paper evaluates the Economic Freedom of the World Index on the basis of the Hayekian concept of freedom, more precisely on that of its conceptualization in terms of the character of government actions. As a result of a detailed criticism, the components of the EFW index are regrouped in freedom-related, policy and other categories. Although the EFW index is not considered a good measure of economic freedom, its components and the index itself are used in empirical investigations. In these examinations the aim is to show that using the freedom-related components of the EFW index (which is more in line with authors' concept of economic freedom) instead of the index itself may lead to even more plausible propositions than those provided by the EFW index. The results provide support for this argument.

Discussant: *B. Grofmann*

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Using economic freedom indexes as policy indicators

Z. Spindler^{1,2}, X. de Vanssay³

¹American University of Sharjah, Economics, University City, Sharjah (VAE)

²Simon Fraser University, Economics, Burnaby, BC (CDN)

³York University, Economics, Toronto (CDN)

We use time-series cross-section analysis to provide an empirical validation for the existence of a specific American and a European ethos with respect to economic policy. In our innovation, economic policy is proxied by "economic freedom" from the Fraser Institute database and constitutional "political institutions" are proxied by variables from the Database of Political Institutions (from the World Bank). Our results suggest that, once we control for political and institutional differences, the United States and Europe will still pursue different economic policies.

Discussant: S. Tjøtta

Session G6

Lecture hall 9

Reform II

Chair Leonid Krasnozhon, George Mason University, Economics, Fairfax (USA)

Oligarchs, public servants and democracy: Why did the ukrainian privatization go that way?

L. Krasnozhon¹

¹George Mason University, Economics, Fairfax (USA)

Frustration with accelerated privatization programs in postsocialist countries is articulated as a stylized fact by the majority of economists (see Kornai, 2003; North, 1999; Stiglitz, 2002, 1999; Kolodko, 2000). Another established fact is that post-Soviet privatization policies severely failed to push through socially optimal redistribution of state-owned capital assets and land. Instead, they represented a privatization, asset-stripping, rent-seeking and oligarchic genesis processes (see Barnes, 2006; Goldman, 2003; Kornai, 2003; Stiglitz, 2002; Aslund, 2000; Klebnikov, 2000). The Ukrainian privatization is not an exception. However, much of conventional criticism is based on trapped thinking about economic reforms rather than the period of constitutional status quo change. This paper seeks to articulate a positive contractarian theory of redistributive politics to explain patterns and outcomes of produced privatization program.

Discussant: L.-E. Borge

Voting on the great reform act of 1832

T.S. Aidt¹, R. Franck²

¹University of Cambridge, Faculty of Economics, Cambridge (GB)

²Bar Ilan University, Department of Economics, Ramat Gan (IL)

The causes and consequences of franchise extension have received much attention recently, both by economists and political scientists. Much of this work has been theoretical or based on cross-country comparisons. This paper proposes a new approach to the study of the causes of franchise extension. We provide a detailed econometric study of the Great Reform Act of 1832 in Britain. Based on a new dataset, we study the determinants of the voting behavior of the Members of Parliament (MPs) as well as the factors that led to the election of Whig or Tory MPs in particular constituencies. We find evidence that a mixture of aristocratic influence and private interest drove the voting behavior of the MPs. We also find strong evidence that conflict within the ruling elite was a major factor behind the reform and some indication that external threats of violence might have played a role.

Discussant: L. Krasnozhon

Unintended consequences of a grant reform: How the action plan for the elderly affected the budget deficit and services for the young

L.-E. Borge¹

¹Norwegian University of Science and Technology, Economics, Trondheim (N)

The Action Plan for the Elderly (APE) was implemented by the Norwegian parliament in 1997 to increase capacity and improve service standards within the care for the elderly sector. Care for the elderly is a local government responsibility, and the main financial element in APE was a temporary investment grant of a matching type to the local authorities. This type of grant is likely to have adverse effects for other services and the budgetary balance. We investigate whether APE had such adverse effects using a difference-in-differences approach. There is evidence that APE reduced the growth in child care coverage and increased the budget deficit.

Discussant: S. Margraf

Session G7**IPR**

Lecture hall 221

Chair *M. Pasche*, Friedrich-Schiller-Universität, Jena (D)**Patenting genetic marine resources: A private or a public choice?***D. da Empoli*¹¹Università di Roma, Rom (I)

The Convention on Biological Diversity defines genetic resources as "genetic material of actual or potential value" and genetic material as "any material of plant, animal, microbial or other origin containing functional units of heredity" (art. 2). Activities related to marine genetic resources are quite recent and include three typologies: scientific investigation of the oceans and their biological processes; research and development or "bioprospecting" and exploitation.

Though marine microbiology is still in a very early stage, various drugs derived from marine microorganisms (and in particular those extracted from the deep sea-bed) are now tested, apparently very successfully, in pharmacology for the treatment of cancer, tuberculosis, malaria and many other diseases. A number of patents in relation to development of biotechnology from deep-sea genetic resources has been granted already, not only in the domain of pharmacology, but also in the areas of chemistry, cosmetics, food and agriculture. Considering the interest of these resources, a debate is currently going on in various international bodies (the United Nations Informal Consultative Process on the Law of the Sea, the meetings on the Convention on Biological Diversity, the International Seabed Authority, the United Nations General Assembly, the FAO, etc.) on the access to these resources and on the possible sharing of benefits from their exploitation (whether these benefits should be shared by the entire international community or only by the states, or by the individual firms with the capacity to exploit deep seabed genetic resources). This debate includes two components: A) the issue of the current legal framework of the resources and B) the economic evaluation of its impact with some improvement suggestions. A) The examination of the legal status of marine genetic resources requires the analysis of the rules provided by the UNCLOS (United Nations Convention on the Law of the Sea) on the resources beyond the national jurisdiction of the coastal states. In particular, it is necessary to make sure whether these resources fall under the "common heritage of mankind" principle, which would mean that they cannot be freely used because they are under the jurisdiction of an international body, the International Seabed Authority. Otherwise, in absence of a precise obligation, the "freedom of the high seas" principle would apply and these resources could be exploited by anybody according to the "first come first served" principle. The analysis of the complex system of UNCLOS on this matter convinced us [the reasons will be presented in the paper] that the principle of the "common heritage of mankind" only applies to the mineral resources of the deep seabed (polymetallic nodules, cobalt-rich crusts, polymetallic sulfides, methane hydrates). The microorganisms in deep waters are living resources and to their exploitation applies currently the "freedom of high seas principle". B) As to the economic impact of this principle, it is necessary to verify whether there is any danger to face in this area a "tragedy of commons", that in this case might derive from two reasons: 1) the overexploitation of the genetic resources; 2) the possible damage to the environment. As to 1), the overexploitation should not take place if the patent law will require, as it normally does -though the patent legislation of various countries is not yet fully harmonized- three criteria for granting patents: novelty, invention, and some industrial use. "Invention" is not to be mixed up with "discovery": in fact, the patent protects, in case of genetic resources, the drug whose component is the "discovered" microorganism. But the microorganism as such shouldn't be patented, otherwise a problem (shortage) might emerge, requiring a strict regulation and payment of royalties (maybe through the establishment of a special fund under the control of an international organization), as suggested on various occasions by developing countries [the paper will examine closely these alternatives]. In conclusion, this paper points out the main issues dealing with the management of deep seabed genetic resources. They require a very difficult balancing of private and social costs and benefits, in order to avoid discouraging industrial investments in this new and promising area and also not to restrict access to genetic resources for research purpose as well as for their exploitation.

