

The Demographics of Expropriation Risk

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and

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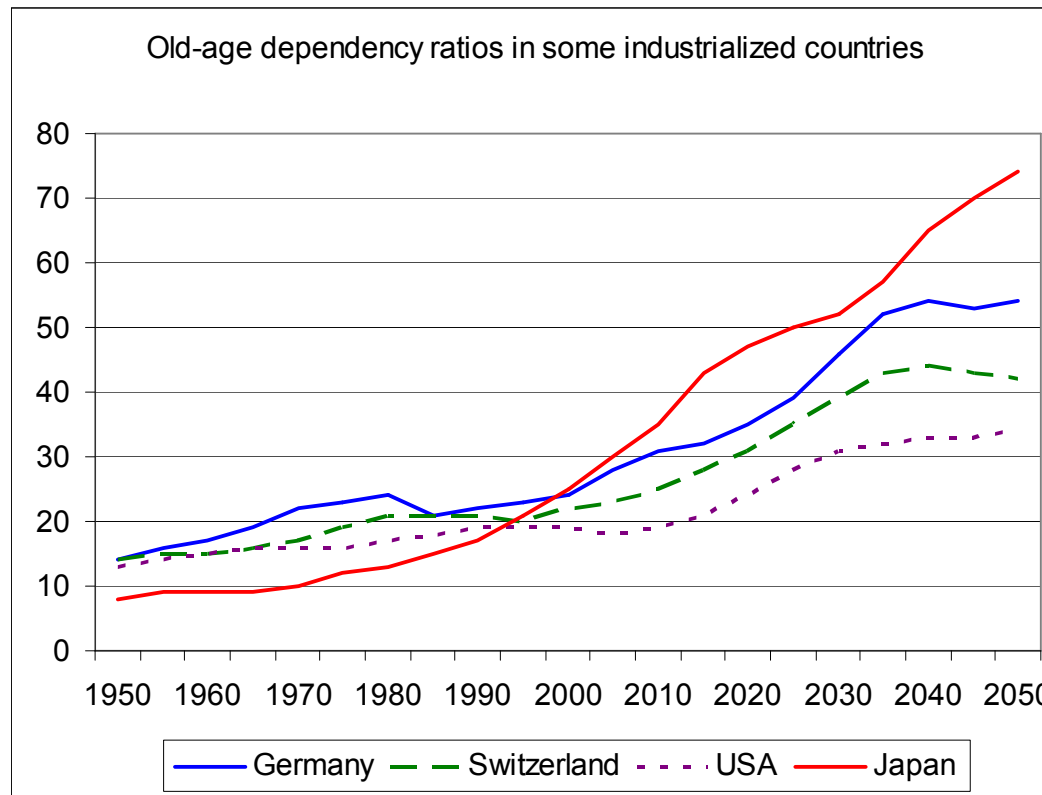
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Overview

- **Motivation**
- **Contribution and preview**
- **Model**
 - Foreign investment in a small open economy with secure property rights
 - The constrained level of foreign investment with endogenous expropriation
 - Population growth and the risk of expropriation
- **Summary**

Motivation

- **Observation 1:** Rapid aging of industrialized societies



Old-age dependency ratio

=

Persons aged above 64 relative to persons aged 15-64.

Source: United Nations

Motivation

- **Observation 1:** Rapid aging of industrialized societies (contd.)

- Potential consequence: „**Asset market meltdown**“

(Poterba 2001, Abel 2001, Büttler and Harms 2003)

- **Endowment economy:** high **asset supply** of dissaving „baby-boomers“ vs. low **asset demand** by subsequent generations.

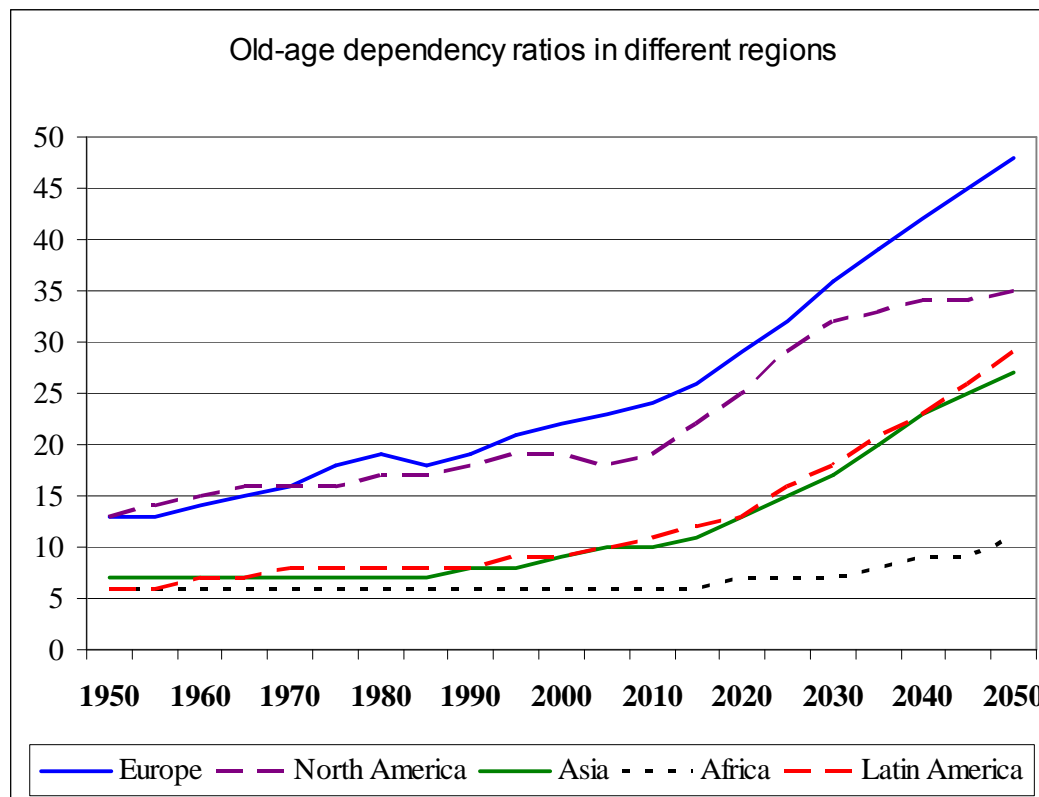
- falling asset prices

- **Production economy:** High **capital-labor ratio**

- lower return to capital

Motivation

- **Observation 2:** Projected demographic evolution differs across world regions



Old-age dependency ratio

=

Persons aged above 64 relative to persons aged 15-64.

Source: United Nations

Motivation

- **Observation 2:** Projected demographic evolution differs across regions (contd.)

