
REM Newsletter 26/2021

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The Latest REM [Working Papers](#)

Research in Economics and Mathematics (REM) circulates research, notably by its affiliated members, as working papers intended for professional and public discussion and comment. The papers have not been peer reviewed.

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Events

[10th UECE Conference on Economic and Financial Adjustments](#), ISEG/UL – Lisbon School of Economics and Management/University of Lisbon, **July 22, 2022** (rooms and online). **5 June 2022**, submission deadline.

Keynote speakers:

[Xavier Debrun](#) (National Banl of Belgium); [Cecilio Tamarit](#) (University of Valencia)



Papers presented at the conference can be considered for the Special Issue of the [European Journal of Political Economy](#), according to selected topical guidelines to be set up.

REM [Working Papers](#)

[Citizens' Confidence in Government and Inefficient Public Spending. Is there a Trust Trap?](#),

Eduardo de Sá Fortes Leitão Rodrigues, *Working Paper 0199-2021*

The concept of trust is present in the most different areas of scientific knowledge. Associated with moral and philosophical perspectives, it influences the reputation of public institutions, and interferes with economic performance and welfare. Thus, trust is a complex interpersonal and

organizational concept but closely linked to social capital, greasing the wheels of relationships and interaction between agents and public institutions. This article aims to assess the effects of inefficient/unproductive government spending on public trust and whether there is evidence of a trust trap. To investigate these effects, we use dynamic regression models and the Generalized Method of Moments (GMM) approach for panel models of 43 (2006-2019) and 33 (2006-2017) developed and developing countries. To further the investigation, we run panel vector autoregression (PVAR) models with the largest sample (43 countries). Our paper focuses on the response of trust in government to the effect of inefficient public spending and income inequality (GINI index). Moreover, we investigate whether the government's high level of inefficiency interferes with this relationship and whether there is evidence of a trust trap. The findings point to significant adverse effects of inefficient public spending on public trust, providing empirical support, and confirming the assumptions of some theoretical works. Our models indicate a threshold in the relationship between trust and inefficient government spending, that is, a trust trap. In short, to a certain extent, it is possible to regain trust by reducing the inefficiency of public spending. However, after this threshold, the recovery of trust requires a greater effort on the part of governments.

[Revisiting the informal aspects of the activity of countries, studied through Social Accounting and Socio-Demographic Matrices, with an application to Mozambique.](#), Susana Santos, Mónica Magaua, *Working Paper 0198-2021*

Approaches based on Social Accounting Matrices (SAMs) and Socio-Demographic Matrices (SDMs) will be presented as a way of capturing relevant networks of linkages and the corresponding multiplier effects, which can subsequently be used for modelling the activity of the countries to be studied. Emphasis will be placed on the activity of household unincorporated enterprises that will be identified with the informal sector. Based on methodological principles derived mainly from the works of Richard Stone, a proposal will be made to study the economic activity of Mozambique in 2016 in a matrix format, with special attention to the informal sector in general and, within this, forestry, and logging. Such a proposal includes, on the one hand, people – represented by a SDM – and, on the other hand, activities, products, factors of production and institutions – represented by a SAM. The exposition will mostly be accompanied by an application to the above-mentioned reality. Scenarios, involving changes in functional and institutional distribution of income, will be presented and the macroeconomic effects of these changes, will be summarised in the form of changes in the macroeconomic aggregates, such as, Gross Domestic Product, Gross National Income and Disposable Income.

[The effect of Brexit on British workers living in the EU](#), Ana Venâncio, João Pereira dos Santos, *Working Paper 0197-2021*

The effect of Brexit is an important topic in the European and British political agendas. This study examines the perspective of the EU countries, with regards how British citizens working in an EU country reacted to the end of free movement of workers. Employing synthetic control methods and using data from Portugal, we estimate how the behaviour of UK citizens working in Portugal would have evolved if the Remain vote had won the referendum. Our results suggest that the Brexit referendum reduced the number of UK citizens working in Portugal, particularly in the case of non-university educated, male individuals with temporary employment contracts. This reduction is explained by the decrease in the number of incomers. We also find that those UK citizens who were already working in Portugal before Brexit are less likely to leave the country.