Discussant: *M. Pasche***Go, teach all nations, but not forget the copyright***C. Marchese*¹¹University of Eastern Piedmont, POLIS, Alessandria (I)

Since 2005 all the acts of the Roman Pope teaching are protected by the copyright. The decision of strictly enforcing this rule (already mentioned in previous acts of the Catholic Church) and of requesting the payment of royalties has given rise to discussions among journalists, writers, publishers and the public opinion. In the field of religion, the resort to the copyright does not seem at any rate an exception. There are several cases treated by American Courts pertaining to the copyright law with respect to religious texts. Web sites of many religious authorities (e.g., the Dalai Lama) report the copyright. The problems stemming from applying the copyright law in the field of religion considered so far in the literature refer mainly to the relationship with religious freedom, since controversies may arise with respect to uses of texts that are seen as heretical or otherwise not proper by those who invoke the copyright. If the main use of the copyright in this field is the protection of the author's or owner's right with respect to misuse, one would expect, however, that the right of making copies or quotations is either denied (in case of potential misuses) or rendered available for free. Since, however, the discussions around the Catholic Church decision have focussed mainly on the request for royalties, in this paper the focus is on the possible explanations of the resort to the copyright by the Roman Catholic Church based on the economic theory. In general the copyright is defended on the ground that it provides incentives for the author in order to produce, since

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otherwise, given the public good nature of intellectual products, it would be impossible to exclude people from consumption, the author would not get any remuneration and therefore would lack a stimulus to produce from the outset. This basic justification and the extent to be given to the copyright have, however, been questioned on the theoretical ground and have been empirically challenged by the development of the "open source" supply of intellectual products. The specificity of the case of the Vatican stays in the fact that the tenet of the Pope is that of spreading the faith and teaching all the people, a motivation that seems at odds with any restriction of access to the Pope's messages. In fact many cases dealt with by American courts in which the copyright Act was applied with respect to topics of religion refer to Sects that aim at secrecy or at securing restricted circulation of their texts, such as Scientology. A first approach in order to rationalize the Vatican's conduct hinges upon the case of rent extraction by a monopolistic producer of an intermediate product. The Pope's messages are intermediate products used by media producers (journals and books publishers, TV and radio channels). As long as the media market is non-competitive and regulated, under given conditions the royalties earned by the Church may reduce the rents of the media producers without impacting on the quantity supplied to the final users. The Church's decision might have been based also on the perception of a rigid demand by the final users, thanks to the wide popularity of the last Popes. A second approach (that might be seen as complementary or substitute with respect to the first) hinges upon competition in the market for the final product between the Church and other producers. One may wonder in fact if a vertically integrated production (that is the delivery of the message by the Church itself to the final user for free, thanks to donations etc.) would not be the best option for the Church, provided that integration of production, that in general improves efficiency (e.g. vis-à-vis a double monopoly, upstream and downstream) might maximize the quantity of people who receive the message. Moreover, direct delivery would more strictly preserve the content of the message, with respect to possible manipulations. The Catholic Church, however, is likely to suffer of a technical efficiency gap in modern global media technology, due to its limited experience. Moreover, more traditional ways for delivering the message are in crises (due, e.g., to reduced attendance to the Mass, difficulties in recruiting new Priests, etc.). Enforcing the copyright, in fact, might represent a means for easing the competition in the final market (i.e., for increasing the cost that media not controlled by the Church must bear).. While the success of the last Popes in the media might have paved the way to expand the direct delivery of the Church message in modern media, such as radio and TV (i.e., the resort to a vertically integrated production), a choice of this type might give rise to a qualitative change in the message that might be at odds with the tradition and the preferences of the members. The paper then discusses if the decision pertaining to the copyright is mainly complementary with the aim of reinforcing the traditional ways of delivering the message (through the influx of new resources deriving from the royalties) or if it is rather a competitive move, aimed at reinforcing the direct communication channels, among which also the direct resort to modern communication technologies and media might be progressively included.

Discussant: *D. da Empoli*

Open source software, closed source software or both: Impacts on industry growth and the role of intellectual property rights

S. Engelhardt¹, S. Swaminathan²

¹Friedrich-Schiller-Universität, Wirtschaftswissenschaftliche Fakultät, Jena (D)

²German Institute for Economic Research, Berlin (D)

There is considerable debate regarding the use of intellectual property rights to spur innovation in the software industry. We examine the co-existence of open and closed source software within various institutional frameworks ranging from no protection, copyright to patent protection. Our analysis, based on the existence or absence of spillovers, confirms that a co-existence is growth optimal. Further, we find that the move from no protection to copyright increases the optimal growth rate. However, despite structuring the model in a patent-friendly way, the benefits of moving from copyright to patent protection are less clear.

