

# Political Economy Workshop on Analytical Modelling Approaches to Understanding Democracy

23-25 August 2023

Organised by the Radboud University Centre for Analytical Modelling

(RUCAM)



**Radboud University**

*Nijmegen, the Netherlands*



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Lecture slides (in due time) and full papers by presenters can be found here:

 [https://radbouduniversiteit-my.sharepoint.com/:f:/r/personal/daniel\\_waters\\_ru\\_nl/Documents/RUCAM/Submissions%20for%20the%20RUCAM%20Political%20Economy%20Workshop?csf=1&web=1&e=dsJ1v5](https://radbouduniversiteit-my.sharepoint.com/:f:/r/personal/daniel_waters_ru_nl/Documents/RUCAM/Submissions%20for%20the%20RUCAM%20Political%20Economy%20Workshop?csf=1&web=1&e=dsJ1v5)

If you have trouble finding what you want, please approach the lecturers or presenters directly (or send an email to [xue.wang@ru.nl](mailto:xue.wang@ru.nl) or [niek.meijering@ru.nl](mailto:niek.meijering@ru.nl) ).

## PROGRAM OVERVIEW

Lectures 1-6 and Sessions 1-9 take place in room EOS 01.520

	<b>Wednesday, August 23, 2023</b>
8:00 – 8:30	Registration (desk in lobby)
8:30 – 9:00	Welcome and Introduction (room: EOS 01.520)
9:00 – 10:30	<b>Lecture 1 by Stan Winer</b>
	Break
11:10 – 12:40	<b>Lecture 2 by Stan Winer</b>
12:45 – 13:15	<b>Session 1: Perception of Globalisation</b> (chair: Xue Wang) [30 min. only] Presentation 1 (Daniel Stähr, emp.)
	Lunch break (Refter)
14:30 – 16:00	<b>Session 2: Opportunistic Politicians</b> (chair: Frank Bohn) Presentations 2 (Guilio Piccirilli) and 3 (Vladimir Novák)
	Break
16:30 – 18:00	<b>Session 3: Traps</b> (chair: Atin Basuchudhary) Presentations 4 (Xenia Frei) and 5 (Otto Swank)
18:30 – 20:00	<b>Panel on research strategies in political economy including political competition and public policy</b> (The Yard, Sports Centre) with Stan Winer and Otto Swank - with drinks and dinner [Nasi Goreng]

<b>Thursday, August 24, 2023</b>	
9:00 – 10:30	<b>Lecture 3 by Stan Winer</b>
	Break
11:10 – 12:40	<b>Lecture 4 by Otto Swank</b>
12:45 – 13:15	<b>Session 4: Patents</b> (chair: <b>Ivana Tomankova</b> ) [30 min. only] Presentation 6 (Nihan Akhan, emp.)
	Lunch break (Refter)
14:30 – 16:00	<b>Session 5: EMU and Africa</b> (chair: <b>Giulio Piccirilli</b> ) Presentations 7 (Lamar Crombach) and 8 (Tomohito Okabe)
	Break
16:30 – 18:00	<b>Session 6: Civil Society and Dictatorship</b> (chair: <b>Frank Bohn</b> ) [per paper 30 min. only] Presentations 9 (Sebastian Schumann, emp.) and 10 (Vasyl Kwartiuk, emp.) and 11 (Konstantinos Kontos, emp.)
19:15 – 23:00	<b>Cooking Workshop</b> (Franseplaats 1, Nijmegen) [ <a href="https://kookstudiospijs.nl">https://kookstudiospijs.nl</a> ]

<b>Friday, August 25, 2023</b>	
9:00 – 10:30	<b>Lecture 5 by Otto Swank</b>
	Break
11:10 – 12:40	<b>Lecture 6 by Otto Swank</b>
12:45 – 13:15	<b>Session 7: Market Power</b> (chair: <b>Lamar Crombach</b> ) [30 min. only] Presentation 12 (Seba Basihos; emp.)
	Lunch break (Refter)
14:30 – 16:00	<b>Session 8: Opportunistic Incumbents</b> (chair: <b>Frank Bohn</b> ) Presentations 13 (Hamzeh Arabzadeh) and 14 (Konstantinos Theoch.)
	Break
16:30 – 18:00	<b>Session 9: Ethnicity, Trust, Insurgency</b> (chair: <b>Frank Bohn</b> ) [30 min. only] Presentations 15 (Xue Wang) and 16 (Ivana Tomankova) and 17 (Atin Basuchhary)
19:00 – 21:00	<b>Dinner</b> (Café Le Figaro, Waalkade 19, Nijmegen, pay yourself) [ <a href="http://cafelefigaro.nl/">http://cafelefigaro.nl/</a> ] <b>Best Paper Award</b>

## Useful Information

**Venue:** Elinor Ostrom Building, Heyendaalseweg 141, 6525AJ Nijmegen, **EOS N 01.520**.

**Contact:** [rucam@ru.nl](mailto:rucam@ru.nl), [niek.meijering@ru.nl](mailto:niek.meijering@ru.nl), [xue.wang@ru.nl](mailto:xue.wang@ru.nl).