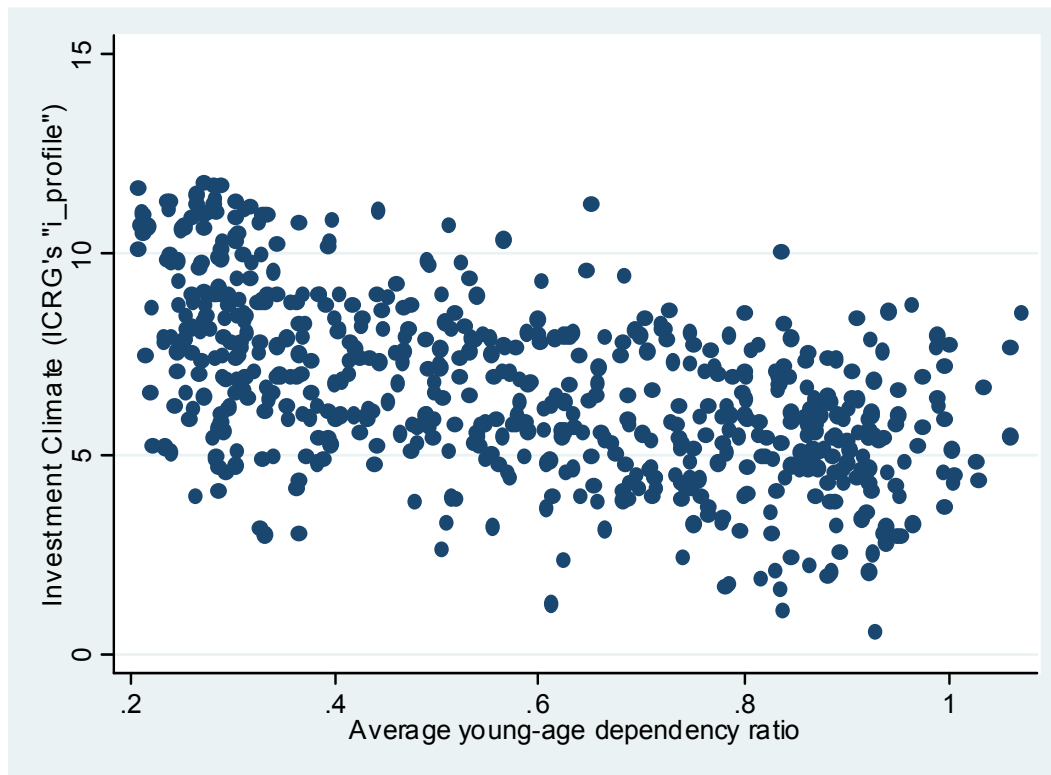
- Possibility: **Demography-induced international capital flows**

(Reisen 2000, Brooks 2003, IMF 2004, Börsch-Supan et al. 2006)

„... global adjustment to differences in the pace of population aging will take place through the movement of goods, **capital** and labour.“ (IMF 2004:158)

Motivation

- **Observation 3:** Correlation between demographic structure and „investment profile“*



*Higher value of **investment profile**
=
more favorable business climate,
lower risk of expropriation etc.

Young-age dependency ratio
=
Persons aged below 15 relative to persons aged 15-64.

Sources: United Nations, Political Risk Services

Motivation

- **Observation 3:** Correlation between demographic structure and „investment profile“
 - Consequence: **No/little capital flows from (old) rich to (young) poor countries („Lucas-paradox“)**

(Lucas 1990, Alfaro et al., 2008)

„We find that variables such as **government stability**, **bureaucratic quality**, **non-corruption** and **law and order** play a particular important role in explaining the lack of flows to poor countries.“ (Alfaro et al. 2008:365)

Contribution

- **Observations:**

- **Asymmetric demographic evolution** offers ample scope for international investment.

But:

- „Young societies“ in developing countries perceived to have less favorable investment climate
- implicit **barriers to international investment.**

Contribution

- **Our question:**

Does a demographic structure that is tilted towards the young **cause** higher expropriation risk...

...thus **preventing** (demography-induced) capital inflows?

- **Needed:**

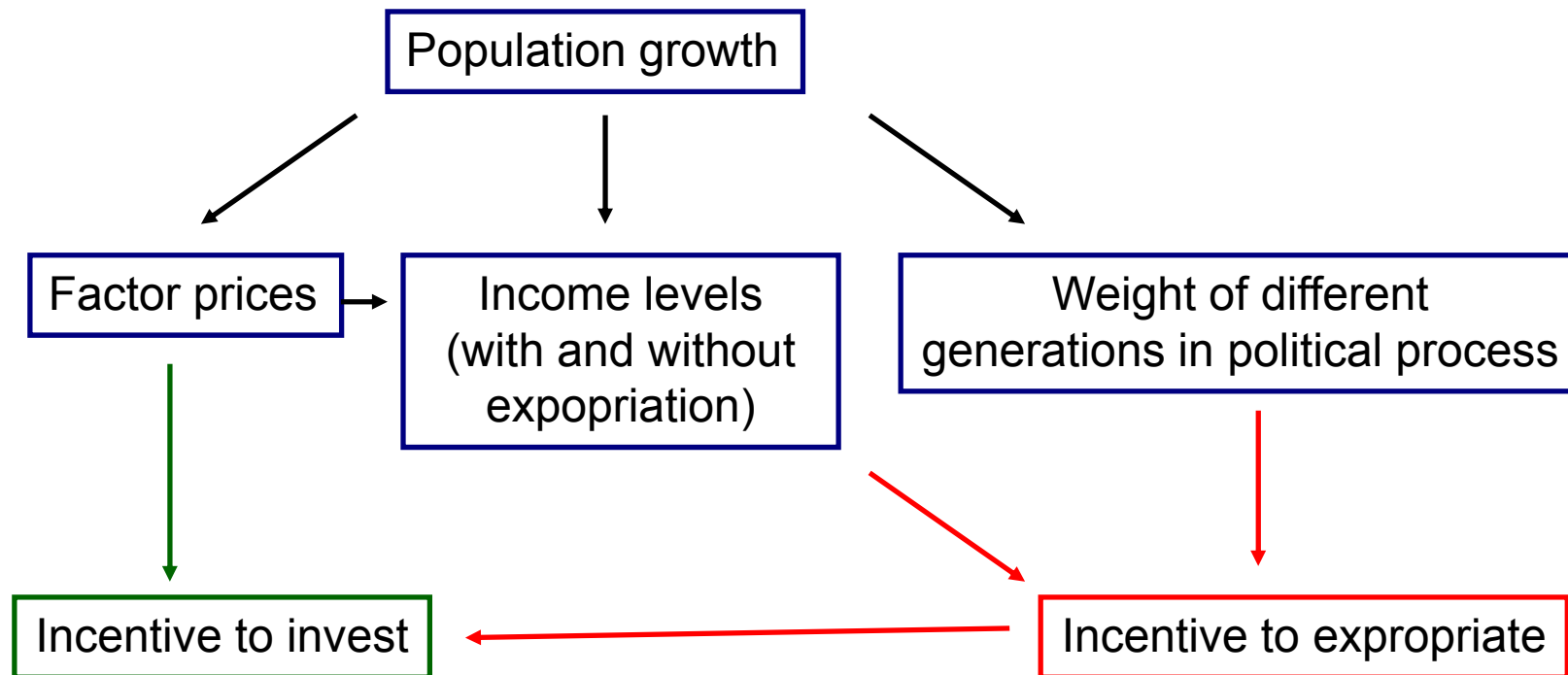
A better understanding of the „demographics of expropriation risk“

Contribution

- **Standard approach** to model **time inconsistency problem** in international investment (default risk, risk of expropriation):
 - Host country government maximizing **representative agent's** utility.
- **Our approach:**
 - **Political economy:** incentive to expropriate foreign investors reflects conflicting **distributional interests** in host country
 - **Different generations** potentially having conflicting distributional interests (factor ownership, time horizon etc.)

Contribution

- Demographic structure and foreign investment



Contribution

- **Framework:**
 - Overlapping generations model of small open economy with **foreign direct investment (FDI)**.
 - Foreign firms characterized by higher **total factor productivity (TFP)** than domestic firms.
 - In case of (outright) **expropriation**: Foreign firms withdraw their expertise → drop in TFP.
 - **Political economy**: Government considering potentially conflicting interests of different generations

Contribution

- **Results – A Preview:**

- The volume of FDI is **constrained** by the host country government's incentive to expropriate.
- The constrained volume of FDI is positive ...
 - but only if foreign firms' **productivity advantage** is sufficiently high.
- Higher population growth *raises* the constrained volume of FDI ...
 - ... but only if the political system is **sufficiently democratic**.

