

13th Workshop on Political Economy

From 29/11/2019 to 30/11/2019 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, 29 November 2019

- | | |
|---------------|---|
| 12.45 – 13.00 | Welcome Address |
| 13.00 – 18.00 | Working Group Sessions |
| 18.15 – 19.15 | Keynote Lecture
ALOIS STUTZER (University of Basel) |
| 20.00 | Conference Dinner |

Saturday, 30 November 2019

- | | |
|---------------|--|
| 09.30 – 12.00 | Working Group Sessions |
| 12.15 – 13.15 | Keynote Lecture
HEINRICH URSPRUNG (University of Konstanz) |
| 14.15 – 15.00 | Working Group Sessions |
| 15.00 | End of Conference |



Welcome Address

12.45 - 13.00 CHRISTIAN LESSMANN (TU Braunschweig)

Working Group Sessions 1 and 2

13.00 - 14.30 **Conflict** **Weapons and War: Evidence of the Causal Effect**
(room 1.5) QUENTIN GALLEA (University of Lausanne)

Discussant: tba (xyz)

State Capacity and the Dynamics of Civil Wars
MARTIN GASSEBNER (Leibniz University Hannover)
Discussant: tba (xyz)

Voting Behavior **Healthy Enough to be Conservative**
(room 1.7) DIMITRIS CHRISTELIS (University of Glasgow)

Discussant: tba (xyz)

The Impact of Election Information Shocks on Populist Party Preferences: Evidence from Germany

KIM LEONIE KELLERMANN (University of Münster)

Discussant: tba (xyz)

Coffee Break

Working Group Sessions 3 and 4

14.45 - 16.15 **Populism** **#EleNão: Economic Crisis, the Political Gender Gap, and the Election of Bolsonaro**
(room 1.5)

LAURA BARROS (University of Göttingen)

Discussant: tba (xyz)

Economic Hardship, Political Corruption, and the Emergence of Challenger Parties. Evidence from the Great Recession in Spain
PILAR SORRIBAS-NAVARRO (University of Barcelona)

Discussant: tba (xyz)

Allocation of Central Resources **More Federal Legislators Lead to more Resources for their Constituencies: Evidence from Exogenous Differences in Seat Allocations**
(room 1.7)

MARCO FRANK (University of Bayreuth)

Discussant: tba (xyz)

Local Representation & Central Party Performance: New Evidence on the Underlying Causal Link

ALEXANDRU SAVU (University of Cambridge)

Discussant: tba (xyz)

Coffee Break

Working Group Sessions 5 and 6

16.30 - 18.00 **Development** **Ethnic Inequality and the Wealth of Nations**
(room 1.5)

KLAUS GRÜNDLER (ifo Institute)

Discussant: tba (xyz)

Local Elites, Public Goods, and Human Capital
TOMMY KRIEGER (University of Konstanz)

Discussant: tba (xyz)

Media influence **Does Fake News Affect Voting Behaviour?**
(room 1.7) MICHELE CANTARELLA (University of Modena and Reggio Emilia)

Discussant: tba (xyz)

Media Influence on Vote Choices: Unemployment News and Incumbents' Electoral Prospects

MARCEL GARZ (Jönköping International Business School)

Discussant: tba (xyz)

Coffee Break

Keynote Lecture I

18.15 - 19.15 **Does Public Attention Reduce the Influence of Special Interest Groups and Increase Political Accountability?**

(room 1.5)

ALOIS STUTZER (University of Basel)

Chair: Christian Lessmann (TU Braunschweig)

20.00 Conference Dinner at the Restaurant "Tapas Tapas"

Saturday, 30 November 2019

Working Group Sessions 7 and 8

09.30 - 10.15 **Stock Market** **The Incredible Shrinking Stock Market: On the Political Economy Consequences of Excessive Delistings**

(room 1.5)

LARS PERSSON (IFN, CEPR)

Discussant: tba (xyz)

Political Cycles

(room 1.7)

Manipulating Credit: How Political Cycles Drive Credit Booms

ETIENNE LEPERS (City, University of London)

Discussant: tba (xyz)

Coffee Break

Working Group Sessions 9 and 10

10.30 - 12.00 **Political Leaders** **Are World Leaders Loss Averse?**

(room 1.5)

MATTHEW D. RABLEN (University of Sheffield)

Discussant: tba (xyz)