**Breaks:** We will have small rolls and fruit available for the morning and the afternoon breaks.

**Lunches:** Vouchers will be provided for the university restaurant, 'The Rafter', for the value of €8. This should be sufficient for a meal and drink of your choosing.

### Workshop rules:

1. We expect workshop participants to be present at all sessions. This is important for the graduate teaching because we would like to give as many people as possible the opportunity to benefit from our experts. This is also important because we want you all to benefit from comments not only by the experts, but also by your colleagues.

Please do not bring laptops and other electronic devices for checking your emails or WhatsApp during presentations or for working on something else. Please focus on the presentations.

2. Note that we also expect you to prepare a short PP presentation with comments on somebody else's paper (max. 5 min.). We'll try to match discussants and presenters of empirical papers as well as those of theoretical papers. In any case, please make an effort to try to give the presenter of the paper you are discussing substantive feedback. Only summarise the paper, if you think it was not clear. Focus on a few important issues. Smaller points can be sent by email. Refrain from making general statements like how much you enjoyed reading the paper, etc.
3. Presentation slots: (adherence to the time limit will be strictly enforced)
  - a. 30 min. for empirical and not so complicated theoretical papers:
    - i. PP or PDF presentation: 15-20 min. (focus on your key message; do not give an extensive literature review)
    - ii. Discussant's Comment: 5 min.
    - iii. General Discussion: 5-10 min.
  - b. 45 min. for analytical theory papers:
    - i. PP or PDF presentation: 25-30 min. (still focus on your key message; do not give an extensive literature review; use the additional 10 min. to explain the theory in depth)
    - ii. Discussant's Comment: 5 min.
    - iii. General Discussion: 10-15 min.
4. To improve the quality of plenary discussions, please raise **both** hands (or interrupt/speak up), if you would like to add to the point that is just being discussed.

5. Please bring your presentation and discussion on a USB stick and upload it to the room laptop at least 15 min. before your session starts.
6. There may be programme changes. Please have your presentation and discussion of the assigned paper ready from the start of the workshop.
7. Please wear your badge not only on the first day, but at all times until the end of the workshop.
8. If you take pictures, we would appreciate it, if you could share them with us by sending them to Daniel Waters ([daniel.waters@ru.nl](mailto:daniel.waters@ru.nl)) for posting on the paper repository.
9. Please bring this booklet to the conference. We shall only provide updates.

# Overview Map



## How to get to the Radboud University?

### Train

Trains call at Nijmegen Central train station and Nijmegen Heyendaal train station. Heyendaal train station is within walking distance of the university.

### Bus

Direct busses run every five minutes during rush hour from Nijmegen Central train station to Radboud University. Bus 10 (Heyendaal Shuttle) calls at all bus stops. An OV chip card top-up machine is found near the main entrance of the University Library. Plan your journey via [www.ns.nl](http://www.ns.nl) or [www.9292.nl](http://www.9292.nl) (or use the corresponding phone apps).

### Bicycle

Radboud University has different indoor and outdoor bicycle parking facilities. These facilities are found in or near each building on campus.

### Car

Radboud University is indicated on the ANWB road signs on all access roads in Nijmegen.