Discussant: *S. Rossignol*

Session G8

Economy and Religion – NEAR II

Lecture hall 222

Chair *Ronald Wintrobe*, University of Western Ontario, London (GB)

Corporate governance: What can stock corporations learn from monasteries?

K. Rost¹, M. Osterloh¹

¹University of Zurich, Zurich (CH)

The corporate sector has been plagued by huge scandals relating to excessive manager compensation and fraudulent bookkeeping. There is The corporate sector has been plagued by huge scandals relating to excessive manager compensation and fraudulent bookkeeping. The weaknesses and failures of actual corporate governance practice suggest that it might be useful to approach the issue from a new perspective. Benz & Frey (2007) argue that corporate governance can learn from public governance. In our paper we pick up their basic idea and show that fresh insights for corporate governance can be also gained from the way monasteries are organized. We show why and how stock corporations can learn from monasteries by analyzing their corporate governance in more detail.

Discussant: *T. Lange*

Public regulation of religion*V. Kumar*^{1,2}¹University of Hamburg, Economics, Hamburg (D)²IGIDR, Economics, Mumbai (IND)

This paper provides a model for public regulation of religion using religious beliefs and preferences of individuals as primitives. We show the conditions under which secularism, civil religions, and state religions can be supported in a society. In each case we identify the conditions under which religious conflict occurs. The model presented here applies to the larger class of problems, namely, control of aggregate behaviour in hierarchical social systems, in which social superiors dispense justice like gods.

Discussant: *M. Ferrero***The dictatorship of the popes***F. Padovano*^{1,2}, *R. Wintrobe*³¹University of Rome Tre, DIPES, Rome (I)²University of Rome Tre, Rome (I)³University of Western Ontario, London Canada (CDN)

This paper tests the explanatory and predictive power of Wintrobe's theory of dictatorship when applied to the history of the temporal power of the Popes. We consider the behaviour of the Catholic theocracy in the Papal States, as this was a very long lasting theocracy, exposed to many historical shocks that reveal information about the incentives and constraints that characterize it. We use this information to test the explanatory power of the theory of dictatorship, showing that never in the history of the temporal power of the Church have the four categories of dictatorship that the theory foresees (tinpot, tyrant, totalitarian and conceivably timocrat) proven inadequate. Theocracy is just like any other form of dictatorship. Furthermore, we test some of the predictions of the theory of dictatorship about the durability of, and the source of opposition to the various regimes on data about the Papacy. The results appear to support the theory.

Discussant: *K. Rost*

12 ³⁰ –13 ¹⁵	Lunch
13 ¹⁵ –13 ³⁰	Presidential Address Lecture hall 2
13 ³⁰ –14 ⁰⁰	ECPS Members' meeting
14 ³⁰	Social program: excursion with a guided tour through Weimar entitled "UNESCO World heritage Sites"
19 ³⁰	Conference dinner

Sunday, March 30th, 2008**08³⁰–10⁰⁰ Parallel Session H****Session H1**

Lecture hall 4

EducationChair *Bjarne Strøm*, Norwegian University of Science and Technology, Department of Economics, Trondheim (N)**Teacher shortage and the business cycle***B. Strøm*¹¹Norwegian University of Science and Technology, Department of Economics, Trondheim (N)

The ability of the public sector to recruit skilled workers is an important determinant of the quality of public services as education and health care. The traditional model with rigid and centralized national pay systems may lead to serious regional variations in the ability to recruit workers to public institutions as employment opportunities outside the public sector varies both between regions and within regions over time. This paper provides empirical evidence on such imbalances by estimating the impact of regional labour market conditions on teacher shortage using a large panel of Norwegian local governments from 1981 to 2002. Our evidence suggests that a reduction by 1% point in the regional unemployment rate increases teacher shortage measured by the share of teachers without approved certification by 0.4 percentage points.

Discussant: *E. Brezis*

Program and Abstracts

Telling the truth may not pay off: An empirical study of centralised university admissions in Germany

N. Dwenger^{1,2}, D. Kübler², S. Braun³

¹DIW Berlin, Public Economics, Berlin (D)

²TU Berlin, Economics and Management, Berlin (D)

³HU Berlin, School of Business and Economics, Berlin (D)

We investigate the matching algorithm used by the German central clearinghouse for university admissions (ZVS) in medicine and related subjects. This mechanism consists of three procedures based on final grades from school ("Abiturbestenverfahren", "Auswahlverfahren der Hochschulen") and on waiting time ("Wartezeitverfahren"). While these procedures differ in the criteria applied for admission they all make use of priority matching. In priority matching schemes, it is not a dominant strategy for students to submit their true preferences. Thus, strategic behaviour is expected. Using the full data set of applicants, we are able to detect some amount of strategic behaviour which can lead to inefficient matching. Alternative ways to organize the market are briefly discussed.

Discussant: *B. Strom*

An education policy and tax competition analysis with imperfect student and labor mobility

T. Lange^{1,2}, T. Krieger³

¹IFO Institute for Economic Research, Munich (D)

²University of Konstanz, Konstanz (D)

³University of Paderborn, Paderborn (D)

In this paper we analyze the effect of increasing labor and student mobility on net tax revenues when revenue-maximizing Leviathan-type governments compete for human capital by means of income tax rates and amenities for students (positive expenditure) or rather tuition fees (negative expenditure). We develop a two-country model with heterogeneous agents and imperfect international student and graduate mobility in order to demonstrate that increasing labor mobility not necessarily implies intensified tax competition and an erosion of revenues. In contrast, the equilibrium tax rate even increases in mobility. Amenities offered to students or rather tuition fees may either increase or decrease. An increase in student mobility, however, erodes revenues due to intensified tax and amenity competition.

Discussant: *L. Corazzini*

The effects of regulation on the work effort of researchers: Crowding in or crowding out?

