<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Editorial</td>
<td>3</td>
</tr>
<tr>
<td>2. Staff</td>
<td>5</td>
</tr>
<tr>
<td>3. Research Activities</td>
<td>7</td>
</tr>
<tr>
<td>3.1 International Economics</td>
<td>7</td>
</tr>
<tr>
<td>3.2 Economic Policy</td>
<td>17</td>
</tr>
<tr>
<td>3.3 Publications / blogs / interviews (in the German Part)</td>
<td>21</td>
</tr>
<tr>
<td>3.4 Presentations (in the German Part)</td>
<td>32</td>
</tr>
<tr>
<td>3.5 Doctoral Theses and Habilitations (in the German Part)</td>
<td>41</td>
</tr>
<tr>
<td>3.6 Awards (in the German Part)</td>
<td>42</td>
</tr>
<tr>
<td>4. Other Professional Activities</td>
<td>43</td>
</tr>
<tr>
<td>(in the German Part)</td>
<td></td>
</tr>
<tr>
<td>5. Sponsoring Institutions</td>
<td>48</td>
</tr>
<tr>
<td>(in the German Part)</td>
<td></td>
</tr>
</tbody>
</table>
1. Editorial

The year 2013 once again brought major personnel changes for our institute. Prof. Dr. Dr. h.c. GEBHARD KIRCHGÄSSNER has retired on 1 August 2013. He started his professorship at the University of St. Gallen on 1 April 1992 and has been a member of the board at the Swiss Institute for International Economics and Applied Economic Research (SIAW) since then. We had the opportunity to give him a befitting farewell on the occasion of his festive and well attended parting lecture on 14 May 2013. The invitation to the College for Advanced Studies in Berlin (Wissenschaftskolleg zu Berlin) from September 2013 to July 2014 bears witness to his sustained scientific activity. We are pleased that he will subsequently return to our institute as a guest and emeritus professor. A competent successor has already been found. Prof. Dr. ROLAND HODLER will commence his work at the institute on 1 April 2014. He held professorships in Melbourne, Australia, and Lucerne in addition to working at the Gerzensee study centre. As a designated expert for political and development economics, he will strengthen the scientific and politico-economic position of our institute. We are already looking forward to working with him.

Positive things can be said of highly experienced and young institute members alike. Assistant Professor Dr. MARK SCHELKER was appointed to a professorship for Public Finance at Freiburg University, Switzerland. While we sincerely congratulate him on this important move, we naturally regret the early departure of such an established colleague skilled in politico-economics. However, MARK SCHELKER will remain associated with the institute as a Research Fellow. Junior staff members Prof. Dr. LUKAS SCHMID and STEFAN LEGGE with their paper Rankings, Random Successes, and Individual Performance were invited to the renowned NBER Summer Institute and their work also earned the Best Paper Prize at the Warsaw International Economic Meeting. We are particularly pleased that our Honorary President Prof. Dr. HEINZ HAUSER was appointed as an honorary member of the CEMS, a strategic alliance of leading economic universities and multinational companies. He made a major contribution towards establishing the University of St. Gallen as the fifth member of this international network.

Notwithstanding all the changes, work at the institute naturally continued unabated. The group reports provide detailed information about the ongoing research projects. Once again we strove to contribute international economic issues to the public politico-economic discussion. In cooperation with Dr. RENÉ BUHOLZER, President of the Development Fund, we launched the “SIAW Circle Roundtable” to maintain even closer contact with politico-economic practice. Especially in view of the current political debates, the international economic perspective and an understanding of its interrelations is particularly important.

In conclusion, we would once again like to thank the supporters and employees of our institute. As the authority responsible for higher education, the Canton of St. Gallen allows us the required autonomy to structure our research and consulting activities, even in financially challenging times. We would like to thank the members of the Executive Board as well as the members of the Institute’s Association of Sponsoring Institutions, who give us financial support as well as allowing us to contact them for valuable suggestions and advice. A research institute depends solely on the ideas and scientific curiosity of its employees. Our good results were only made possible by their dedication and commitment.
We would like to express special thanks to GEBHARD KIRCHGÄSSNER this year. In the past 21 years during which he worked at our institute, he served as an excellent internal and external representative of the SIAW. His influential scientific works, marked by numerous honours, have made the position of our institute in the scientific community much stronger. Last but not least, he expanded the SIAW’s network of contacts and wide-ranging impact in numerous politico-economic bodies. Of particular value to us is being able to discuss economic problems openly and critically with Gebhard. We are pleased that he will be with us in the future as a guest after his return from Berlin. Surely we are never going to run out of economic topics of conversation.

