1. Editorial

2. Staff

3. Research Activities
   3.1 International Economics
   3.2 Economic Policy
   3.3 Publications / blogs / interviews (in the German Part)
   3.4 Presentations (in the German Part)
   3.5 Doctoral Theses and Habilitations (in the German Part)
   3.6 Awards / Prizes (in the German Part)

4. Other Professional Activities (in the German Part)

5. Sponsoring Institutions (in the German Part)
1. Editorial

This annual report presents an account of our activities during the past year: our scientific research, our advisory activities, but also participation in public policy debates. For our institute, the year 2012 was a ‘normal’ year. All three chairs were filled and accomplished their tasks. Moreover, there were only few changes in the oversight boards. Prof. Dr. AYMO BRUNETTI stepped down as a member of our executive board. Last year he left the State Secretariat of Economic Affairs (SECO) in Berne, where he had headed the Economic Policy Directorate since 2003, to become Professor for Economic Policy and Regional Economics at the University of Berne. His successor in the SECO, Dr. ERIC SCHEIDEGGER, is also his successor on our executive board. Dr. RUDOLF WALSER, who was for many years a member of the Board of the Institute’s Association of Sponsoring Institutions, also stepped down. We very much thank AYMO BRUNETTI and RUDOLF WALSER for their long-standing support of our institute and look forward to a fruitful collaboration with ERIC SCHEIDEGGER.

The activities in our institute continued with unchanged high intensity. As this report shows, this holds for research in the same way as for our participation in the economic policy debate. The latter is particularly true for SIMON EVENETT and his project, the Global Trade Alert’ which monitors economic policies on a worldwide scale in order to uncover protectionist measures and to make them public. Again, his contributions, but also those of RETO FÖLLMI, have attracted a great deal of international attention. According to a recent evaluation of the University of St. Gallen’s presence in international (English-language) media in the year 2012, 61 per cent of all contributions are by SIMON EVENETT, and 17 per cent by RETO FÖLLMI; our institute is responsible for more than three quarters of all international media contributions of our university. Thus, our research in international economics is highly recognised in the international policy debate.

We also want to report that GEBHARD KIRCHGÄSSNER had the honour to give the Johann-Heinrich-von-Thünen-lecture last September at the annual meeting of the Verein für Socialpolitik, the association of the German-speaking economists. With this lecture, the Association honours accomplished members. With the theme of his talk, “On the role of Econometrics in scientific policy advice”, GEBHARD KIRCHGÄSSNER was able to combine his scientific analysis with his rich experience in policy advice.

We do not want to end this editorial without expressing our gratitude to the supporters and staff of our Institute. As the authority responsible for higher education, the Canton of St Gallen gives us the necessary autonomy to structure our research and advisory activities. We would like to thank the members of the Executive Board as well as the members of the Institute’s Association of Sponsoring Institutions that provide the SIAW with financial support and are always available for valuable suggestions and advice. As always, we also want to thank all of our staff for making an essential contribution to our efforts with their commitment and dedication. In particular, this year we want to thank our administrative collaborators, who always support us. Without their help and their sustained willingness to assist us, our work would be considerable more challenging.

St. Gallen, 14 March 2013

Prof. Dr. Simon Evenett   Prof. Dr. Reto Föllmi   Prof. Dr. Dr. h.c. Gebhard Kirchgässner
2. Staff

Steering Committee

Prof. Dr. Monika Bütscher
Prof. Dr. Aymon Brunetti (until 30.11.)
Dr. René P. Buchholzer (since 01.03.)
Ständerätin Erika Forster (until 8.02.)
Prof. Dr. Bruno Jeitziner
Prof. Dr. Christian Keuschnigg
Prof. Dr. Ernst Mohr
Dr. Eric Scheidegger (since 01.03.)

Executive Board

Prof. Dr. Simon J. Evenett
Prof. Dr. Reto Föllmi
Prof. Dr. Dr. h. c. Gebhard Kirchgässner

Professor Emeritus

Prof. Dr. Heinz Hauser

Departments

International Economics

Prof. Dr. Simon Evenett
Frederic Bärtl (since 23.08.)
Irene Fensore (since 23.08.)
Johannes Fritz (until 31.07.)
Darya Gerasimenko (until 30.09.)
Iva Mihaylova (since 28.08.)
Bernardas Morkunas (since 20.09.)
Wesley Van Drongelen (since 23.08.)
Martin Wermelinger

Prof. Dr. Reto Föllmi
Andreas Kohler (Jan.-Sept.12)
Stefan Legge
Isabel Martinez
Dr. Lukas Schmid
Fabian Schnell
Alexa Tiemann
Economic Policy

Prof. Dr. Dr. h.c. Gebhard Kirchgässner
Prof. Dr. Christine Benesch
Berit Gerritzen
Florian Habermacher (until 30.09.)
Teresa Körner
Prof. Dr. Mark Schelker