The Model

- **The domestic economy („South“):**
 - Demographic structure: children / young workers / old workers.
 - Number of young workers in period t (born in period $t-1$): N_t
 - Lifetime utility of young workers:

$$U_t^y = (1+n) \ln c_t^y + \beta \ln c_{t+1}^o$$

Note: weight of young-age utility increasing in number of descendants with $N_{t+1} / N_t = 1+n$ (assumed to be constant).

The Model

- **The domestic economy („South“) (contd.):**

- **Consumption** of young and old worker:

$$c_t^y = w_t - s_t$$

$$c_{t+1}^o = w_{t+1} + r_{t+1} s_t$$

- Assumptions:

- No borrowing/lending (r = return on investment)
- Rate of depreciation = 100 %
- Perfect foresight

The Model

- The domestic economy („South“) (contd.):

- Production function of representative domestic firm:

$$Y_t^H = A^H (K_t^H)^\alpha (L_t^H)^{1-\alpha}$$

- Under **autarky**: Aggregate labor supply in domestic sector:

$$L_t^H = N_{t-1} + N_t$$

← Entire working population active in domestic sector

- Capital-labour ratio in domestic sector under **autarky** :

$$k_t^H \equiv \frac{K_t^H}{L_t^H} = \frac{K_t^H}{N_{t-1} + N_t}$$

The Model

- The domestic economy („South“) (contd.):
 - **Evolution** of the capital stock per worker under autarky:

$$k_{t+1}^H = \lambda (k_t^H)^\alpha$$

$$\text{with } \lambda = \left[\frac{\alpha(1-\alpha)\beta A}{\alpha(2+n)(1+n+\beta) + (1+n)(1-\alpha)} \right]$$

- Capital stock per worker converges towards (Solow/Swan-type) **steady state** which *decreases* in population growth rate n .

The Model

- **North-South FDI with secure property rights**
 - Assumptions:
 - At the end of period t : Elimination of **formal barriers to international investment**.
 - All international investment = **FDI** (no borrowing and lending)
 - Foreign investors have access to **alternative investment** with gross return R^* .
 - Domestic economy is in (autarky-) **steady state** in period t .

The Model

- **North-South FDI with secure property rights (contd.)**
 - Assumptions (contd.):
 - Northern multinational firms exporting both capital and **expertise**.
 - **Total factor productivity (TFP)** of foreign firms (A^F) higher than TFP of domestic firms (A^H).
 - Co-existence of low-productivity domestic firms („**domestic sector**“, index H) and high-productivity foreign firms („**foreign sector**“, index F).

The Model

- **North-South FDI with secure property rights (contd.)**
 - Evidence on FDI, technology transfer and wages:
 - Hall and Jones (1999): TFP in average developing country \approx 30 % of TFP in USA. (Caveat: Positive / negative **productivity spillovers** between foreign and domestic firms)
 - Dreher et al. (2007): Relative TFP of developing countries higher if **shadow economy** taken into account.
 - Te Velde and Morrissey (2003), OECD (2008): **Wage increases** in developing country firms of up to 50 % after foreign takeover. (Caveat: skill composition of workers)

The Model

- **North-South FDI with secure property rights (contd.)**
 - Without expropriation risk: **Returns on investment** of foreign firms in South = return on alternative investment opportunity (R^*)

$$\alpha A^F \left(\frac{K_{t+j}^F}{L_{t+j}^F} \right)^{\alpha-1} = R^* \quad \text{for } j = 1, 2, \dots$$

The Model

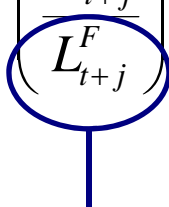
- **North-South FDI with secure property rights (contd.)**
 - Without expropriation risk: **Returns on investment** of foreign firms in South = return on alternative investment opportunity (R^*)

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Capital stock in foreign sector

The Model

- **North-South FDI with secure property rights (contd.)**
 - Without expropriation risk: **Returns on investment** of foreign firms in South = return on alternative investment opportunity (R^*)

$$\alpha A^F \left(\frac{K_{t+j}^F}{L_{t+j}^F} \right)^{\alpha-1} = R^* \quad \text{for } j = 1, 2, \dots$$


Labor force in foreign sector
= Total labor supply – labor force in domestic sector

The Model

- **North-South FDI with secure property rights (contd.)**
 - Assumption of **intersectoral labor mobility** ($w_{t+j}^H = w_{t+j}^F$) implies:

$$L_{t+j}^F = \frac{\Omega K_{t+j}^F}{K_{t+j}^H + \Omega K_{t+j}^F} L_{t+j}$$

$$\text{with } \Omega = \left(\frac{A^F}{A^H} \right)^{\frac{1}{\alpha}} \quad (\text{Productivity advantage of foreign firms})$$

- Interpretation: Employment in foreign sector...
 - ... increasing in productivity advantage of foreign firms
 - ... increasing in foreign-sector capital stock
 - ... decreasing in domestic-sector capital stock.

The Model

- **North-South FDI with secure property rights (contd.)**
 - Evolution of **FDI relative to host country GDP** with secure property rights:
 - Rapid convergence to **steady state** (possibly one transition period)
 - Possible: Complete **disappearance** of domestic sector
 - **FDI / GDP** *non-decreasing* in domestic population growth rate.

The Model

- **Modeling expropriation risk**

- Assumptions:

- In every period $t+j$: Domestic government decides whether to **(completely) expropriate** foreign firms.
- Expropriation is **discriminatory** (= affects only foreigners).
- In case of expropriation: **Even redistribution** of foreign firms' returns among domestic workers.
- **Government's objective**: Maximize sum of domestic workers' utilities.

The Model

- **Modeling expropriation risk (contd.)**

- Assumptions (contd.):

- The **costs of expropriation**:

Foreign firms withdraw their **expertise** (Eaton and Gersovitz, 1984)

Consequence: Total factor productivity (TFP) in foreign sector drops from A^F to A^H .

- Note: No embargo threat à la Eaton and Gersovitz (1981) or Cole and English (1991).

The Model

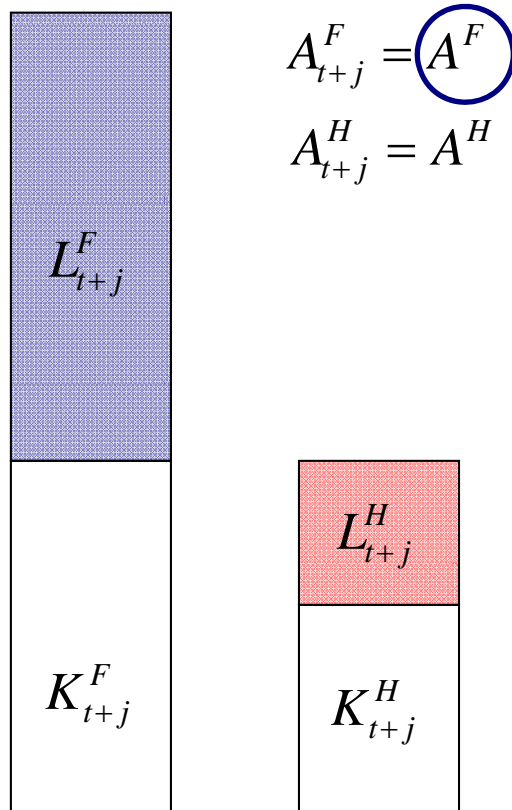
- **Modeling expropriation risk (contd.)**
 - Sequence of events (for $j = 1, 2, \dots$):
 - End of period $t+j-1$: Domestic and foreign **savings/investment decisions**
 - Government decides on **expropriation** ($\xi_{t+j} = 1$) **vs. non-expropriation** ($\xi_{t+j} = 0$) in period $t+j$
 - Workers' **occupational choice** in period $t+j$
 - Production, transfers and **consumption**

