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1. Editorial

This year our institute celebrates its 75th birthday! We are very excited about our anniversary and we will make sure to celebrate it appropriately. Notwithstanding its old age, the SIAW is innovative and youthful. These qualities, hopefully visible in our cover picture, are part of any successful university institute.

At SIAW, research and teaching have been at the forefront for 75 years. In this time, the world commercial structure has undergone deep changes. As a result, our June celebrations will be an occasion for us to discuss the future of Globalization. During the first week of June there will be the Sinergia conference (organized jointly with the University of Zurich and the ETH) and the ERWIT conference of the CEPR, which is the greatest conference for international economics in Europe. On Friday, 8th June 2018 we will end the week with our festive event, which is open to the public and especially to our sponsors and SIAW alumni.

As we announced last year, in September 2016 the university council decided to create a “Global Center” for “International Economic Analysis” at the SIAW-HSG, whose managers would be the SIAW directors. The Center should increase our profile in both the research and the international public sphere. We want to attract a successful researcher for a new professorship in international economics, someone who crucially contributes to setting the HSG and the global center on an international scene. Without the imposition of quality limitations, recruiting processes at such seniority level usually last somewhat longer. We held trial presentations in November 2017 and we are now having talks with the different candidates.

Sadly, our former director, Prof. Dr. Dr. h.c. GEBHARD KIRCHGÄSSNER, will not be there to celebrate our 75th birthday with us. After a long illness, he passed away on April 1st 2017. For 25 years, since his arrival at the HSG in 1992, GEBHARD KIRCHGÄSSNER was very close to the SIAW. He was institute director and full professor at the University of St.Gallen until 2013 and became Emeritus and fellow researcher of the SIAW after that. Many alumni and colleagues could still say goodbye to him at the beginning of the year and many mourners came to pay their respect. We will miss our animated discussions about research.

Our institute has also received fresh influx this year. We welcomed Prof. Dr. THOMAS ZELLWEGER as new member of the SIAW board. THOMAS ZELLWEGER is director of the KMU-HSG and of the CFB-HSG. As cofounder of the Global Center for Entrepreneurship, he has experience with building and managing a Global Center, which is of high relevance for us at the SIAW. He steps in for our colleague and former rector Prof. Dr. ERNST MOHR, whom we are grateful for his longstanding work in the SIAW board. ANDREAS KIRCHSCHLÄGER, president of the Max-Schmidheiny-foundation, is new member of the re-organized board of our sponsors, the Fördergesellschaft. We really value the joint work with the new members of our managing bodies.

We are very happy about the successes of our junior employees. Our Research Fellow Prof. Dr. LUKAS SCHMID became full professor at the University of Lucerne. In May 2017, Dr. ULRICH SCHETTER, Postdoc at the SIAW, received in Basel the «Best Paper Prize» at the conference ‘Celebrating 200 Years of Ricardian Trade Theory’ for his work on the relevance of quality differentiation for international trade. In fall 2017, Prof. Dr. ULRICH MATTER joined the institute as assistant professor. His main research focus is political economics. Additionally, at the beginning of 2018 Prof. Dr. FRANK PISCH joined our team at the Global Center as assistant professor for international trade. Our new colleagues demonstrate personal initiative and joy of doing research and we welcome them warmly at our institute!
Members of the SIAW were actively present in both national and international media and committees. We further brought forward our economic policy stance through events in the context of the SIAW-circle. The latter also allow us to keep a closer contact with our sponsors. The new concept of our journal Aussenwirtschaft has also proven successful. Next to individual submissions, every edition has one core topic, to which we dedicate a special conference with authors and referees. The meeting titled “What can monetary economics say about long-run developments?” touched on the long-term currency structure and the effects of depreciative trends. This year the central question of our conference will be: “Why do certain countries always experience trade surpluses and others only deficits?” Like last year, the conference will be organised jointly with the SNB. In times in which previous knowledge about international trade appears unclear, it is more than ever important to combine academic precision with economic work in consulting and the media. This broad commitment in research, teaching, executive education and consulting of the economic praxis is pivotal for the SIAW. The successes of our junior employees are proof of our recognition. Our scientific findings find place in both national and international media and databases developed at the institute are employed worldwide.

Of course, our broad commitment would not be possible without the support of many. Working with data is expensive and requires much third party funding. As a university body, the Kanton St.Gallen gives us enough leeway to build an independent combination of research, teaching and consulting. We especially thank all members of the SIAW board, as well as all members of the Fördergesellschaft, who support us financially and are approachable partners giving us valuable suggestions. Our publications, studies and data are compiled thanks to the scientific curiosity and determination of our research assistants. Thank you all very much and we wish you a successful anniversary year 2018!

St. Gallen, March 6th 2018

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

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Professor Emeriti

Prof. Dr. HEINZ HAUSER, Honorary President SIAW  
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IVA MIHAYLOVA (until 30.06.)