L.B. Andersen¹, C.B. Jacobsen², A.L. Möller³

¹University of Aarhus, Dept. of Political Science, Aarhus (DK)

²The Municipality of Aarhus, Aarhus (DK)

³The Municipality of Randers, Randers (DK)

According to the motivation crowding theory (MCT), external interventions such as regulation and payment reduce public employees' work effort if the employees see the interventions as controlling. If interventions are seen as supportive, MCT expects the work effort to increase. But when it comes to regulation, only few studies have tested the MCT proposition. This article investigates the relationship between work effort and regulation defined as the principal's directives, monitoring and sanctioning of the employees. Using survey and register data from 2000 and 2006 (n=101 individual researchers) and 19 semi-structured interviews, we examine how regulation affects the number of publications at Danish research institutions, when the researchers' perception of the regulation is taken into account. We find that if the researchers see the regulation as supportive, the number of publications grow rapidly. Regulation which the researchers perceive as controlling has no or even negative effect on the number of publications.

Discussant: *D. Kübler*

Session H2

Lecture hall 5

Money III

Chair *Frank Bohn*, University, Economics, Nijmegen (NL)

Can cheating policymakers prevent policymakers from cheating? – Dixit-Lambertini (JIE, 2003), inflationary bias, fiscal policy and expropriation

F. Bohn¹

¹University, economics, Nijmegen (NL)

This paper studies the impact of fiscal policy and expropriation on the time-inconsistency problem. It is shown that fiscal policy alone – as argued by Dixit and Lambertini (2003) – does not suffice to eliminate the inflationary bias of monetary policy. Ironically, it is only when fiscal policymakers are modelled to cheat the public (by expropriating wealth) that monetary policymakers are constrained in their cheating of the public (by

reneging on a promise to the public). The political economy model presented also nests the standard monetary-fiscal interaction logic without expropriation as well as the argument by Dixit and Lambertini.

Discussant: *C.P. Ball*

The stress of having a single monetary policy in Europe

T. Wollmershaeuser¹, J.-E. Sturm²

¹Ifo Institute, Munich (D)

²KOF, ETH Zurich, Zurich (CH)

This paper estimates forward-looking Taylor rules for the Euro area. Using the asymmetries in inflation and cyclical output developments across countries, we investigate the adequacy of the single monetary policy for each of the European Monetary Union (EMU) member countries. Notable differences emerge across the countries. Taking a Euro area perspective, we also show that no steady increase in the degree of business cycle synchronisation has occurred among the EMU member countries over the past eight years. Finally, we can produce an estimate of the actual policy weights the ECB has implicitly attached to each of the member countries. Developments in small member countries have received more than proportional weights in actual monetary policy decisions of the ECB.

Discussant: *F. Bohn*

Session H3

Lecture hall 4

Public Sector Economics III

Chair *Jørgen Juel Anderson*, NTNU, Economics, Trondheim (N)

Andreas Freytag, Friedrich-Schiller-University Jena (D)

Friedrich Schneider, Johannes Kepler University Linz (A)

Monetary commitment, institutional constraints and inflation: Empirical evidence for OECD countries since the 1970s

A. Freytag¹, F. Schneider²

¹Friedrich-Schiller-University Jena (D)

²Johannes Kepler University Linz (A)

Central bank independence (CBI) is a very important precondition for price stability. However, the empirical evidence for a correlation between both is relatively weak. In this paper, this weakness is countered with a) an extended measure of monetary commitment, which includes well-known criteria for CBI and external criteria such as convertibility and exchange rate regimes and b) the argument that monetary commitment can grant price stability best if it is backed by an adequate assignment of economic policy. An empirical assessment with data from four decades confirms the crucial role of monetary commitment for price stability.

Discussant: *P. Siklos*

Identification in comparative political economy: A natural resource experiment

J. Andersen¹

¹NTNU, Economics, Trondheim (N)

We empirically investigate the pass-through of shocks in the profitability of the domestic oil sector into policies of government revenues and expenditures. By exploiting the variation in government revenues that can be ascribed to oil price volatility, we achieve precise estimates of the pass-through. The proposed 'natural resource experiment' constitutes a novel strategy of identification in political economy which is less afflicted by the many problems of endogeneity that are common in the literature, such as biases due to simultaneity or omitted variables. Moreover, sorting countries by regime types---i.e., forms of governments and electoral rules---we show that there are significant variation in the pass-through, dependent on the specific political institutions that are in place. Some of our results support existing evidence, for example that fiscal policies of parliamentary forms of governments are associated with significant inertia compared to those of presidential forms of governments. Other findings are more surprising, for example that the empirical patterns of the countries with parliamentary forms of governments have more similarities with the patterns in countries with majoritarian electoral systems than with countries with proportional electoral systems.

Discussant: *A. Pitsoulis*

Program and Abstracts

Don't blame me: Why people hold corporations responsible

*M. Leroch*¹

¹University of Hamburg, Institute of Socio Economics, Hamburg (D)

Social incentives, such as responsibility, are a major but often undiscussed element of norm enforcement. For instance (and philosophically problematic) people hold corporations responsible. It is argued that both those holding others responsible and those held responsible have good reasons, grounded in social psychology, to do so. Accordingly, the corporation may serve as "scapegoat" and thus relieve those involved from their empathetic distress which evolves if harm occurs. The need for this scapegoat is significant especially in social settings with many joint actions, such that individual causality is hard or impossible to identify. Risks arising from this tendency are discussed.

Discussant: *A. Cassoué*

The influence of the Italian public finance theorists on Duncan Black's the incidence of income taxes

*A. Cassone*¹, *G. Brady*²

¹University of Piemonte Orientale, Public Policy and Public Choice, Alessandria (I)

²Gilger Lehrman Institute of American History, New York (USA)

Duncan Black was a co-founder of social choice with Kenneth J. Arrow. He is not well-appreciated because his contributions are considered by many to have been so fundamental that they would not have to be discovered. Black built upon the work of Condorcet, Charles Dodgson, and others including the Italian public finance theorists. This paper examines the influence of the Italian public finance theorists on Duncan Black's *The Incidence of Income Taxes*. Section One of our paper begins with background information on Duncan Black's contributions to social choice. Section Two compares the thesis with the book. Section Three provides a chapter by chapter examination of the book. The objective of Section Four is to examine the citations to Italian public finance theorists and identify possible links to the work of these economists. Section Five provides a summary and conclusion.

