

# 12<sup>th</sup> Workshop on Political Economy

From 30/11/2018 to 01/12/2018 in Dresden

## Organizers

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

## Conference venue

ifo Dresden  
Einsteinstraße 3  
01069 Dresden  
Germany

## Program

Friday, 30 November 2018

12.45 – 13.00 Welcome Address

13.00 – 18.00 Working Group Sessions

18.15 – 19.15 Keynote Lecture

**GILLES SAINT-PAUL** (Paris School of Economics)

20.00 Conference Dinner

Saturday, 01 December 2018

09.30 – 12.00 Working Group Sessions

12.15 – 13.15 Keynote Lecture

**STEFAN VOIGT** (Universität Hamburg)

14.15 – 15.00 Working Group Sessions

15.00 End of Conference



Technische  
Universität  
Braunschweig



TECHNISCHE  
UNIVERSITÄT  
DRESDEN



## Welcome Address

12.45 - 13.00 CHRISTIAN LESSMANN (TU Braunschweig)

## Working Group Sessions 1 and 2

13.00 - 14.30 **Sundries** (room 1.5) **Top Lights: Bright cities and their contribution to economic development**  
 MELANIE KRAUSE (Hamburg University)  
*Discussant: Tommy Krieger (University of Konstanz)*

**Who is in for a Party (and for What)? Party Ideology, Policies and Politicians**  
 GIORGIO GULINO (University of Bergamo)  
*Discussant: Steffen Mueller (Hamburg University)*

**Lobbyism** (room 1.7) **Who pays a visit to Brussels? Firm value effects of meetings with European Commissioners**  
 JOERG STAHL (Católica Lisbon School of Business & Economics)  
*Discussant: Emile Sartre (CREST-X-ENSAE)*

**State-owned Enterprises across Europe**  
 BRAM DE LANGE (Ghent University)  
*Discussant: Raphael Robiatti (University of Erfurt)*

Coffee Break

## Working Group Sessions 3 and 4

14.45 - 16.15 **Electoral behaviour** (room 1.5) **Emotional Voters**  
 RAPHAEL CORBI (University of São Paulo)  
*Discussant: Andreu Arenas (Barcelona IPEG)*

**Collective Emotions and Protest Vote**  
 GLORIA GENNARO (Bocconi University)  
*Discussant: Julian Lamprecht (TU Dresden)*

**Political attitudes** (room 1.7) **Mobility and Mobilisation: Railways and the Spread of Social Movements**  
 ERIC MELANDER (University of Warwick)  
*Discussant: Kerkhof, Anna (University of Cologne)*

**The Effect of Military Service on National Identity and Political Attitudes. Empirical Evidence from Germany and Spain**  
 MARTA SCHOCH (University of Sussex)  
*Discussant: Niklas Potrafke (ifo München)*

Coffee Break

## Working Group Sessions 5 and 6

16.30 - 18.00 **Democracy** (room 1.5) **Democracy and Institutional Quality: Theory and Evidence**  
 TOMMY KRIEGER (University of Konstanz)  
*Discussant: Antonis Adam (University of Ioannina)*

**The Generation Gap in Direct Democracy**  
 STEFFEN Q. MUELLER (Hamburg University)  
*Discussant: Bram De Lange (Ghent University)*

**Extremism** (room 1.7) **Toxic Loans and the Entry of Extreme Candidates**  
 EMILIE SARTRE (CREST-X-ENSAE)  
*Discussant: Sumit Deole (University of Halle-Wittenberg)*

**Financial Crisis, Creditor-Debtor Conflict, and Political Extremism**  
 GYOZO GYÖNGYÖSI (Kiel Institute for the World Economy)  
*Discussant: Jörg Stahl (Católica Lisbon School of Business & Economics)*

Coffee Break

## Keynote Lecture I

18.15 - 19.15 **Pareto-improving structural reform**  
(room 1.5)  
GILLES SAINT-PAUL (Paris School of Economics)  
*Chair: Christian Lessmann (TU Braunschweig)*