Assessing the Impact of Political Leaders on Economic Growth

JULIETA PEVERI (Aix-Marseille Université)

Discussant: tba (xyz)

Local Public Goods

(room 1.7)

Voting on Land Development

MATTHIAS WREDE (Friedrich-Alexander University Erlangen-Nürnberg)

Discussant: tba (xyz)

Quality of Local Public Good Provision and Electoral Support

DANIEL STÖHLKER (ifo Institute Munich)

Discussant: tba (xyz)

Coffee Break

Keynote Lecture II

- 12.15 - 13.15 **Jane Beats them All – What Should Retired Economists do?**
(room 1.5)
HEINRICH URSPRUNG (University of Konstanz)
Chair: Gunther Markwardt (TU Dresden)

Lunch Break

Working Group Sessions 11 and 12

- 14.15 - 15.00 **Incumbency Advantage** **Do Higher Wages of Politicians Change Their Incumbency Advantage?**
(room 1.5) JÁN PALGUTA (Carlos III University of Madrid)
Discussant: tba (xyz)
- Democracy** **Democratisation and Tax Structure in the Presence of Home Production: Evidence from the Kingdom of Greece**
(room 1.7) VASSILIS SARANTIDES (University of Sheffield)
Discussant: tba (xyz)

Keynote Lectures

Friday, 29 November 2019, 18.15 – 19.15, Room 1.5

Does Public Attention Reduce the Influence of Special Interest Groups and Increase Political Accountability?

ALOIS STUTZER
(University of Basel)

Saturday, 30 November 2019, 12.15 – 13.15, Room 1.5

Jane Beats them All – What Should Retired Economists do?

HEINRICH URSPRUNG
(University of Konstanz)

Friday, 29 November 2019, 13.00 – 14.30, Room 1.5

Weapons and War: Evidence of the Causal Effect

QUENTIN GALLEA

University of Lausanne

This paper provides a first causal estimation of the global effect of weapons imports on conflict in the recipient country. Using small arms and light weapons country-year transfers data from 1992 to 2011, I estimate the effect of arms import on conflict life-cycle (onset, duration and termination) in the recipient country. To overcome endogeneity issue, I am using supply shortage generated by suppliers' war involvement outside the recipient country's continent (instrumental variable) as exogenous negative shocks on arms import. The two-stage least squares estimation show that arms imports increase the onset of internal conflict, the number of internal conflicts, the number of battle-related deaths and the number of refugees fleeing the country. Furthermore, I find suggestive evidence that arms inflow increases the duration of internal conflicts and increase the probability of a cease-fire or peace agreement being signed compared to other conflict outcomes.

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

JEL Classification: O10, O18, R11, R12

State Capacity and the Dynamics of Civil Wars

NAURO F. CAMPOS / **MARTIN GASSEBNER** / TOBIAS KORN

University College London / Leibniz University Hannover / Leibniz University Hannover

State capacity determines the outset, duration and intensity of civil wars. Despite the voluminous literature on state capacity and civil wars, the empirical treatment of both concepts remains highly problematic. This is because of (1) the prevalence of indirect measures to proxy for state capacity (e.g., tax revenues over GDP) and (2) downplaying the possibility of conflict escalation (e.g., riots may precede civil wars). This paper constructs a direct measure of state capacity and studies its effect on the dynamics of civil wars. Using yearly data for more than 120 countries, we estimate the effect of the composition of the stock of military capital equipment (e.g. number of attack helicopters vis-à-vis tanks) on how a civil war escalates. Among broad categories of military equipment, we find that only attack helicopters are associated with civil wars escalation. We further probe the prominence of helicopters and find that it is indeed the only category associated with battle locations shifting from rural to urban areas and with significant increases of unintended civilian casualties. We also show that only partial democracies significantly favor using helicopters for a speedier termination of a civil war, even when this involves indiscriminately sacrificing civilian lives.

