

## 3<sup>rd</sup> Workshop on Political Economy

From 04/Dec/2009 to 05/Dec/2009 in Dresden

### Organizers:

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Jointly organized workshop by CESifo, the Center of Public Economics at TU Dresden and the Ifo Institute for Economic Research Dresden.

Conference venue:

**Ifo Dresden**  
**Einsteinstrasse 3**  
**01069 Dresden**  
**Germany**

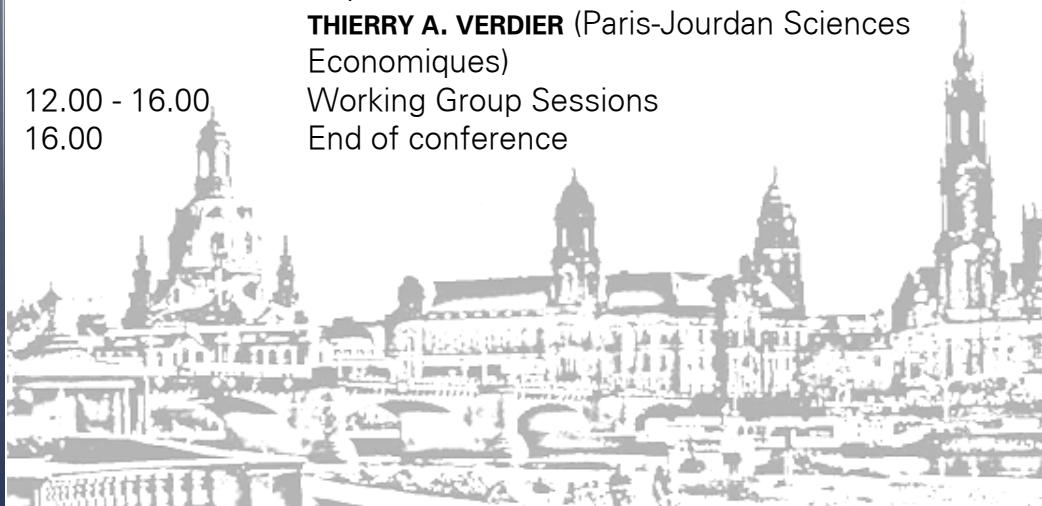
Summary program:

Friday, 04 December 2009

12.30 - 12.45	Welcome Address
12.45 - 13.45	Keynote Lecture <b>ARYE L. HILLMAN</b> (Bar-Ilan University, CESifo)
14.15 - 18.30	Working Group Sessions
20.00	Conference Dinner

Saturday, 05 December 2009

09.00 - 10.30	Working Group Sessions
11.45 - 12.45	Keynote Lecture <b>THIERRY A. VERDIER</b> (Paris-Jourdan Sciences Economiques)
12.00 - 16.00	Working Group Sessions
16.00	End of conference



**Friday, 04 December, 2009**

**Welcome Address**

12.30 -12.45 MARCEL THUM (TU Dresden, CESifo, Director, ifo Institute for Economic Research, Dresden)

**Keynote Lecture**

12.45 - 13.45 **The Political Economy of Expressive Behavior** (room 1.5)

ARYE L. HILLMAN (Bar-Ilan University, CESifo)

*Chair: Christian Lessmann (TU Dresden)*

Coffee Break

**Working Group Sessions**

14.15 - 15.45 **Voting**

(room 1.5)

**The Swing Voters' Blessing**

JAN KLINGELHÖFER (IIES Stockholm University)

*Discussant: Thushyanthan Baskaran (University of Heidelberg)*

**Federalism and Accountability with Distorted Election Choices**

SEBASTIAN G. KESSING (University of Siegen, CESifo)

*Discussant: Karsten Staehr (Tallinn University of Technology)*

**Federalism**

(room 1.7)

**The Political Economy of Fiscal Decentralization: Evidence from the Canadian Federation**

MARIO JAMETTI (York University, University of Lugano, CESifo)

*Discussant: Lenka Stastna (Charles University in Prague)*

**The Political Competition-Economic Performance Puzzle: Evidence from the OECD Countries and the Italian Regions**

ROBERTO RICCIUTI (Università degli Studi di Firenze)

*Discussant: Eckhard Janeba (University of Mannheim, CESifo, ZEW)*

Coffee Break

**Working Group Sessions**

16.00 - 17.30 **Contests**

(room 1.5)

**The Lifeboat Problem**

KAI A. KONRAD (MPI München, WZB Berlin, CESifo)

*Discussant: Magnus Hoffmann (University of Magdeburg)*

**When the Underdog does not Lead – Endogenous Prize and Leadership in Contests**

MAGNUS HOFFMANN (University of Magdeburg)

*Discussant: Kai Konrad (MPI München, WZB Berlin, CESifo)*

**Electoral Competition**

(room 1.7)