St. Gallen, 6 March 2014

Prof. Dr Simon Evenett
Prof. Dr Reto Föllmi
2. Staff

Steering Committee

Prof. Dr. Monika Bütler
Dr. René P. Buholzer
Prof. Dr. Bruno Jeitziner
Prof. Dr. Christian Keuschnigg
Prof. Dr. Ernst Mohr
Dr. Eric Scheidegger

Executive Board

Prof. Dr. Simon J. Evenett
Prof. Dr. Reto Föllmi
Prof. Dr. Dr. h. c. Gebhard Kirchgässner (until 31.07.)

Professors Emeriti

Prof. Dr. Heinz Hauser, Honorary President SIAW
Prof. Dr. Dr. h.c. Gebhard Kirchgässner (since 01.08.)

Departments

International Economics

Prof. Dr. Simon Evenett

Morgan Boeffard (since 01.05.)
Irene Fensore (until 31.08.)
Iva Mihaylova
Wesley van Drongelen
Martin Wermelinger (until 31.10.)

Student Research Assistants

Friederik Bärtl
Fabian Feger
Andreas Foser
Michael Füglister
Chintan Jadwani

Project Firefly

Daniel Garraty, Co-Founder
Clemens Holzer
Hillary Mwamba
Anne-Marie Forget
Alexander Stadelmann

EU Projekt DISSETTLE

Luis Montilla
Daria Shirokova
Prof. Dr. Reto Föllmi
IRENE FENSORE (since 01.09.)
STEFAN LEGGE
ISABEL MARTíNEZ
Dr. Lukas Schmid
FABIAN SCHNELL
ALEXA TIEMANN

Student Research Assistants
RINO HEIM
RICCARDO LEGENA
JUDITH SPIRIG

Economic Policy

Prof. Dr. Dr. h.c. Gebhard Kirchgässner (until 31.07.)
Prof. Dr. Christine Benesch
Berit Gerritzen (until 31.08.)
FLORIAN HABERMACHER
Teresa Körner (until 31.10.)
Prof. Dr. Mark Schelker

Research Fellows

Prof. Dr. Lars P. Feld
Prof. Dr. Christoph A. Schaltegger
Prof. Dr. Mark Schelker
Prof. Dr. Jürgen Wolters

Research Associates

Dr. Mathieu Trépanier
PhD Martin Wermelinger
Dr. Sacha Wunsch-Vincent
Dr. Thomas A. Zimmermann

Secretariat

Michèlle Klarer
Gabriela Schmid
3. Research Activities

3.1 Section International Economics

Director: Prof. Dr. Simon J. Evenett

Researchers:
Frederic Bärtl
Morgan Boëffard (since 1st May)
Irene Fensore (until 31st August)
Iva Mihaylova
Wesley van Drongelen
Martin Wermelinger (until 31st October)

from left to right:
Gabriela Schmid, Prof. Dr. Simon Evenett, Wesley van Drongelen, Iva Mihaylova, Morgan Boëffard
Director: Prof. Dr. RETO FÖLLMI

Researchers:
IRENE FENSORE (since 1st September)
STEFAN LEGGE
ISABEL MARTÍNEZ
DR. LUKAS SCHMID
FABIAN SCHNELL
ALEXA TIEMANN

from left to right:
Dr. Lukas Schmid, Fabian Schnell, Isabel Martínez, Michèle Klarer, Prof. Dr. Reto Föllmi, Irene Fensore, Stefan Legge
The International Economics section is jointly led by Prof. Simon J. Evenett Ph.D and Prof. 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. Yet again the year 2013 was a busy one, involving collaborations with many stakeholders.

A) Chair Prof. Dr. Simon J. Evenett

With his team at St. Gallen and abroad, Prof. Simon J. Evenett, continued to collect data on the resort to trade liberalisation and beggar-thy-neighbour activities by governments. The Global Trade Alert initiative continues to gain in standing within Switzerland and abroad. By the end of 2013 nearly 4,000 state measures taken since November 2008, the first crisis-era meeting of the G20 countries, have been documented. During 2013 the work of the Global Trade Alert was cited in another 50 journal articles, studies, and government reports.