Discussant: *J. Andersen*

Session H4

Lecture hall 7

Fiscal Rules

Chair Erik R. Fasten, Humboldt University Berlin, Economics and Management, Berlin (D)

On the sustainability of subnational government finance – A panel data approach

*E.R. Fasten*¹

¹Humboldt University Berlin, Economics and Management, Berlin (D)

Institutional influences of borrowing constraints on subnational financing decisions are examined using a broad panel dataset of 43 developing and industrial countries. Dummy variables for the institutional design of national restrictions are tested using most recent dynamic panel data techniques, in order to account for rigidities in deficit allocation and to allow for a more comprehensive analysis. The results are mixed. Self-imposed rules seem to have a significant influence on the financing decision, while other institutional arrangements do not. Furthermore countries where bailouts by the superior jurisdiction occurred in the past tend to have higher deficits.

Discussant: *Y. Hou*

Germany's soft budget constraint: Lessons for federal fiscal governance

*B. Gehrman*¹

¹Humboldt-University Berlin, Economics, Berlin (D)

The question of a bail-out of the heavily indebted city-state of Berlin has triggered a national debate on the feasibility of German federal fiscal design. Instead of being disciplined by external pressure, the German Länder face a soft budget constraint which allows them to issue more debt than they are able to service. This phenomenon is not restricted to the case of Germany, but must rather be considered a general (and probably the most pressing) problem of federal fiscal design: decentralized political systems such as Germany, Argentina and Brazil have experienced severe fiscal crises, especially on the subnational level, which have led to the collapse of the national financial system (Argentina), bailouts of several states (Brazil) or calls for bailout from indebted states to the central government (Germany). Soft budget constraints in multi-tiered systems are of a dual nature, i.e. they are linked to a) the structural inefficiency inherent in credit markets (market-induced soft budget constraint) and b) the lack of credible commitment by the central government not to bail out a close-to-default subnational government (government-induced soft budget constraint). A contractual analysis of the dual soft budget constraint reveals substantial gaps in the existing theoretical framework of fiscal federalism (First Generation Theory). The integration of analytical instruments of the New Institutional Economics (Theory of the Firm) helps to understand current inefficiencies in federal design and suggests ways of how to overcome these (Second Generation Theory). In the German case, both market- and government-induced soft budget constraints can be hardened by establishing incentive-compatible mechanisms of fiscal governance. A bankruptcy procedure for subnational governments is a possible option for hardening market-induced

soft budget constraints: it would a) activate the disciplining effect of creditors on a subnational government's spending behaviour (which is deactivated in the current state of affairs) by shifting control rights to the creditors, and it would b) activate debt's role as a governance device ensuring organizational efficiency (= debt as a signal to outside discipliners (i.e. opposition) that government expenditure is efficient). However, a subnational bankruptcy regime only serves as a disciplining device if creditors do not expect central government to bail out subnational governments, which would thus indirectly assume responsibility for subnational debt ('trickle up'-effect). The center can – like the subnational level – credibly commit to a 'no bailout'-policy by applying debt as a fiscal governance mechanism (since bailouts are 'inefficient investments'). As the analysis shows, a 'zero-debt'-rule might not be the right strategy for subnational government spending; counterintuitively, an optimal level of debt in combination with a subnational bankruptcy regime serves to ensure efficient government expenditure choices. Several hypotheses for empirical testing can be derived from this theoretical framework.

Discussant: *E.R. Fasten*

Do state balanced budget requirements matter? Testing two explanatory frameworks

Y. Hou¹, D.L. Smith¹

¹University of Georgia, Athens (GR)

Balanced budget requirements (BBRs) are important mechanisms in state budgeting and fiscal administration because they affect almost all aspects of financial operations. Previous BBRs studies include seemingly authoritative characterizations of balance provisions in which a constitutional-versus-statutory distinction is highlighted. This paper utilizes the extended, systematic BBR framework proposed by Hou and Smith (2006) to enhance our understanding of whether balance provisions exert a measurable effect on budgetary balances; and provides the first evidence of whether the statutory-constitutional distinction or the Hou-Smith political-technical construct offer any explanatory power. Results from probit estimation using data since 1950 indicate: 1) balanced budget requirements have mattered to varying degrees in the past half century; 2) technical requirements tend to exert more obvious effects than political requirements, and those effects seem to focus more on narrower balances than on broad balances, and in the later phases of the budget cycle; and 3) the political-technical construct offers more explanatory power than does the currently widely circulated constitutional-statutory distinction.

Discussant: *T. Baskaran*

Decentralization and public debt – Is there a link?

T. Baskaran¹

¹University of Heidelberg, Heidelberg (D)

Excessive borrowing by subnational governments due to soft budget constraints and intergovernmental coordination failures might be one of the perils of decentralization. Despite a large body of case studies, empirical investigations on whether decentralization increases consolidated public debt levels are still scarce. This paper contributes to the literature by exploring econometrically for several European countries whether 1) the level and 2) the pace of decentralization has an impact on the consolidated government debt to GDP ratio. We find that "relative" expenditure decentralization tends to reduce the debt to GDP ratio whilst "absolute" expenditure decentralization increases the ratio. A similar conclusion can be drawn for revenue decentralization.

Discussant: *B. Hermann*

Session H5

Lecture hall 8

Happiness

Chair *Paulo Pereira*, Humboldt University Berlin, Economics and Management, Berlin (D)

Happiness, economic well-being, social capital and the quality of institutions

P. Pereira¹, G. Leite Mota²

¹Technical University of Lisbon, Economics, Lisbon (P)

²Faculty of Economics, Porto University, Economics, Porto (P)

Since Jeremy Bentham, utilitarians argue that happiness, not just income or wealth, is the **maximand** of individual and social welfare. On the contrary, Rawls and followers argue that to share a common perception of living in a just society with just institutions is the "ultimate good". This paper considers happiness, or subjective well being, as a function of economic well-being, the quality of public institutions and social ties. Cross section individual data from OECD countries show that income and the perceived quality of institutions have the highest impact on life satisfaction, followed by social capital. Country analysis shows not only that unemployment and inflation explains differences in average life satisfaction, but also that the quality of public institutions and having more social capital is also relevant for happiness.