Harms / an de Meulen: Expropriation

The Model

- Costs and benefits of expropriation

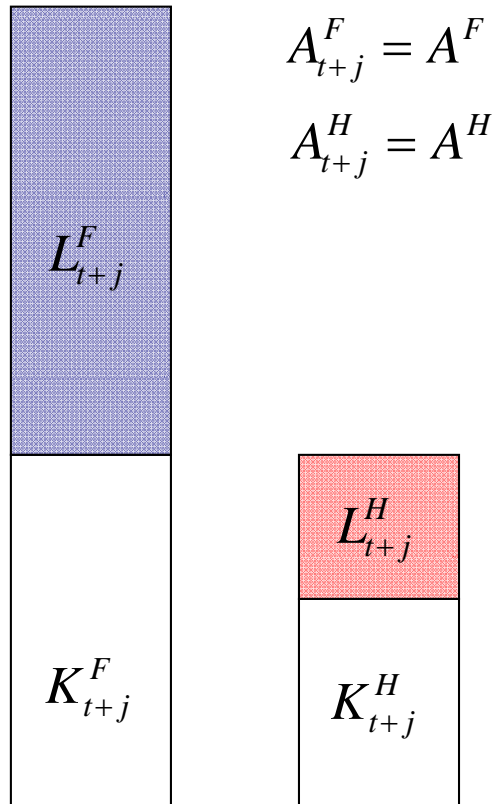
Without expropriation



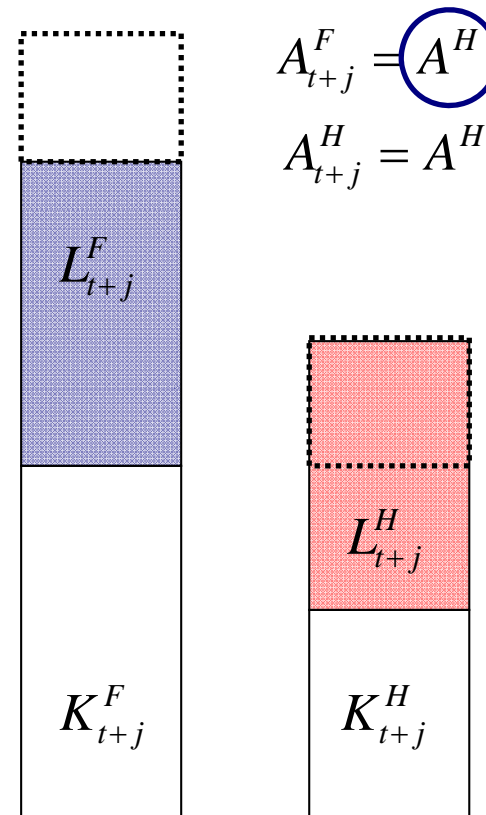
The Model

- Costs and benefits of expropriation (contd.)

Without expropriation



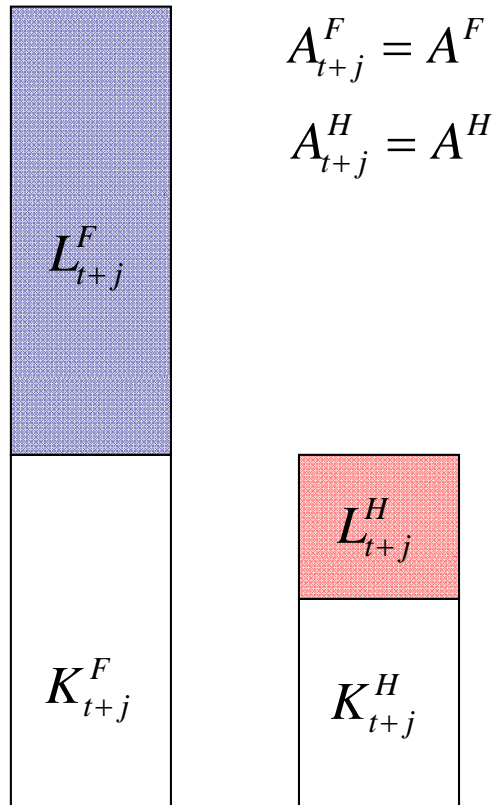
With expropriation



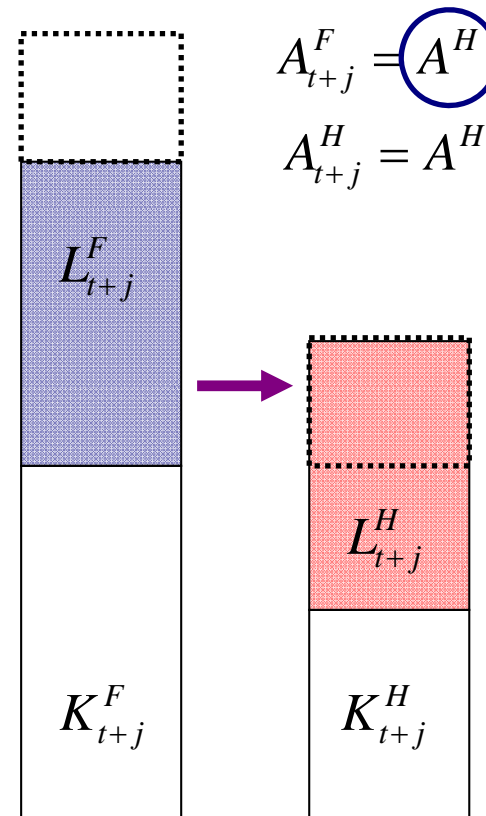
The Model

- Costs and benefits of expropriation (contd.)

Without expropriation



With expropriation



The Model

- **Costs and benefits of expropriation (contd.)**

- Three effects of expropriation:

- **Transfer effect:** All workers currently alive receive equal share of proceeds from expropriation.
- **Wage effect:** Wage *decreases* in case of expropriation.
- **Return effect:** Return on capital in domestic sector *increases* in case of expropriation

Intuition: Expropriation → lower TFP in foreign sector → lower wage / higher return in domestic sector.

Harms / an de Meulen: Expropriation

The Model

- **Costs and benefits of expropriation (contd.)**
 - Note: Old / young workers affected differently by transfer effect, wage effect and return effect:
 - Different **time horizons**
 - Only old workers owning **capital**
 - Consequence: Potential **inter-generational conflict** over government's decision to expropriate.

Harms / an de Meulen: Expropriation

The Model

- **The constrained level of foreign investment**

- A „**non-expropriation equilibrium**“:

Government does not expropriate in any period and agents do not expect expropriation.

- Check: Does the government have an **incentive to deviate** (= expropriate) in any period $t+j$?

- Government has an incentive to deviate in period $t+j$ if

$$\Delta W_{t+j} = W_{t+j}(\xi_{t+j} = 1) - W_{t+j}(\xi_{t+j} = 0) > 0$$

Additional government utility from expropriation

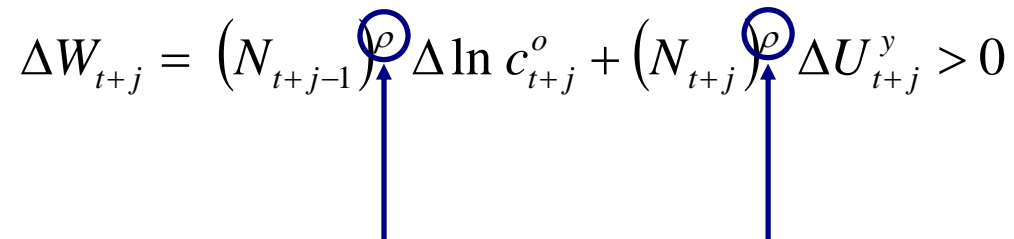
The Model

- **The constrained level of foreign investment (contd.)**
 - Government has an incentive to expropriate in period $t+j$ if

$$\Delta W_{t+j} = (N_{t+j-1})^\rho \Delta \ln c_{t+j}^o + (N_{t+j})^\rho \Delta U_{t+j}^y > 0$$

The Model

- **The constrained level of foreign investment (contd.)**
 - Government has an incentive to expropriate in period $t+j$ if

$$\Delta W_{t+j} = (N_{t+j-1})^{\rho} \Delta \ln c_{t+j}^o + (N_{t+j})^{\rho} \Delta U_{t+j}^y > 0$$


$\rho > 0$: **Size** of generation affects weight in political support function.