Research Fellows

Prof. Dr. Lars P. Feld
Prof. Dr. Jürgen Wolters

Research Associates

Prof. Dr. Christoph A. Schaltegger
Dr. Mathieu Trépanier
Dr. Sacha Wunsch-Vincent
Dr. Thomas A. Zimmermann

Secretariat

Michèle Klarer
Gabriela Schmid
3. Research Activities

3.1 Section International Economics

Director: Prof. Dr. Simon J. Evenett

Researchers:
FREDERIC BÄRTL (since 23rd August)
IRENE FENSORE (since 23rd August)
JOHANNES FRITZ (until 31st July)
DARYA GERASIMENKO (until 30th September)
BERNARDAS MORKUNAS (since 20th September)
WESLEY VAN DRONGELEN (since 23rd August)
MARTIN WERMELINGER

From left to right:
Frederic Bärtl, Prof. Dr. Simon Evenett, Michèle Klarer, Irene Fensore
Director: Prof. Dr. RETO FÖLLMI

Researchers:
ANDREAS KOHLER (Jan.-Sept.12)
STEFAN LEGGE
ISABEL MARTINEZ
DR. LUKAS SCHMID
FABIAN SCHNELL
ALEXA TIEMANN

Front Row, from left to right:
Fabian Schnell, Prof. Dr. Reto Föllmi, Isabel Martinez

Back Row, from left to right:
Stefan Legge, Dr. Lukas Schmid
The International Economics section is jointly led by Professors Simon J. Evenett Ph.D and Professor Dr. Reto Föllmi. Both chairs are committed to the same goal—to improve our understanding of the world economy through high quality research that also has well-founded implications for policymakers and other decision-makers. As a result, the outcome of this section can take many forms: from peer-reviewed academic journals to policy reports to speeches and to interviews with the media. The year 2012 was an active one for the section and this short summary may not really do justice to the various accomplishments made. For example, the International Economics section was responsible for 77 percent of all of the international media coverage of the entire university.

A) Chair Prof. Dr. Simon J. Evenett

Under a team led by Prof. Simon J. Evenett, this section was at the forefront of global efforts to monitor the resort to protectionism by governments. Such monitoring took place as part of the Global Trade Alert, a worldwide initiative comprising of independent researchers from all over the world that is coordinated from St. Gallen. The Global Trade Alert has established itself as a leading source of information on government commercial policies. Two reports were published last year along with several columns and much media commentary. At the end of last year the work of the Global Trade Alert had been cited in over 400 journal articles, studies, and government reports. Over 2,500 state measures had been reported on the site by December 2012.

During 2012, as part of the Global Trade Alert initiative, Professor Evenett commissioned a substantial amount of research on the effects of protectionism in developing countries. He co-organised two conferences where this research was presented, one in Accra, Ghana, and one in Lima, Peru. The quality of the commissioned papers was unusually high and they will be published in two volumes in 2013.

Professor Evenett continued in the post of Academic Director of the HSG MBA programme, which also involves being a Director of the HSG Executive School. Further improvements in the Full Time MBA curriculum have been implemented, one of which the Financial Times wrote up as a case study. For the first time the St. Gallen MBA was listed in the top 100 global MBA programmes, as compiled by the Financial Times. While this is heartening news, there is still plenty of room for improvement in both the St. Gallen MBA programme and its ranking.

The assistants of Simon J. Evenett, have been involved in the execution of the Global Trade Alert from its inception in 2009. After several years of dedication, the team of assistants has moved on, principally to finish their doctoral dissertation research. It is a pleasure to acknowledge the contributions of Miss Darya Gerasimenko and Mr. Johannes Fritz. Mr. Martin Wermelinger, a former assistant, successfully completed his economics PhD in the HSG PEF programme and has returned to the Global Trade Alert term in a coordination role. Mr. Frederic Bärts, Miss Irene Fensore, Miss Iva Mihaylova, Mr. Bernardas Morkunas, and Mr. Wesley Van Drongelen joined Prof. Evenett’s chair as assistants and have prepared reports for the Global Trade Alert database.

Dr. Thomas A. Zimmermann works as head of the Department “Law, Organization and Accreditation” and is a Member of the Board at the Swiss State Secretariat for Economic Affairs (SECO) since spring 2009. At the same time, he is active as a research associate at SIAW-HSG, teaching in a management development program on behalf of the institute and offering a preparatory seminar for the chairs of the yearly “Model WTO” Conference which is organized by oikos St. Gallen.
B) Chair Prof. Dr RETO FÖLLMI

In the year 2012, the chair of Prof. FÖLLMI concentrated its research activities on growth, distribution and trade, and political economy. We disseminated our findings through scientific conferences and workshops, and used the acquired knowledge in teaching as well as in economic policy consulting. In 2012 we started the SINERGIA project of the Swiss National Science Foundation, a joint-venture with the Federal Institute of Technology (Professor PETER EGGER) and the University of Zurich (Professor JOSEF ZWEIMÜLLER). This grant will help to finance our research on economic inequality and international trade. In economic policy work, we collaborated with Seco (on financial programming), the Swiss Post (on international price comparisons), and Avenir Suisse (on the evolution of the middle class).