Discussant: *J. Haucep*

Program and Abstracts

The happiness of economics students: Evidence from survey data

*J. Haucap*¹

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Using a sample of 1,208 students of the Ruhr-University of Bochum of several fields from the social sciences as business administration, economics, law and sociology, we estimate the effects of studying in the different fields on individual life satisfaction. Controlling for personal characteristics we find a positive relationship between the field of law and individual well being. Additionally we find that income and future job chances are the real drivers of happiness for participants of our survey. Furthermore additional effects of political attitudes and study specific aspects are discussed.

Discussant: *S. Chand*

Competition and well-being: Does market competition make people unhappy?

*J.A. Fischer*¹

¹Stockholm School of Economics, Economics, Stockholm (S)

Empirical research on the role of market competition for subjective well-being is still widely lacking. Based on experimental economics outcomes, this paper is the first to empirically analyze the implication of market competition for subjective well-being using real-life survey data on 80,000 individuals in more than 60 countries from the World Values Survey 1997-2001. We find that market competition enlarges the happiness differences caused by cleavages in socio-economic position. Our results also suggest that competition induced welfare changes are not gender-specific, while a stronger rule of law appears to prevent the generation of such additional benefits or losses.

Discussant: *C. Priesmeier*

Session H6

Lecture hall 9

Institutions

Chair *Joachim Ahrens*, Private University of Applied Sciences Goettingen, Economics, Goettingen (D)

Spatial heterogeneity and absence of spending complementarity in french local overlapping jurisdictions

*M.-E. Binet*¹

¹University, Economics, Rennes (F)

Many countries exhibit multilevel local public sectors with potential interactions between the different tiers. Estimations based on the conditional demand model à la Turnbull and Djooundourian (1993) and using data from different countries give evidence of complementarity between local spending at different levels. This article offers a new test of that result with French data at the communes and départements levels. However, contrary to previous tests, our estimation strategy allows spatial heterogeneity in the demand behaviours and corrects the bias in the t-statistics due to the high number of communes relative to départements. Results show that the hypothesis of systematic spending complementarity between these two levels of local government in France is rejected by the data.

Discussant: *T. Rixen*

Human rights, limited government, and capitalism

*E. Weede*¹

¹University Bonn, Bonn (D)

By and large, there are two distinct intellectual traditions in social theorizing. One is normative. It addresses how people should live or how the social order should be arranged. Much of the human rights discourse belongs to this tradition. The other tradition attempts to analyze the world as it is. Within this second tradition theories are evaluated according to criteria such as falsifiability, compatibility with known facts, explanatory power, or predictive value. If one is interested in feasibility, and if one links rights with corresponding obligations, then the separation between these intellectual traditions is regrettable. Then it makes little sense to generate long lists of human rights without knowing whether or not they ever can be implemented. Here it is argued that a short list of merely 'negative' or protective human rights which can be implemented is preferable to a long list of 'negative' and 'positive' or entitlement rights because the fulfilment of the latter requires an infringement of the former. Indeed, only a narrow focus on 'negative' rights is compatible with a free economy which alone provides the means to fund the material well-being of the masses, i.e., the objective of 'positive' rights. Funding entitlements, however, undermines the viability of a free economy and thus looks self-destructive.

Discussant: *M.-E. Binet*

A note on political ideology and the structure of national accounts in the nordic countries, 1950–2004*C. Bjørnskov*¹¹Aarhus School of Business, Economics, Aarhus (DK)

This note takes a closer look at the relation between three elements of the national accounting identity, private consumption C, government consumption G, and investments I, and the political ideology of the incumbent government in the five Nordic countries. The results suggest that relatively rightwing governments are associated with larger G's, in particular when political competition, as measured by the Herfindahl index of the legislature, is high. The note concludes with a discussion of the political background of this apparently puzzling finding.

Discussant: *M. Mechtel***Inequality and trust***H. Jordahl*¹¹Research Institute of Industrial Economics (IFN), Stockholm (S)

This paper reviews the literature on economic inequality and trust. Cross-country studies, within-country studies, and experiments all suggest that economic inequality exerts a negative influence on trust. Four mechanisms are proposed to explain the negative relationship: social ties (or networks), inference on social relationships (to see inequality as a signal of untrustworthy behavior), conflicts over resources, and opportunity cost of time. Social ties receive the strongest empirical support, but there is also some evidence in favor of inference on social relationships. Conflicts over resources and opportunity cost of time are contradicted by important pieces of evidence.

Discussant: *C. Bjørnskov***Session H7 International Organisations**Lecture hall 221 Chair *Eelke de Jong*, Radboud University Nijmegen, Department of Economics, Nijmegen (NL)**Paris club involvement: Helping or harming IMF's attempts to catalyse private capital?***E. de Jong*², *K. van der Veer*¹¹De Nederlandsche Bank, Economic Policy and Research Department, Amsterdam (NL)²Radboud University Nijmegen, Department of Economics, Nijmegen (NL)

In this article we investigate the influence of Paris Club deals on the success of IMF programmes to catalyse private capital. We find that arrangements with the Paris Club reduce capital inflow in countries that signed a Stand-By Arrangement or an Extended Fund Facility, and enhance capital inflow in countries with a Poverty Reduction and Growth Facility. These differences in effects are due to country differences in the term structure of external debt and in the type of deals offered by the Paris Club. Debt reduction is more favourable in enhancing private capital inflow than debt rescheduling.

Discussant: *P. Bermholz***Does membership in international organizations increase governments' credibility? A test on the effects of delegating powers***A. Dreher*¹, *S. Voigt*²¹ETH Zurich, KOF Swiss Economic Institute, Zurich (CH)²Marburg University, Marburg (D)

This paper analyzes whether nation-state governments can increase their credibility by becoming members of international organizations. Credibility is an important asset because it determines the real interest rate and is expected to have an important impact on investment and growth. It is hypothesized that the degree of delegation to international organizations can improve the credibility of nation-state governments. This hypothesis is tested by introducing three new indicators. On the basis of 137 countries, all three indicators of international delegation are highly significant for explaining variation in countries' credibility. The effect of international delegation on credibility is particularly strong among the group of lower income countries.