20.00 Conference Dinner at the Restaurant "Hofbräu an der Frauenkirche"

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## Saturday, 01 December 2018

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### Working Group Sessions 7 and 8

09.30 - 10.15 **Terrorism** **Party Bans, Deterrence or Backlash? Evidence from the Basque Country**  
(room 1.5) ANDREU ARENAS (Barcelona IPEG)  
*Discussant: Oguzhan Dincer (Illinois State University)*

**Inequality** **The Redistributive Consequences of Segregation**  
(room 1.7) LISA WINDSTEIGER (Max Planck Institute for Tax Law and Public Finance)  
*Discussant: Marcel Thum (TU Dresden)*

Coffee Break

### Working Group Sessions 9 and 10

10.30 - 12.00 **Right-wing** **Right-wing Populists in Power**  
(room 1.5) NIKLAS POTRAFKE (ifo München)  
*Discussant: Marta Schoch (University of Sussex)*

**Justice delayed is assimilation denied: Rightwing terror, fear and social assimilation of Turkish immigrants in Germany**  
SUMIT S. DEOLE (University of Halle-Wittenberg)  
*Discussant: Rita Maghularia (TU Dresden)*

**Media** **Coverage Bias on Wikipedia? Evidence from biographies of German Members of Parliament**  
(room 1.7) ANNA KERKHOF (University of Cologne)  
*Discussant: Burak Erkut (TU Dresden)*

**The Price of Silence: Media Competition, Capture and Electoral Accountability**  
FREDERICO TROMBETTA (University of Warwick)  
*Discussant: Giorgio Gulino (University of Bergamo)*

Coffee Break

## Keynote Lecture II

12.15 - 13.15 **Emergency Constitutions – Who has them, who uses them, and are they effective?**  
(room 1.5)  
STEFAN VOIGT (Universität Hamburg)  
*Chair: Gunther Markwardt (TU Dresden)*

Lunch Break

## Working Group Sessions 11 and 12

14.15 - 15.00 **Corruption** **The Effects of Corruption on Wheels in Turkey: Low Level Greases, High Level Sands**  
(room 1.5)  
OGUZHAN DINCER (Illinois State University)  
*Discussant: David Bauer (ifo Dresden)*

**Religion** **Serving two Masters. State Religion and Fiscal Capacity**  
(room 1.7)  
SOFIA TSARSITALIDOU (University of Ioannina)  
*Discussant: Ilari Määttä (TU Braunschweig)*

## Keynote Lectures

Friday, 30 November 2018, 18.15 – 19.15, Room 1.5

### Pareto-improving structural reform

GILLES SAINT-PAUL  
(Paris School of Economics)

Saturday, 01 December 2018, 12.15 – 13.15, Room 1.5

### Emergency Constitutions – Who has them, who uses them, and are they effective?

STEFAN VOIGT  
(Universität Hamburg)

## Working Group Sessions

Friday, 30 November 2018, 13.00 – 14.30, Room 1.5

### Top Lights: Bright cities and their contribution to economic development

RICHARD BLUHM / MELANIE KRAUSE

Leibniz University Hannover / Hamburg University

Tracking the development of cities in emerging economies is difficult with conventional data. We show that satellite images of nighttime lights are a reliable proxy for economic activity at the city level, provided they are first corrected for top coding. The commonly-used data fail to capture the true brightness of many cities. We present a stylized model of urban luminosity and empirical evidence which both suggest that these 'top lights' can be characterized by a Pareto distribution. We then propose a simple correction procedure which recovers the full distribution of city lights. Our results show that the brightest cities account for nearly a third of global economic activity. Applying this approach to cities in Sub-Saharan Africa, we find that primate cities are outgrowing secondary cities but are changing from within. Poorer neighborhoods are developing, but sub-centers are forming so that Africa's largest cities are also becoming increasingly fragmented.