$\rho = 0$: **Size** of generation does *not* affect weight in political support function.

The Model

- **The constrained level of foreign investment (contd.)**
 - Government has an incentive to expropriate in period $t+j$ if

$$\Delta W_{t+j} = (N_{t+j-1})^\rho \Delta \ln c_{t+j}^o + (N_{t+j})^\rho \Delta U_{t+j}^y > 0$$

Young workers' lifetime utility depending on current and *future* capital stock, expropriation decisions etc.

The Model

- **The constrained level of foreign investment (contd.)**
 - Government has an incentive to expropriate in period $t+j$ if

$$\Delta W_{t+j} = (N_{t+j-1})^\rho \Delta \ln c_{t+j}^o + (N_{t+j})^\rho \Delta U_{t+j}^y > 0$$

Young workers' lifetime utility depending on current and *future* capital stock, expropriation decisions etc.

- Lemma 3:

$$\Delta W_{t+j} = (N_{t+j-1})^\rho \Delta \ln c_{t+j}^o(b_{t+j}) + (N_{t+j})^\rho \Delta U_{t+j}^y(b_{t+j})$$

with $b_{t+j} \equiv \frac{K_{t+j}^F}{K_{t+j}^H}$: Relative capital stock in foreign sector.

The Model

- **The constrained level of foreign investment (contd.)**

– Lemma 4: Define

$$b_{t+j} \equiv \frac{K_{t+j}^F}{K_{t+j}^H} \quad (\text{Relative capital stock in foreign sector})$$

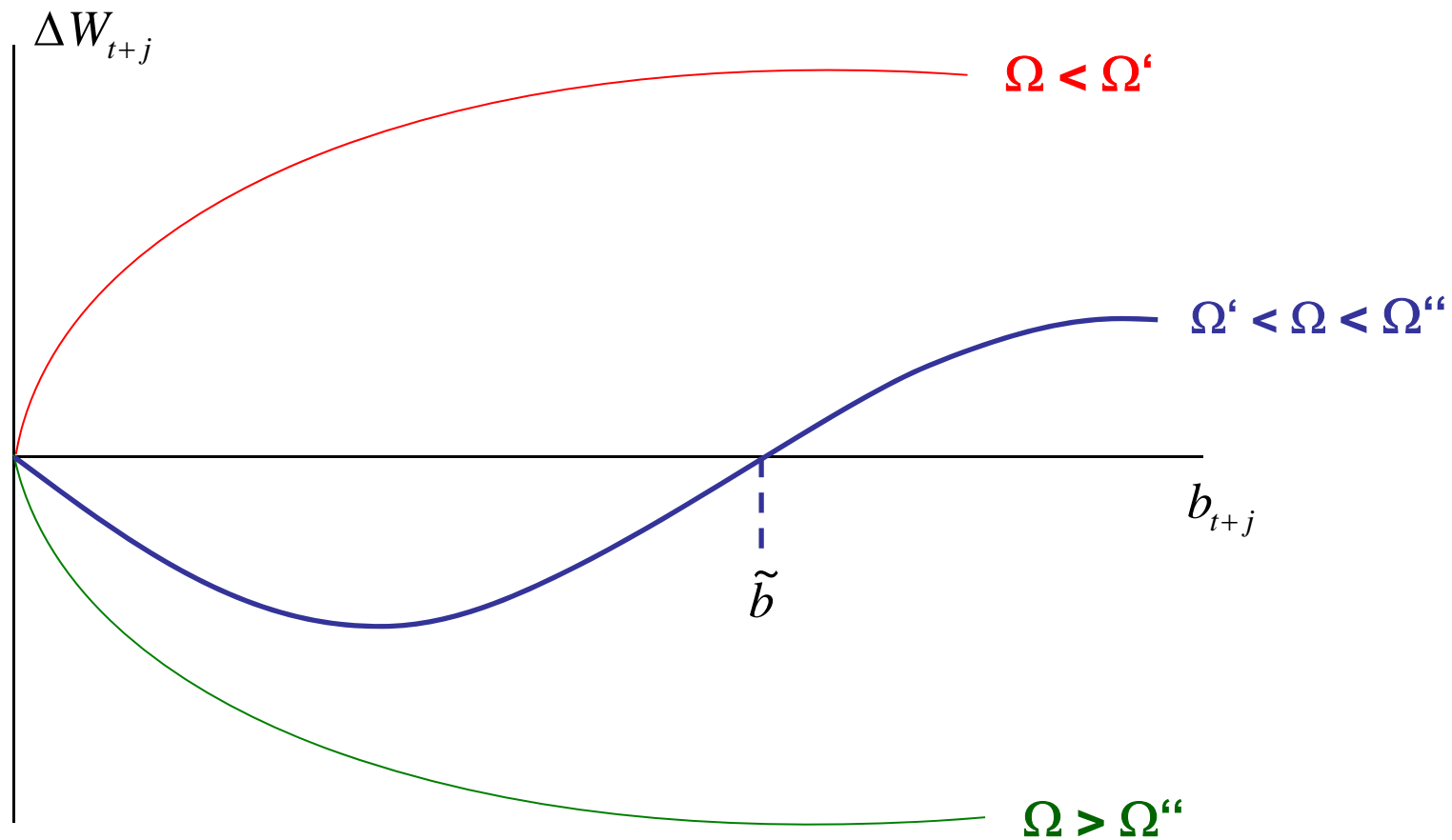
$$\Omega \equiv \left(\frac{A^F}{A^H} \right)^{\frac{1}{\alpha}} \quad (\text{Productivity advantage of foreign firms})$$

If $\Omega' < \Omega < \Omega''$: There is a positive value \tilde{b} such that

$$\Delta W_{t+j} = (N_{t+j-1})^\rho \Delta \ln c_{t+j}^o + (N_{t+j})^\rho \Delta \ln U_{t+j}^y \begin{cases} \leq 0 & \text{for } b_{t+j} \leq \tilde{b} \\ > 0 & \text{for } b_{t+j} > \tilde{b} \end{cases}$$

The Model

- The constrained level of foreign investment (contd.)



The Model

- **The constrained level of foreign investment (contd.)**
 - Interpretation:
 - **If $\Omega < \Omega'$: Low costs of expropriation** → expropriation for any positive level of foreign investment.
 - **If $\Omega > \Omega''$: High costs of expropriation** → No incentive to expropriate.
 - **If $\Omega' < \Omega < \Omega''$: Intermediate costs of expropriation**
 - Constrained level of foreign investment proportional to capital stock in domestic sector

The Model

- **The constrained level of foreign investment (contd.)**

- If $b_{t+j} \equiv \tilde{b}$ in non-expropriation equilibrium:

$$K_{t+j}^{F,c} = \tilde{b} K_{t+j}^{H,c}$$

Interpretation: **Constrained level of FDI** proportional to capital accumulation in domestic sector.

Reason: Higher level of FDI would trigger expropriation, lower FDI leaves leaves unexploited returns.