The Team

Prof. Dr. RETO FÖLLMI, who has been Professor of International Economics at our Institute since February 2011, co-chairs the International Economics Section together with Prof. Dr. SIMON EVENETT. From September 2007 to January 2011, he was teaching as Professor of Macroeconomics at the University of Berne. He is member of the programme commission of the PhD in Economics and Finance (PEF) at the University of St Gallen. The core areas of his research are questions of economic growth, foreign trade and the distribution of income.

STEFAN LEGGE joined our team in September 2011. He studied at the Universities of St Gallen, Mannheim, Germany as well as at the University of California in San Diego, USA. After obtaining a Master’s degree in Economics in 2011, he joined the PhD programme in Economics and Finance (PEF). In his dissertation, he focuses on the determinants and ramifications of income inequality as well as the effects of rankings.

Dr. LUKAS SCHMID has been a member of our team since February 2011. He studied Political Science and Economics at the Universities of Berne and Lausanne, graduating in 2008 with a licentiate. After having participated in the Swiss Programme for Beginning Doctoral Students in Economics at the Gerzensee Study Centre, he completed his PhD at the University of Berne in 2012. He was a visiting researcher at the Methodology Department at the London School of Economics in 2012. His dissertation deals with political economics, inequality and education.

FABIAN SCHNELL joined our team in January 2012. He studied at the University of St Gallen, at the London School of Economics (United Kingdom) and at the University of Goteborg (Sweden), obtaining a Master’s in Economics (MEcon) in 2009. He then commenced on a PhD in Economics and Finance (PEF) and completed the Swiss Programme for Beginning Doctoral Students in Economics at the Gerzensee Study Centre of the Swiss National Bank. In his dissertation, he concentrates on the subjects of structural change and monetary policy. FABIAN SCHNELL also holds a part-time employment as a research assistant in economics policy with economiesuisse.

ALEXA TIEMANN was a member of our group from February to November 2011 as teaching assistant for international economics. She studied at the University of Tübingen before starting to work as a consultant for the World Bank. She is currently a visiting fellow at Harvard University in the U.S. In her dissertation, co-supervised by Prof. FÖLLMI, she concentrates on institutions, trade and economic growth in the context of historical and contemporary development economics.

ANDREAS KOHLER was part of our team from January to September 2012 as a member of the SINERGIA project. He studied economics at the University of Zurich. After receiving his Master’s degree in the fall of 2008, he joined the PhD programme in Economics at the University of Zurich and completed his graduate studies in Macroeconomics and Econometrics at the Study Centre Gerzensee
in 2009. In his dissertation he analyses the effects of income inequality on international trade and capital flows, as well as global economic growth.

Ongoing research projects

1) Trade, R&D, and international price differences

In the paper “International arbitrage and the extensive margin of trade between rich and poor countries”, RETO FÖLMLI together with CHRISTIAN HEPENSTRICK (Swiss National Bank) and JOSEF ZWEIMÜLLER (University of Zurich), introduces consumption indivisibilities into the Krugman-model to show that an importer’s per-capita income becomes a primary determinant of “export zeros”. Households in the rich North (or in the poor South) are willing to pay high (or low) prices for consumer goods, which means that unconstrained monopoly pricing generates arbitrage opportunities for internationally traded products. Export zeros arise because some northern firms abstain from exporting to the South in order to avoid international arbitrage. We show that rich countries benefit more from trade liberalisation than poor countries, and that the latter may even lose. These results are also valid under more general preferences (which feature an intensive and extensive consumption margin). U.S. firm-level data as well as disaggregate trade data show a robust negative association between export zeros and (potential) importers’ per-capita income.

In this context, we consulted Swiss Post in the design of an international price comparison of rates for letters and parcels and discussed the quality of the international benchmark.

2) Middle class in Switzerland

In the two chapters published in the book “Der strapazierte Mittelstand“, RETO FÖLMLI together with SANDRO FAVRE and JOSEF ZWEIMÜLLER (University of Zurich), analysed the evolution of middle class wage and the role of education. Overall, real wages have grown significantly over the past 20 years in Switzerland, though the middle of the wage distribution has enjoyed a smaller increase than the bottom and the top of the distribution. Outsourcing and the ever-increasing demand for high-skilled workers may be reasons for this. In the data we see an increase in the skill premium even though the number of people with tertiary education has risen. In contrast, the returns to vocational training alone have stagnated as the average employee invests much more into further education than 20 years ago.