**Keywords:** Development, urban growth, night-lights, top coding, inequality

**JEL Classification:** O10, O18, R11, R12

### Who is in for a Party (and for What)? Party Ideology, Policies and Politicians

MATTEO CERVELLATI / GIORGIO GULINO / PAOLO ROBERTI

University of Bologna, IZA, CESifo / University of Bergamo / University of Bergamo

This work studies the role of parties in modern democracies. Do parties shape policy? And if so, how? We exploit a unique natural experiment that makes it possible to randomly assign political power to a single party. The strategy takes advantages of two main features of the ballot paper in local Italian elections: (i) the party position is assigned by a lottery; (ii) the presence of a focal point that attracts more votes. Parties randomly located in the focal point receive on average a 4% share of additional votes within coalition. We show that parties have an important role in representing voters with different preferences, through the type of politicians they elect and the policies implemented. The Extreme-Left party increases spending in education, culture, social welfare and raises the income tax. The Populist-Right Party increases spending in police and justice. The Center-Right Party decreases the house property tax. Moreover, different parties elect politicians with different personal characteristics: the Extreme-Left party elects more public employees and more women, the Populist-Right party elects less public employees, less women and more politicians that are born in the same municipality. The Center-Right party elects more highly educated white collars. Notably, an increase in the vote share of the Center-Left party does not lead to a change neither in policy nor in the pool of elected politicians.

**Keywords:** fiscal policies, party ideology, ballot order effect

**JEL Classification:** H71, H72, E62

Friday, 30 November 2018, 13.00 – 14.30, Room 1.7

## Who pays a visit to Brussels? Firm value effects of meetings with European Commissioners

KIZKITZA BIGURI / JOERG STAHL

BI Norwegian Business School / Católica Lisbon School of Business & Economics

Analyzing novel data on the meetings of European Commission officials in Brussels with US company representatives from the end of 2014 through 2017, we find that meetings with European Commissioners are associated with positive abnormal equity returns. We provide insights on the characteristics and lobbying efforts of US public companies at the European Commission. Our results suggest that access to key policy makers is highly valuable for firms. We identify a channel through which political access increases firm value. Compiling a novel data set on decision outcomes of merger cases at the European Commission, we show that US firms with Commission meetings are significantly more likely to receive a favorable outcome in their merger decisions than their peers without lobbying efforts. Our study is the first to present evidence on firm value effects of political access to supranational institutions and in a cross-border setting.

**Keywords:** political access, lobbying, European Commission, firm value

**JEL classification:** D72, G30

## State-owned Enterprises across Europe

BRAM DE LANGE / BRUNO MERLEVEDE

Ghent University / Ghent University

Relying on an extensive and elaborate firm-level database (AMADEUS), this paper gives an overview of State-Owned Enterprises active in 27 European countries over a ten-year period (2002-2011). After running through our data-gathering procedure, this paper presents evidence that government presence within firms operating in the business economy is not only a Transition Economy phenomena. State ownership is widespread among the European continent and has increased, even for some countries. This type of ownership is to a large extent concentrated in mining, energy, transport, the postal and telecommunications sector. Albeit a fair amount of heterogeneity exists among the variety of legal origins we have in our data. Showing a great extent of concentration for the English legal origin and a presence in virtually every sector for socialist legal origin countries. Looking at country characteristics and government presence in firms in our data, we find that state presence is higher for countries characterised by a higher level of corruption and less civil liberties. Also less developed countries tend to have a higher state presence at the country-level. Taking the analysis to the firm-level, we find that firms with a larger state shareholding are less productive, less profitable and have a higher employment and wage level. Also here we find evidence of heterogeneity across legal origins. We find that state firms become more efficient, employ less workers and are more profitable in countries with less corruption and a higher level of development. Also the ratio investment to assets, long-term debt to assets and assets per employee increases with the amount of government shareholding in a firm. Whereas the ratio cash-flow to assets declines with this shareholding. Findings which are consistent with several theories on State Capitalism.