The Model

- **The constrained level of foreign investment (contd.)**

– Lemma 5:

With $b_{t+j} = \tilde{b}$: The evolution of constrained FDI /GDP is given by

$$\frac{\bar{k}_{t+j+1}^{F,c}}{\bar{y}_{t+j+1}} = \left[\frac{\alpha\beta\Lambda\tilde{b}}{(1+n)[1+\Lambda(1+\Omega\tilde{b})]} \right]^{1-\alpha} \cdot \left(\frac{\bar{k}_{t+j}^{F,c}}{\bar{y}_{t+j}} \right)^\alpha$$

Note: Solow/Swan-type convergence of $\frac{\bar{k}_{t+j+1}^{F,c}}{\bar{y}_{t+j+1}}$ to unique steady state

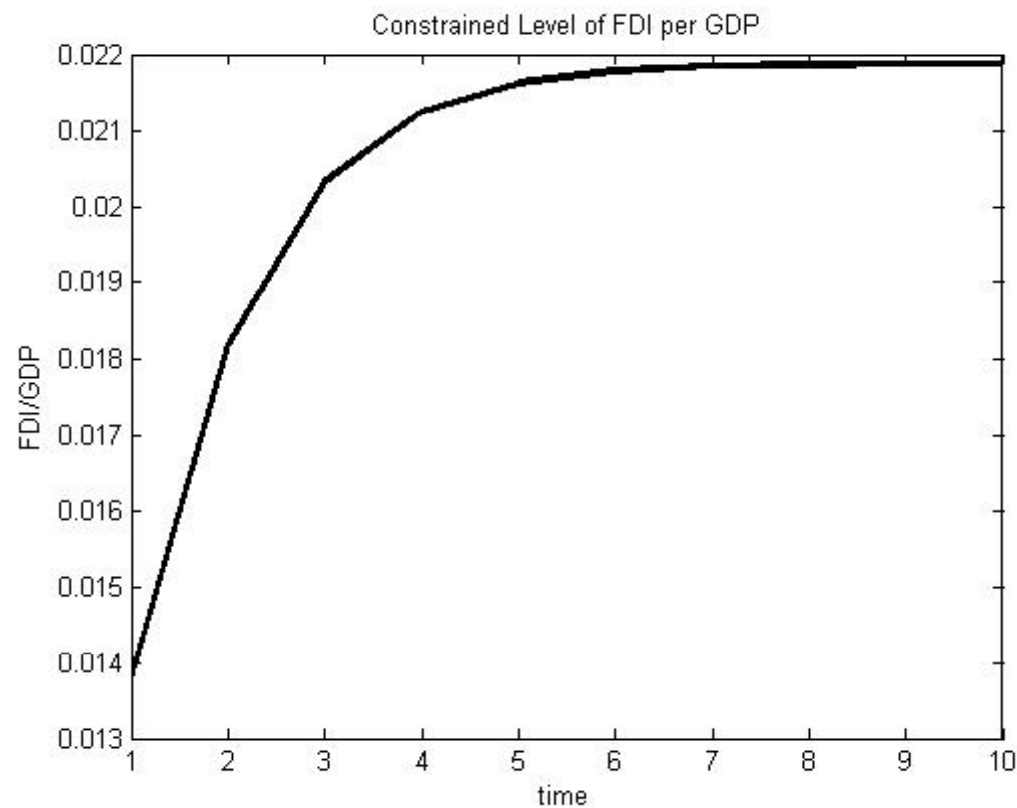
The Model

- **The constrained level of foreign investment (contd.)**
 - Observations:
 - Dynamics of capital stock as in **closed economy ...**
... despite the removal of de-jure investment barriers !

(similar to Barro/Mankiw/Sala-i-Martin, AER 1995 – but for different reasons)
 - Constrained FDI/GDP \approx 2 percent (much lower than in case of secure property rights).

The Model

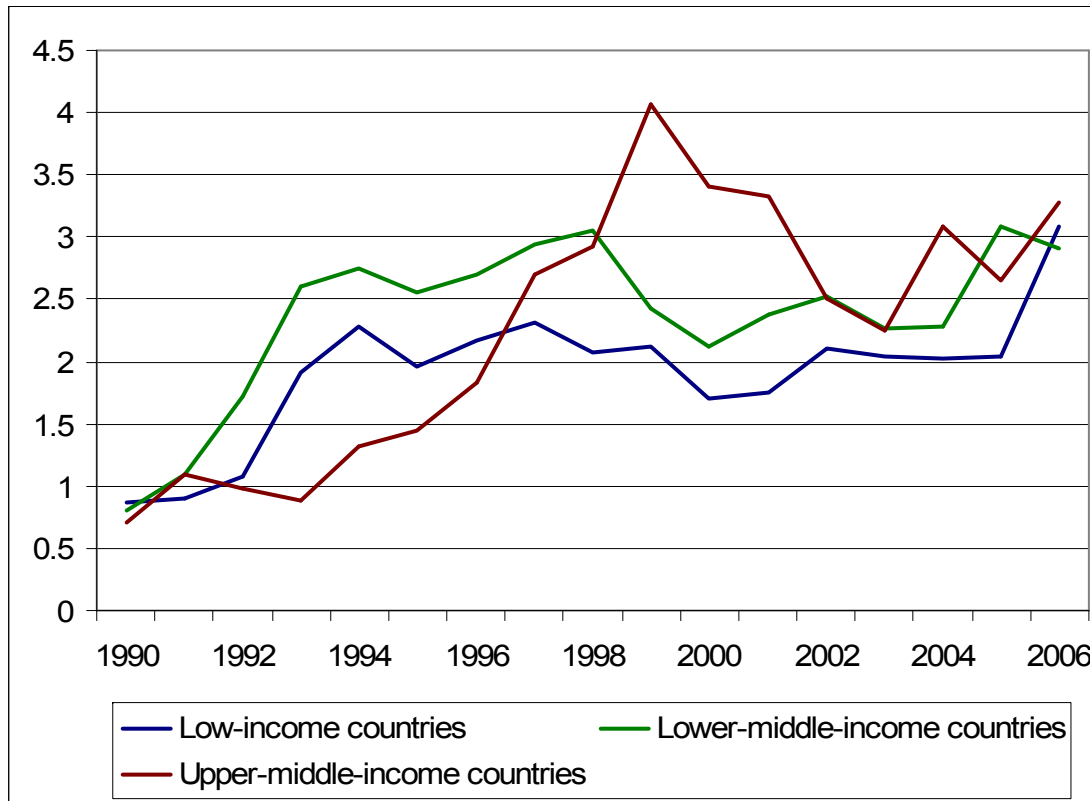
- The evolution of FDI / GDP in the non-expropriation equilibrium



Parameter values: $\alpha = 0.4$, $\beta = 0.8$, $A^F = 1$, $A^H = 0.4$, $n = 0.25$, $\rho = 1$

The Model

- **FDI inflows as a percentage of GDP: Evidence**



Source: World Bank (World Development Indicators)

The Model

- The role of the political regime

- Recall:

$$\left(\frac{1}{1+n}\right)^\rho \Delta \ln c_{t+j}^o(\tilde{b}) + \Delta U_{t+j}^y(\tilde{b}) = 0$$

Higher population growth (1+ n) lowers political weight of old generation if $\rho > 0$ („political weight effect“)