3) Innovations, international product cycles and economic growth (continued)

We continued our work on the project “The Macroeconomics of Model T” which studies the incentives of firms to pursue cost-saving process innovations. Firms undertake either product innovations that introduce new luxury goods for the rich, or they process innovations that transform existing luxuries into mass products for the poor. A prototypical example for such a product cycle is the automobile. Initially an exclusive product for the very rich, the automobile became affordable to the middle class after the introduction of Ford’s Model T, “the car that put America on wheels”. The rich consume a wide range of exclusive high-quality products, while the poor choose among a more narrow range of low-quality mass products. In this framework, inequality affects the composition of R&D through price and market size effects. The inequality-growth relationship depends on how mass production affects productivity as well as on the particular dimension of inequality (income gaps versus income concentration). The model is sufficiently tractable to incorporate learning-by-doing, oligopolistic market structures, and quality upgrading.
We also made progress in the project “A Dynamic North-South Model of Demand-Induced Product Cycles”, where RETO FÖLLMI, ANDREAS KOHLER and SANDRA HANSLIN (University of Zurich) consider the impact of the entry of emerging economies into the global markets on growth and innovations in industrialised countries. Innovation takes place in the rich North while firms in the poor South at random imitate products manufactured in the North. The model is able to generate endogenous product cycles as described by Vernon (1966) where the different stages of the product cycle are not only determined by supply side factors but also by the distribution of income between North and South. We further provide suggestive evidence for the product cycle stages and show that the innovation-imitation process depends crucially on income inequality within and across countries.

4) Productivity, international trade and distribution

In the project “Globalization and Productivity in the Developing World”, RETO FÖLLMI and MANUEL OECHSLIN (University of Tilburg) explore the impact of international trade in a monopolistically competitive economy that encompasses technology choice and an endogenous distribution of markups due to credit frictions. We show that in such an environment, a gradual opening of trade (i) may, but not necessarily must, have a negative impact on productivity and overall output, and (ii) is bound to increase the polarisation of the income distribution. The main reason for this is that the pro-competitive effects of trade reduce markups and, consequently, the borrowing capacity of less affluent entrepreneurs. As a result, smaller firms, while not driven out of the market, may be forced to switch to a less productive technology. Our framework matches several salient patterns in the recent evidence on the impact of trade in developing countries.

Using this knowledge from research in development, growth and trade, RETO FÖLLMI consulted SECO for the publication of a textbook on Financial Programming.

5) Political Economy, Distribution and Economics of Education

Led by RETO FÖLLMI and LUKAS SCHMID and in collaboration with DOMINIK HANGARTNER (London School of Economics) and MICHAEL BECHTEL (HSG, Department of Political Science), the project Compulsory Voting examines the consequences of mandatory voting in the cantons of Switzerland. The project mainly focuses on the cantons of Thurgau, Vaud and Ticino. In the standard economic model of voting, we expect mandatory voting to increase the cost of non-voting, which should lead to an increase in the turnout rate. At the same time, compulsory voting is likely to change the composition of the electorate, which should in turn have an influence on political results.

We gathered detailed data on federal referendums in Switzerland on the cantonal and district level. Our results show that mandatory voting increases turnout by about 30 percentage points. Yet there is no long-term effect as suggested in previous work about the internalisation of norms. We then evaluated the effects on aggregated preferences for redistribution. Preliminary results indicate that compulsory voting mobilises left-wing voters more than right-wing voters. However, this is only true for the period of intervention. We find no long-term mobilisation effect on left-wing after the abolishment of compulsory voting.

The project Effects of Education is a joint project with STEFAN BOES (University of Lucerne) and DOMINIK HANGARTNER (London School of Economics) examining the impact of education on a person’s success in the labour market and on risk and time preferences. Theoretical and empirical studies emphasise the positive effects of education on productivity, innovation and international competitiveness. From an empirical standpoint, the importance of education is undisputed, even though a precise identification of its effects often remains difficult. Unobserved covariates may influence both
education decision as well as labour market success. As a consequence, differences in outcomes between education tracks may be attributable to education or unobserved covariates.

The Swiss education system offers a unique set-up to study the causal effects of education using a quasi-experimental design. Most cantons rely on entry exams to track pupils before entering secondary school or a gymnasium. These exams are designed to assign each student to the secondary level that suits his or her academic performance. Our project uses the critical threshold value as a natural experiment to investigate how students slightly below and above this threshold differ with regard to certain variables of interest. The analysis sheds light on the causal effects of education. The goal of the project is, on the one hand, to make a crucial contribution to the identification of educational effects and, on the other hand, to deliver evidence on the impacts of the Swiss education system.

**D) Major Publications**


3. Research Activities

3.2 Section Economic Policy

Director: Prof. Dr. Dr. h. c. Gebhard Kirchgässner

Researchers:
Prof. Dr. Christine Benesch
Berit Gerritzen
Florian Habermacher (until 30th September)
Teresa Körner
Prof. Dr. Mark Schelker

Back Row, from left to right:
Prof. Dr. Dr. h. c. Gebhard Kirchgässner, Prof. Dr. Mark Schelker

Front Row, from left to right:
Berit Gerritzen, Prof. Dr. Christine Benesch, Teresa Körner, Gabriela Schmid
A) General Objectives of our Research

As in earlier years, Prof. Dr. Dr. h.c. Gebhard Kirchgässner and Prof. Dr. Mark Schelker still worked in the area of Political Economy, focussing on direct democracy and federalism, while Prof. Dr. Christine Benesch dealt with problems of media economics. Besides contributions to fundamental problems of economics and other social sciences, we also concentrated on problems of health and environmental economics. Finally, another focus area during the last year was the work on the second edition of the textbook “Introduction to Modern Time Series Analysis”.