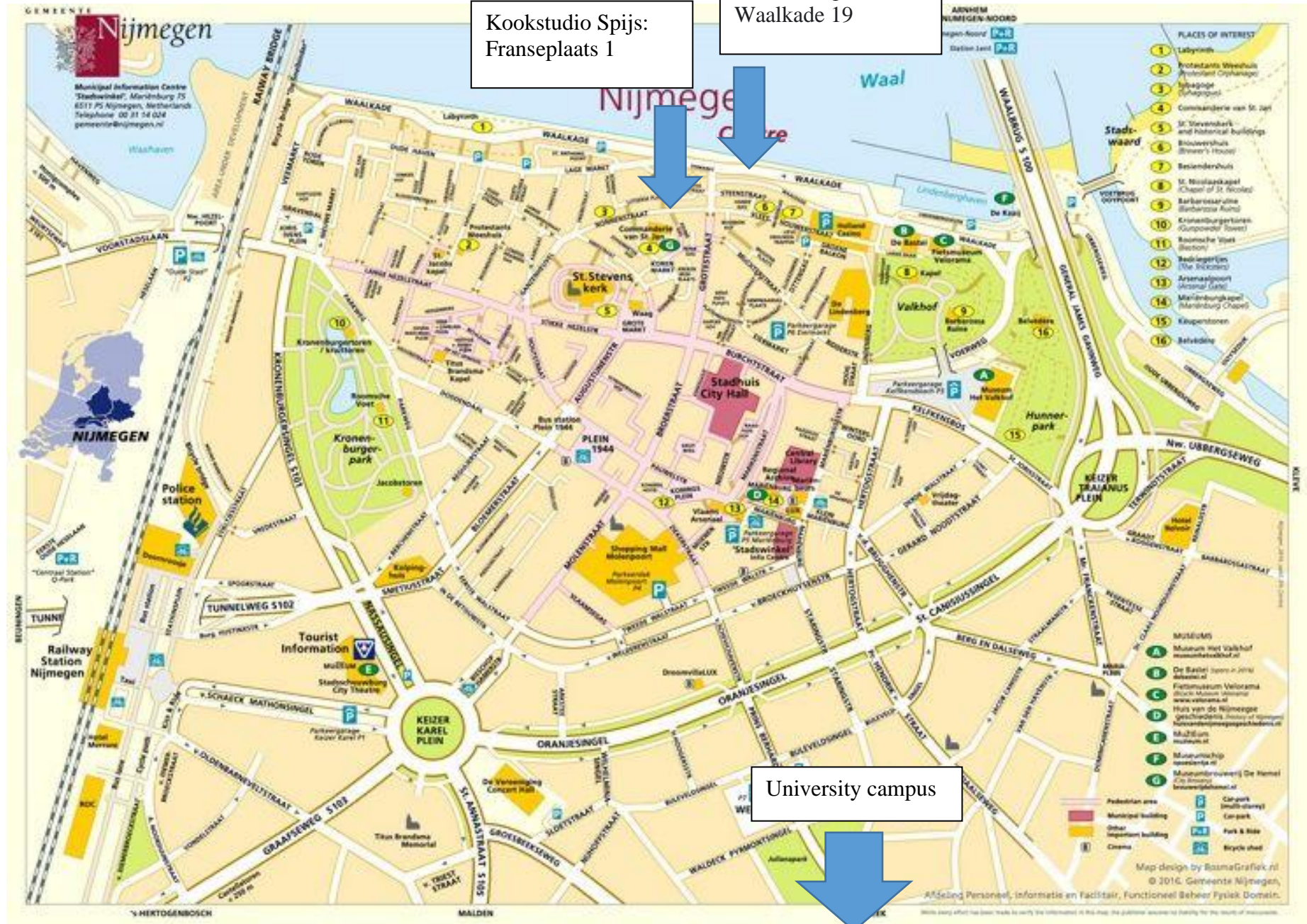
### Parking

Paid parking is available from Monday to Friday (except on official holidays) from 7.00 to 18.00 (€2 per hour, maximum €10 per day). Parking up to a half hour is free. You can charge your electric car at indoor parking Grotius, Gymnasium and Huygensgebouw and parking Berchmanianum.

### Opening hours and accessibility

Radboud University does not have uniform opening hours across the campus; they vary per building. Visit the website [www.ru.nl/english](http://www.ru.nl/english) for the most current information.

# City Map





## Campus Map: we are in building 15 (Elinor Ostrom building):



### Buildings

Aula	2
Berchmanium / Student Information Desk	1
Central Warehouse / Groundskeeper	39
Childcare Heyendaal	21
Comenius building A	3
Comenius building B	4
Elinor Ostrom building / Café C	15
Erasmus building / De Refter	12
Experience center	35
Experimental Garden	22
Forum / ICT Servicecentre	32
Goudsmit Pavilion (NMR)	26
Grothuis building / Het Gerecht	6
Guesthouse (SSH&)	17
Gymnasium / HAN	14
Gymnasium / Radboud Sports Centre / The Yard	13
HFML-FELIX	23
Huize Heyendaal	36
Huygens building / Giga-Bite	27
Lecture Hall Complex / Cultuurcafé	10
Linnaeus building	19
Logistics Centre	24
Maria Montessori building / Grand Café de Iris	8
Max Planck Institute (MPI)	5
Mercator I	29
Mercator II	28
Mercator III	18
Oud Heyendaal / Staff Association	41
Paviljoen / University Chaplaincy / Open University	40
Radboudumc / main entrance	37
Research building / NCMLS	33
Spinoza building	7
SSH& (office)	31
SSH& (student housing)	16
Study Center Medical Sciences	34
Tandheelkunde / Department of Occupational Health & Safety and Environmental Service (AMD) / Relief Fund	38
Thomas van Aquinostraat 1 / Global Lounge	9
Transitorium	25
Trigon / Donders Institute	30
University Business Centre (UBC)	20
University Library	11