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Assistants Chair:
MIRJAM BÄCHLI
IRENE FENSORE
ADRIAN JÄGGI
Dr. STEFAN LEGGE
Dr. ISABEL MARTÍNEZ (since 02.11.)
Dr. ULRICH SCHETTER
DAVID TORUN (since 01.03.)
Chair Prof. Dr. ROLAND HODLER
Assistants Chair:
ANNA BRÜDERLE (until 21.11.)
PHILINE WIDMER
NOÉMIE ZURLINDEN

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Prof. Dr. MARK SCHELKER
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FLORIAN HABERMACHER, PhD
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MARTIN WERMELINGER, PhD
Dr. SACHA WUNSCH-VINCENT
Dr. THOMAS A. ZIMMERMANN
3. Research Activities

3.1 Chair Prof. Dr. Simon J. Evenett

Researchers:

Piotr Lukaszuk
Iva Mihaylova (until 30.06.)

From left to right:
Prof. Dr. Simon Evenett, Gabriela Schmid, Piotr Lukaszuk
During 2017, SIMON EVENETT devoted his energies to several projects: continued data collection on government policies towards international commerce and related research; outreach to decision-makers; running the university’s MBA programme, and contributing to the appointment of a new professor of international economics to be associated with the new Global Centre for International Economic Analysis.

The Team

JOHANNES FRITZ is MAX SCHMIDHEINY Foundation Research Fellow at our institute. During his fellowship, he manages and develops the Global Trade Alert initiative. He obtained his Ph.D. in economics from the University of St. Gallen. He is currently a visiting scholar at the University of California at Berkeley. His research focuses on international commercial policy and computational text analysis.

PIOTR LUKASZUK has worked at the SIAW-Institute since July 2014. He completed his Bachelor and Master degree in Economics at the University of St. Gallen. He is enrolled in the PhD program in Economics and Finance since 2016. His research interests include international economics and trade, as well as income inequality.

IVA MIHAYLOVA, who took responsibility for documenting government actions in the regions formed by the former Soviet Union, left the team.

Ongoing Research Projects

Monitoring and assessing government policy choice implicating international commerce

The Global Trade Alert team, which is coordinated by SIMON EVENETT and managed on a day-to-day basis by JOHANNES FRITZ, continued its documentation of government policies that alter the relative treatment of domestic versus foreign firms going back to November 2008 (the month when the governments of the Group of 20 nations declared they would not resort to protectionism.) The year 2017 was the first of three years where considerable financial support from the MAX SCHMIDHEINY Foundation was gratefully received. Such support helped finance JOHANNES FRITZ’S extended research visit to the University of California, Berkeley.

With the help of web scraping techniques and bulk uploads of data, there was a substantial increase in the number of government policy changes documented by the Global Trade Alert during 2017 (even though a policy change may have occurred in an earlier year.) Just under 3,000 public policy measures—both liberalising and protectionist—were documented by the Global Trade Alert team last year. This takes the Global Trade Alert towards one of its goals, namely, to be the first point of reference on contemporary trade policy for analysts, policymakers, journalists, and business people.

Our data collection provided material not only for Global Trade Alert reports (of which two were published in 2017) but for research papers. According to Google Scholar, by the end of 2017 around 1,300 papers or entries in that database refer to the Global Trade Alert. SIMON EVENETT and JOHANNES FRITZ used this data to prepare an extensive report for the National Board of Trade of Sweden concerning the effects of foreign protectionism on EU exports. This report was launched in December 2017 and dissemination is ongoing in 2018.

An important advance for the Global Trade Alert in 2017 was the launching of a new website. This was a significant endeavour drawing upon the IT expertise of JOHANNES FRITZ and PIOTR LUKASZUK. Important design choices were faced and “migrating” the data from the old website to our new site was a major undertaking. The improved functionality of the new website will make the Global Trade Alert data more accessible to a wide range of potential stakeholders.
Outreach to decision-makers

SIMON EVENETT continued his programme of outreach to public and private sector decision-makers concerning developments in the world trading system. Since President TRUMP took office fears about protectionism cannot be swept so easily under the carpet. For sure, the US Administration did not undertake a trade war in 2017, but the climate for trade policy deliberations has clearly changed and a number of US initiatives to impose trade restrictions can be expected in 2018. With this in mind, SIMON EVENETT and JOHANNES FRITZ devoted the first Global Trade Alert report in 2017 to the reaction of the United States trading partners to the election of President TRUMP. Interestingly, we found that trading partners that had harmed American commercial interests the most before 2017 cut back the most on the instances of new harm to US interests in the first half of 2017. Whether such restraints persists is another matter.

Again, SIMON EVENETT was also involved in the Think 20 process, which is the academic and analyst process that parallels the Group of 20 decision-making process. This involved contributing to deliberations among analysts, commenting on drafts of working papers to be fed into official processes, and ultimately to the preparation and publication of an academic journal article. The German presidency of the G20 was not keen initially on giving trade and investment policy much priority (as it was a divisive matter for the last coalition German government) but was forced to raise its profile once it became apparent that President TRUMP’s anti-trade views was not purely a matter of election rhetoric. It was interesting to watch how the G20 process sought to accommodate an outspoken and demanding United States.

Responsibility for the University of St. Gallen MBA programme

During 2017, SIMON EVENETT was re-elected for a fourth two-year term as Academic Director of the University of St. Gallen MBA programme. Calendar year 2017 was a mixed year for our university’s MBA programme. On the positive side, 87% of our full time MBAs looking for work had received job offers within three months of graduation (a key industry performance indicator.) To the best of my knowledge, this is the highest placement rate ever and reflects hard work by our MBAs and numerous members of the MBA team. Moreover, the MBA moved up in the Financial Times rankings in 2017. The largest incoming full time class was also recruited.