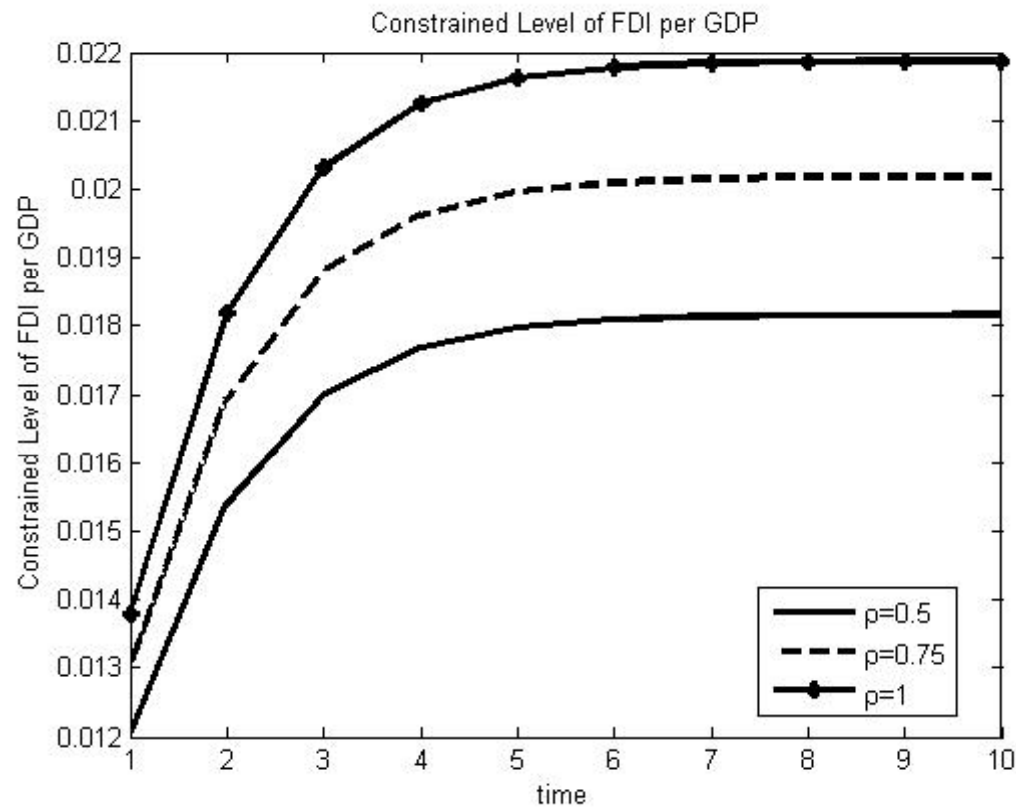
- As ρ decreases:

- „political weight effect“ less important

- constrained FDI/GDP decreases

The Model

- The degree of political participation and constrained FDI/GDP:



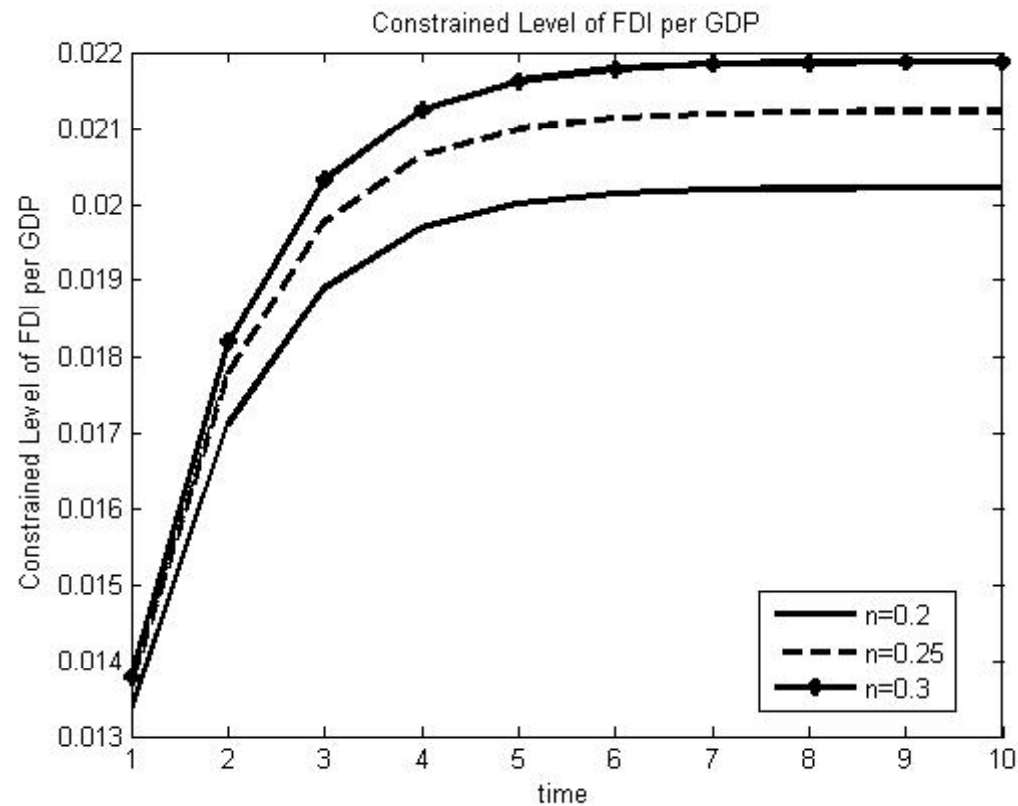
Parameter values: $\alpha = 0.4$, $\beta = 0.8$, $A^F = 1$, $A^H = 0.4$, $n = 0.25$

The Model

- **The role of population growth**
 - Potential effects of raising n :
 - Reduced domestic savings → lower domestic capital stock → lower FDI in equilibrium („**poverty effect**“)
 - Lower transfer per capita (in case of expropriation) → lower incentive to expropriate → higher FDI in equilibrium („**dilution effect**“)
 - Higher weight of (young) generation that opposes/benefits less from expropriation → higher FDI in equilibrium („**political weight effect**“)

The Model

- Population growth rates and constrained FDI/GDP



Parameter values: $\alpha = 0.4$, $\beta = 0.8$, $A^F = 1$, $A^H = 0.4$, $\rho = 1$

The Model

- **The role of population growth (contd.)**

- Observations I:

- Raising n increases constrained FDI/GDP.

But only in the long run.

Short run: High n → low capital stock per capita in autarky → „poverty effect“ compensating „dilution effect“ and „political weight effect“

Long run: FDI inflows raising wages and savings → „political weight effect“ becoming increasingly important → positive influence of n on constrained FDI/GDP in the long run.

The Model

- **The role of population growth (contd.)**

- Observations II:

- Raising n increases constrained FDI/GDP.

But only if **group size matters** in the political process, i.e. if the political system is sufficiently democratic.

If $\rho = 0$ (= no political-weight effect):

No FDI, regardless of population growth rate.

The Model

- **The extent of expropriation risk**

- Definition: „Expropriation risk“ = wedge between constrained and unconstrained FDI