Mark Schelker and Gebhard Kirchgässner have also been involved in the Sinergia project The Swiss Confederation: A Natural Laboratory for Research on Fiscal and Political Decentralization, a research programme financed by the Swiss National Science Foundation (SNSF) which started at the end of 2010. Mark Schelker is coordinator of the sub-project Institutions and Regulation in Switzerland.

Concerning economic policy advice, questions of fiscal federalism as well as government debt were again to the fore. This holds for presentations in Germany and Austria, but also for the participation of Gebhard Kirchgässner at the cross-country learning forum “Strengthening Local Government Finances for Better Services and Greater Accountability” held in September in Kathmandu. This workshop was organised by the World Bank and the Swiss Agency for Development and Cooperation (DEZA) for members of local community administrations in South Asian countries. Besides this, we also contributed to the ‘tax debate’ between Germany and Switzerland.

B) The Team

Prof. Dr. Dr. h.c. Gebhard Kirchgässner is the director of the Department for Economic Policy. In his research, he focuses on current topics in economic and, especially, fiscal policy, on questions of political economy, in particular in connection with the Swiss institutions of direct democracy and federalism, as well as on basic methodological questions in economics and other social sciences.

Berit Gerritzen joined our team in February 2009. After graduating from the Master’s programme in Economics (MECON), she has been following the PhD programme in Economics and Finance (PEF) since 2010. Last year her thesis proposal was accepted. She works in the area of health economics. This holds for her dissertation, but also for some work together with Gebhard Kirchgässner.

Florian Habermacher has been a team member since 2008. He studied at the Swiss Federal Institute of Technology Lausanne, where he received a Master of Science in Environmental Sciences and Engineering. Since October he has been visiting scholar at the Oxford Centre for the Analysis of Resource-Rich Economies (OxCarre), supported by a scholarship of the Swiss National Science Foundation.

Teresa Körner joined our team in February 2010. She studied in Innsbruck as well as at the Universidad Nacional Autónoma de México and the Instituto Tecnológico Autónomo de México, both in Mexico City, and received a Master of Social and Economic Sciences at the University of Innsbruck in Austria. She joined the PhD programme ‘Organisation and Culture’ at our university. She too will concentrate on questions of health economics in her dissertation.

Prof. Dr. Christine Benesch is Assistant Professor at the School of Economics and Political Science (SEPS) of the University of St Gallen and associated to the Department of Economic Policy of the Swiss Institute for International Economics and Applied Economic Research (SIAW). She completed her PhD in 2009 at the University of Zurich with a thesis about an economic analysis of media consumption. She continues her work in the area of media economics and is financed by the Economic Policy profile area of the Department of Economics.
Prof. Dr. Mark Schelker is also Assistant Professor at the School of Economics and Political Science (SEPS) of the University of St Gallen and associated to the Department of Economic Policy of the Swiss Institute for International Economics and Applied Economic Research (SIAW). In 2007, he obtained his doctoral degree at the University of Fribourg (Switzerland) on the work of audit divisions and audit commissions as institutions for the control of governments and bureaucracy. He continues to deal with questions of political economy.

Prof. Dr. Lars Feld, who was a member of our group from 1995 to 2002 and completed his PhD as well as his habilitation at the University of St Gallen during this period, is still associated with our institute as a research fellow. Since October 2010, he has been director of the famous Walter Eucken Institute at the University of Freiburg i.Br. (Germany) and since 2011, he has also been member of the German Council of Economic Experts. He works in the areas Public Finance and New Political Economy.

Prof. Dr. Christoph Schaltegger, who worked at our institute in 2001 and 2002, is also a research fellow of our institute. Since 2010, he is Professor of Political Economy at the University of Lucerne. In addition, he was named director of the Institute for Public Finance and Fiscal Law at our university in 2011. He also works in the areas of Public Finance and New Political Economy.

C) The Projects

1. Basic Questions of Economics and other Social Sciences

In a first paper in this area, Gebhard Kirchgässner deals with the question of the rationality of human behaviour. Economic analyses usually assume that economic (and other) actors behave rationally. The development of Behavioural Economics has questioned this assumption. As a matter of fact, it will always only be a restricted (bounded) rationality, because the agents have neither enough information nor the time (or the information processing capacity) to behave ‘fully rational’ in the classical sense. Furthermore, whenever we try to understand human behaviour, we have to ask what the intentions (or objectives) of the individuals were and which information they had, i.e. which possibilities for action they believed to have, given their subjective information, and that they tried to reach their goals as far as possible. Their behaviour might be ‘irrational’ from an outside (objective) perspective, and their information might be wrong. Relevant for their behaviour is, however, their subjective perception of the (objective) reality.