On the negative side, following the departure of two colleagues, it was difficult to find high quality talent willing to work in St Gallen and able to fit into our demanding team. The St Gallen MBA team has more of a start-up work culture than a traditional public sector culture. Another challenge is that the demands of employers remain exceptionally high (and in an era of technological disruption may well be growing) while the competencies and learning styles of more MBA applicants have evolved in a way that are at odds with traditional university teaching styles. With only one year to prepare a full time MBA student for job market re-entry, the demands on a serious MBA programme continue to grow while the capacities delivered by traditional universities have not kept up.
3.2 Chair Prof. Dr. RETO FÖLLMI

Assistant:

MIRJAM BÄCHLI
IRENE FENSORE
ADRIAN JÄGGI
Dr. STEFAN LEGGE
Dr. ISABEL MARTÍNEZ, (since 02.11.)
Dr. ULRICH SCHEITER
DAVID TORUN (since 01.03.)

From left to right:
Dr. Isabel Martínez, Mirjam Bächli, Adrian Jäggi, Prof. Dr. Reto Föllmi, Dr. Ulrich Schetter, Irene Fensore
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 J. EVENETT. From September 2007 to January 2011, he was teaching as Professor of Macroeconomics at the University of Berne. Since August 2017, he has been head of the Economics Department, further he serves in 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.

MIRJAM BÄCHLI has been working as research assistant at the chair of Reto Föllmi since November 2015. She finished her Master’s in Economics (M Econ) at the University of St. Gallen. Previously, she studied at the University of St. Gallen and at the Graduate School of Management in St. Petersburg, Russia. She is enrolled in the PhD Program in Economics and Finance (PEF). In Summer 2017 she successfully finished the Swiss Program for Beginning Doctoral Students at the Study Center Gerzensee. Her research interests are inequality and trade.

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 in Quantitative Economics and Finance at the University of St. Gallen, she joined the PhD programme in Economics and Finance (PEF) in 2014. She was a visiting researcher at the University of Colorado in Boulder. Her research interests include international economics and trade, as well as income inequality.

ADRIAN JÄGGI has been working at our institute since August 2014. He obtained his Master’s in Quantitative Economics and Finance (MiQE/F) at the University of St. Gallen. Furthermore, he gained experience at universities abroad at the University of Manchester as well as at the Korean Institute of Science and Technology (KAIST) in Seoul. After completing an internship at the Swiss National Bank (SNB), he enrolled in the PhD Programme in Economics and Finance (PEF). Adrian’s main interests lie in the area of economic growth, the diffusion of technology and inequality.

Dr. STEFAN LEGGE joined our team in September 2011. He studied economics at the University of Mannheim, the University of California in San Diego, and the University of St.Gallen. In 2016, he successfully completed the PhD programme in Economics and Finance (PEF) at the University of St. Gallen. Having been a visiting scholar at Princeton University and UC Berkeley, he is now a Post-doctoral Researcher and Lecturer at the University of St.Gallen. In his research, he deals with the impact of trade liberalisation, barriers to international trade, political economy, and the implications of population aging. In addition to his role at the SIAW, he serves as a fellow of the World Economic Forum (WEF) and as a researcher in the Sino-Swiss Competence Center.

Dr. ISABEL MARTÍNEZ joined our team in 2012. She studied Economics and Political Science at the University of Bern and the Free University Berlin. In 2016, she successfully defended her thesis in the Doctoral Programme for International Affairs and Political Economy (DIA) at the University of St. Gallen. During her PhD, she had been a visiting researcher at UC Berkeley. In 2016/2017, she worked for one year as a Post-Doctoral Researcher at the am Luxembourg Institute of Socio-Economic Research (LISER) in Luxembourg. In November 2017, she re-joined our institute as a research project manager for a SNSF funded research project on the long-run evolution of wealth inequality in Switzerland and the effect of taxation on the concentration of wealth. Her research focuses on top income and wealth inequality, and on behavioral responses to taxation. In addition to her role as an academic, she works as an economist for the Swiss Federation of Trade Unions in Bern. From January 1 2018, she holds a seat in the Swiss Competition Commission.
Dr. ULRICH SCHETTER joined our team as a Postdoctoral Researcher in September 2016. As part of his research, he examines the role of quality differentiation in international trade, the bearings of inequality on a country’s growth prospects, and how public investment in scientific research contributes to a country’s prosperity in a globalized world. ULRICH holds a Dr. Sc. degree from ETH Zurich. Prior to joining the SIAW, he was a Postdoctoral Fellow at Yale University and worked in the private sector for NERA Economic Consulting.

DAVID TORN has been a member of Reto Föllmi’s chair since March 2017. He received his Master of Arts in Economics and Bachelor of Arts in Economics from the University of Zurich, where he also used to work as a research assistant. In February 2017, he started the PhD Program in Economics and Finance (PEF), and is currently attending the Swiss Program for Beginning Doctoral Students at the Study Center Gerzensee. His research interests include immigration, residential mobility, and international trade.