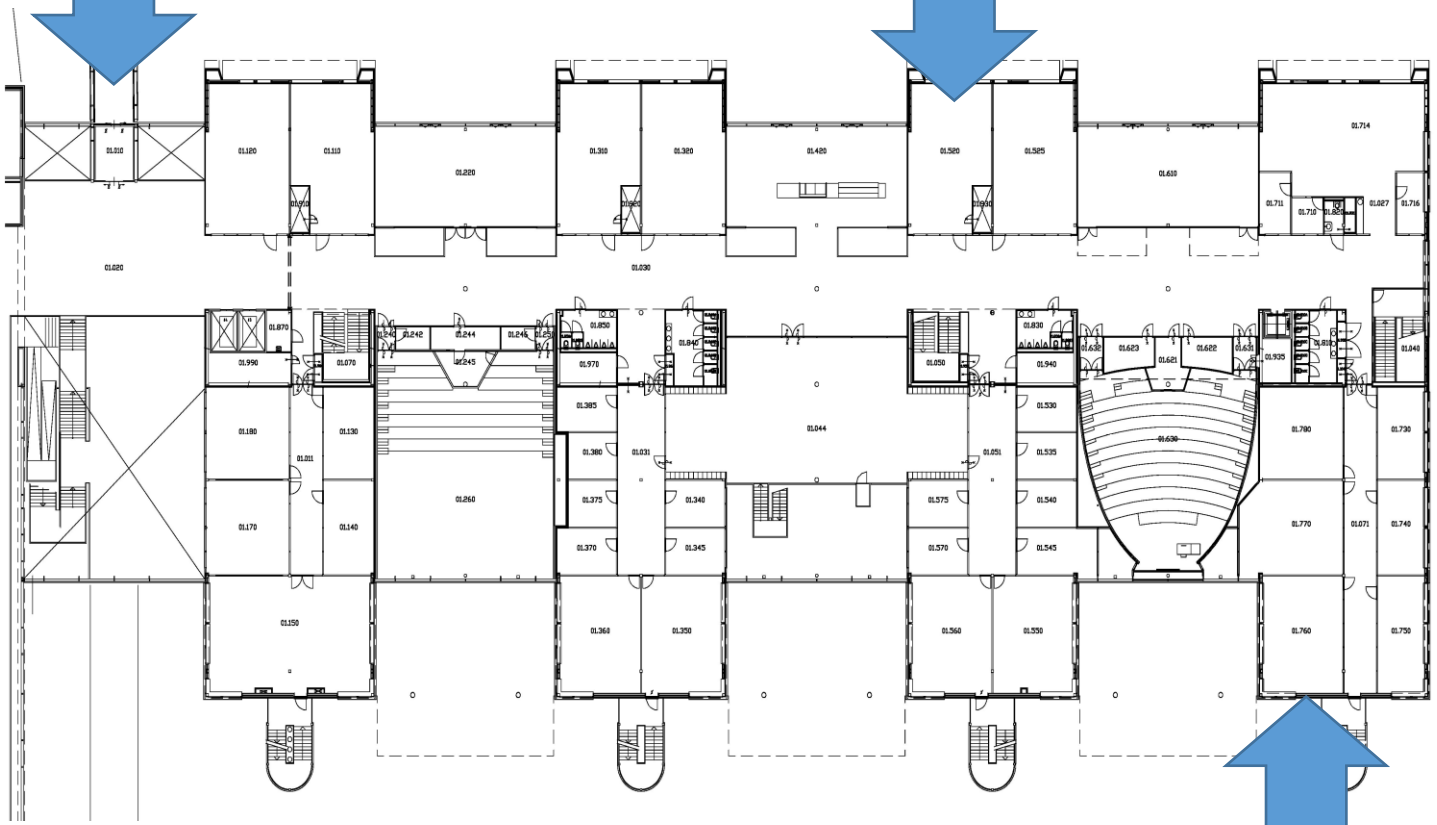
# Elinor Ostrom (EOS) Building: first floor

Entrance and registration desk in the lobby on the **ground** floor

Lecture room 01.520 on the **first** floor



The Panel Discussion on Wednesday evening takes place in The Yard which is in the Sports Centre on the left hand side of the EOS building (**first** floor)



Coffee break on the **second** floor

## **Overview Graduate Teaching**

### **Stan Winer: Political Competition and Public Economics (lecture 1-3)**

**(stan\_winer@carleton.ca)**

Key observation: Every public policy in a liberal democracy arises as the outcome of competition among political parties for support from a diverse electorate. This political process plays an important and sometimes dominant role in determining how economic resources are used in both the public and private sectors.

Main premise: A full understanding of either part of the polity must consider the relationship between political competition and resource use, whether our purpose is to understand actual policy choices, to judge the resulting outcomes from a normative perspective, or to formulate alternatives.

**Lecture 1: A neo-classical political economy approach to normative policy analysis**

**Lecture 2: Chaos and equilibrium**

Literature for lectures 1 and 2:

Enelow, J.M. and M. J. Hinich (1989). A general probabilistic spatial theory of elections. *Public Choice* 61(2): 101-114.

Persson, T., G. Roland and G. Tabellini (2007). Electoral rules and government spending in parliamentary democracies. *Quarterly Journal of Political Science* 2(2): 155-188.

**Lecture 3: What exactly is electoral competition, and how can it be measured?**

Dash, B. B., J.S. Ferris and S.L. Winer (2019). The measurement of electoral competition, with application to Indian States. *Electoral Studies* 62.

<https://www.sciencedirect.com/science/article/pii/S0261379418303986>

Winer, S.L., J.S. Ferris, B.B. Dash and P. Chakraborty (2021). Political competitiveness and the private-public structure of public expenditure: a model and empirics for the Indian states. *International Tax and Public Finance* 28: 1430-1471.