**Competing on Good Politicians**

VINCENZO GALASSO (Università, Bocconi, IGIER, CEPR)

*Discussant: Niklas Potrafke (University of Konstanz)*

**Discretion and Renegotiation in Electoral Campaigns**

ELENA MANZONI (Università Bocconi)

*Discussant: Jan Klingelhöfer (IIES Stockholm University)*

Coffee Break

**Working Group Sessions**

17.45 - 18.30 **Regulation**

(room 1.5)

**The Political Economy of Regulators Risk**

ROLAND STRAUZ (Humboldt University Berlin)

*Discussant: Henning Bohn (University of California Santa Barbara, CESifo)*

**Incumbency Advantage and Economic Voting: Evidence from Quasi-Experiment for the German Federal Elections**

RONNY FREIER (Stockholm School of Economics)

*Discussant: Tanja Greiner (LMU)*

**Economic Voting**

(room 1.7)

20.00

Conference Dinner, Restaurant „Brunetti“

**Saturday, 05 December, 2009**

**Working Group Sessions**

- 09.00 - 09.45 **Rotation Model** (room 1.5) **The ECB-Rotation Model: Some New Insights Based on the Multilinear Extension of Games**  
 BARBARA VON SCHNURBEIN (University of Duisburg Essen)  
*Discussant: Roman Horvath (Czech National Bank)*
- Media Bias** (room 1.7) **Political Distortions, Disenchantment with Politics and the Role of Media**  
 TANJA GREINER (LMU)  
*Discussant: Elena Manzoni (Università Bocconi)*

Coffee Break

**Working Group Sessions**

- 10.00 - 11.30 **Ideology** (room 1.5) **Political Ideology and Tax Competition: Experimental Evidence**  
 ECKHARD JANEBA (University of Mannheim, CESifo, ZEW)  
*Discussant: Ronny Freier (Stockholm School of Economics)*
- Does Government Ideology Matter in Monetary Policy? A Panel Data Analysis for OECD Countries**  
 NIKLAS POTRAFKE (University of Konstanz)  
*Discussant: Roberto Ricciuti (Università degli Studi di Firenze)*
- Impact of Democracy** (room 1.7) **Does Democracy Affect Taxation? Evidence from Developing Countries**  
 PAOLA PROFETA (Università Bocconi)  
*Discussant: Andreas Bühn (TU Dresden)*
- Economic and Democratic Reforms in the Post-communist Countries. The Copenhagen Criteria and the Importance of Prospective EU Membership**  
 KARSTEN STAEHR (Tallinn University of Technology)  
*Discussant: Mario Jametti (York University, University of Lugano, CESifo)*

Coffee Break

- 11.45 - 12.45 **Keynote Lecture**  
**The Political Economy of State Capacity Building and Redistribution in Elite Dominated Societies** (room 1.5)  
 THIERRY A. VERDIER (Paris-Jourdan Sciences Economiques)  
*Chair: Gunther Markwardt (TU Dresden)*

Lunch Break

**Working Group Sessions**

- 13.30 - 15.00 **Immigration** (room 1.5) **The Political Economy of Illegal Immigration**  
 GIOVANNI FACCHINI (Erasmus University Rotterdam, CEPR, LdA, CESifo)  
*Discussant: Alexander Kemnitz (TU Dresden, CESifo)*
- Intergenerational Mobility and the Political Economy of Immigration**  
 HENNING BOHN (University of California Santa Barbara, CESifo)  
*Discussant: Vincenzo Galasso (Università, Bocconi, IGER, CEPR)*
- Institutional Quality** (room 1.7) **Financial Integration in Autocracies: Greasing the Wheel or More to Steal?**  
 RAMIN DADASOV (RWTH Aachen University)  
*Discussant: Sebastian G. Kessing (University of Siegen, CESifo)*
- The Effect of the Protection and Stability of Creditor Rights on the Fifth Wave of M&As**  
 MARTIN GASEBNER (ETH Zurich, KOF Swiss Economic Institute)  
*Discussant: Samia Costa (Bar-Ilan University)*

Coffee Break

**Working Group Sessions**

- 15.15 - 16.00 **Globalization** (room 1.5) **Globalization, Redistribution, and the Composition of Public Education Expenditures**  
 THUSHYANTHAN BASKARAN (University of Heidelberg)  
*Discussant: Heike Auerswald (TU Dresden)*
- Conflicts** (room 1.7) **Natural Disasters and the Incidence of Civil War**  
 SAMIA COSTA (Bar-Ilan University)  
*Discussant: Martin Gassebner (ETH Zurich, KOF Swiss Economic Institute)*

### Keynote Lectures

**Friday, 04 December 2009, 12.45 – 13.45, Room 1.5**

#### **The Political Economy of Expressive Behavior**

**ARYE L. HILLMAN**

Bar-Ilan University, CESifo

Much human behavior appears to be expressive. Expressive behavior provides expressive utility by confirming identity that people choose as pleasing to themselves or to please others. In issues of economy policy the identity may be that of a generous caring person, in issues of geopolitics that of being a conciliatory person amenable to compromise. Expressive behavior can be deceptive, counterfactually based, and resistant to clarifying information. I use expressive voting to illustrate expressive behavior and extend the principles to behavior that I call expressive rhetoric and expressive generosity. I consider prospects for remedies for the social costs of expressive behavior and compare expressive behavior with altruism and malice.