Ongoing Research Projects

Innovations, inequality and economic growth
Our project “A Dynamic North-South Model of Demand-Induced Product Cycles” has been successfully finished. RETO FÖLLMI together with ANDREAS KOHLER (Agroscope) and SANDRA HANSLIN (University of Zurich) consider the impact of the entry of emerging economies on growth and innovations in the 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. We show that the innovation-imitation process depends crucially on within and across countries income inequality.

The size of trade costs
RETO FÖLLMI, STEFAN LEGGE, LUKAS SCHMID (University of Lucerne), and JOSEF ZWEIMÜLLER continued their project to analyze the size of trade costs. This long-standing question is still a black box in the quantitative literature. The gained know-how about the reasons of trade barriers was used inter alia, to consult SECO on export promotion.

Productivity, international trade, and distribution
The project “Trade Liberalization and Credit Constraints: Reallocations at the Firm Level” by RETO FÖLLMI, STEFAN LEGGE, and ALEXA TIEMANN (European Bank for Reconstruction and Development) studies how firms respond to trade liberalisations in emerging economies. Following the idea of heterogeneous firms, the authors examine whether imperfect capital markets can prevent welfare gains from trade liberalisation to materialise. In their theoretical model, entrepreneurs differ in their wealth endowment causing them to rely differently on external funds. In a setting with an imperfect capital market, it is shown that poor entrepreneurs running smaller firms are less likely to invest in product change and 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, the study shows that the basic theoretical predictions match with observed firm characteristics. In addition, the authors 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 finding adds another dimension to the literature on how financial constraints distort reallocations within firms and thus can limit gains from trade.
Furthermore, we continued working on “Harmful Pro-Competitive Effects of Trade in Presence of Credit Market Frictions”. RETO FÖLLMI and MANUEL OECHSLIN (University of Lucerne) study the impact of international trade on technology choice by firms if capital markets are imperfect. The authors explore the consequences of international trade in an economy that encompasses technology choice and an endogenous distribution of mark-ups due to credit market frictions. It is shown that in such an environment a gradual opening of trade may -- but not necessarily must -- have a negative impact on productivity and overall output. The reason is that the pro-competitive effects of trade reduce mark-ups and hence make access to credit more difficult for smaller firms. As a result, smaller firms -- while not driven out of the market -- may be forced to switch to less productive technologies.

On quality differentiation in international trade

In this project, ULRICH SCHETTER analyses the role of quality differentiation in international trade. The guiding rationale is that quality differentiation allows firms to tailor their products to the skill level of their workforce. By producing high quality, industrialized high-income countries can thus successfully compete in comparatively simple industries. As an example, while you can buy a watch for about a dollar on the internet, Swiss watchmakers typically specialize in high-quality watches that they can sell at a price of several thousand US dollars. Quality differentiation is, however, subject to functional minimum requirements that products always need to satisfy. A watch, for example, no matter how cheap it is, always needs to measure time with sufficient precision for it to serve its intended purpose. These requirements hinder developing countries from being competitive in complex industries -- certain high-tech machines are just too difficult to produce even in their functional minimum versions. The study thus reveals how quality differentiation contributes to a triangular pattern of international specialization where industrialized countries are active across the full board of products, the complex ones but also many of the simpler ones, while developing countries systematically specialize in the simpler products. The author shows that these predictions are consistent with trade patterns in the data and argues that the underlying mechanisms mostly benefit developing countries. The theoretical work lends itself to a novel approach to empirically assess the prevalence of quality differentiation in international trade. Following this approach, the author can show that the specialization of countries within products on quality may be more pronounced than previously thought.

Inequality, demand for quality, and growth through creative destruction

Together with MAIK T. SCHNEIDER (University of Bath), ULRICH SCHETTER studies how inequality within and across countries interact in shaping growth prospects of countries. Motivated by empirical evidence, the authors assume that richer households demand higher quality, and consider the case of growth through quality upgrade by incumbent firms. Quality upgrade allows these firms to better serve the rich. The gains from innovation therefore depend on the prevalence of rich households, i.e. on the income distribution. In serving the rich firms compete, however, with foreign high-quality providers. The extent to which this will detrimental incentives to invest in innovation depends on the country’s openness to international trade and its distance from the world technological frontier. These mechanisms may therefore explain why the growth effects of inequality are different for developing and for industrialized countries. The authors study these mechanisms in detail and derive policy implications for promoting growth in developing countries.

Political economy and the distribution of income and wealth

In her project „Beggar-Thy-Neighbour Tax Cuts: Mobility after a Local Income and Wealth Tax Reform in Switzerland” ISABEL MARTINEZ analyzes the introduction of a regressive income tax scheme for the top 1% in the canton of Obwalden in 2006, where the explicit purpose was to attract affluent taxpayers. Using individual tax data from the cantonal tax administration ISABEL can show that in-migration of affluent taxpayers increased remarkably in response to the reform. This effect is confirmed by a second approach, comparing Obwalden to its neighboring cantons Nidwalden and Lucerne. Pairwise Difference-in-Differences estimates with all other cantons, however, show that the effect on tax revenue was negative or neutral at best over the first 5 years after the reform.
RETO FÖLLMI and ISABEL MARTÍNEZ concluded the study on the recent evolution of top incomes in Switzerland. 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 labour incomes have become more important among top income earners. To interpret the results further, the authors looked at individual tax data and at stock market capitalization.