A collaboration was launched with Prof. Vinod Aggarwal of the University of California at Berkeley to examine the nature and impact of crisis-era industrial policy in leading sectors of the global economy. This collaboration resulted in several papers being commissioned and presented at conferences organised in 2013 in Berkeley and in Brussels. The papers concerned are being revised for publication in an academic journal. More importantly, these papers document the resurgence of interest in selective government intervention (both firm-specific and sector-specific) since the onset of the global economic crisis.

Prof. Evenett continued in the post of Academic Director of the St. Gallen MBA programme, which also involves being a Director of the HSG Executive School. 2013 was a particularly tough year in the global MBA markets. The excess capacity in this sector has had significant implications for the recruitment of high quality MBAs and the financial performance of many MBA programmes. After a tough second and third quarter, the St. Gallen MBA enrolled 39 full time MBAs, an increase of six over the previous year. Prof. Evenett continued to find new ways to capitalise on the distinctive features of the St. Gallen MBA, two of which is its Swiss location and its small class size.

The assistants of Simon J. Evenett, have been involved in the execution of the Global Trade Alert from its inception in 2009. Mr. Frederic Bärts, Mr. Morgam Boëffard, Miss Irene Fenosre (until August), Miss Iva Mihaylova, and Mr. Wesley van Drongelen worked diligently on the Global Trade Alert database. Mr. Martin Wermelinger, a Research Associate of the SIAW, continued his valuable coordination role in the Global Trade Alert team.

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 outgoing year 2013, the chair of Prof. FÖLLMI concentrated his research activities on growth, distribution and trade, and of political economy. We continued the SINERGIA project funded by the SNF and co-organized a workshop in Diessenhofen. We communicated our findings in scientific conferences and workshops, and used the acquired knowledge in teaching as well as in economic policy consulting.

The chair underwent notable personnel change during 2013. ANDREAS KOHLER successfully finished his PhD thesis on the impact of inequality on international trade and capital flows. He started a job at the Federal research unit Agroscope in Ettenhausen near Wil. ALEXA TIEMANN has, after spending an academic year at Harvard University in Cambridge, MA, completed her PhD thesis and started a job as a researcher at OECD in Paris. IRENE FENSORE joined our team in August 2013. In her PhD thesis she examines the impact of international arbitrage on trade flows.

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 at the University of St Gallen. The core areas of his research are questions of economic growth, foreign trade and distribution.

IRENE FENSORE joined our team in September 2013. During her Bachelor, she studied at Bocconi University in Milan and at Chulalongkorn University in Bangkok, Thailand. After obtaining a Master’s degree in Quantitative Economics and Finance at the University of St. Gallen, she joined the PhD program in Economics and Finance (PEF). Her research interests include international economics and trade as well as income inequality.

STEFAN LEGGE joined our team in September 2011. He studied at the Universities of St.Gallen, Mannheim 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 program in Economics and Finance (PEF). In his dissertation he deals with the determinants and ramifications of income inequality as well as the effects of rankings.

ISABEL MARTÍNEZ joined our team in January 2012 as a research assistant. She studied Economics and Political Science at the University of Berne and the Free University Berlin and obtained her Master’s degree in Economics in autumn 2011. Since 2012 she is enrolled with the Doctoral Program for International Affairs and Political Economy (DIA). During 2013 she finished the course phase of the program. In her dissertation she deals with the evolution of the income distribution in Switzerland, the effectivity of the Swiss health care premium subsidy programs, and the effects of tax changes on individual behavior.

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 Bern in 2012. He has been a visiting researcher at the Methodology Department at the London School of Economics in 2012/2013. 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 Gothenburg (Sweden), obtaining a Master’s in Economics (M Econ) 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 is concentrating on the subjects of the ongoing phase of low interest rates and the price setting behavior of firms. Fabian Schnell also holds a part-time employment as a research assistant in economics policy with economiesuisse.

Ongoing research projects

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

Reto Föllmi, Ruedi Minsch (economiesuisse) and Fabian Schnell started the project “What determines price changes and the distribution of prices? Evidence from the Swiss CPI.” The paper examines how firms set and adjust their prices depending on macroeconomic, sectoral and individual conditions. A large panel of quarterly firm and product price data, which underlie the sectoral CPIs, from 1993 to 2012 is used for this purpose. The data allow a detailed traceability of the pricing decisions over time. Among several macroeconomic factors, an appreciation of the Swiss franc leads to an increase in the probability of positive price change as well as in the size of this price change. Singling out one policy measure, we found that an increase of the VAT is proportionally shifted to prices although the costs of the concerned producers do not increase to the same extent due to the deductibility of input cost. Finally, the dataset allows to analyze the development of price dispersion at product level. We can show that an increase in the VAT leads to a decrease of the variance of prices whereas macroeconomic factors have no impact.