Keywords: violent conflict

JEL Classification: D74, H40

Friday, 29 November 2019, 13.00 – 14.30, Room 1.7

Healthy Enough to be Conservative

DIMITRIS CHRISTELIS / DIMITRIS GEORGARAKOS / ALEXANDROS ZANGELIDIS
University of Glasgow, CSEF, CFS, Netspar / ECB and CFS / University of Aberdeen

Using data from the British Household Panel Survey, we study the causal impact of health status on political preferences. There is a strong positive association in the data between having health problems (as measured by number of health conditions, being disabled or by self-reported health status) and voting for non-conservative parties. This association could be due to the fact that individuals with health problems likely use the British National Health System more intensively, and thus are more likely to vote for parties that are more protective of it. In order to identify the causal effect of interest we use partial identification methods due to Manski (1990), and Manski and Pepper (2000), which put bounds around it under very mild assumptions. We indeed find that having health problems makes people vote for non-conservative parties, with the lower bound of the effect being about 2 percentage points. We corroborate our results by using conventional OLS and IV methods, which give even stronger results while also relying on stronger assumptions.

Keywords:

JEL classification:

The Impact of Election Information Shocks on Populist Party Preferences: Evidence from Germany

LENA GERLING / **KIM LEONIE KELLERMANN**
City, University of London

Despite controversial debates about the social acceptability of its nationalist program, the right-wing populist AfD has recently entered all state parliaments as well as the federal parliament in Germany. Although professed AfD voters faced a likely risk of social stigmatization, electoral support followed a clear upward trend. In order to explain these dynamics, we analyze the impact of information shocks with respect to aggregate-level AfD support on individual party choices. Unexpectedly high aggregate support for a populist party may indicate a higher social acceptance of its platform and reduce the social desirability bias in self-reported party preferences. Consequently, the likelihood to reveal an AfD preference increases. We test this mechanism in an event-study approach, exploiting quasi-random variation in survey interviews conducted closely around German state elections. We define election information shocks as deviations of actual AfD vote shares from pre-election polls and link these to the individual disposition to report an AfD preference in subsequent survey interviews. Our results suggest that exposure to higher-than expected AfD support significantly increases the individual probability to report an AfD vote intention by up to 3 percentage points.

Keywords: Voting behavior, populist parties, contagion effects, information shocks, social desirability bias

JEL Classification: C21, D71, D72, D83, D91

Friday, 29 November 2019, 14.45 – 16.15, Room 1.5

#EleNão: Economic Crisis, the Political Gender Gap, and the Election of Bolsonaro

LAURA BARROS / MANUEL SANTOS SILVA

University of Göttingen / University of Göttingen

After more than one decade of sustained economic growth, accompanied by falling poverty and inequality, Brazil has been hit by an economic recession starting in 2014. This paper investigates the consequences of this labor market shock for the victory of far-right Jair Bolsonaro in the 2018 presidential election. Using a shiftshare approach and exploring the differential effects of the recession by gender and race, we show that heterogeneity in exposure to the labor demand shock by the different groups is a key factor explaining the victory of Bolsonaro. Our results show that male-specific labor market shocks increase support for Bolsonaro, while female-specific shocks have the opposite effect. Interestingly, we do not find any effect by race. We hypothesize that, once facing economic insecurities, men feel more compelled to vote for a figure that exacerbates masculine stereotypes, as a way of compensating for the loss in economic status. Women, on the other hand, when confronted with economic shocks and the prospect of Bolsonaro's election, respond by rejecting his political agenda in favor of a more pro-social platform.

Keywords: economic shocks, populism, gender, voter participation

JEL classification: D72, J16, J23, P16, R23

**Economic Hardship, Political Corruption, and the Emergence of Challenger Parties.
Evidence from the Great Recession in Spain**

CARLOS SANZ / ALBERT SOLÉ-OLLÉ / **PILAR SORRIBAS-NAVARRO**

Bank of Spain / University of Barcelona & IEB / University of Barcelona & IEB

We investigate whether the political instability in Spain generated by the Great Recession can be explained by the size of the economic shock itself or whether it was due to a deterioration in political life that originated before the crisis. More specifically, we estimate the impact of localized unemployment shocks on the vote for the two challenger parties that emerged during this period (namely, Podemos and Ciudadanos). To account for the underlying political deterioration, we also examine the effect of localized instances of corruption. We find that both the strength of the unemployment shock and the recent history of corruption increased the vote for challenger parties. We also find that the effects of the unemployment shock and of corruption are mutually reinforcing: the impact of the rise in unemployment is greater in places with a history of corruption and the effect of corruption is stronger in places hit hardest by the crisis. As such, it would seem that Spanish political instability has both economic and political roots.