**Saturday, 04 December 2009, 10.45 – 11.45, Room 1.5**

#### **The Political Economy of State Capacity Building and Redistribution in Elite Dominated Societies**

**THIERRY A. VERDIER**

Paris-Jourdan Sciences Economiques

## Working Group Sessions

Friday, 04 December 2009, 14.15 – 15.45, Room 1.5

### The Swing Voters' Blessing

JAN KLINGELHÖFER

IIES Stockholm University

I model elections with quality differences between two ideological candidates. The quality differences are observable only to a limited number of voters. I show that if uninformed voters follow an optimal strategy of making their voting decisions only dependent on their ideological position relative to the median voter, the candidate who is preferred by a voter with the median position wins. I show furthermore that the existence of boundedly rational uninformed voters who always support the candidate whose policy offer seems most attractive to them improves the welfare of voters by increasing electoral control. This is "the swing voters' blessing".

**Keywords:**

**JEL classification:**

### Federalism and Accountability with Distorted Election Choices

SEBASTIAN G. KESSING

University of Siegen, CESifo

Random factors such as bad weather or exogenous economic shocks affect the re-election of politicians and can reduce accountability. Such distorted election choices interact with the architecture of government. Contrasting centralized with decentralized political systems; this study shows that centralization is likely to result in higher accountability if election choices are subject to small random distortions. Furthermore, equity and efficiency arguments for uniform policies in centralized systems are derived as these are likely to result in the better overall performance of politicians and in more equal performance across regions.

**Keywords:** accountability, federalism, decentralization, retrospective voting, Condorcet Jury Theorem

**JEL classification:** H73, D72

Friday, 04 December 2009, 14.15 – 15.45, Room 1.7

## **The Political Economy of Fiscal Decentralization: Evidence from the Canadian Federation**

**MARIO JAMETTI** / MARCELIN JOANIS

York University, University of Lugano, CESifo / Université de Sherbrooke, GRÉDI CIRANO

Fiscal decentralization is en vogue. This paper empirically investigates the underlying causes of expenditure decentralization, based on the predictions of a new political economy model of partial fiscal decentralization. The analysis is based on a pure moral hazard political agency model, in which two levels of government are involved in the provision of a public good and voters are imperfectly informed about each government's contribution to the good, creating a shared accountability problem. Under shared expenditure responsibility, the degree of decentralization is endogenous and depends on the relative political conditions prevailing at each level of government, i.e. the extent to which each level of government can affect its electoral fortunes by contributing to the public good. Consistent with the model's predictions, empirical results from a panel of Canadian provinces show that decentralization in a province increases with the electoral strength of the provincial government, and is affected significantly by its partisan affiliation.

**Keywords:** Fiscal decentralization; Fiscal federalism; Vertical interactions; Partial Decentralization; Elections

**JEL classification:** H77, D72, H11

## **The Political Competition-Economic Performance Puzzle: Evidence from the OECD Countries and the Italian Regions**

FABIO PADOVANO / **ROBERTO RICCIUTI**

Università Roma Tre / Università degli Studi di Firenze

Empirical tests on the relationship between political competition and economic performance generate a puzzle: data tend to support the theory at the lower levels of government, but not in panels of countries. We propose a solution to this puzzle arguing that the larger set of policy instruments reduces the tax price of votes at the national level, relaxing a binding constraint on national politicians' incentives to use distortionary redistributive policies to win contested elections. Moreover, constitutions typically reserve competencies with a high ideological potential to the national government, which further obfuscates swing voters' responsiveness to the economic performance of the central government. We thus expect political competition to produce efficiency-oriented policies at the sub-national level compared to the national one. We test this hypothesis on a panel of 24 OECD countries over 1974-2000, and a panel of 15 Italian regions over 1984-2000, both characterized by an exogenous variation of the competitiveness of the political market (the fall of the Berlin Wall, and an institutional reform, respectively). We find that the data support the predictions of our model.