In a new project, ISABEL MARTÍNEZ studies the long run labor income mobility in Switzerland, with special focus on top earners. Using full-population social security data, the study documents labor income mobility patterns within the top decile and the rest of the distribution over the period 1981-2010. In addition, she sheds light on gender inequality at the top, and the share of foreign-born and self-employed among top earners in Switzerland. Preliminary results indicate that persistence has been slightly decreasing. With a share of only 5%, women are strongly under-represented among the top 0.1% of earners. The share of foreign-born among the top 0.1% rose from 20% to 40% in the 2000–2010 period.

As a new project, ISABEL MARTÍNEZ and RETO FÖLLMI have started to investigate the determinants of wealth inequality at the cantonal level within Switzerland in the long run. We are particularly interested in the role of different tax policies for the concentration of wealth among the top 1%. The grant proposal for this project, which we submitted in March, was successful and hence the project will benefit from generous funding from the Swiss National Science Foundation SNSF over the next two years. We have started with the collection of historical data going back into the 1920s and plan on starting the data analysis by the second half of 2018.

**Intertemporal Labor Supply Substitution**

Together with EMMANUEL SAEZ (University of California, Berkeley) and MICHAEL SIEGENTHALER (KOF, ETH Zurich), ISABEL MARTÍNEZ estimates the intertemporal labor supply (Frisch) elasticity of substitution exploiting an unusual tax policy change in Switzerland. In the late 1990s, Switzerland switched from an income tax system where current taxes were based on the previous two years’ income to a standard annual pay-as-you go system. This transition created a two-year long, salient, and well-advertised tax holiday. This change occurred both for the federal and local income taxes. Swiss cantons switched to the new regime at different points in time during the 1995–2003 period. Exploiting this variation in timing as well as heterogeneity in tax burdens across geographical areas, and using population wide administrative social security earnings data matched with census data, the authors identify the Frisch elasticity. They find significant but quantitatively small responses of earnings consistent with a Frisch elasticity around 0.1. They find no responses along the extensive margin, even for groups less attached to the labor force such as married women, or the elderly. Some groups, such as the self-employed and high wage income earners display larger responses. Hence, their findings rule out large Frisch elasticities, particularly along the extensive margin, that are conventionally used to calibrate business cycle macro models.
3.3. Chair Prof. Dr. ROLAND HODLER

Assistants:

ANNABRÜDERLE (until 21.11.)
PHILINE WIDMER
NOÉMIE ZURLINDEN

From left to right:
Prof. Dr. Roland Hodler, Philine Widmer, Noémie Zurlinden, Prof. Dr. Ulrich Matter
The chair of Prof. Dr ROLAND HODLER included in 2017 the research and teaching assistants ANNA BRÜDERLE, PHILINE WIDMER and NOÉMIE ZÜRLINDEN. The research interests at the chair are in development economics, political economics, and public finance. Various research projects have been supported by the Australian Research Council. In 2017 members of the chair presented their research at various academic conferences and research seminars. Three articles were accepted for publication in academic journals, such as the Journal of Development Economics. The team’s research has been covered by international media outlets, such as BBC, The Economist, The Guardian, Le Monde und El País.

The Team

ROLAND HODLER has been Professor of Public Economics and Director of SIAW at the University of St. Gallen since 2014. He is also affiliated with the Centre for Economic Policy Research (CEPR), the CESifo Research Network, the Oxford Centre for Analysis of Resource Rich Economies, and the Centre for Development Economics and Sustainability at Monash University. After receiving his PhD from the University of Bern in 2004, he was first a post-doctoral research fellow at Harvard University, then Lecturer and Senior Lecturer at the University of Melbourne, and later Professor at the University of Lucerne. His research interests are in development economics and political economics. A detailed CV can be found on his webpage: www.rhodler.net

ANNA BRÜDERLE was working at the SIAW as research and teaching assistant at the chair of ROLAND HODLER from April 2014 to June 2017. She completed her PhD in Economics and Finance (PEF) at University St. Gallen in November 2017. As part of her PhD studies, she took courses under the Swiss Program for Beginning Doctoral Students in Economics at the Study Center Gerzensee. She got her Diploma in Economics from the University of Cologne in 2008. After graduation, ANNA was working at the OECD Development Cooperation Directorate in Paris, and subsequently in various development cooperation projects at the field level in India and Africa. Her research interests are in development economics, and more specifically in social and economic development in rural contexts, health impacts of environmental pollution, and development effects of access to energy.

PHILINE WIDMER has been working as a research assistant at the Chair of ROLAND HODLER since July 2015. She absolves the PhD program in Economics and Finance at the University of St. Gallen. She holds a Bachelor of Arts in Economics and a Master in Quantitative Economics and Finance (MIQEF) from the University of St. Gallen. She was awarded the LGT Capital Partners Prize for the best MIQEF degree in 2017. Her research interests include political economics and development economics.