Keywords: Economic voting, Populism, Corruption

JEL classification:

Friday, 29 November 2019, 14.45 – 16.15, Room 1.7

More Federal Legislators Lead to more Resources for their Constituencies: Evidence from Exogenous Differences in Seat Allocations

MARCO FRANK / DAVID STADELMANN

University of Bayreuth / University of Bayreuth, CREMA

Electoral district magnitude varies across German electoral constituencies and over legislative periods due to Germany's electoral system. The number of seats in parliament per constituency is effectively random. This setting permits us to investigate exogenous variations in district magnitude on federal resource allocation. We analyse the effect of having more than one federal representative per constituency on federal government resources by exploiting information from 1,375 German constituencies from 1998 to 2017. More representatives per constituency lead to statistically significantly more employment of federal civil servants in the respective constituencies. The size of the effect corresponds to about 34 federal civil servants once a constituency is represented by additional legislators from party lists. A battery of robustness tests supports our results. Further evidence points to some heterogeneity of the effect. In particular, constituencies represented by additional legislators who are experienced and who are members of larger, competing parties obtain more federal resources.

Keywords: District magnitude, political processes, redistribution mixed-member system

JEL classification: D72, F50, H41

Local Representation & Central Party Performance: New Evidence on the Underlying Causal Link

ALEXANDRU SAVU

University of Cambridge

Keywords: Central & Local Governments, Discretionary Transfers, Political Alignment, Local Representation, Elections

JEL classification:

Friday, 29 November 2019, 16.30 – 18.00, Room 1.5

Ethnic Inequality and the Wealth of Nations

KLAUS GRÜNDLER / ANDREAS LINK

University of Munich, ifo Institute Munich / University of Erlangen-Nürnberg

We use geo-spatial data to compile a new dataset of ethnic inequality, including 189 countries (4,032 country-year observations) and 3,609 regions (66,912 region-year observations), 1992–2013. Our method is a synthesis of the Alesina et al. (2016) approach – which uses nighttime lights (NTL) and spatial concentrations of ethnic groups – and recent geoscience studies to make NTL comparable across space and time. We use our dataset to examine the effect of ethnic inequality on economic growth, and provide evidence for a robust negative effect. The results are obtained via cross-sectional and panel data analysis on the national and the sub-national level and use (i) ethnic inequality in neighboring countries and (ii) inequality in rainfall and geographic and climatic conditions as instrumental variables. The results are stable to adjustments in our inequality measure and independent of ethnic fractionalization, net inequality, and spatial inequality. Ethnic inequality translates to growth by influencing conflict, party ethnification, public goods provision, and trust, and is particularly negative in developing economies.

Keywords: Ethnic Inequality, Economic Growth, Regional Data, Nighttime Lights, Calibration

JEL classification: O10; O15; O43

Local Elites, Public Goods, and Human Capital

TOMMY KRIEGER

University of Konstanz

Keywords:

JEL classification:

Friday, 29 November 2019, 16.30 – 18.00, Room 1.7

Does Fake News Affect Voting Behaviour?

MICHELE CANTARELLA / NICOLÒ FRACCAROLI / ROBERTO VOLPE

Fondazione Marco Biagi, University of Modena and Reggio Emilia, ECB / University of Rome Tor Vergata / Italian Ministry of Economic Development (MISE)

Over the last decade, the erosion of trust in public institutions and traditional media sources have been proceeding in parallel. As recent developments in media consumption have led to a proliferation of politically charged online misinformation, it is no wonder that many have been questioning whether the spread of fake news has affected the results of recent elections, contributing to the growth of populist party platforms. In this work, we aim to quantify this impact by focusing on the causal effect of the spread of misinformation over electoral outcomes in the 2018 Italian General elections. We exploit the presence of Italian and German linguistic groups in the Trento and Bolzano/Bozen autonomous provinces as an exogenous source of variation, assigning individuals into distinct filter bubbles each differently exposed to misinformation. To do so, we introduce a novel index based on text mining techniques to measure populism. Using this approach, we analyse the social media content of each party and their leaders over the course of the electoral campaign for the 2013 and 2018 elections. We then collect electoral and socio-demographic data from the region and, after constructing a proxy for exposition to misinformation, we measure the change in populist vote across the two groups in-between the two general elections, using a combination of difference-in-difference and two-stages-least-squares inference methods. Our results indicate that misinformation had a negligible and non-significant effect on populist vote in Trentino and South Tyrol during the Italian 2018 general elections.