We continued our paper on “International arbitrage and the extensive margin of trade between rich and poor countries.” Reto Föllmi together with Christian Hegenstrick (Swiss National Bank) and Josef Zweimüller (University of Zurich) introduce 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 (in the poor South) are willing to pay high (low) prices for consumer goods, hence unconstrained monopoly pricing generates arbitrage opportunities for internationally traded products. Export zeros arise because some northern firms abstain from exporting to the South, to avoid international arbitrage. We show that rich countries benefit more from a trade liberalization than poor countries, and that the latter may even lose. These results hold also under more general preferences (that 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.

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

We finished the project ”The Macroeconomics of Model T”. It 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 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 and the poor 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; and 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 continued the project "A Dynamic North-South Model of Demand-Induced Product Cycles ". RETO FÖLLMI together with ANDREAS KOHLER and SANDRA HANSLIN (University of Zurich) consider the impact of the entry of emerging economies on growth and innovations in the industrialized 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. We show that the innovation-imitation process depends crucially on within and across countries income inequality.

3) Productivity, international trade, and distribution

The project “Trade Liberalization and Credit Constraints: Reallocations at the Firm Level” by RETO FOELLMI, STEFAN LEGGE, and ALEXA TIEMANN studies how firms respond to trade liberalizations in emerging economies. Following the idea of heterogeneous firms we examine whether imperfect capital markets can prevent welfare gains from trade liberalization to materialize. In our theoretical model, entrepreneurs differ in their wealth endowment causing them to rely differently on external funds. In a setting with an imperfect capital market, we show that poor entrepreneurs run smaller firms, are less likely to invest in product change, and are more likely to exit the market. Decreasing trade costs resulting from tariff reductions exacerbate these characteristics. Using firm-level panel data on seven Latin American countries for 2006 and 2010, we show that the basic theoretical predictions match with observed firm characteristics. In addition, we present novel empirical evidence showing that in the sample of surviving enterprises, financially constrained firms are less likely to change their main product, especially if they rely heavily on external funds. This funding adds another dimension to the literature on how financial constraints distort reallocations within firms and thus can limit gains from trade.

We continued the project "Globalization and Productivity in the Developing World " RETO FÖLLMI and MANUEL DECHSLIN (University of Tilburg) explore the impact of international trade in a monopo-politically competitive economy that encompasses technology choice and an endogenous distribution of mark-ups 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; (ii) is bound to increase the polarization of the income distribution. The reason is that the pro-competitive effects of trade reduce mark-ups and hence the borrowing capacity of less affluent entrepreneurs. As a result, smaller firm, 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 the knowledge from research in development, growth and trade, RETO FÖLLMI and ALEXA TIEMANN consulted the SECO concerning the growth and employment targets following the Millenium Development Goals.

4) Political Economy, Distribution and Economics of Education

RETO FÖLLMI and ISABEL MARTINEZ study the recent evolution of top incomes in Switzerland. Their analysis closes the gap in inequality data from 1995 to 2002 by exploiting the fact that cantons changed their tax system at different points in time which allows using the non-changing cantons as control group. The results show that the share of top incomes has risen, the top 0.01% share even doubled in the last 20 years. However, top incomes exhibited large variation in the business cycle. The analysis of social security data suggests that labor incomes have become more important among top income earners. STEFAN LEGGE and LUKAS SCHMID examine the effects of rankings on individual
performance using data on World Cup alpine skiers. The results suggest substantial short-run effects of podium finishes on performance, especially for racers in the middle of the skill distribution. However, the effects are short-lived and mostly driven by individuals who miss prestigious ranks by a tiny margin. This finding highlights a potential drawback of rankings which has been neglected in previous research.

Led by Reto Föllmi and Lukas Schmid joint by Dominik Hangartner (London School of Economics) and Michael Bechtel (University of St. Gallen, Department of Political Science), the project Compulsory Voting examines the consequences of mandatory voting in the cantons of Switzerland. Our results indicate that compulsory voting mobilizes left-wing voters more than right-wing voters. However, this is only true for the period of intervention. After the abolishment of compulsory voting, there remains no long-term mobilization effect on left-wing voters. The project Effects of Education is a joint project with Stefan Boes (University of Lucerne) and Dominik Hangartner and examines the impact of education on a person's success in the labor market and risk and timing preferences by using cantonal entry exams to track pupils before entering secondary school. 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 the outcomes 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.