A second paper in this area deals with ‘soft paternalism’. Paternalism is an attempt to influence the decisions of individuals to their own benefit even if there are no third parties involved. This seems to be a contradiction to normative individualism which provides the general orientation of our modern democracies. Soft or libertarian paternalism accepts the necessity of paternalism due to the existence of behavioural anomalies, but intends to apply only such measures that do not restrict the decision leeway of the individuals. Nevertheless, the same objections that can be raised against its strong version can also be raised against soft paternalism. However, as soon as we accept that human beings are able to reflect not only about their actions but also about the preferences guiding their actions, there is no longer a necessary contradiction between paternalism and normative individualism. Thus, the ‘weak rationality principle’ we have to apply when analysing human behaviour is not an empirically testable assumption but a precondition to understand it; it is a necessary element of every ‘understanding social science’ in the sense of Max Weber.

A third paper, which is still work in progress, focuses on the problem of greed. At least in the general public, the greed of bankers is often held responsible for the recent financial crisis, which developed into an economic and finally into a debt crisis, affecting many countries of the Eurozone, but also the United States. Economic analyses usually assume that we seek for money in order to cover our consumption demand. Extremely high incomes as paid to (some) managers of multinational firms or
traders cannot be explained in this way. However, for these individuals money, or income, might be a positional good: As CEO of a big firm I want to earn at least as much as the CEO of my most important competitor; I want to keep up with him. Corruption is another phenomenon that can hardly be explained by the usual assumptions of economic analyses. In many cases, politicians as well as bureaucrats risk quite a lot in order to receive relatively small bribes, at least in relation to the future income they risk. To make the behaviour of such individuals compatible with the standard approach we have to assume extreme risk loving, which is in stark contrast to their risk averseness in their everyday life. As recent years show, this kind of behaviour might not necessarily be criminal in a judicial sense, but it endangers future political careers. Here too, the motivation might be to keep up with others.

The comparatively ‘neutral’ assumption of self-interest is hardly compatible with such behaviour. In recent years, (traditional) economists have been accused of adhering to this assumption despite the fact that behavioural economists have shown in experiments that it does not hold up quite often. The problem is, however, that these experiments have shown that individuals behave more altruistically – in specific situations – than assumed in our theoretical standard models. But here we observe the contrary: agents are more self-regarding, or seeking for money, than could be explained by a rational pursuit of self-interest. Until now, behavioural economics is therefore not very well suited to explain such behaviour.

2. Political Economics

MARK SCHELKER has continued his ongoing research on institutions, regulation and taxation (with SIMON LÜCHINGER, University of Lucerne, and ANDREI SHLEIFER, Harvard University). The main aim of the project is to understand how political institutions affect the emergence and evolution of regulation and regulatory regimes. This requires first an analysis of the basic link between political institutions and regulation and secondly an exploration of the well-known fact that regulatory measures are often functionally equivalent to fiscal policy measures. Hence the fact that regulatory and fiscal decisions are not independent is taken into account in order to shed light on the influence of political institutions on the interplay of regulation and taxation. In 2012 the data collection effort was the main focus of the project. MARK SCHELKER and his team collected data on the regulatory activity (measured as the number of new enactments and the respective number of pages) of the Swiss cantons from 1908 to 2010. Besides this new data, they also collected information on political, fiscal, economic, and demographic characteristics of the cantons for the same time period. The data analysis was launched by the end of 2012.

Last year, MARK SCHELKER launched the project Governor Careers (with JIM ALT, Harvard University, and SHANNA ROSE, New York University). This project contributes to the understanding of political accountability mechanisms. Research so far has mainly focused on elections as the crucial mechanism to hold agents accountable. However, this project concentrates on other aspects such as the selection of agents or future career concerns that might influence behaviour in office. The authors argue that US state governors’ behaviour in office depends on their professional career background as well as their career perspectives after the gubernatorial term ends. They investigate if and how previous and future careers of governors influence their policy decisions while in office. In their project the authors do not only take into account future political offices actually held but also attempts to be elected into such offices. They collect information on governors’ age, education, industry background, and post-gubernatorial careers (political as well as private sector) from 1950 to 2010 and combine this information with an extensive dataset on US state characteristics.

MARK SCHELKER has launched and pursued several other projects in 2012. Drugs and Foreign Aid (with ROLAND HODLER, University of Lucerne) is an analysis of the relationship between narcotic drug production and foreign aid flows. In the project entitled Enlightened Pork: Pork Barrel Spending and Night-
time Light Emission (with ROLAND Hodler, University of Lucerne and PAUL Raschky, Monash University), new identification strategies are explored to understand the source, the political determinants and the destination of wasteful government spending. Relying on Swiss data, Mark Schelker and Lukas Schmid have started research on The Size and Source of the Incumbency Advantage in Elections to the Swiss National Council: A Regression Discontinuity Approach, exploring the electoral advantage of incumbent policy makers in elections to the Swiss National Council. This also includes the development of a novel identification strategy for elections in proportional systems based on a regression discontinuity design.