<https://link.springer.com/article/10.1007/s10797-020-09642-1>

## **Otto Swank: Political Competition and Policymaking (lectures 4-6)**

(swank@ese.eur.nl)

### **Lecture 4: Political Business Cycles (and Games of Incomplete Information):**

A well-known task of the government is to stabilize fluctuations in economic outcomes. Empirical studies show that governments create rather than stabilize cycles. We study why elections lead to cycles in economic outcomes and under which conditions these cycles improve social welfare.

Rogoff, K. (1990). Equilibrium Political Budget Cycles. *The American Economic Review* 80(1): 21-36.

Bohn, F. (2019). Political budget cycles, incumbency advantage, and propaganda. *Economics & Politics* 31(1): 43-70.

### **Lecture 5: Voting in Small Groups:**

Important decisions are often delegated to small committees. The rationale for committees is that two heads know more than one. Committees usually make decisions by voting. We examine voting in small groups in case members are laypeople, as in juries, and in case members are experts, as in monetary committees.

Feddersen, T. and W. Pesendorfer (1998). Convicting the innocent: The inferiority of unanimous jury verdicts under strategic voting. *American Political Science Review* 92(1) 23-35.

Visser, B. and O. H. Swank. (2007). On committees of experts. *The Quarterly Journal of Economics* 122(1) 337-372.

### **Lecture 6: Voting in Large Scale Elections:**

Elections play an essential role in many political-economic models. Recent empirical evidence shows that our understanding of why and how people vote is still limited. We study recent and new approaches to voting behavior in large-scale elections.

Feddersen, T., S. Gailmard and A. Sandroni (2009). Moral bias in large elections: Theory and experimental evidence. *American Political Science Review* 103(2) 175-192.

Harbaugh, W. T. (1996). If people vote because they like to, then why do so many of them lie? *Public Choice* 89(1) 63-76.

## Detailed structure:

### Lecture 1 (Winer): *A neo-classical political economy approach to normative public economics*

1. Overview of existing approaches to normative public economics
2. General problems of social planning in a liberal democracy
3. A neo-classical political economy approach to normative public economics: three steps paralleling the methodology of neo-classical welfare economics
4. Outline of the neo-classical normative approach:
  - Step 1* - Incorporating institutions and constraints associated with liberal democracy
  - Step 2* - A Representation Theorem (one approach – another in the second lecture)
    - Using probabilistic spatial voting
    - Some problems for a social planning of adopting a general equilibrium approach:
      - a) identifying inefficient allocations;
      - b) defining a second best;
      - c) coping with political feasibility and Schumpeterian political competition
  - Step 3* - Analyzing what can go wrong and why
    - Organizing the investigation by considering: voters vs. consumers; political parties vs. firms and elections vs. markets
    - Example of Step 3 for voters vs. consumers

### Lecture 2 (Winer): *Chaos and equilibrium*

1. Formal requirements for an equilibrium in pure strategies in a two-party electoral contest
2. The ever-present threat of chaos under majority rule, and some institutional mechanism that may attenuate this problem
  - Demonstration using CyberSenate (Joe Godfrey)
  - Some (partial?) solutions with deterministic voting
3. Probabilistic spatial voting: further exploration of formal conditions for equilibrium, and the trade-off between uncertainty and risk aversion.
4. Underlying chaos due to polarization and nonconcavity
5. Another example of the third step in the neo-classical political economy approach: the common pool problem
  - Diagrammatic analysis
  - Persson, Roland and Tabellini's 'direct' (analytical) approach instead of using a representation theorem
  - Institutional mechanisms for alleviating the problem
6. The nature of fiscal coercion and exchange-contractarianism (following Wicksell), and a comparison with neo-classical normative political economy and social planning.

**Lecture 3 (Winer): *What exactly is electoral competition and how can it be measured?***

1. Alternative views about the meaning and nature of political competition
2. Using probabilistic spatial voting to derive a measure of competitiveness
3. Computable indexes of electoral competitiveness (with some examples):
  - (i) Indexes of competitiveness as unpredictability:
    - In majoritarian systems
    - In PR systems
    - Allowing for asymmetry of safe seats in the legislature
    - Competitiveness as the incumbent's probability of loss
  - (ii) Indexes of contestability:
    - Contestability and entry: the Demsetz-Duverger perspective
    - The effective number of parties and T-partyness in the long run
    - Contestation indexes
4. Outstanding issues
5. Some studies of the consequences of competitiveness (if time)
  - The use of RD to study the incumbency effect in Canada
  - Competitiveness in the study of the privateness of public expenditure in Indian states

**Lecture 4 (Swank): Political Business Cycles (and Games of Incomplete Information):**

1. Why would rational voters reward politicians for undesired cycles (Rogoff)?
  - a. One purpose of election: selection.
  - b. Signaling games: two kinds of equilibria.
  - c. When are cycles good?
2. Alternative ways of creating cycles: propaganda (Bohn).