Discussant: *G. Chortareas***The bank for international settlements: Which activities can be justified from a normative economic perspective?***P. Bermholz*¹¹Basel (CH)

The main contribution of the BIS in supplying international public goods and positive externalities consists in the services it provides to the many Committees and Groups which are located at the BIS and (or) whose meetings are organized by it and whose secretariats it provides. The public goods and positive externalities are mainly created and implemented by these Committees who develop new standards,

Program and Abstracts

regulations etc. to increase international financial stability. The BIS seems to be an efficient provider of support which allows economies of scope, a congenial and confidential atmosphere and cross-fertilization among different Committees and Groups, and which furthers the provision of new international public goods at low cost. The BIS itself supplies such goods directly by gathering and disseminating financial information concerning an increasing number of countries, financial markets and institutions. It participates itself in some of the Committees as a member and provides positive externalities by organizing and sponsoring training programs for international financial specialists. Especially important are the regular confidential meetings of the governors of the most important central banks and of their personnel at the meetings at the BIS headquarters in Basel. It is also an advantage that the BIS is able to finance itself mainly by acting as a banker for central banks in money and financial markets. However, the recently increasing collaboration with other international financial institutions like the IMF, the World Bank and even organizations like the OECD, is not without problems. For though it may sometimes help to collect information and to better implement internationally certain innovations, it creates more and more overlapping activities. The influence of politics and perhaps even of certain interest groups may increase, the bottom-up approach followed by the BIS may get into conflict with the top-down approach of the IMF and the World Bank. Also coordination, though clearly helpful in setting common standards and regulations, may sometimes restrict the competition to develop even better public goods.

Discussant: *E. de Jong*

10 ⁰⁰ –10 ³⁰	Coffee break
11 ⁰⁰ –12 ³⁰ Lecture hall 2	Panel on Globalisation and Underdevelopment in the 21 st Century: Challenges for the Public Choice Community Participants <i>Roger Congleton, Razeen Sally, Philip Harms, Vani K. Borooah</i> Chair <i>Lars P. Feld</i>
	End of the conference
11 ⁰⁰ –12 ³⁰	Excursion to The Buchenwald Memorial (optional, extra cost: 18 EUR)

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General Information

Venue

The congress venue is located in the city center of Jena:

Friedrich-Schiller-University Jena

Campus

Carl-Zeiss-Straße 3/Ernst-Abbe-Platz • 07743 Jena (D)

Conference chair

Prof. Dr. *Andreas Freytag*

Friedrich-Schiller-University Jena

Lehrstuhl für Wirtschaftspolitik

Carl-Zeiss-Straße 3 • 07743 Jena (D)

Co-organizer



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Program Committee

David Autretsch (MPI Jena)

Georgios Chortareas (University of Essex)

Jakob de Haan (University of Groningen)

Lars Feld (University of Heidelberg/President of the EPCS)

Andreas Freytag (Friedrich-Schiller-University Jena / Chairman)

Randall Holcombe (Florida State University / President of the US Public Choice Society)

Martin Paldam (University of Aarhus)

Friedrich Schneider (JKU Linz)

Christoph Vanberg (MPI Jena)

Mika Widgren (Turku School of Economics)

Stanley Winer (Carleton University)

Ronald Wintrobe (University of Western Ontario)

Robert Young (University of Western Ontario)

Wicksell Prize Committee

Reiner Eichenberger (University Fribourg)

Bruno S. Frey (University of Zurich)

Andreas Freytag (Friedrich-Schiller-University Jena)

Registration desk

The registration desk will be located in the foyer off the Campus, except on Thursday, March 27th, 2008 it will be located in the main university building (Fürstengraben 1) in front of the "Aula". Opening hours are:

Thursday, March 27 th , 2008	15 ³⁰ –17 ³⁰ (university main building, "Aula", ground floor).
Friday, March 28 th , 2008	07 ³⁰ –18 ³⁰ (university campus)
Saturday, March 29 th , 2008	08 ³⁰ –14 ³⁰ (university campus)
Sunday, March 30 th , 2008	08 ³⁰ –12 ³⁰ (university campus)

Coffee and lunch breaks

During all coffee breaks coffee, tea and fresh water will be served in the foyer, ground floor. During lunch breaks we will offer meals and drinks.

Social program**Thursday, March 27th, 2008**

19⁰⁰ Reception at the Townhall (Market place) of Jena with an opening address by the Mayor of Jena Dr. *Albrecht Schröter*. The reception is included in the conference fee.

Saturday, March 29th, 2008

14³⁰ Excursion to Weimar

Weimar is one of the great cultural sites of Europe, having been home to such famous writers as Goethe, Schiller and Herder. Get to know Weimar by taking part in the "UNESCO World Heritage tour": Weimar has three items on the World Heritage List: Classical Weimar, the State Bauhaus and Goethe's handwritten manuscripts in the "Memory of the World". They are all covered in depth by this tour: The excursion is included in the conference fee. Departure in front of the Hotel Steigenberger Esplanade: 14³⁰

Saturday, March 29th, 2008

19³⁰ Conference Dinner

The conference dinner will take place in the "Volkshaus" in Jena, which is situated near the conference venue. Enjoy this evening and take the chance to get in touch with each other. The conference dinner is included in the conference fee.

Sunday, March 30th, 2008

12⁰⁰ Excursion to The Buchenwald Memorial (near Weimar)

We offer an excursion to "The Buchenwald Memorial" near Weimar on Sunday, March 30, 2008. Included in the price is the bus transfer (Jena-Buchenwald and back) and a guided tour through the memorial. We offer one tour in German and one tour in English. Please note that this excursion is not included in the conference fee and has to be paid extra!

Min. number of participants: 20 (each group)

Max. number of participants: 30 (each group)

Price: 18 EUR/person

Departure in front of the hotel Steigenberger Esplanade: 12⁰⁰

General Information

Welcome to Jena

Only a few years after the political revolution in the Eastern part of Germany took place, Jena has blossomed out as a city of economic, scientific, cultural and social prestige. It is home to world-known institutions like the Fraunhofer Institute and a member of Max Planck Institutes, it looks back on an impressive history in the field of optical works and research strongly associated with names like Carl Zeiss and Ernst Abbe and it is also famous for its glass manufactory founded by Otto Schott.