NOÉMIE ZÜRLINDEN joined the SIAW as a research and teaching assistant at the chair of ROLAND HODLER in August 2015. Previously, she studied at the University of Bern, where she received a Master’s degree in Economics. She is enrolled in the PhD Program in Economics and Finance (PEF) at the University of St. Gallen and completed the Swiss Program for Beginning Doctoral Students in Economics at the Study Center Gerzensee in 2016. Her research interests lie in the field of development economics.

Ongoing Research Projects

The Political Economics of the Arab Spring

ROLAND HODLER continued his research on the different responses of the Arab dictators to the Arab Spring protests. He shows that their responses mainly depend on two factors: The country’s oil endowment and the dictator’s affiliation with the majority or a minority religious group. A revised
version of the manuscript was accepted for publication by Economic Inquiry in 2017 and is available on ROLAND HODLER’s webpage: www.rhodler.net

**Ethnic Favoritism around the Globe**

GIACOMO DE LUCA (University of York, UK), ROLAND HODLER, PAUL RASCHKY (Monash University, Australia), and MICHELE VALSECCHI (New Economic School, Russia) continued their research on ethnic favoritism. Empirical results show that the political leaders across the globe favor the regions where their co-ethnics live. New results further suggest that electoral concerns and ethnic parties may play a key role. A revised version of the manuscript was accepted for publication by the *Journal of Development Economics* in 2017 and is available on ROLAND HODLER’s webpage: www.rhodler.net

**Ethnic Geography: Measurement and Evidence**

The vast literature on the effects of a country’s ethnic diversity on its economic and institutional performance ignores ethnic geography, i.e., the distribution of individuals from different ethnic groups across space. ROLAND HODLER, MICHELE VALSECCHI (New Economic School, Russia) and ALBERTO VESPERONI (University of Klagenfurt, Austria) developed a new segregation index, which is based on spatial and ethnic distances between pairs of individuals and can be decomposed into meaningful components. They then computed the index of ethnic segregation and its components for around 150 countries from all over the world and show how these indices relate to economic and institutional performance. They found that countries in which more ethnically diverse individuals live further apart tend to be richer and better governed. A first version of the manuscript was published as CEPR Working Paper in 2017 and is available on ROLAND HODLER’s webpage: www.rhodler.net

**The Effect of Onshore Oil Spills on Infant Mortality in Nigeria**

ANNA BRÜDERLE and ROLAND HODLER studied the effects of onshore oil spills on infant mortality in Nigeria. They used geocoded data from the Nigerian Oil Spill Monitor and data from the Demographic and Health Surveys (DHS). They found that oil spills prior conception and within a distance of less than 10km double the neonatal mortality rate. A first version of the manuscript was published as a CESifo Working Paper in 2017 and is available on ROLAND HODLER’s webpage: www.rhodler.net

**Weather and Crime in South Africa**

ANNA BRÜDERLE, JÖRG PETERS (RWI Leibniz Institute for Economic Research, Germany) and GARETH ROBERTS (University of the Witwatersrand, South Africa) studied the effects of weather on crime in South Africa. They combined detailed crime statistics for South African police wards with gridded temperature, rainfall and drought data. The analysis finds (i) that higher temperatures tend to increase crime, in particular property crimes; and (ii) that drought during the growing season increases property crime in the months following the growing season. A first version of the manuscript was published as a Ruhr Economic Paper.

**The effect of horizontal inequality on trust in Africa**

The literature has shown that economic inequality and ethnolinguistic diversity can negatively affect trust. However, the joint impact of these two aspects of heterogeneity in a society is not well understood. ROLAND HODLER, ALBERTO VESPERONI (University of Klagenfurt), SORAWOOT SRISUMA (University of Surrey), and NOÉMIE ZURLINDEN have developed a new index of horizontal inequality, which is based on both economic and ethnolinguistic distances between individuals. Using survey data from the Afrobarometer, they have calculated the horizontal inequality index for 36 countries in Africa on different geographical levels and examined the effect of horizontal inequality on various dimensions of trust.
3.4. **Prof. Dr. JOHANNES BINSWANGER**

*Assistants:*

Dr. CAROLIN GÜSOW  
Dr. ESTHER KESSLER (since 01.09.)

*From left to right:*

Nicole Stürm, Prof. Dr. Johannes Binswanger, Dr. Carolin Güsow
Prof. Dr. JOHANNES BINSWANGER has held the Chair for “Business Economics and Public Policy” since September 2015. The creation of this chair was made possible thanks to generous financial support from Dr. JOSEF ACKERMANN, which we gratefully acknowledge. The most important mission of the Chair is to promote a deep understanding of economic and, in particular, macroeconomic phenomena in executive education. Both the benefactor and the University of St. Gallen are deeply convinced that this helps participants of our executive programs to see economic phenomena and their own managerial activities within a bigger picture. We believe that, ultimately, this helps them to make better decisions in practice. The Chair is further responsible for a new specialization in “Data Science Fundamentals” within the HSG Bachelor programs, as well as for programs in machine learning and artificial intelligence in executive education. In research, we analyze fundamental questions of macroeconomics. More information on the various activities is provided below.