**Keywords:** political competition, growth, redistribution, national and regional government

**JEL Classification:** D78, H71, H72, O17

**Friday, 04 December 2009, 16.00 – 17.30, Room 1.5**

### **The Lifeboat Problem**

**KAI A. KONRAD** / DAN KOVENOCK

MPI München, WZB Berlin, CESifo / University of Iowa,

We study an all-pay contest with multiple identical prizes ("lifeboat seats"). Prizes are partitioned into subsets of prizes ("lifeboats"). Players play a twostage game. First, each player chooses an element of the partition ("a lifeboat"). Then each player competes for a prize in the subset chosen ("a seat"). We characterize and compare the subgame perfect equilibria in which all players employ pure strategies or all players play identical mixed strategies in the first stage. We find that the partitioning of prizes allows for coordination failure among players when they play nondegenerate mixed strategies and this can shelter rents and reduce rent dissipation compared to some of the less efficient pure strategy equilibria.

**Keywords:** all-pay contest, multiple prizes, rent dissipation, lifeboat.

**JEL classification:** D72, D74

### **When the Underdog does not Lead – Endogenous Prize and Leadership in Contests**

**MAGNUS HOFFMANN** / GRÉGOIRE ROTA GRAZIOSI

University of Magdeburg / CERDI-CNRS, Université d'Auvergne

This paper examines simultaneous versus sequential play in a simple two-player contest framework with a contest success function of the logit type. The timing of moves as well as the value of the prize is assumed to be endogenous. In a pre-play stage to the basic contest subgame players decide whether they exert effort as soon, or as late as possible. No matter when exerted, the players' effort influences not only the size of the prize (negative) but also their win probability (positive) as well as the competitor's win probability (negative). It is found that in line with previous literature on contests with an exogenous prize, the subgame perfect equilibrium of the extended game is Pareto dominated by no other sequentiell or simultaneous play payoff and that, if sequentiell play emerges in equilibrium, the leader under commits effort compared to the Nash equilibrium. But, contrary to previous findings, the win probability of the simultaneous move game is in no way crucial for the determination of an endogenous leadership. Moreover, the rent dissipation in the subgame perfect equilibrium of the extended game may not be minimized.

**Keywords:** Contests, Endogenous timing, First/second-mover advantage

**JEL classification:** C72, D72

**Friday, 04 December 2009, 16.00 – 17.30, Room 1.7**

### **Competing on Good Politicians**

**VINCENZO GALASSO / TOMMASO NANNICINI**

Bocconi University, IGER, CEPR / Bocconi University, IGER, IZA

Is electoral competition good for political selection? To address this issue, we introduce a theoretical model in which ideological parties select candidates between party loyalists and experts, and allocate them into the electoral districts. Non-ideological voters, who care about national and local policies, strongly prefer experts. We show that parties compete on good politicians by allocating them to the most contestable districts. Empirical evidence on Italian members of parliament confirms this prediction. We find that politicians with higher ex-ante quality - as measured by years of schooling, previous market income, and local government experience - are more likely to run in a contestable district. Indeed, despite being different on average, the characteristics of politicians belonging to opposite parties converge to high-quality levels in close races. Furthermore, politicians elected in contestable districts make fewer absences in parliament; this is shown to be driven more by a selection effect than by reelection incentives.

**Keywords:** political competition, political selection, probabilistic voting

**JEL classification:** D72, H00

### **Discretion and Renegotiation in Electoral Campaigns**

**ELENA MANZONI**

Università Bocconi

The paper presents a model of electoral campaigning as a problem of competitive delegation. I consider a situation in which there is uncertainty about what the optimal policy should be; in this environment voters may want to leave discretion to a candidate, in order to allow him to adjust his policies to the state of the world, once he is elected. The paper analyses how the ambiguity level of the political statements is influenced by the presence of uncertainty over the candidates' ideology, by the possibility of ex post renegotiation between the appointed candidate and the voters and by several political variables.

**Keywords:**

**JEL classification:**

**Friday, 04 December 2009, 17.45 – 18.30, Room 1.5**

### **The Political Economy of Regulators Risk**

ROLAND STRAUZ  
Humboldt University Berlin

I investigate the argument that, in a two-party system where parties differ in regulatory objectives, political uncertainty generates regulatory risk. I show that regulatory risk has a fluctuation and an output–expansion effect. Consequently, at least one party unambiguously dislikes regulatory risk. I characterize political systems where also the other party dislikes it: When political divergence is small or the winning probability of the regulatory–risk–averse party is not too large, political parties gain from pre–electoral bargaining to eliminate regulatory risk. Parties face, however, a self–commitment problem. A politically independent regulatory agency solves this commitment problem.