Keywords: Fake News, Political Economy, Electoral Outcomes, Populism

JEL classification:

Media Influence on Vote Choices: Unemployment News and Incumbents' Electoral Prospects

MARCEL GARZ / GREGORY J. MARTIN

Jönköping International Business School / Stanford Graduate School of Business

How does media coverage of the economy influence voting decisions? We isolate the effect of coverage of economic conditions from the effect of change in the underlying conditions themselves, by taking advantage of left-digit bias. We show that unemployment figures crossing a round-number "milestone" causes a discontinuous increase in the level of coverage devoted to unemployment conditions, and use this discontinuity to estimate the effect of media coverage on voting, holding constant the actual economic conditions on the ground. Milestone effects on incumbent US Governor vote shares are large and notably asymmetric: Bad milestone events hurt roughly twice as much as good milestone events help.

Keywords:

JEL classification:

Saturday, 30 November 2019, 09.30 – 10.15, Room 1.5

The Incredible Shrinking Stock Market: On the Political Economy Consequences of Excessive Delistings

ALEXANDER LJUNGQVIST / **LARS PERSSON** / JOACIM TAG
New York University, NBER, CEPR, IFN / INF, CEPR / INF

Over the past two decades, the U.S. stock market has halved in size. We develop a political economy model of delistings from the stock market to study the wider economic consequences of this trend. We show that the private and social incentives to delist firms from the stock market need not be aligned. Delistings can inadvertently impose an externality on the economy by reducing citizen-investors' exposure to corporate profits and thereby undermining popular support for business-friendly policies. A shrinking stock market can trigger a chain of events that leads to long-term reductions in aggregate investment, productivity, and employment.

Keywords: Political economy, stock market, delistings, corporate investment, productivity
JEL classification: G34, G24, P16

Saturday, 30 November 2019, 09.30 – 10.15, Room 1.7

Manipulating Credit: How Political Cycles Drive Credit Booms

ETIENNE LEPERS
City, University of London

This paper analyses the interaction between credit and political cycles, arguing that short-termist governments will seek to ride and amplify credit cycles for political gains. Promoting a debt-based system by incentivizing credit or mortgages is one way for politicians to achieve a short-term increase in living standards, at the expense of the longer-term buildup of financial vulnerabilities. Instead of focusing on credit dynamics around elections, we construct a unique database on government popularity based on opinion polls for 57 countries starting in the 1980's, which crucially allows us both to continuously capture all policy actions throughout the political term as well as to include non-democracies in the analysis. We provide robust evidence that declining popularity is systematically associated with larger future credit cycles. In addition, we find that such credit manipulation seems to target credit to households specifically rather than credit to corporates, is more prevalent in advanced economies and economies which are more reliant on credit, and also increases the likelihood of unsustainable cycles. Analyzing potential amplifying and mitigating factors, we find little evidence related to partisanship, central bank independence or inequality, while more indebted countries appear less likely to manipulate credit. Overall, this research points to the crucial importance of political cycles as drivers and sources of financial cycles and vulnerabilities.

Keywords: credit booms, financial stability, political business cycle, government popularity, electoral cycles, credit subsidies, homeownership
JEL Classification: D72, E51, E58, G01, G18, I38, N20

Saturday, 30 November 2019, 10.30 – 12.00, Room 1.5

Are World Leaders Loss Averse?

MATTHEW GOULD / **MATTHEW D. RABLEN**

Brunel University London / University of Sheffield

We focus on the preferences of an extremely salient group of highly-experienced individuals who are entrusted with making decisions that affect the lives of millions of their citizens, heads of government. We test for the presence of a fundamental behavioral bias, loss aversion, in the way heads of government choose decision rules for international organizations. If loss aversion disappears with experience and high-stakes it should not be exhibited in this context. Loss averse leaders choose decision rules that oversupply negative (blocking) power at the expense of positive power (to initiate affirmative action), causing welfare losses through harmful policy persistence and reform deadlocks. We find evidence of significant loss aversion ($\lambda = 4.4$) in the Qualified Majority rule in the Treaty of Lisbon, when understood as a Nash bargaining outcome. World leaders may be more loss averse than the populous they represent.