**Lecture 5 (Swank): Voting in Small Groups:**

1. Two heads know more than one: Condorcet's Jury Theorem.
2. One man, one vote?
3. The Jury model
  - a. The Voting Rule
  - b. Strategic voting
  - c. Deliberation
4. Committee decision making
  - a. Experts: reputation concerns
  - b. Speaking with one voice
  - c. Strategic voting

**Lecture 6 (Swank): Voting in Large Scale Elections:**

1. The Paradox of Voting
2. The Ethical Voter Model
3. Expressive voting: social image concerns
4. Turnout and voting: more social image concerns.

## **Presentation 1: Daniel Stähr**

**Title: The changing perception of globalization and its impact on trade  
– Evidence from the USA**

**Discussant: Nihan Akhan**

**Abstract:** Public opinion meets globalization with mixed feelings. Not only since the presidency of Donald Trump we know that the stories told about globalization in the media or during political campaigns can have a huge influence within the political landscape. These arguments are often used to push voters in one or the other direction. We treat this opinion as an economic narrative and estimate it based upon a sentiment analysis using information from a large data set of US newspapers. A Globalization Perception Index (GPI) covering the changing views on globalization within the society is constructed in a two-step approach. Furthermore, the impact of this perception of globalization index on US trade is analyzed in a Vector Autoregression Model. We can show that the GPI can explain fluctuations in US trade patterns.

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## **Presentation 2: Giulio Piccirilli**

**Title: The Fiscal Platforms of New and Established Parties**

**Discussant: Vladimir Novák**

**Abstract:** We model an electoral race in which two candidates make binding campaign announcements on fiscal measures. Candidates extract their administrative competence from different distributions and the extraction is observed only by some voters. In equilibrium, the announced measures are overly expansive with respect to the social optimum due to the temptation to manipulate the voters that do not observe candidate competence. The model predicts that new parties announce more expansive measures with respect to established parties. Since modern populist parties are also newcomers, the model offers an handle to explain the boldness of their fiscal pledges. The model also predicts that political incumbents are favoured with respect to challengers even if their competence prior doesn't first-order dominate the prior of the challenger.

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### **Presentation 3: Vladimir Novák**

**Title: Why Is Stability Bad for Voters?**

**Discussant: Giulio Piccirilli**

**Abstract:** Many political leaders promise stability during their election campaigns. Several explanations have been offered for the increased support for such politicians, but less is known about future development once they are in office. We develop a model with rationally inattentive voters and investigate how an office-seeking politician designs a political platform in the presence of an incumbent who offers a simple stability policy that preserves the status quo. We show that this policy, while not in the best interest of the electorate, creates negative externalities by encouraging the challenger to propose a more moderate platform, which is sub-optimal. Moreover, the model explains why and when the incumbent could benefit from and prefer the high uncertainty and high cost of information.

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### **Presentation 4: Xenia Frei**

**Title: The toothless tiger Strategic appointment to the Supreme Court**

**Discussant: Ivana Tomankova**

**Abstract:** The US Supreme Court makes policy with its rulings. Politicians therefore carefully consider the impact of a nominee on the state of the law, when filling an opening. Surprisingly moderate politicians appoint extreme judges to the supreme court. I explain why politicians appoint judges, who do not share, their political preferences in a theoretical model. I model a supreme court, whose verdicts result from peer effects and therefore depend on the preferences of all members of the bench. As recent empirical findings suggest. Appointment then depends not only on the policy preferences of the appointing politician, but also on the ideological positions of the sitting judges on the court. In my model it is possible for moderate politicians to achieve moderate court rulings by appointing extreme judges. When the court rules, the extreme judges are merely toothless tigers, as they seem dangerous to a politically levelled public, but cannot move the equilibrium ruling in the direction of their own ideological position. In contrary the presence of an extreme judge on the bench keeps the equilibrium ruling on the opposite side of the political landscape.

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## **Presentation 5: Otto Swank**

**Title: The political climate trap**

**Discussant: Hamzeh Arabzadeh**

**Abstract:** Due to taxes and subsidies, gasoline prices vary dramatically across countries. Externalities cannot fully account for this. We develop a simple political-economic model that shows that group interests, resulting from the composition of a country's car fleet, can explain differences in gasoline taxes even among countries with identical fundamentals. In the model, citizens' car ownership is endogenous, which can yield multiple equilibria. Our model demonstrates the possibility of a society in a political climate trap where a low gasoline tax reflects the views of a majority, but another majority would benefit from transitioning to a high-tax equilibrium with fewer emissions.

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## **Presentation 6: Nihan Akhan**

**Title: Patent ownership, trade and lobbying**

**Discussant: Daniel Stähr**

**Abstract:** This paper examines the participation of firms in lobbying on intellectual property rights when they are exposed to trade shocks. By using the data of publicly listed firms and firm level federal lobbying reports in the US, I first show that patent-owner firms dominate trade lobbying. Then, using the identification strategy of Autor et al. (2013), I establish a causal link between import penetration from China and lobbying on intellectual property rights. Findings suggest that firms increase their lobbying on intellectual property rights as a response to the import penetration from China both at the extensive and intensive margin. Results also highlight the heterogeneous impact on lobbying. Considering existing results on this subject, this paper provides a striking conclusion: Firms facing competition from China prefer lobbying over innovation.