**Keywords:** regulation, regulatory risk, political economy, independent regulatory agency

**JEL classification:** D82

**Friday, 04 December 2009, 17.45 – 18.30, Room 1.7**

### **Incumbency Advantage and Economic Voting: Evidence from a Quasi-experiment for the German Federal Elections**

FLORIAN ADE / **RONNY FREIER**  
Humboldt University Berlin, DIW Berlin / Stockholm School of Economics

Following a newly developed literature in the US, recent work for Germany has focused on the estimation of the causal effect of incumbency status on subsequent electoral outcomes of a party. Given the mixed electoral system in German elections, researchers have investigated both the direct effect of incumbency on the majoritarian vote for the period 1949-1998 (Hainmueller and Kern (2005)) as well as the contamination effect on the proportional vote (Hainmueller and Kern (2008)). Building on the identification strategy of Ferreira and Gyourko (2009), this paper investigates the importance of economic variables for the size and significance of the incumbency effect found previously. Moreover, we extend the scope of the analysis to include elections from the German states which feature electoral systems similar to the federal elections. In that, we are the first to present estimates of the causal effect of incumbency in state elections. To conduct the analysis, we have collected new data sets that link the outcomes of the federal and state elections with indicators about the economic situation on electoral district level. Our preliminary results hint to three important conclusions: (i) the incumbency effect can be detected also for our period of interest (1980-2009), (ii) it is robust to the inclusion of economic variables and (iii) the economic variables are important (causal) variables for the prediction of the voting outcome in a district.

**Keywords:**

**JEL classification:**

**Saturday, 05 December 2009, 09.00 – 09.45, Room 1.5**

**The ECB-Rotation Model: Some New Insights Based on the Multilinear Extension of Games**

ANSGAR BELKE / **BARBARA VON SCHNURBEIN**

University of Duisburg-Essen, DIW Berlin /University of Duisburg-Essen

Abstract

**Keywords:**

**JEL classification:**

**Saturday, 05 December 2009, 09.00 – 09.45, Room 1.7**

**Political Distortions, Disenchantment with Politics and the Role of Media**

**TANJA GREINER**

LMU München

Media coverage does not only reflect what is happening in the world. It is mainly concerned with satisfying the needs of the consumers, who often prefer entertainment over objective information. This is a model of a duopoly media market with endogenous quality choice that links the effect of structural changes in the media market to the public perception of political issues. The lower the quality of media coverage, the higher the entertainment value of news, and the higher the spendings of politicians in order to mitigate the effect of negative coverage.

**Keywords:** mass media, media bias, voting, electoral competition

**JEL Classification:** D72, L13, L82

**Saturday, 05 December 2009, 10.00 – 11.30, Room 1.5**

## **Political Ideology and Tax Competition, Experimental Evidence**

**ECKHARD JANEBA**

University of Mannheim, CESifo, ZEW

To the best of my knowledge this is the first paper to analyze tax competition theory in an experimental setting. Economically trained students act as government and must select labor and capital tax rates to fund public goods, both in closed and open economy settings. Several results emerge: i) Better students choose labor tax rates closer to their (Nash) optima, which also holds in a closed economy for the capital tax rate. ii) Tax rates on capital fall when capital becomes mobile, but much less so than theory predicts. iii) In the open economy female students choose about 9 percentage points higher tax rates on capital than male students. iv) Political ideology influences capital tax rate choices in the open economy when subjects are matched on the basis of party preference, but not when randomly matched. With political preference matching left wing students choose about 7 percentage points lower tax rates on labor and about 15 percentage points higher tax rates on capital than market friendly students, even though rational behavior predicts no relevance for political ideology. This suggests that gender and political ideology may play an important role in the intensity and outcome of fiscal competition.

**Keywords:** Tax Competition, Political Preference, Experiment

**JEL Classification:**

## **Does Government Ideology Matter in Monetary Policy? A Panel Data Analysis for OECD countries**

**ANSGAR BELKE / NIKLAS POTRAFKE**

University of Duisburg-Essen, DIW Berlin /University of Konstanz

This paper examines whether government ideology influenced monetary policy in OECD countries. We use quarterly data in the 1980.1-2005.4 period. Our Taylor-rule specification focuses on the interactions of a new time-variant indicator for central bank independence and government ideology. The results suggest that leftist governments did not pursue an expansionary monetary policy by decreasing short-term nominal interest rates at all. In contrast, short-term nominal interest rates were higher under leftist governments when central bank independence was high. This finding may well indicate that leftist governments have sought to make a market-oriented policy shift by delegating monetary policy to conservative central bankers.