Keywords: Loss aversion, Behavioral biases, Constitutional design, Voting, Bargaining, Voting power, EU Council of Ministers

JEL classification: D03, D81, D72, C78

Assessing the Impact of Political Leaders on Economic Growth

JULIETA PEVERI

Aix-Marseille Université

This paper analyzes if changes of national leaders can account, at least partially, for the observed high variability of economic growth and assesses which individual characteristics are linked to their performance. I focus on a selected set of political transitions in which the identity of the ruler is not likely to be dependent on the economic conditions (transitions generated by a leader's death, a term limit constraint, a royal succession, a close election or a constitutional order). I find evidence that political rulers have an influence on economic growth. The strength of their impact is conditioned by the level of development, the degree of democracy and the leader's career. Regarding leaders' performance, I find robust evidence that younger leaders and the ones with more experience in politics are associated with a better economic performance. The career background is also significant for establishing the leader's quality.

Keywords: political leaders, growth volatility, individual characteristics

JEL classification:

Saturday, 30 November 2019, 10.30 – 12.00, Room 1.7

Voting on Land Development

MATTHIAS WREDE

Friedrich-Alexander University Erlangen-Nürnberg, CESifo

In this paper, we analyze several local referenda on the development of land and landuse regulation in the City of Erlangen (Germany) in the period between 2011 and 2018. To identify the positive influence of the geographical distance on the approval of the development of land, we employ a fixed-effect model. In addition, we analyze the heterogeneity of city dwellers' preferences for the development of residential and commercial areas. In particular, we examine the home ownership hypothesis and the expenditure-crowding-out hypothesis.

Keywords: land development, referendum, local public goods, distance decay, home ownership, expenditure-crowding out

JEL classification: D72, R52, R58

Quality of Local Public Good Provision and Electoral Support

DANIEL STÖHLKER

ifo Institute Munich

Do voters value the quality of local public goods, such as whether pavements are clean, whether benches in the park need repair, or whether local roads are in good shape? Using almost 600,000 geo-located complaints that were posted on the complaint-platform FixMyStreet.com between May 2007 and 2015, I compute quality indicators for all 8,500 local wards that comprise the whole of England. The results provide compelling evidence for both a strong rewarding and a punishment effect in local council elections: In wards with positive quality indicators, such as a large fraction of complaints that are solved within 30 days, the incumbent party has statistically and economically significantly higher chances of being re-elected. On the contrary, if the local area features a large share of complaints that is solved only after twelve months or never, the probability that the incumbent party is voted out of office is increased by up to nine percentage points. The results are robust to the inclusion of various important co-variates at the ward-level taken from the official Census in 2011 and provide new insights into the link between local governmental spending and voting behavior.

Keywords: Quality of Public Good Provision, Local Government Spending, Voting

JEL classification: H40, H72, D72

Saturday, 30 November 2019, 14.15 – 15.00, Room 1.5

Do Higher Wages of Politicians Change Their Incumbency Advantage?

JÁN PALGUTA / FILIP PERTOLD

Carlos III University of Madrid / CERGE-EI

We estimate causal effects of wages paid to politicians on their electoral incumbency advantage. We exploit variation in wages around fixed population thresholds and compare the wage effects across borderline winning and losing candidates. Using 2002-2018 data from a proportional party-list system, we estimate that additional 1% increase in wages leads to a 0.2 - 0.3 percentage points lower likelihood for borderline incumbents to get re-elected relative to past borderline losing candidates. We explain this result by showing that higher wages have much stronger effect on the repeated candidacy for past borderline losing candidates than for borderline incumbents.

Keywords: incumbency advantage, wages, political selection, regression discontinuity design, municipal elections

JEL classification: D72, J45, M52

Saturday, 30 November 2019, 14.15 – 14.45, Room 1.7

Democratisation and Tax Structure in the Presence of Home Production: Evidence from the Kingdom of Greece

PANTELIS KAMMAS / **VASSILIS SARANTIDES**

Athens University of Economics and Business / University of Sheffield

This paper examines the impact of democratisation on tax structure in an agrarian economy where goods can be produced at home for self-consumption. We first develop a model of optimal taxation with heterogeneous agents where the good produced in the market is subject to a consumption tax, whereas the homogeneous good produced at home is burdened by a direct tax (such as land tithes). Contrary to conventional theory, our model suggests that extension of the voting franchise to poorer segments of the population exerts a negative impact on the share of direct to indirect taxes. Using unique national and regional tax data for the Kingdom of Greece - a typical agrarian economy when universal male suffrage was established in 1864 - we provide consistent empirical evidence. Greek governments adjusted tax policy in order to meet the preferences of the newly enfranchised electorate that constituted mostly by peasants and farmers. This group was harmed substantially by direct taxes on land but was able to avoid indirect taxes through self-consumption. We also employ a sample of 12 European countries over the same period and provide evidence for a similar change in the tax structure when the agricultural sector dominates the economy.