**Keywords:** Europe, State Ownership, Firm Heterogeneity, Firm-level data

**JEL classification:** H11, L32, O52

Friday, 30 November 2018, 14.45 – 16.15, Room 1.5

## Emotional Voters

RAPHAEL CORBI

University of São Paulo

This paper analyzes the impact of transient emotional shocks induced by unexpected soccer results on incumbent vote share in Brazilian elections. Conditioning on pregame betting markets implied probabilities of each match outcome, I am able to interpret the estimate of actual soccer results as a causal effect on voting behavior. The main results indicate that an increase of one standard deviation in the share of people receiving an emotional shock decreases the incumbent mayor vote share by 5 – 5.8 p.p. on average. This is equivalent to flipping the result of 747 mayoral elections or 4.3% of the sample. The effect is stronger for games with higher stadium attendance, for local teams in the first division, and for more intense emotional shocks. Similar findings arise when I focus on gubernatorial elections. These results cannot be explained by changes in turnout. The effect of such politically irrelevant event suggests that mood can play a significant role in opinion formation processes.

However, I argue that such effect is not generalizable across elections. More specifically, I show that emotional shocks do not play a significant role in determining vote shares in elections that are decided by a small margin. I also show that such close election pattern is found in two different settings previously analyzed by the literature and provide complementary evidence from Google searches that individuals actively seek more information about candidates in close electoral races. Overall these results are consistent with a model in which voters' preferences are affected by emotional cues which may deviate their voting behavior from the forecasts of rational theory. Close elections make information about candidates more salient in the media hence lowering the attention cost to picking the best candidate, improving rational decision making of limited attention voters and decreasing the bias induced by emotional shocks.

**Keywords:** betting markets, soccer, behavioral voters, inattention, facebook, google

**JEL classification:** D03, D72

## Collective Emotions and Protest Vote

CARLO ALTOMONTE / GLORIA GENNARO / FRANCESCO PASSARELLI

Bocconi University / Bocconi University / University of Turin

Do collective emotions play a role in generating protest vote and how? We leverage on important findings in social psychology to suggest that collective emotions fuel protest vote, when aggrievement spreads within cohesive communities. We develop a model of protest vote, where voters derive expressive utility from policy positions and from punishing politicians when their expectations are disappointed. Aggrievement is subject to strategic complementarities, as cohesive communities are more likely to attribute bad performance to external causes and, at the same time, to react with protest. Model implications are tested on the UKIP case with longitudinal data. Empirical findings consistently support the main predictions of the model both at the aggregate and at the individual level. UKIP support is larger in districts where economic grievances are more spread, and where cohesion is higher. Our findings strongly suggest that collective emotions play a crucial role in the emergence of protest vote.

**Keywords:** electoral behaviour, protest vote, populism, relative deprivation, community cohesion, UK Independence Party

**JEL classification:**

Friday, 30 November 2018, 14.45 – 16.15, Room 1.7

## **Mobility and Mobilisation: Railways and the Spread of Social Movements**

**ERIC MELANDER**

University of Warwick

How does transportation infrastructure shape the diffusion of social movements? What is the role of social contagion in this relationship? In this paper, I take a crucial episode from Swedish history to answer these questions. During the thirty-year period 1881-1910, Swedish society underwent two transformative developments: the large-scale roll-out of a national railway network and the nascence of social movements which came to dominate social and political spheres well into the twentieth century. Using event-study and instrumental variables methodologies, I document the causal impact of proximity to the newly constructed railway network on the spread and growth of membership in these social movements. Railway access impacted their diffusion on both intensive and extensive margins: well-connected municipalities were more likely to host a local movement organisation, and saw more rapid growth of membership per capita. I implement a market access framework to uncover the mechanisms underlying this result: by reducing least-cost distances between municipalities, railways intensified the influence exerted by neighbouring concentrations of membership, thereby enabling social contagion. I explore the interrelationships between movement types, and show that railway access reduced levels of strategic substitutability between different groups.