**Keywords:** monetary policy, Taylor rule, government ideology, partisan politics, central bank independence, panel data

**JEL Classification:** E52, E58, D72, C23

**Saturday, 05 December 2009, 10.00 – 11.30, Room 1.7**

## **Does Democracy Affect Taxation? Evidence from Developing Countries**

**PAOLA PROFETA / RICCARDO PUGLISI / SIMONA SCABROSETTI**

Università Bocconi / Università di Pavia and Université Libre de Bruxelles / Università di Pavia

A large literature has emphasized the positive relation between democracy and redistribution. However, little is known about the role of political regimes in shaping the mechanisms of redistribution, i.e. mainly tax design and composition. Moreover, cross-country analyses are often inconclusive, as they typically do not rely on fixed effects estimates. We build a new dataset to analyze the effects of democratization on tax revenue and tax composition in a sample of developing and emerging countries in three areas of the world (Asia, Latin America and New EU Members) during the period 1990-2005. Controlling for country fixed effects, we find that tax revenue is significantly larger when civil liberties are more strongly protected. This result is actually larger in size and statistical significance when controlling for GDP per worker and trade openness. On the other hand, the within-country correlation of tax revenue and the Polity2 index of democracy is never statistically significant. We also find that personal income taxes are higher in more liberal regimes, as well as the total amount of direct taxes, while property taxes are higher in less liberal countries. Finally, we do not find any significant within-country effect of democracy and civil liberties on corporate taxes, indirect taxes and social security contributions.

**Keywords:** comprehensive dataset on taxation; civil liberties, tax composition

**JEL Classification:** H20, O53, P16, P35, P50

## **Economic and Democratic Reforms in the Post-communist Countries: The Copenhagen Criteria and the Importance of Prospective EU Membership**

**KARSTEN STAEHR**

Tallinn University of Technology

Abstract

**Keywords:**

**JEL classification:**

**Saturday, 05 December 2009, 13.30 – 15.00, Room 1.5**

### **The Political Economy of Illegal Immigration**

**GIOVANNI FACCHINI** / CECILIA TESTA

Erasmus University Rotterdam, Università' degli Studi di Milano, CEPR, LdA, CESifo / Royal Holloway University of London, Erasmus University Rotterdam, LdA

Abstract

**Keywords:** Illegal Immigration, Immigration Policy, Political Economy

**JEL classification:** F22, J61

### **Intergenerational Mobility and the Political Economy of Immigration**

**HENNING BOHN** / ARMANDO R. LOPEZ-VELASCO

University of California Santa Barbara / Colorado College

Flows of US immigrants are concentrated at the extremes of the skill distribution. We develop a political economy model consistent with these observations. Individuals care about wages and the welfare of their children. Skill types are complementary in production. Voter support for immigration requires that the children of median-voter natives and of immigrants have sufficiently dissimilar skills. We estimate intergenerational transition matrices for skills, as measured by education, and find support for immigration at high and low skills, but not in the middle. In a version with guest worker programs, voters prefer high-skilled immigrants but unskilled guest workers.

**Keywords:**

**JEL classification:**

**Saturday, 05 December 2009, 13.30 – 15.00, Room 1.7**

### **Financial Integration in Autocracies: Greasing the Wheel or More to Steal?**

**RAMIN DADASOV** / PHILIPP HARMS / OLIVER LORZ  
RWTH Aachen University

It is often argued that a satisfactory institutional quality is prerequisite for successful financial integration. This paper analyzes the influence of financial integration on institutional quality. We construct a dynamic politico-economic model in which the ruling elite uses its political power to expropriate the entrepreneurial class. Although financial integration reduces capital costs for the entrepreneurs and therefore increases their gross profits, the elite counteracts this effect by raising the level of expropriation. Consequently, the net income of entrepreneurs may rise or decline depending on the respective magnitude of the countervailing effects. Since political power is linked to economic resources, financial integration also has consequences for the concentration of power in the hands of the elite and for the rise of the entrepreneurial class.

**Keywords:** Institutions, Capital Mobility, Political Economy.

**JEL classification:** F21, O16, P48.

### **The Effect of the Protection and Stability of Creditor Rights on the Fifth Wave of M&As**

**MARTIN GASSEBNER** / PIERRE-GUILLAUME MÉON  
ETH Zurich, KOF Swiss Economic Institute / Université Libre de Bruxelles (ULB)

In this paper, we evaluate the impact of creditor rights and political risk on both the number and the value of cross-border M&A flows in a gravity model estimated with a Poisson regression, a negative binomial model, and Heckman's two-stage selection model. Our results confirm that creditor-friendly rules and political risk decrease M&A inflows. The impact of formal legal rules is however mainly driven by politically stable countries, where those rules can be expected to hold. It therefore takes political stability for de jure rules to matter de facto.

**Keywords:** Mergers and acquisitions, multinational firms, creditor rights, political risk, gravity model.

**JEL Classification:** F23, G18, G34, P16.

**Saturday, 05 December 2009, 15.15 – 16.00, Room 1.5**

## **Globalization, Redistribution, and the Composition of Public Education Expenditures**

**THUSHYANTHAN BASKARAN** / ZOHAL HESSAMI  
University of Heidelberg / University of Konstanz

We analyze whether globalization affects the composition of public spending on education. We argue in the theoretical section that redistribution through transfers becomes increasingly difficult with deepening global integration, causing governments to shift public education expenditures towards programs that increase the productivity, and thereby the market-income of low-ability individuals. The evident empirical implication of this argument is that with deepening globalization, governments will spend relatively more on primary than on tertiary education. We test this hypothesis with data on 110 countries over the 1999-2006 period.