Gebhard Kirchgaessner investigated the suitability of systems of consociational democracy (concordance democracy) for political and economic reforms. In Switzerland, direct popular rights and the resulting consociational democracy are often held responsible for delays or even cancellations of necessary political reforms. However, Switzerland is not the only country with such a system, and direct democracy is just one out of several mechanisms fostering consociational democracy. Moreover, as the examples of the United States and Germany show, such situations might occur even if the government does not reflect a consociational situation. In Germany, similar situations arise not only in Grand Coalitions, but also whenever the two chambers of the national parliament, the Bundestag and the Bundesrat, have different majorities, which is often the case. The corresponding situation in the United States is a ‘divided government’, i.e. if the president’s party does not have the majority in one or even both houses of the congress.

Switzerland is therefore not a singular case because other institutional settings might have similar political consequences. Accordingly, political debates about reform possibilities do not only take place in Switzerland, but also in other countries and particularly in Germany. A more detailed investigation shows that consociational democracy might impede reforms, but not necessarily does so; it might even be supportive. It depends on the exact design of the corresponding political system. In recent years Switzerland, for example, has been very much more prone to political reforms than France with its political system that despite short episodes of cohabitation is far away from a consociational system. Moreover, because consociational systems usually need larger majorities for political decisions, the policy is more directed towards the preferences of the median voter and also more constant. From the point of view of the theory of democracy as well as of constitutional economics, this is to be evaluated positively.

3. Media Economics

Christine Benesch’s research agenda of the past year consisted of analysing how changes in media market structures and regulation affect media consumption and, in particular, news consumption. In recent years many traditional media outlets have lost audience and come under financial distress. This development started an extensive debate on whether and how media should be subsidised and on how media markets should be organised in order for the media to optimally fulfil their public service mission.

Specifically, traditional print newspaper readership has been declining in recent years putting newspaper companies into financial distress. The dominant view is that especially the younger generations born into the online world will ignore print media. However, there is actually one major trend that contradicts this view: publishers of cost-free daily newspapers can display very high penetration rates among younger age groups. The Swiss free daily 20 Minuten, for example, has achieved a reach of over 45 percent among 14- to 29-year old. Surely, a large part of this success should be attributed to the product’s price level. Nevertheless, this data contradicts the widespread opinion that the Internet generation rejects print as a medium of daily updates.
In one of last year’s projects, CHRISTINE BENESCH and FELIX OBERHOLZER (Harvard Business School) started to analyse how reading free newspapers affects the consumption of traditional paid newspapers. Some commentators see free dailies as an additional thread to subscription-based newspapers, taking away readership and advertising revenue. Others perceive free dailies not necessarily as a substitute for traditional newspapers and suggest that mainly people who would not read traditional newspapers are targeted by free dailies. However, there is only scarce convincing empirical evidence supporting one or the other view. An additional argument regarding the relationship between free and paid newspapers is habituation. The habit of reading a print paper on a daily basis might increase the likelihood of subscribing to a main daily newspaper. Reading a paper allows consumers to experience the superior browsability and other advantages of print products. Having experienced print, these readers might be more inclined to take up a paid subscription.

The project systematically investigates whether readers of the free daily 20 Minuten in Switzerland are more or less inclined to subscribe to a traditional daily newspaper. CHRISTINE BENESCH and FELIX OBERHOLZER surveyed a sample of 500 adults in eight counties in the Zurich metropolitan area on their media consumption and commuting habits, offering them a free subscription of the main local newspaper, the Tages-Anzeiger, at the end of the survey. Respondents who read the free daily during the previous week were more likely to accept the offer (controlling for other news consumption). It is of course possible that readers of free dailies are more inclined to accept the free subscription offer because they generally show a greater interest in news or newspapers than non-readers. In order to differentiate between this preference-based and a habituation-based explanation, the researchers explored the fact that 20 Minuten is almost exclusively distributed at train, bus and tram stations in the early morning and is therefore read mainly by commuters using public transport. The choice of means of transport (i.e. car or public transport) for the daily commute in turn depends to a large extent on the relative attractiveness of the infrastructure, i.e. on travel times by car and public transport due to rail and road infrastructure or traffic. First results, using these additional statistical tests, confirm so far the positive association between 20 Minuten consumption and acceptance of the subscription offer and lend support to the idea of habituation. In the second phase of the project, it will also be investigated whether these new readers will continue their subscription after expiry of the free offer after six months.

In another project CHRISTINE BENESCH analysed how media consumers react to the different regulatory regimes that European public broadcasters are subject to. Literature on the political economy of media emphasizes the importance of media’s independence from government. Nevertheless, there exists a long-standing tradition of public service broadcasting in many European countries. Such interventions in television markets are usually justified by market failures as well as public good or merit good aspects of information and should therefore be beneficial for consumers. However, even in countries where government intervention in TV markets is supposedly benevolent, tightly regulated public service broadcasters – whose finances depend on license fees or other forms of public funding – might be prone to political influence as well. Ultimately, the question of whether and under what circumstances public broadcasting is beneficial for consumers is an empirical one.