Keywords: Democracy, tax structure, fiscal capacity

JEL Classification: P16, H2, H5

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Michael De Percy	University of Canberra
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Tommy Krieger	University of Konstanz
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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).

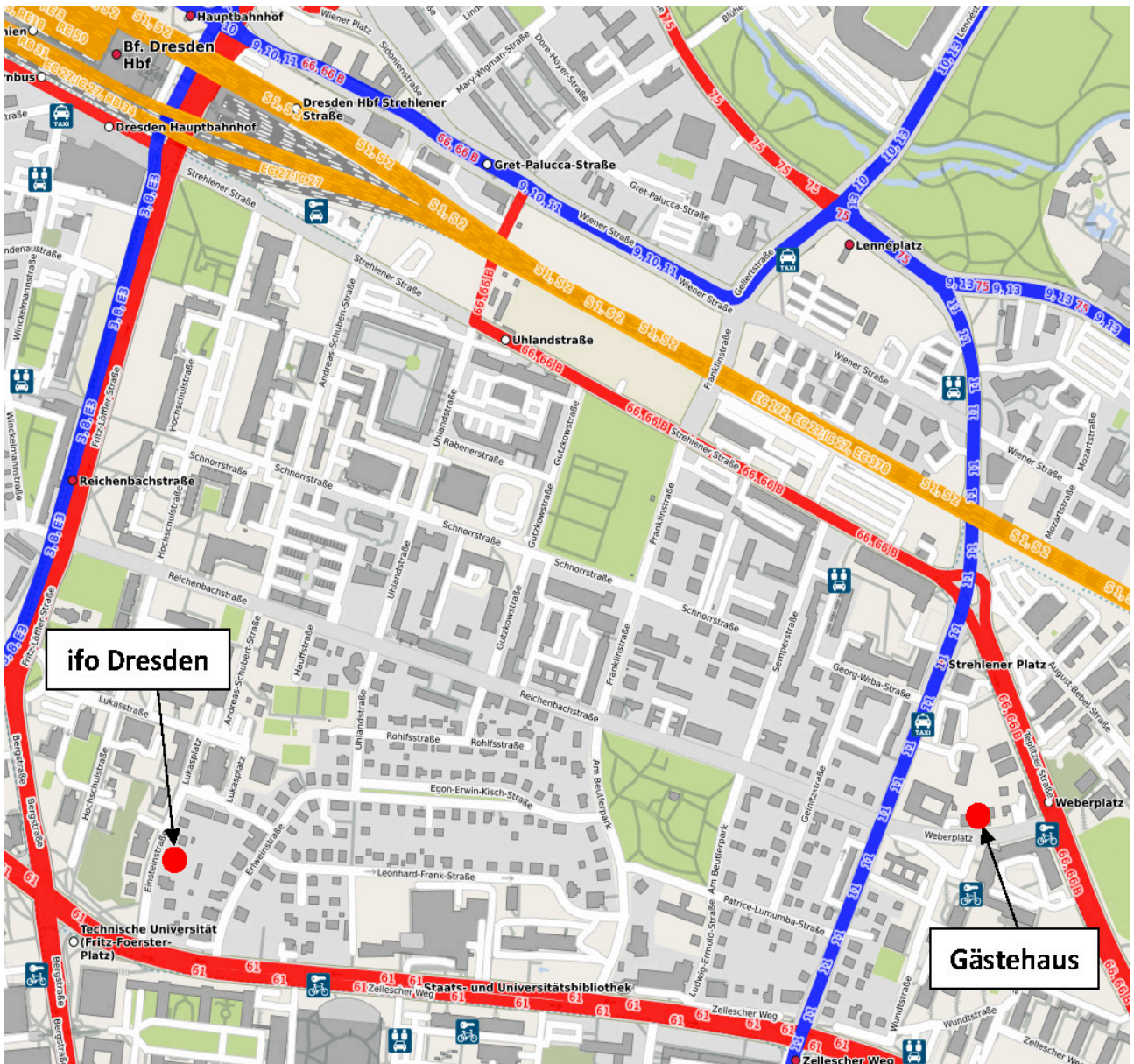


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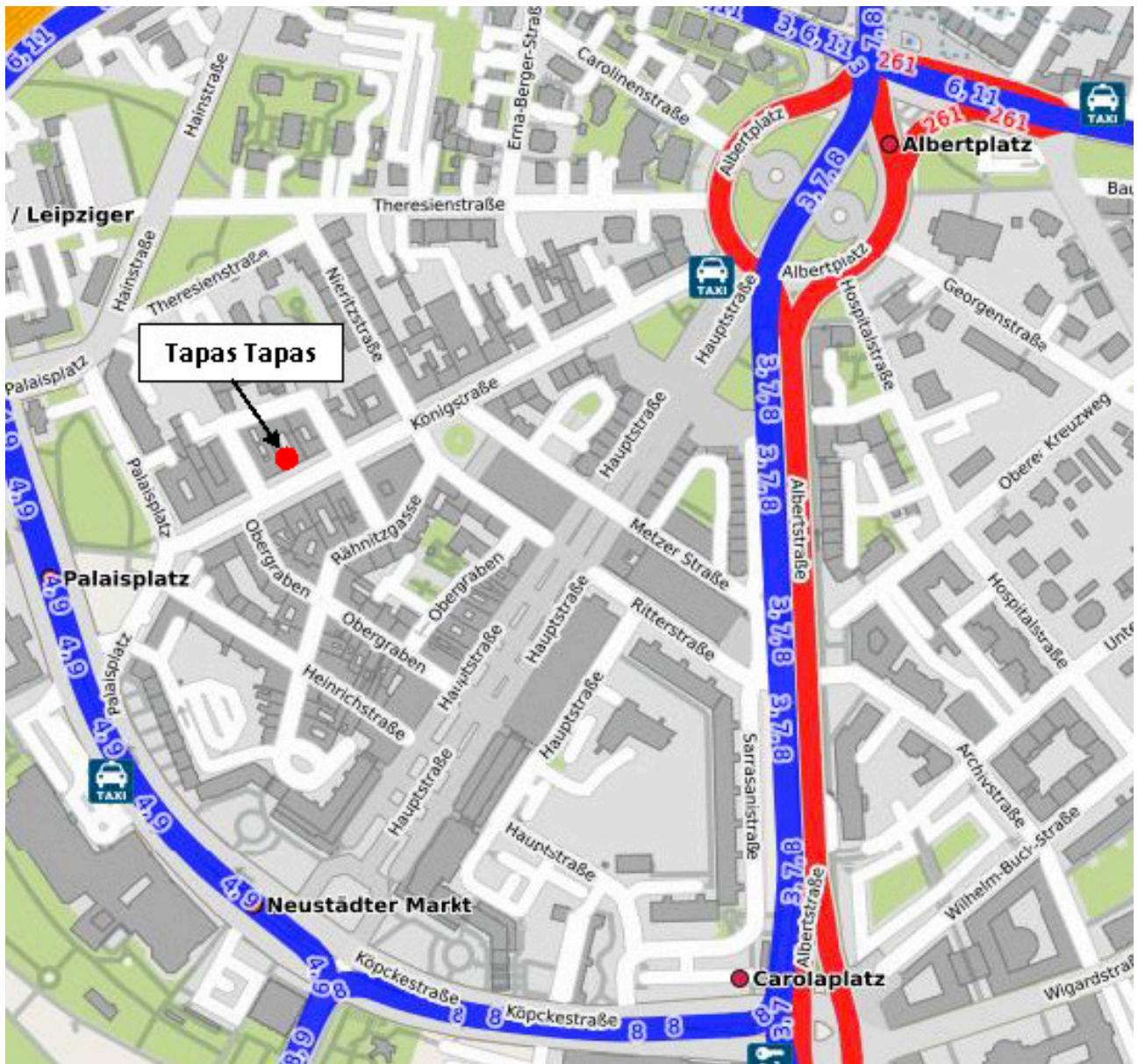
OpenStreetMap (2019)

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OpenStreetMap (2019)