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## **Presentation 7: Lamar Crombach**

**Title: The ‘Benefits’ of Being Small: Loose Fiscal Policy in the European Monetary Union**

**Discussant: Vasyl Kvartiuk**

**Abstract:** Independent central banks counteract a positive fiscal shock that would otherwise increase the inflation rate above target by raising interest rates. This threat reduces the government’s incentives to employ expansionary fiscal policies. We argue that this mechanism is weakened in a monetary union because the overarching central bank must account for the fiscal policies of all member countries. For the case of the European Monetary Union (EMU), we exploit exogenous variation in elections to find that the European Central Bank responds less to fiscal policy in smaller member states. Consequently, smaller EMU countries run larger deficits.

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## **Presentation 8: Tomohito Okabe**

**Title: How can we account for persistent economic stagnation and security unease in African nations?: A general equilibrium analysis**

**Discussant: Atin Basuchudhary**

**Abstract:** Many African countries have long endured low economic growth and persistent armed conflicts. Despite discourse of previous studies on potential channels impacting the politico-economic performance, the empirical findings lack consistency and remain controversial. Our study proposes a theoretical framework to systematically shed light on endogenous mechanisms leading to a distinct equilibrium in terms of growth and conflicts. Applying our calibrated model, we illustrate how we can identify key drivers that potentially stimulate growth and provoke political violence.

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## **Presentation 9: Sebastian Schuhmann**

**Title: Public goods provision and dictatorships**

**Discussant: Seda Basihos**

**Abstract:** As non-democratic governments have been predominant throughout history, still relatively little is known about their effect on the provision of public goods. As for democratic counterparts, dictatorships appear in different types that involve differences in the rulers' incentive structures. Wintrobe (2000, 1990) presents the theoretic framework for the distinction of different types of dictatorships. This paper provides an attempt to provide a discussion of theoretic arguments and additional empirical evidence on the differences between democracies and dictatorships as well as different subcategories of dictatorships with regards to public goods provision. Differences in incentive structures as well as institutional capacities may explain differences in the policies chosen for securing political power, mainly by means of two instruments, i.e. increasing citizens' loyalty via public good provision and using repression. The empirical analysis attempts exploits the regime type data provided by Bjørnskov and Rode (2020) and looks at three different public health outcome variables, i.e. life expectancy, immunization rates and infant mortality. To address endogeneity issues, the paper employs FE and system GMM. The results suggest that the regime types differ with regards to policy outcomes. Royal dictatorships seem to differ and perform slightly better than other dictatorship types. However, the results are not conclusive, and causality cannot be finally established.

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## **Presentation 10: Vasyl Kvartiuk**

**Title: Autocratic regime maintenance and phasing out energy subsidies for irrigation water in Iran**

**Discussant: Konstantinos Kontos**

**Abstract:** Phasing out subsidies may be especially difficult in competitive autocracies. A 2015 legal initiative on phasing out wasteful energy subsidies for ground-water in Iran was a success in every single sector except for agriculture. We argue that the regime's power-consolidation incentives backfired as it did not expect local elites to resist the reforms so fiercely. In particular, rural districts with regime-loyal population were overrepresented in the Iranian legislative body paving the way for powerful local elites to effectively resist phasing out energy subsidies. Using unique data on the Iranian MPs' voting behavior, we empirically show that powerful farmers may have influenced the MPs voting on subsidies retrenchment. Moreover, MPs appear to be more responsive to the needs of local elites in the districts with higher political competition.

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## **Presentation 11: Konstantinos Kontos**

**Title: The political process in developing countries: Civil society participation and income inequality**

**Discussant: Lamar Crombach**

**Abstract:** The concept of civil society participation pertains to the public sphere that exists between the private domain and the state, in which citizens organise themselves into groups to advance their collective interests and aspirations. These groups are commonly referred to as civil society organisations (CSOs), which encompass a diverse range of entities such as interest groups, labour unions, spiritual organisations that engage in civic or political activities, social movements, professional associations, charities, and other non-governmental organisations. Nonetheless, civil society participation appears to be relatively low in developing nations owing to resource constraints, significant economic and social challenges, and limited political liberties. Despite this, there is a dearth of knowledge on how civil society participation can impact income inequality. This study employs panel data for a sample of developing countries spanning the period from 1975 to 2019 to investigate the direct effect of civil society participation on income inequality. The findings reveal that higher levels of civil society participation are effective in reducing inequality over the short-, medium-, and long-term. These outcomes offer meaningful insights for policymakers operating in developing countries.

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## **Presentation 12: Seda Basihos**

**Title: (Market) Power is (Political) Power! The Pressure of Declining Competition on Democracy**

**Discussant: Sebastian Schuhmann**

**Abstract:** I study how the concentration of market power among a restricted set of corporates leads to a concentration of political power that ultimately undermines democracy. This type of mechanism has been a long discussion, not confirmed or rejected by any empirical evidence. My paper fills this gap by shedding light on two recent trends observed across the world: increasing aggregate markups and democratic backsliding. Using a panel of 80 countries over the period of 1990-2019, I provide evidence of a causally driven negative relationship between market power and democracy. The quantitative estimates reveal that one-quarter of the democratic decline can be attributed to the concentration of market power. The further findings suggest that the growing financial resources of high-markup firms enable them to amass substantial political influence, eventually challenging broader democratic principles.