5) Monetary Policy Delay and the Reallocation of Capital

In the project „Can Monetary Policy Delay the Reallocation of Capital?“, Fabian Schnell explores the medium-run effects of monetary policy and focuses its analyses on the consequences of distorted (in the sense of exogenously influenced) real interest rates that are currently observed in many industrialized countries. In the model, real interest rates that are too low hinder economic recovery because such rates allow relatively unproductive firms to remain in the market. Monetary policy should increase interest rates after a negative macroeconomic shock to force a reallocation of production factors to more productive firms. It is shown that there is a trade-off between the short-run and medium-run preferences of the central bank as a consequence. From a welfare perspective, the impact of monetary policy depends on the long-run interest rate relative to the welfare-maximizing interest rate because of the preference for variety in the model.

D) Major Publications


3. Research Activities

3.2 Section Economic Policy

Director: Prof. Dr. Dr. h. c. GEBHARD KIRCHGÄSSNER (until 31st July)

Researchers:
Prof. Dr. CHRISTINE BENESCH
BERIT GERRITZEN (until 31st August)
FLORIAN HABERMACHER
TERESA KÖRNER (until 31st October)
Prof. Dr. MARK SCHELKER

from left to right:
Prof. Dr. Mark Schelker, Gabriela Schmid, Berit Gerritzen, Prof. Dr. Christine Benesch, Teresa Körner,
Prof. Dr. Dr. h.c. Gebhard Kirchgässner
**A) General Objectives of our Research**

As in earlier years, Prof. Dr. Dr. h.c. GEBHARD KIRCHGÄSSNER and Prof. Dr MARK SELKER were still working in the area of Political Economy, focussing on direct democracy and federalism, while Prof. Dr. CHRISTINE BENESECH 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 fourth edition of the book *Homo Oeconomicus*.

Prof. Dr. MARK SELKER and Prof. Dr. 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. Prof. Dr. MARK SELKER 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 some presentations, but in particular for the participation of Prof. Dr. Dr. h.c. GEBHARD KIRCHGÄSSNER in the Government Debt working group of the German Academies of Sciences. This group will present its report in 2014.

**B) The Team**

Prof. Dr. Dr. h.c. GEBHARD KIRCHGÄSSNER was director of the Department for Economic Policy up to his retirement at the end of July 2013. Since September 2013, he has been Fellow of the Institute for Advanced Study in Berlin. 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. Due to come back from Berlin in July 2014, he will continue his research at the Institute.

BERIT GERRITZEN joined our team in February 2009. Having graduated from the Masters programme in Economics (MECON), she has been in the PhD in Economics and Finance (PEF) programme since 2010. She works in the area of health economics, and has successfully presented her research proposal in 2012. Since September 2013, she has been Fellow of the Women and Policy Program at Harvard University Kennedy School. Her stay there is financed by a grant from the Swiss National Science Foundation.

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. In September 2012, he became visiting scholar at the Oxford Centre for the Analysis of Resource Rich Economies (OxCarre), supported by a grant from the Swiss National Science Foundation. He successfully finished his doctoral studies with the public defence of his four papers about “Suboptimal Climate Policies – Green Paradox, Leakage and Small Abatements” last year. He took up a research position at Aurora Energy Research, a new company in Oxford, in September 2013, where he is head of electricity and energy modelling section.

TERESA KÖRNER was a member of our team from February 2010 to September 2013. 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 Organisation and Culture programme at our university and concentrates on questions of health problems 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 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 on an economic analysis of media consumption. She continues her work in the area of Media Economics. She is financed by the Economic Policy profile area of the Department of Economics.

Prof. Dr. MARK SCHELKER was Assistant Professor at the School of Economics and Political Science (SEPS) of the University of St Gallen and associated to the Department Economic Policy of the Swiss Institute for International Economics and Applied Economic Research (SIAW) up to August 2013. Since September 2013, he has been Associate Professor at the Faculty for Economics and Social Sciences at the University of Fribourg. He continues to deal with questions of public finance and political economy.

Prof. Dr. LARS FELD, who belonged to our group from 1995 to 2002 and who did 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 chaired the famous Walter Eucken Institute at the University of Freiburg i.Br. (Germany), and since 2011, he has also been a member of the German Council of Economic Experts. His contributions are in the areas Public Finance and New Political Economy.