Nearly 25.000 students decisively contribute to Jena's image as Thuringia's intellectual centre which is mainly based on philosophers of international prominence like Schiller, Goethe and Hegel. The intellectual development of Jena's university was sealed with its foundation in the Collegium Jenense in 1548, when the formerly Dominican monastery became the site of training of Protestant clergymen and teachers. This institution by then known as Hohe Schule of Jena under the sovereign of Johann Friedrich I, did not receive imperial privilege as university until 1558 and was later named after its disciple Friedrich Schiller in the 1930s.

Apart from its tradition as centre of intellectualism and science, Jena is also considered as place where to enjoy a coffee in an enchanting atmosphere while reading Schiller's Wallenstein. Jena's Wagnergasse is famous for its variety of homely cafés inviting for a little rest after a broad sightseeing tour including crucial sites such as Schiller's Garden House, the medieval city wall with the Tower of John or the city church. On the occasion of the University's 450-years-anniversary in 2008 Jena seems a perfect host for the annual convention of the "European Public Choice Society", which will be supported by the Max Planck Institute for Economy.

Jena – City of Science 2008

Jena is the new City of Science 2008. The University city near the river Saale is known as a very popular and family-friendly place that not only administers its long scientific tradition, but also effectively amplificate it into the future. For further information please see the official website www.jena.de/sdw2008

Restaurants, cafés, bars near the congres venue

In the "Goethe Galerie" next to the conference venue you can find different bakers and groceries.

Other cafés and restaurant in the city centre of Jena

Brasserie Einstein
Johannisstr. 27-29
Telephone +49 (0)3641 22 93 22

Gato Bello
Johannisplatz 16
Telephone +49 (0)3641 22 93 22

Restaurant Zum Löwen
Johannisplatz 14
Telephone +49 (0)3641 55 81 13

Café/Restaurant Boheme
Johannisplatz 15
Telephone +49 (0)3641 42 86 77

Café/Restaurant Stilbruch
Wagnergasse 2
Telephone +49 (0)3641 82 71 71

Resataurant Zur Schweiz
Quergasse 15
Telephone +49 (0)3641 5 20 50

Restaurant Scala
Restaurant in the Intershop Tower
Leutragraben 1
Telephone +49 (0)3641 35 66 66

Landgrafen Jena
Landgrafenstieg 25
Telephone +49 (0)3641 50 70 71

Restaurant Roter Hirsch
Holzmarkt 10
Telephone +49 (0)3641 44 32 21

Restaurant Herkule (Greek restaurant)
Grietgasse 6
Telephone +49 (0)3641 44 10 11

Traveling to Jena**By car**

From the West Jena can be reached over the highways A5/A4 Frankfurt am Main/Dresden, follow directions Dresden until you reach Jena-Göschwitz, Exit 53 and then follow the road B88. After 8 km you will eventually come to a small roundabout, where you need to take the second right, which takes you into the city. From the North or the South the main Berlin-Munich highway A9 should be used. From either direction you follow the highway until you come to the 'Hermsdorferkreuz' the main junction at Hermsdorf, here you need to follow signs for Frankfurt-Erfurt until you come to Exit 54 Jena Lobeda. Turn left at the lights and follow the main road to the city center.

The hotels within the city are all well signposted and therefore can be easily reached, these signs are dark green with white wording. For the university campus building (conference venue) you need to follow signs for the "Goethe Galerie" or the "Steigenberger Esplanade" (both facilities offer underground parking), the university building is a two minute walk from either of these buildings.

By train

By train you arrive at Jena at station "Jena West" (directions Frankfurt/Dresden with change in Weimar) or at "Jena Paradies" (ICE-Station, directions Munich, Berlin and Leipzig). Both stations are within walking distance from the hotels in the city and the conference venue.

By air

You can book connecting flights from Frankfurt and Munich or other European destinations to Leipzig, the nearest major airport. From the airport a local shuttle service to Leipzig Central Station is available. It takes approx. 30 minutes to travel to the main train station with this shuttle. International airports are in Frankfurt, Berlin or Munich. All of these airports run a shuttle service or a S-Bahn (underground – not in Berlin) to the main train station where you can then be connected to Germany's efficient train service for your further travel to Jena.

Electricity

Electricity is supplied at 220 V/50 Hz. You may have an adapter.

Visa and Insurance

For visitors from most countries, Germany requires a passport, which needs to be valid for at least 6 months. In addition, visitors from many countries of Eastern Europe, Asia, Africa and South America need to obtain a visa. Please contact the German embassy or a German consulate in the country of your origin. Relevant information on visa requirements can be obtained from the following web site:

www.auswaertiges-amt.de. If you need a letter of invitation in order to apply for a German visa, please contact the congress organisation (*Anja Kreutzmann*, anja.kreutzmannconventus.de). The conference registration fees do not include insurance of the participants against accidents, sickness or loss of personal property. Our participants are advised to make the necessary arrangements for short-term health and accidents insurance before arriving for the conference.

Money

Currency is the EURO (EUR). Please change a sufficient amount of money for your daily needs upon arrival. Small businesses, taxis, and small restaurants usually do not accept credit cards. Local banks exchange money during business hours (9am – 4pm). Automated Teller Machines are available at many places throughout the city.

General Information

Registration fees

	Fee before 29.02.08	Fee after 29.02.08
Participants	250 EUR	350 EUR
(gratuated) student	200 EUR	300 EUR
accompanying person	150 EUR	200 EUR

The registration fee for participants includes

☒ scientific program ☒ conference material ☒ lunches and coffee breaks ☒ social events

Payment

Payment by credit card is preferred. We accept MasterCard, Visa Card, American Express and JCB.

Participant Identification

Participants are kindly ask to wear their personal name tag at all conference events. Access to the scientific Sessions, coffee breaks, lunch breaks and social events are restricted to those who have registered. The accompanying person name tag gives access to the social events only.

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► We are looking forward to meeting you at The Annual Meeting of the European Public Choice Society

Martina Bihn
martina.bihn@springer.com



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