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## **Presentation 13: Hamzeh Arabzadeh**

**Title: Wage bargaining structure and budget deficits: a policy game approach**

**Discussant: Otto Swank**

**Abstract:** This paper presents a policy game approach that explains the empirically observed negative relationship between budget deficits and the centralization of wage bargaining in OECD countries. The model includes three agents: (i) an opportunistic government that determines public deficits to maximize the discounted utility of a median voter, (ii) households who select their sectoral affiliation, and (iii) unions that engage in independent Nash bargaining to negotiate real wages for their members with firms. In this model, the opportunistic government has an incentive to run a budget deficit to favor the median voter, who is affiliated with non-tradable sectors. This connection is based on the impact of debt-financed public spending on relative prices and, consequently, on relative wages between non-tradable and tradable sectors. Wage centralization reduces the political incentive for opportunistic governments by decreasing the responsiveness of sectoral wages to sectoral prices, thereby pushing down budget deficits towards a socially more optimal level.

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## **Presentation 14: Konstantinos Theocharopoulos**

**Title: A Theory of Favor Exchange between Politicians and Rich Media Owners**

**Discussant: Xue Wang**

**Abstract:** This paper presents a formal model of a favor exchange system between the president and the rich media owners, who are minority in the society. The president offers favors like bribes, state advertising revenues, and low tax rate to the rich media owners and takes in return skewed media coverage that increases his popularity and assists him in winning the elections. A system like this emerges, on the initiative of the president, when his popularity is low to ensure his political survival. A forward-looking popular president refrains from this decision, since the favor exchange system would constitute a powerful tool in the hands of his political opponent in future elections, when the former will hold the opposition role.

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## **Presentation 15: Xue Wang**

**Title: Pitfalls of Development – The Role of Ethnic Voting**

**Discussant: Konstantinos Theocharopoulos**

**Abstract:** This paper analyses ethnic voting behaviour and its effect on economic development. In a modified political budget cycle model, the economy is composed of two social classes (middle-class and peasant) and two ethnicities. The incumbent tries to stay in power by using government revenue for public goods for peasants from her own ethnicity and investment spending for the middle class. We find, that, in election years, higher ego rents are good for development. Winning probability and development are conflicting targets. When winning becomes easier, the incumbent is lacking the motivation to invest and develop the economy. The size of ethnic group change within the same social class will not lead to development. But the population changing from peasant to middle-class may lead to development.

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## **Presentation 16: Ivana Tomankova**

**Title: Trust-Constrained Politician's Optimization**

**Discussant: Xenia Frei**

**Abstract:** This paper applies constrained utility maximization to the decision-making of politicians in democratic societies. A representative politician is pictured as spending citizens' trust on two goods, self-enrichment and (expected) votes. The resulting model provides for graphically analyzing changes in electoral rules, voters' attitudes, and the transparency of politicians' behaviours. What sets this politician optimization model apart from the existing models of politician-voter interactions is its simplicity and the scarcity of necessary assumptions coupled with the inclusion of social preferences (trust). Where political accountability models make assumptions, the politician's optimization model employs variables that take different values according to the situation at hand: the electorate may be poorly or well informed, even biased, and its preferences may be homogeneous or heterogeneous. The model is thus widely applicable and helpful for understanding even those electoral outcomes which models of elections with rational voters cannot accommodate.

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## **Presentation 17: Atin Basuchudhary**

**Title: Modeling Insurgency Dynamics: An Analytical Narrative of Political Competition in Nigeria**

**Discussant: Tomohito Okabe**

**Abstract:** We use an evolutionary game-theoretic approach to model how two populations, a rebel population, and a state elite population, might contextually adapt their conflict strategies as they compete for power in a neo patrimonial (patron-client) political economy. This approach explicitly assumes that individuals are not hyper-rational utility maximizers. Rather agents are boundedly rational. We then illustrate these processes using the two Nigerian conflicts, in the delta and with Boko Haram. Our model suggests that the availability and distribution of rents is a critical determinant in the fundamental nature of civil conflict and can explain how the nature of conflict can diverge within the same country. Two consequences emerge. First, our model suggests that in the absence of extractable rents political competition is more likely to lead to outright civil war – particularly in a neo patrimonial political economy setting. Second, our results suggest that country-level analyses of the causes of civil conflict is problematic to the extent that political competition over rents may take different forms in different parts of a country.

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### **A Final Word:**

I would already like to thank the main helper for this conference, Daniel Waters, who cannot be present himself. I would also like to thank Xue Wang, Niek Meijering and Koert Rang for their big support.

I know that the two lecturers, Prof. Winer and Prof. Swank, have put a lot of work into preparing the lectures. Thank you so much.

Enjoy the workshop.

Frank Bohn

Conference organiser