The Team

Dr. CAROLIN GÜSSOW joined the team of Professor BINSWANGER at SIAW-HSG in January 2017. Her main responsibilities include co-teaching with Professor BINSWANGER in the executive education and supporting him in developing new teaching formats. Prior to joining the SIAW team, Ms. GÜSSOW worked at the Executive School for ten years under the direction of Professor Emeritus FRANZ JAEGGER. During that time the so-called Montagsforum (public lecture series held every Monday morning, see www.montagsforum.ch) was developed, which is supported by the University. Ms. GÜSSOW has been the managing director of Montagsforum since its foundation. In 2008, Ms. GÜSSOW successfully defended her doctoral thesis «The Economics of donations» and graduated with a Doctorate in Economics from the University of St. Gallen.

Dr. ESTHER KESSLER started to work at the SIAW in autumn 2017 a research associate. She holds a PhD in economics at the University of Nottingham with SIMON GÄCHTER, specializing in behavioral economics, which she completed in 2008. Afterwards she accepted a position as a researcher at the University College of London, investigating the Genetic Basis of Cooperation. Since 2012, she works as a senior lecturer at the School of Management and Law in the department of banking and finance at the Zurich University of Applied Sciences. Her research focuses on the internationalization of Chinese companies.

Teaching and Ongoing Research Projects

Innovations in executive education

In 2017, the Chair again taught the course “Economics for Managers”. The objective of this course is to provide fundamental insights into the relationships between macroeconomic variables. These insights should help participants to have the big picture in mind when making important business decisions. We view macroeconomics for business in analogy to the weather for mountaineers. For business decisions, it is important to take into account the “macroeconomic weather conditions”.

It is very important to us to teach macroeconomics in a way such that it is grounded in reality. For this, it is crucial that participants get into contact with macroeconomic data, even when the level of data literacy of some participants is not very developed. For this, we have made further substantial investments in our MacroViz application, which, on a tablet, quite literally allows participants to “touch” macroeconomic data and their relationships. The application lets participants dive deeply into the world of macroeconomic data even if they have a very limited knowledge of statistics. The current version of the application can be accessed at http://macroviz.azurewebsites.net.
In 2017, we also taught the course “Machine Learning and Artificial Intelligence – Impact on Business” in the HSG MBA program. This is the first course on this topic within one of the big HSG executive programs. The interest in this course was very high.

**Innovations in undergraduate teaching**

The Chair is responsible for a new specialization in HSG Bachelor programs in “Data Science Fundamentals”. This program enables students to get a fundamental understanding of data science (programming, statistics, machine learning, artificial intelligence). It also enables them to take a proactive role in data-driven projects after their graduation. The full program is offered for the first time in fall 2018. The core of this program is a two-week workshop in programming and machine learning that takes place during the fall break. We offered this course as a pilot already in fall 2017 with 35 participants. Students’ feedback was extraordinarily positive.

**Research**

Our most important project in research concerns the fundamentals of macroeconomics. In particular, we analyze how to model and to analyze a macroeconomy that is characterized by “radical” uncertainty.
Assistant Prof. Dr. CHRISTINE BENESCH

CHRISTINE BENESCH has been an assistant professor at the SIAW since 2011. Previously, she did her PhD at the University of Zurich and spent a year as a visiting research fellow at the Harvard Kennedy School. Her research interests are in the political economy of information and media. She analyses empirically how media coverage and changes in access to information fueled by technological changes affect the behavior of voters and politicians. CHRISTINE BENESCH is engaged in teaching at the Assessment level, where she teaches Macroeconomics I together with MONIKA BUTLER, at the Bachelor level with a course in Personnel Economics and at the Master level with an interdisciplinary context studies course on Media between Economics and Culture (together with VINCENT KAUFMANN).

Ongoing research projects

The Effects of Media Reports on Worries about Immigration
In this project, CHRISTINE BENESCH (together with SIMON LORETZ at IHS Wien, DAVID STADELMANN at University Bayreuth and TOBIAS THOMAS at EcoAustria) analyzes the question, how media content affects political attitudes. Specifically, we connect detailed data on reports about immigration issues in the German media with survey data on political attitudes – specifically to what extent the respondents are worried about immigration – from the German Socio-Economic Panel (GSOEP). Since we know the exact dates in both data sets, we are able to analyze how media reports in the days prior to the survey affect answers of the respondents. A larger number and share of media reports about immigration issues are thereby associated with more worries of the respondents. However, it is not entirely clear whether the media causally affect worries about immigration or whether other factors (e.g. actual immigration) affect, both, media reports and worries of the population. Therefore, in a further step, we analyze German media reports due to referendums about immigration issues in Switzerland. The dates of Swiss referendums are exogenous from the point of view of German media and create unexpected news in Germany that is not caused by changes in issue salience. We hence use the availability of newsworthy material from Swiss referendums as an instrument for the coverage of immigration in German media. This analysis shows similar results and supports the notion that the amount of media coverage affects the immigration worries of the population.