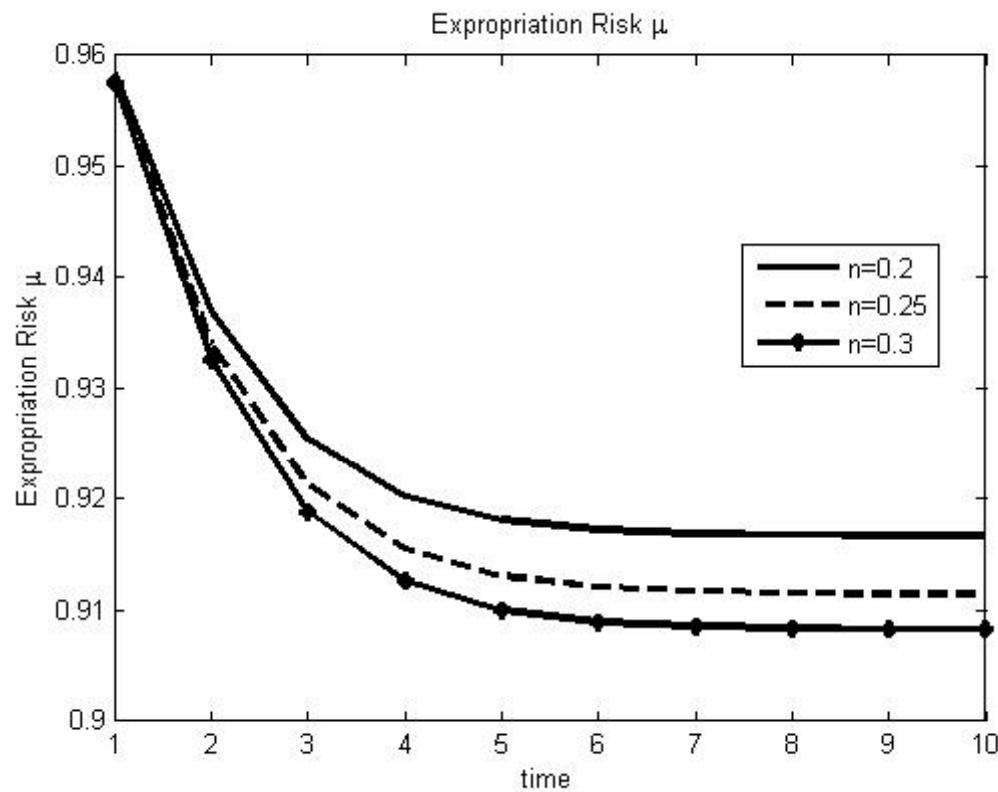
$$\mu_{t+j} = 1 - \frac{\bar{k}_{t+j}^{F,c}}{\bar{k}_{t+j}^F}$$

- Note: Both $\bar{k}_{t+j}^{F,c}$ and \bar{k}_{t+j}^F potentially increasing in n .

Total effect of higher population growth = ?

The Model

- Population growth rates and the extent of expropriation risk



Parameter values: $\alpha = 0.4$, $\beta = 0.8$, $A^F = 1$, $A^H = 0.4$, $\rho = 1$

Summary

- **What we have done:**
 - Model of demographically-induced international investment with endogenous risk of expropriation.



Summary

- **What we have done: (contd.)**
 - **Multi-faceted role** of high population growth:
 - Higher population growth → poverty → higher risk of expropriation
 - Higher population growth → Stronger opposition against expropriation → lower risk of expropriation
 - The relative strength of these opposing effects may **change over time** – and as a result of past foreign investment !
 - Importance of **productivity advantage** of foreign firms (Ω) and of the **political regime** (ρ).

Harms / an de Meulen: Expropriation

Summary: Some Empirics

Dependent variable: International Country Risk Guide „Investment-Profile“

	Benchmark Specification					
	OLS			Fixed Effects		
	Full Sample	MIC	LIC	Full Sample	MIC	LIC
YWORKERS	-0.119 [0.193]	0.002 [0.246]	0.633* [0.313]	-0.673 [0.560]	-0.747 [0.746]	0.628 [1.013]
GROWTH(-1)	0.070** [0.034]	0.109*** [0.028]	0.058 [0.040]	0.040 [0.035]	0.083*** [0.029]	0.044 [0.037]
INCOME(-1)	0.170 [0.187]	0.194 [0.217]	-0.941** [0.389]	-0.162 [0.541]	-0.783 [0.609]	-0.107 [0.814]
LAWORDER	0.011 [0.078]	-0.184** [0.090]	0.452*** [0.128]	0.007 [0.107]	-0.130 [0.166]	0.471* [0.255]
INFLA	-0.283*** [0.087]	-0.373*** [0.131]	-0.332*** [0.111]	-0.228** [0.102]	-0.332** [0.152]	-0.423*** [0.128]
POLREPRESS	-0.214*** [0.055]	-0.249*** [0.067]	-0.262*** [0.048]	-0.220*** [0.077]	-0.288*** [0.093]	-0.263** [0.096]
GOVSTAB	0.481*** [0.052]	0.524*** [0.059]	0.444*** [0.064]	0.472*** [0.069]	0.589*** [0.069]	0.387*** [0.090]
SCHOOLING	0.097* [0.049]	-0.000 [0.066]	0.180* [0.092]	0.079 [0.138]	-0.214 [0.185]	-0.034 [0.513]
OPENNESS(-1)	0.141 [0.180]	-0.114 [0.293]	0.499 [0.376]	0.139 [0.539]	-0.575 [0.662]	-0.522 [1.184]
R-squared	0.718	0.678	0.710	0.662	0.724	0.640
Observations	416	219	112	416	219	112

Notes: Results of **fixed effects** regression using five-year averages. Time fixed effects included. Standard errors based on cluster-robust covariance matrix.

Summary: Some Empirics

Dependent variable: International Country Risk Guide „Investment-Profile“

	Nonlinear Effects					
	OLS			Fixed Effects		
	Full Sample	MIC	LIC	Full Sample	MIC	LIC
YWORKERS	-0.342 [0.301]	0.048 [0.378]	2.345** [1.041]	-0.852 [0.774]	-0.840 [0.942]	3.989*** [1.259]
YWORKERS · POLREPRESS	0.079 [0.101]	-0.016 [0.115]	-0.388** [0.184]	0.064 [0.120]	0.024 [0.140]	-0.853*** [0.235]
GROWTH(-1)	0.073** [0.035]	0.108*** [0.029]	0.055 [0.041]	0.041 [0.035]	0.083*** [0.029]	0.029 [0.035]
INCOME(-1)	0.162 [0.197]	0.192 [0.217]	-0.877** [0.359]	-0.143 [0.524]	-0.781 [0.605]	-0.354 [0.720]
LAWORDER	0.006 [0.080]	-0.184** [0.090]	0.471*** [0.130]	0.006 [0.108]	-0.130 [0.166]	0.509** [0.227]
INFLA	-0.279*** [0.091]	-0.373*** [0.130]	-0.321*** [0.108]	-0.231** [0.102]	-0.333** [0.151]	-0.338*** [0.117]
POLREPRESS	-0.403* [0.225]	-0.213 [0.259]	0.735 [0.467]	-0.373 [0.293]	-0.341 [0.269]	1.919*** [0.628]
GOVSTAB	0.487*** [0.053]	0.523*** [0.060]	0.444*** [0.060]	0.477*** [0.070]	0.591*** [0.075]	0.376*** [0.084]
SCHOOLING	0.089* [0.047]	0.001 [0.064]	0.215** [0.097]	0.086 [0.139]	-0.205 [0.209]	0.199 [0.449]
OPENNESS(-1)	0.161 [0.181]	-0.111 [0.293]	0.446 [0.380]	0.140 [0.538]	-0.575 [0.661]	-0.459 [0.958]
R-squared	0.718	0.676	0.717	0.662	0.723	0.677
Observations	416	219	112	416	219	112

Notes: Results of **fixed effects** regression using five-year averages. Time fixed effects included. Standard errors based on cluster-robust covariance matrix.

Summary

- **Caveats and further research**
 - **Different productivities** of young/old workers → relative strength of wage effect.
 - **Intra-generational** distributional conflict.
 - **Non-discriminatory expropriation** → changing stake of old individuals.
 - **Capital market** in the South → changing stake of old individuals.

Summary

Thank you for your attention.

The Model

- The constrained level of foreign investment (contd.)

- Assumption 1:

$$\left(\frac{1}{1+n}\right)^\rho < (1+n+\alpha\beta)\frac{\alpha}{1-\alpha}$$

Interpretation:

- Weight of old generation in political support function not too high
 - Weak discounting of future utility by young workers
 - Raising b_{t+j} has a stronger impact on the wage effect than on the return effect.
- Raising foreign firms' productivity advantage Ω raises the **costs of expropriation**.