In the empirical analysis the amount of media consumption, i.e. the amount of time spent on the different types of media, serves as an indicator for how consumers assess the quality of media content. The empirical results reveal that, on average, television news consumption is lower when the share of state-owned TV stations is high. This negative effect of state ownership is larger when regulatory supervision of public broadcasters lies within a Ministry as opposed to a more independent regulatory body. However, when public broadcasters are subject to a regime of self-regulation, television consumption increases with a higher share of state ownership. The share of commercial income of public broadcasters (as compared to government funding) has no effect on the relationship between the share of state ownership and TV consumption. Furthermore, the analysis shows that the negative
relationship between state involvement and news consumption is stronger for people who exhibit high levels of political interest than for those who show little political interest.

Hence the results are, on the one hand, consistent with the theory of media capture where low transaction costs between government and the media increase the likelihood of political capture. On the other hand, the empirical results do not support the theoretical predictions that a larger extent of commercial orientation decreases the likelihood of media capture. In the setting of public broadcasting in Europe, formal regulatory provisions therefore seem to be more relevant for factual independence than the source of funding. Regulatory approaches that keep public TV stations formally independent (i.e. self-regulation) seem to be successful in maintaining an arm’s-length relationship between government and public TV stations. In addition, they are also successful in combining the positive aspects of public television, i.e. its public service mission, with media independence.

4. Health Economics

BERIT GERRITZEN investigated the relation between women’s empowerment and its potential effects on female bargaining power in intimate relationships and on HIV prevention. This is a highly policy-relevant field of study. 34 million adults and children are living with HIV worldwide; 1.7 million people died from AIDS in 2011 only. UNAIDS identified gender inequality as a key driver of the HIV epidemic. For example, in Sub-Saharan Africa, where two-thirds of all HIV-infected people live, women account for 59 percent of all HIV-infected individuals and young women in this region are eight times more likely than men to differences be living with HIV. These gender-specific in HIV prevalence are partly due to biological reasons. Another, probably even more important reason, lies in the marginalisation of women in many societies. Particularly in developing countries, women often face considerable barriers to access to HIV prevention, treatment and care services.

Despite recent improvements due to the increased availability of antiretroviral treatment ART, HIV/AIDS remains incurable and therefore prevention is key. Condom use and communication among sexual partners are important strategies for HIV prevention. Using a panel data set of more than 1,200 married women in rural Malawi from 1998 to 2008, BERIT GERRITZEN shows that adequate HIV prevention strategies, i.e. condom use within marriage and HIV-related spousal communication, are more widely used as women’s bargaining power increases. The analysis focuses on different dimensions of women’s empowerment, namely personal and interpersonal empowerment. Among the proxies used for women’s empowerment, own income, knowledge of other local languages and awareness of outside options from marriage are found to play a particularly important role in promoting adequate preventive behaviours. The main findings continue to hold after individual-specific fixed effects and time dummies are included in order to account for unobserved heterogeneity and time trends.

Even though the relevance of gender equality in fighting the spread of HIV is generally accepted, to date less than half of the countries having reported national HIV policies to the UN general assembly also have specific funds dedicated to eradicating gender-based inequality. A thorough assessment of the specific effects of different dimensions of women’s empowerment is therefore important in order to provide guidance to policy-makers in this field.

5. Environmental Economics

FLORIAN HABERMACHER studied the effects of economically suboptimal, but politically realistic climate protection measures, primarily CO2 taxes, on global greenhouse gas emissions and thus on climate change.

A thesis was brought forward, claiming that such taxes may harm the climate more than benefitting it. Especially if a CO2 tax is introduced with a low initial level and rises rapidly over time, fuel resource
owners would accelerate their fuel sales to circumvent the much higher tax rates of the future. The German economist Hans-Werner Sinn popularised this thesis of the counter-productivity of the climate tax, naming it the ‘Green Paradox’, which was already known in theory before but had found less attention, and confirmed it in analytical models. Subsidies for the development of clean energy technologies, for example, can theoretically have similar counter-productive effects on the climate. The question whether realistic climate policies could actually be negative for the climate is currently discussed in climate policy and has recently become an emerging field of studies in climate and resource economics.

While research has so far confirmed that it is possible that the greenhouse gas emissions could initially increase due to the tax, the tax could still be desirable from the climate point of view. This notably holds because even a suboptimal carbon tax path reduces the long-term amount of total emissions.

To investigate whether or not a tax-induced increase of current emissions is outweighed by the expected later emission reductions, FLORIAN HABERMACHER developed a numerical dynamic model of the global fuel market, allowing the modelling of the impact of different global or regional climate taxes. These simulations show that for realistic tax paths, emission reductions expected in the longer run are so large that they dominate potential early emission increases by far, even with a relatively strong time-discounting.

For his paper on the optimal taxation of emissions from different fuels, FLORIAN HABERMACHER was awarded last year’s prize of the Swiss Association for Energy Economics (SAEE).

D) Major Publications


LARS P. FELD and CLAUS LARSEN, Undeclared Work, Deterrence and Social Norms: The Case of Germany, Springer-Verlag Berlin 2012.