Prof. Dr. CHRISTOPH SCHALTEGGER, who worked in 2001 and 2002 at our institute, is also a research fellow of our Institute. Since 2010, he has been Professor of Political Economy at the University of Lucerne, and in 2011 he became director of the Institute for Public Finance and Fiscal Law at our university. 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

Besides his work on the fourth edition of Homo Economicus, the main focus of GEBHARD KIRCH-GÄSSNER’s work has been on the Political Economy of Scientific Policy Advice. This was not only the topic of his farewell-lecture at the University of St. Gallen, but is also the theme of his research project at the Institute for Advanced Study in Berlin. The basic difference to traditional analyses of policy advice is that the economic model of behaviour is not only applied to the behaviour of economic agents and politicians, but also to scientific advisors. The basic assumption is that they all maximise their own utility subject to constraints.

There are two main questions which the Political Economy of Policy Advice must answer: (i) How can serious scientific advisors quite often come to different and sometimes even contradictory conclusions? (ii) How can this process be organised in order to provide information and not only ideological statements? In many situations economic theory alone does not provide unambiguous policy advice. Thus, in most cases, empirical analyses are also needed. Given the possibility of different (though equally plausible) empirical specifications, these analyses do often also allow for different results and might, therefore, to a large extent depend on the a priori convictions of the scientists. One does not need to insinuate morally defective behaviour to explain these facts.

There are several channels through which scientific advice enters the political process: (i) Scientists can become politically active themselves. (ii) Scientists advise politicians directly. (iii) Scientists advise the general public, for example, by writing newspaper articles or papers for (non-scientific) journals. (iv) Scientific papers are used in the political discourse and/or before courts as the basis of the arguments presented there. (v) Scientists produce reports for politicians, political institutions, and/or interest groups. We are mainly interested in cases (iv) and (v). In these cases, which are often interconnected, it is necessary to organise the process of scientific policy advice in such a way that—similar to the internal scientific discourse—open discussions and criticisms of methods and results are
possible. Data and programs should be made available for re-estimations of empirical analyses, and in order to disclose any possible conflict of interests, the whole process requires transparency.

Scientific papers on the deterrent effect of capital punishment, which have been presented in hearings of the American Congress, are a good example to show the problems of such advice. The literature on the deterrent effect of capital punishment is overall inconclusive, but some authors persistently claim to have found solid evidence in one or other direction. This raises the question what are the causes for these different results? Do different data samples, estimation methods or time periods lead to different results or do the outcomes merely reflect prior convictions of the authors? BERIT GERRITZEN and GEBHARD KIRCHGÄSSNER have performed a meta-analysis of 102 deterrence studies published between 1975 and 2012. The profession of the respective authors turns out to be the only statistically significant explanatory variable: Economists claim significantly more often to have found a significant deterrence effect than members of law or other social science departments. Furthermore, using a panel data set of U.S. states, it has been shown how easy it is to derive contradictory results by employing alternative specifications. Thus, these results reinforce the claim that the empirical evidence presented to date is by far too fragile in order to base political decisions on it.

2. Political Economy

Together with SIMON LÜCHINGER (University of Lucerne) and ANDREI SHLEIFER (Harvard University), MARK SCHELKER has continued his research on “Institutions, Regulation and Taxation”. In order to advance the project he visited the Institute for Quantitative Social Science at Harvard University from April to July. The main aim of the project is to understand how political institutions affect the emergence and evolution of regulation and regulatory regimes. First, they study the basic link between political institutions and regulation. Secondly, they explore the well-known fact that regulatory measures are often functionally equivalent to fiscal policy measures. Hence, they take into account that regulatory and fiscal decisions are not independent and seek to shed light on the influence of political institutions on the interplay of regulation and taxation. In 2013 the data collection was completed and much effort has been put into quality checks and data cleaning in collaboration with the Zentrum für Rechtsinformation, Zürich. First empirical results show a strong negative effect of the degree of direct democracy (mandatory legislative referendum) on regulatory activity. Moreover, we estimate a small negative elasticity between regulatory and fiscal policy activity.

Moreover, during his visit at Harvard University, MARK SCHELKER has worked on 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. Most prominently, research so far has focused on elections as the crucial mechanism to hold agents accountable. However, other aspects such as the selection of agents or future career concerns might influence behaviour in office as well. 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 (expected) future careers of governors influence their policy decisions while in office. In that project the authors do not only take into account future political offices actually held but also attempts to be elected into other offices after stepping down as governor. 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 it with an extensive dataset on US state characteristics.