**Keywords:** social movements, railways, collective action, market access

**JEL classification:** D71, D85, F15, N73, N93, O18, R40, Z13

## **The effect of military service on national identity and political attitudes. Empirical evidence from Germany and Spain**

**MARTA SCHOCH**

University of Sussex

**Keywords:**

**JEL classification:**



Friday, 30 November 2018, 16.30 – 18.00, Room 1.5

## Democracy and Institutional Quality: Theory and Evidence

**TOMMY KRIEGER**

University of Konstanz

**Keywords:**

**JEL classification:**

## The generation gap in direct democracy

**GABRIEL M. AHLFELDT / WOLFGANG MAENNIG / STEFFEN O. MUELLER**

London School of Economics and Political Science / Hamburg Univeristy / Hamburg University

We provide the first systematic documentation and analysis of a generation gap in direct democracy outcomes across a wide range of topics using postelection survey data covering more than 300 Swiss referenda and four decades. We find that older voters are more likely to resist reform projects, particularly those that are associated with the political left. We separate age and cohort effects without imposing functional form constraints using a panel rank regression approach. The aging effect on political orientation is robust for controlling for arbitrary cohort effects and appears to be driven by expected utility maximization and not by habituation-induced status-quo bias. Our results suggest that population aging raises the hurdle for investment-like reform projects with positive net present values, long-run benefits and short-run costs in direct polls.

**Keywords:** age, cohort, direct democracy, generation gap, status quo, referendum, reform, utility

**JEL classification:** D7, H3

Friday, 30 November 2018, 16.30 – 18.00, Room 1.7

### **Toxic Loans and the Entry of Extreme Candidates**

GIANMARCO DANIELE / EMILIE SARTRE / PAUL VERTIER  
Bocconi University / CREST-X-ENSAE / Sciences Po, LIEPP

Despite the importance of the 2008 financial crisis in explaining the growing trend of extreme and populist voting, the role played by public finance mismanagement has been so far neglected. In this paper, we study the electoral consequences of a public finance scandal: the leak on September 2011 of a list of French municipalities which contracted "toxic" loans to the bank Dexia. Using an instrumental variable strategy, we find that during the subsequent local elections in 2014, municipalities with toxic loans had a higher number of political parties and a higher share of extreme candidates. These effects were stronger in economically fragile municipalities and in cities with a higher growth of the immigrant population. The findings suggest that the revelation of public finance misconduct fosters the entry of extreme politicians, thus increasing their vote shares and decreasing the support for the incumbents' parties.

**Keywords:**

**JEL classification:**

### **Financial Crisis, Creditor-Debtor Conflict, and Political Extremism**

GYOZO GYÖNGYÖSI / EMIL VERNER

Kiel Institute for the World Economy / Massachusetts Institute for Technology, Sloan School of Management

This paper studies the effect of the 2008 financial crisis on the vote share of the populist far right. We use the foreign currency borrowing of households in Hungary as a natural experiment. We exploit zip code level variation in the prevalence of foreign currency borrowing of households. We find that a 10 percent unanticipated rise in debt-to-income increased the vote share of the far right by 2.1 percentage points. We present evidence that the conflict between creditors and debtors about the resolution of the crisis is an important mechanism in the electoral success of the far right.

**Keywords:**

**JEL Classification:**

Saturday, 01 December 2018, 09.30 – 10.15, Room 1.5

### **Party bans, deterrence or backlash? Evidence from the Basque Country**

**ANDREU ARENAS**

Barcelona IPEG

This paper examines how counter-terrorist political repression influences the political preferences of the aggrieved constituency. Exploiting the finite and heterogeneous length of the ban of Batasuna -the political wing of ETA- across municipalities, I find a negative effect of a longer ban on support for Batasuna in local elections, with spillovers on Basque regional elections. These effects are explained by the extent of the immediate loss in support after the ban is extended in treated municipalities -that is observable because Batasuna called for a null vote. The loss in support is higher in municipalities that experienced more ETA attacks and where voters are more likely to be pivotal. Extending the ban triggers a short-run spike in street violence that quickly vanishes