**Keywords:** Globalization, Public education, Budget composition

**JEL classification:** F15, H42, H52

**Saturday, 05 December 2009, 15.15 – 16.00, Room 1.7**

## **Natural Disasters and the Incidence of Civil War**

**SAMIA COSTA**  
Bar-Ilan University

Both natural disasters and civil wars have been major causes of human suffering. The literature, however, has given scant attention to the effect of natural disasters on the incidence of civil war. Disasters act as negative income shocks, which lower the opportunity cost of rebellion. Disasters further create competition for resources, as well opportunities for looting due to influxes of humanitarian aid. Furthermore, inept response from governments to a disaster may increase frustration and lead to violence. This paper uses 4 measures of civil war incidence and different econometric specifications to explore the effect of natural disasters on the incidence of civil war. I find that overall, natural disasters do not have a significant impact on the likelihood of conflict, but that major disasters, and in particular major rapid onset disasters, do have a positive and significant effect on the incidence of conflict. This is true in the case of democratic and autocratic countries.

**Keywords:** natural disasters, conflict, civil war

**JEL classification:** D7, H5, O0

## List of Participants

Florian <b>Ade</b>	HU Berlin, DIW
Nadjeschda <b>Arnold</b>	CES, LMU
Heike <b>Auerswald</b>	TU Dresden
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Henning <b>Bohn</b>	University of California Santa Barbara, CESifo
Florian <b>Buck</b>	CES, LMU
Andreas <b>Bühn</b>	TU Dresden
Samia <b>Costa</b>	Bar-Ilan University
Ramin <b>Dadasov</b>	RWTH Aachen University
Stefan <b>Eichler</b>	TU Dresden
Giovanni <b>Facchini</b>	University of Rotterdam, CEPR, CESifo, LdA
Ronny <b>Freier</b>	Stockholm School of Economics
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Magnus <b>Hoffman</b>	University of Magdeburg
Roman <b>Horvath</b>	Czech National Bank
Mario <b>Jametti</b>	York University, University of Lugano, CESifo
Eckhardt <b>Janeba</b>	University of Mannheim, CESifo, ZEW
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Elena <b>Manzoni</b>	Università Bocconi
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Paola <b>Profeta</b>	Università Bocconi
Roberto <b>Ricciuti</b>	Università degli Studi di Firenze
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Marcel <b>Thum</b>	TU Dresden, ifo, CESifo
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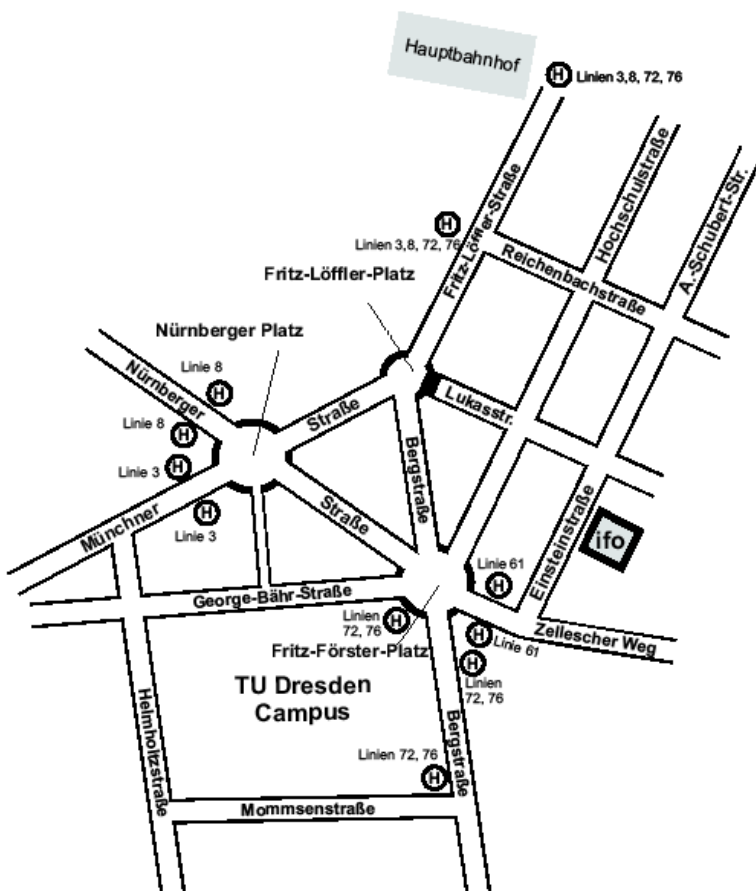
### How to reach Ifo:

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

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

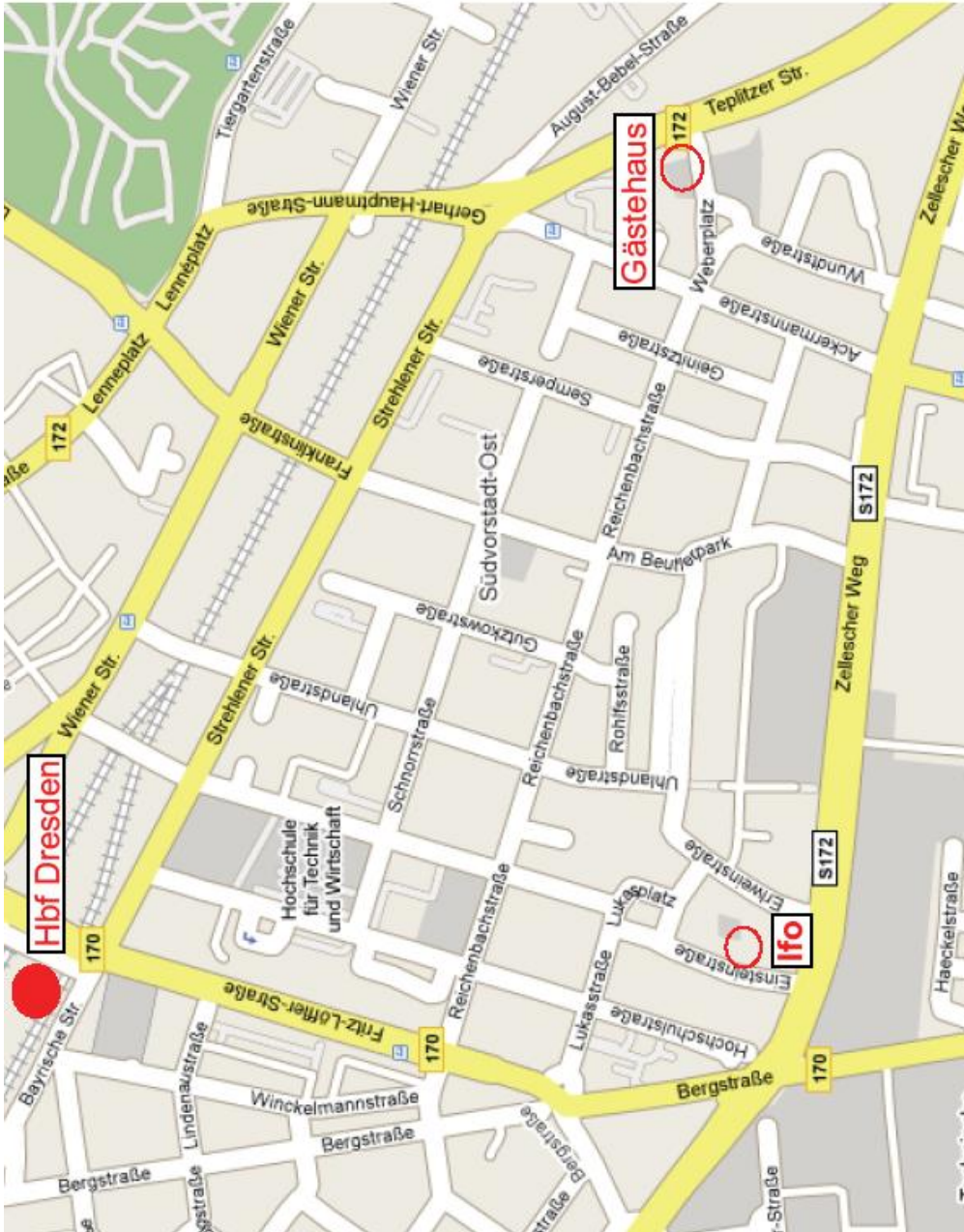
**By car:** Leave the Autobahn (A 4) at the exit "Dresden Altstadt" and follow the signs for "Zentrum", "Hauptbahnhof" or "Universität". After crossing the tracks of the Central Railway Station, turn left into Reichenbach Strasse at the second traffic light. At the second junction, turn right into Andreas-Schubert-Strasse and drive up the hill towards Lukas Church. Driving around the church on the right-hand side, you reach Einsteinstrasse. The Institute is on your left, number 3.

**Local transportation:** Take the bus 72 (direction Coschütz) or 76 (direction Südhöhe) from the Central Railway Station. Get off at the second stop (Technische Universität). For details see the attached map.



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