MARK SCHELKER has also launched or pursued several other projects in 2013. In the project on “Enlightened Pork: Pork Barrel Spending and Nighttime Light Emission” with ROLAND HODLER (University of Lucerne), ANDREAS STEINMAYR (University of Chicago) and PAUL RASCHKY (Monash University) new identifications strategies are explored to understand the source, the political determinants and the destination of wasteful government spending. Relying on Swiss data, MARK SCHELKER and LIUKAS SCHMID have started research on “The Size and Source of the Incumbency Advantage in Elections to the Swiss National Council: A Regression Discontinuity Approach”. They explore the electoral advantage of incumbent policy makers in elections to the Swiss National Council.
The project has been developed further to include also information on all cantonal parliamentary elections from 1950 to 2013.

An actual question of Swiss policy has been analysed by Florian Habermacher and Gebhard Kirch-Gassner on the demand for an unconditional guaranteed basic income. In Switzerland, a constitutional initiative has been launched to introduce such an income, and the necessary signatures have been collected. It should amount to 2,500 CHF per month per adult and 625 CHF per child. Total expenditure would be 200 billion CHF, of which 50 billion CHF are already covered by today’s social security benefits. The proposed financial concept is unrealistic. The same holds, however, for financing this system by value added tax (VAT) or income tax. This once again shows that an unconditional basic income is either too low to secure—without additional income—a decent existence or that it cannot be financed if it is high enough to fulfil this objective. The same holds for the related concept of the negative income tax. Moreover, it is also very hard to justify a truly unconditional basic income for ethical reasons.

Christine Benesch is dealing with the Political Economy of Information and Media. Her research agenda consisted of analysing how changes in access to information fuelled by technological changes affect the behaviour of voters and politicians. In one of the major projects of the past year, together with Monika Butler and Katharina Jaronicki, Christine Benesch started to investigate how increased transparency on politician’s voting in parliament affects their behaviour. The question is interesting because parliaments around the world differ regarding their transparency rules: while some make all votes available to the public, others tend not to disclose the majority of their votes. In Switzerland, the lower house (National Council) has voted electronically with fully published votes since 2004, the upper house (State Council) has resorted to voting by hand rising for most votes. Beginning in spring 2014, it also changes to an electronic voting system. From this point on, all voting results will be published online per Member of Parliament (MP) in both chambers.

Literature analysing the effect of transparency on parliamentarians’ voting behaviour by comparing published and unpublished roll call votes concludes that there are differences between the two, for example in terms of party cohesion. However, in the studied settings published roll call votes usually form a specific sub-sample of all votes, for example final passage votes or roll call votes requested by parliament. This leads to a selection bias between published and unpublished votes which cannot be separated from the effect of transparency. To address the impact transparency has on parliamentarians’ votes, this study uses a quasi-experimental approach by exploiting the institutional change in the Swiss parliament’s voting technology. We exploit the change of transparency in one chamber of parliament taking place roughly halfway the current legislative period and leaving everything in the other chamber unchanged. Luckily, video records of the hand-rising votes exist for the complete legislation period so that we can recover most voting results in the upper house before 2014 by parliamentarians’ names.

We analyse the change in group-cohesion in parliamentary voting which is due to the modification in voting transparency measuring cohesion at party level as well as interest group level while controlling for the parliamentarians’ preferences, the influence of the constituency, and the topic of the vote which are important determinants of their voting behaviour. Estimates are based on results from total votes and final passage roll-call votes which are identical in both houses for the latter, and similar for the former. We collect data for the complete legislative period which leaves us with a sample of roughly 800 votes per 200 parliamentarians in the lower and 46 parliamentarians in the upper house. Without full transparency parliamentarians should vote more according to their own ideology, while under transparency parties, constituencies, and special interest groups should be able to exert more pressure. Before transparency, we hypothesize, voting behaviour in both houses should differ since they were subject to different voting regimes which is supported by theoretical arguments on bicameral parliamentary. After the change in voting technology we expect group-cohesion in both houses to assimilate.
3. Health Economics

BERIT GERRITZEN investigates the relation between intra-household bargaining power and HIV prevention. This is a highly policy-relevant field of study: in Sub-Saharan Africa, where two-thirds of all HIV-infected people live, most HIV infections occur during heterosexual intercourse between persons in couple relationships. In this setting, women are significantly more susceptible to get infected with HIV than men, for both biological as well as social reasons. In order to fight the spread of HIV/AIDS, it is therefore important to understand how couples decide on HIV prevention methods and more generally, what impact intra-household bargaining power has on this decision.