**Keywords:** terrorism, political preferences, conflict resolution

**JEL classification:** D74, D72, H56

Saturday, 01 December 2018, 09.30 – 10.15, Room 1.7

### **The Redistributive Consequences of Segregation**

**LISA WINDSTEIGER**

Max Planck Institute for Tax Law and Public Finance

In this paper I present a model in which an increase in inequality can lead to a decrease in voters' demand for redistribution. In my model, people sort into groups according to income and as a result they become biased about the shape of the income distribution. I demonstrate that an increase in inequality can lead to a decrease in perceived inequality in the presence of segregation, and hence to a fall in people's support for redistribution. I motivate my main assumptions with empirical evidence from a small survey that I conducted via Amazon Mechanical Turk.

**Keywords:** Personal Income Distribution, Inequality, Redistribution

**JEL Classification:** D31, D83, H24, H53

Saturday, 01 December 2018, 10.30 – 12.00, Room 1.5

### Right-wing Populists in Power

LUISA DOERR / NIKLAS POTRAFKE / FELIX ROESEL  
ifo München / ifo München / ifo München

Right-wing populists use a strong anti-establishment rhetoric and propose restrictions to immigration. Regarding economic policy, right-wing populists are stuck between the devil and the deep blue sea because they aim at catering a wide range of voters. We investigate which economic and fiscal policies right-wing populists implement in office. Our sample includes mayors of the Austrian FPÖ which are quite representative for populist movements in other countries such as the French FN or the Italian Lega. Austrian mayors are powerful players in local politics deciding on, for example, staff and local public goods, but are hardly more pragmatic in their rhetoric compared to national politicians. We exploit narrow victories and the defeats of right-wing populists in RDD regressions and examine 20 dependent variables, including expenditure, public debt, unemployment and immigration. The results do not suggest that right-wing populist mayors implement different policies to those of mayors of established parties, but budget transparency decreases. We conclude that right-wing populists rely on a strong rhetoric, but implement quite conventional economic and fiscal policies, which they seek to hide.

**Keywords:** Right-wing populism, partisan politics, economic policy, fiscal policy, immigration, local government, budget transparency, Austria

**JEL classification:** D72, P16, H72, Z18

### Justice delayed is assimilation denied: Rightwing terror, fear and social assimilation of Turkish immigrants in Germany

SUMIT S. DEOLE

University of Halle-Wittenberg

In 2011, German police accidentally stumbled upon a previously unknown right-wing extremist group called the National Socialist Underground (NSU). Further investigations implicated the group in previously unexplained murders of mostly ethnically Turkish individuals and in other crimes targeting Islamic immigrants in Germany. Using German Socioeconomic Panel (SOEP) data, this paper offers the first evidence that the 2011 revelations of the NSU crimes resulted in an increase in perceived fears of xenophobic hostility among NSU's targeted groups. This serves as an indication of the minority's perceived maltreatment by German institutions while investigating the NSU crimes. The results further show that the revelations significantly reinforced a feeling of estrangement among Turks, who were now less likely to self-identify as Germans and more likely to see themselves as foreigners; they, therefore, tended to bond more strongly with the ethos of their country of origin. The results also demonstrate that Turks reported a substantial decrease in their health satisfaction and subjective wellbeing. In conclusion, the paper underlines the pertinence of judicial efficacy over rightwing crimes for assimilation and welfare of immigrants.