Online Information and Voting
Together with MARK SCHELKER (University of Fribourg), LUKAS SCHMID and RINO HEIM (both University of Lucerne), CHRISTINE BENESCH continued to work on a project about the introduction of the online voting advice application Smartvote during cantonal parliamentary elections. In order to analyze the causal effects of Smartvote, we use data on the availability of Smartvote in cantonal elections and compare cantons with and without Smartvote before and after its introduction in a difference-in-difference framework. First results show that the introduction of Smartvote has no effect on turnout but is associated with higher vote shares of the smaller parties (and hence large parties loose voters). In a further step, our goal is to better understand these results and analyze in detail the changes in voter behavior. For that purpose, we need detailed data on vote splitting and election results. Because detailed election statistics at cantonal level do not yet exist, in 2017, we continued to hand-collect and process these data. The Swiss National Science Foundation (SNF) supports the project with a research grant (as one of three sub-projects of LUKAS SCHMID and MARK SCHELKER).
3.6 Assistant Prof. Dr. Ulrich Matter

Ulrich Matter has been an assistant professor at SIAW since 2017. He received his PhD from the University of Basel in 2015 and worked as PostDoc and Lecturer at the University of Basel and was a frequent guest researcher at the Cabdyp Complexity Centre, Said Business School, University of Oxford. During the academic year 2016/2017, he was a Visiting Researcher at the Berkman Klein Center for Internet & Society at Harvard University. Ulrich Matter’s research interests are at the intersections of political economics, media economics, applied econometrics, and computational social science. A common theme of his research is the question of how small and well-organized (and often well-financed) groups of individuals strive for (and succeed in) shaping and exploiting politico-economic structures for their own benefit – at the cost of society at large.

Ongoing Research Projects

Uncovering Vote Trading Through Networks and Computation

Together with Omar Guerrerro (University College London and Alan Turing Institute) Ulrich Matter is investigating a novel empirical approach to uncovering vote trading in legislative assemblies. Vote trading (or ‘logrolling’) is a cornerstone of positive political-economic analysis of legislative processes. It has been discussed intensely since the 1960s, but has predominantly been analyzed in a game-theoretical framework and not based on statistical analysis. Until today, we know only very little about vote trading in the real world because politicians have strong incentives to keep such deals secret from the public (and thus from the researcher). Accordingly, it is very challenging to measure or uncover the prevalence of vote trading in voting data. The objective of this research project is to develop an empirical methodology to measure/test for the prevalence of vote trading in voting data. The new approach is based on insights from network science and makes use of computationally intensive simulation procedures that allow it to be applied to large voting data sets. First promising insights from this project have recently been published in a Said Business School Research Paper. The paper demonstrates how the new method performs in a simulation study (where the prevalence of vote trading in the data is fully controlled), as well as how the method can be practically applied in the context of four decades of roll call voting in the US Congress.

The method will be applied in three spin-off projects:

- Vote trading in the US Senate (based on data about the industry structure of US states and the related incentives of Senators to arrange vote trading coalitions in order to subsidize the main industries of their state). Joint project with Omar Guerrerro (University College London and Alan Turing Institute) and Alejandra Salazar (Carnegie Mellon University).
- Vote trading in the UN General Assembly. Joint project with Omar Guerrerro (University College London and Alan Turing Institute).
- Vote trading in the US Supreme Court. Joint project with Omar Guerrerro (University College London and Alan Turing Institute) and Dong Nguyen (University of Edinburgh and Alan Turing Institute).

The latter two projects will be supported with a grant from the Alan Turing institute. The grant covers the hiring of two Alan Turing Institute Summer Interns who will be supervised by Ulrich Matter, Omar Guerrerro, and Dong Nguyen.
Political Economy of Internet Governance and Special Interest Groups

In this project, Ulrich Matter investigates jointly with Alois Stutzer (University of Basel) how moneyed interests influence the law-making process in the realm of Internet Governance. The study focuses on the highly relevant US SOPA/PIPA bills of 2011. These bills were intended to substantially increase the protection of intellectual property online, partly based on draconian punishments such as the ban of websites linking to copyright infringement materials. While the proposed law was supported by the music and motion picture industries, it was heavily opposed by the tech industry as well as Internet activists and civic tech NGOs. Apart from the highly relevant economic contents, the two bills offer a very interesting case in point to better understand the relevance of moneyed interests in the political process. The general public was largely not aware of these bills while they were moved forward in Congress. This, however, changed suddenly with a large online protest (the so-called ‘Internet Blackout’) orchestrated by Internet activists and several major websites in January 2012. Wikipedia and hundreds of other large and small websites stopped their services during one day either entirely or partly in protest against the bills. The unanticipated large increase in public attention due to the very successful online protest is being exploited in this research project as a quasi-experiment in order to investigate how exchange relationships between industries and politicians (via campaign finance donations) are affected by public attention. The results of this research project show quite clearly that strong (moneyed) ties between US Members of Congress and the Industries potentially affected by the SOPA/PIPA bills are strong predictors of the Members of Congress’ positions on these bills as long as public attention on the issue is low. However, this statistical relationship evaporates almost entirely due to the stark increase in public attention right after the Internet Blackout. In a follow-up study, jointly with Alois Stutzer (University of Basel) and Patrick Balles (University of Basel), the effect of Attention on the role that moneyed interests play in legislator’s positions is generalized and further studied in a broader context. The results of both of these research projects suggest that legislators choose positions on secondary policy issues to cater to moneyed interests, whereas positions on primary policy issues are driven by electoral support.