Despite recent improvements in medical treatment, HIV/AIDS remains incurable and therefore prevention is key. Condom use and communication among sexual partners are important strategies for HIV prevention. Using a data set of more than 500 married couples in rural Malawi from 2004 to 2008, BERIT GERRITZEN studies attitudes towards HIV prevention from a systemic perspective by taking into account intra-household bargaining power, as measured by economic, social and relationship variables, and HIV status of both spouses.

The results show that factors that are associated with a relative increase in female bargaining power are also related to improved acceptance of HIV prevention: namely, own earnings and attendance of women at local political meetings significantly increase the propensity for HIV-related spousal communication. For the acceptance of condom use within marriage, the number of co-wives appears to be playing a dominant role. However, when looking at the subsample of most empowered women, higher female earnings are also significantly related to higher acceptance of condom use within marriage.

Another project of BERIT GERRITZEN analyses one aspect of the federal structure of the Swiss health care system. Together with ISABEL MARTINEZ and ALMA RAMSDEN, she studies cantonal differences in health care premium subsidies. Insurance payments in Switzerland are not income-based but financed through per capita premiums, thereby putting a disproportionate financial burden on low-income households. Health care premium subsidies are thus essential to ease the financial burden for low- and middle-income households and are an integral part of the Swiss health care system. Currently, close to 30 percent of the Swiss population receive premium subsidies. These subsidies are funded jointly by cantonal and federal authorities; however, the actual amount and eligibility modalities vary across cantons. Based on cantonal tax and premium subsidy legislation from 2004 to 2012, they model the amount of premium subsidy that otherwise identical households receive in different cantons. Furthermore, the authors analyse the impact of cantonal budget tightness on premium subsidies, as well as the effect of changes in the federal contributions towards subsidy funding following the introduction of the New Fiscal Equalization scheme in 2008.

First results show that the cantonal differences in premium subsidies are very pronounced – even after taking into account canton-specific difference with respect to taxes, health care premiums and so on. However, the degree to which these differences can be attributed to cantonal budget tightness appears to be limited. In a next step, the authors will apply their premium subsidy calculation model to the Swiss Household Panel, thereby also taking into account the actual income distribution at the cantonal level.

4. Environmental Economics

FLORIAN HABERMACHER dealt in his dissertation mainly with the “Green Paradox”. This paradox states that – somewhat simplified – a reduction of CO2-emissions in one part of the world, for example by introducing CO2-taxes or tradable CO2-permits in the European Union, might be largely ineffective because this would lead to lower world market prices of fossil fuels which would lead to higher emissions in the rest of the world. Finally, all fossil fuels will be burned. The introduction of low but steadily increasing CO2-taxes might even worsen the situation because it might bring forward the extraction of fossil fuels which might even aggravate the problem of climate change.
In a first paper, together with GEBHARD KIRCHGÄSSNER, it is shown that this no longer holds as soon as we assume that extraction costs are rising with increasing depletion of the resources and that, from a certain point of time onwards, alternative technologies to provide energy services are available which are cheaper than the use of fossil fuels. Thus, even measures which reduce CO₂-emissions only in one part of the world might reduce total emissions and, therefore, mitigate climate problems. FLORIAN HABERMACHER underscores this in a further paper using a dynamic simulation model. Even if CO₂-emissions increase in the beginning, this could be overcompensated by future emission reductions. The main conclusion of a third paper, derived again from a numerical calibrated fuel market model, is that the valuation of the response of global emissions to regional emission reductions varies very strongly with the strength delays in emissions are valued (the discount rate), and with how the fuel market is impacted in the future by technological (and also political) developments such as clean alternative technologies or the supply of synthetic oil from emission intensive coal liquefaction processes. When the dynamic fuel exhaustibility is taken into account, leakage effects may in the long-run be much stronger than the bulk of the literature, which often examined the question from a more static viewpoint, suggests.

D) Major Publications


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


CHRISTOPH A. SCHALTEGGER and BENNO TORGLER, An Exploration of Tax Amnesties Around the World with a Special Focus on Switzerland, Tax Notes International 38 (2005), pp. 1193 - 1203.