**Keywords:** Rightwing crimes, immigration, delayed justice, social assimilation

**JEL classification:** D63, F22, J15, Z10

Saturday, 01 December 2018, 10.30 – 12.00, Room 1.7

## Coverage Bias on Wikipedia? Evidence from biographies of German Members of Parliament

ANNA KERKHOF / JOHANNES MÜNSTER

University of Cologne / University of Cologne

We investigate whether Wikipedia has a coverage bias in its biographies of German members of Parliament, where coverage bias refers to the unbalanced coverage of similar MPs. We obtain comparable cases by considering the 18th Bundestag, where the major political parties – the center-right CDU/CSU and the center-left SPD – formed a coalition government, so that differences in the coverage between members of these parties cannot be driven by being a government versus opposition parties, small versus large parties, or politically centrist versus extreme parties. In addition, we compare MPs' coverage in the German and the English Wikipedia, arguing that political advertising – which is a plausible driver of unbalanced coverage – is less likely to exist in English biographies as they are unlikely to be read by German voters.

We find that biographies of MPs from the SPD are shorter on average than biographies of MPs from other parties; in particular, they are approximately half a page shorter than biographies of MPs from the CDU/CSU. These differences remain after controlling for observable characteristics such as gender, political experience, and the MPs' constituency demographics. The comparison with the English biographies confirms the result. We discuss political advertising as a main driver of our results and provide a broad range of empirical evidence supporting its existence.

**Keywords:**

**JEL classification:**

## The Price of Silence: Media Competition, Capture and Electoral Accountability

FREDERICO TROMBETTA

University of Warwick

Is competition in the mass media market an effective deterrent against media capture? Does it prevent political groups from influencing reporting? This paper shows that in many cases it does not. Building on the literature on media capture, the model highlights that, under fairly generic assumptions, high competition in the media market can drive the cost of media capture to zero, making capture easier. Moreover, it highlights conditions on the parameters where the effect of competition on capture is non-monotonic, i.e. capture occurs when competition is either too little or too much. The model is motivated by empirical analysis of the staggered digitalization of terrestrial television in Europe: higher digitalization (and hence higher competition) reduces the freedom of the media from political influence in countries with a high level of pre-treatment competition.

**Keywords:** Political Agency, Mass Media, Competition, Media Capture

**JEL classification:** D72, D73, D78, L82

Saturday, 01 December 2018, 14.15 – 15.00, Room 1.5

### **The Effects of Corruption on Wheels in Turkey: Low Level Greases, High Level Sands**

OGUZHAN DINCER / OZGUR TEOMAN

State University of Illinois / Hacettepe University

**Keywords:**

**JEL classification:**

Saturday, 01 December 2018, 14.15 – 14.45, Room 1.7

### **Serving two Masters. State Religion and Fiscal Capacity**

ANTONIS ADAM / SOFIA TSARSITALIDOU

University of Ioannina

We argue that having a state religion influences the fiscal capacity of the country. Our argument is based on a theoretical model, as well as empirical evidence. In our theoretical model we examine two cases, (i) one where a state religion exists and the state chooses the amount of fiscal capacity and at the same time the degree of religious activities and (ii) the case where state and church act independently, in order to maximize rents by attracting followers. Our model predicts that when the country is secular, church competition may lead to a higher level of fiscal capacity. To investigate empirically the above prediction, we use both historical data from 44 countries over the 1900-2010 period as well as more recent data for a cross section of 110 countries. To determine the existence of state religion, we build a novel variable, which is based on the work of Barrett et al. (2001), and is extended to a wider range of years, by examining the religious provisions in each state's constitution (as presented in the reports of the International Center for Law and Religious Studies). To avoid selection problems, we employ an Inverse Probability Weighting scheme as well as a Regression Adjustment model, both on the historical panel and in the recent cross sectional dataset, to estimate the Average Treatment Effect of State religion on various fiscal capacity measures (as also employed in the existing empirical literature). Our findings suggest that if a state religion is established at time zero, this will have a negative effect on fiscal capacity 10-16 years later. Quantitatively similar effects are estimated in the more recent cross-sectional data, where we find that having state religion reduces fiscal capacity by approximately 1 standard deviation. All our results are robust under alternative specifications.

**Keywords:** Fiscal Capacity, Church, Religion

**JEL Classification:** H20, Z12

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### How to reach ifo:

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

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

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

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





Gästehaus der TU Dresden

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## Hofbräu an der Frauenkirche

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