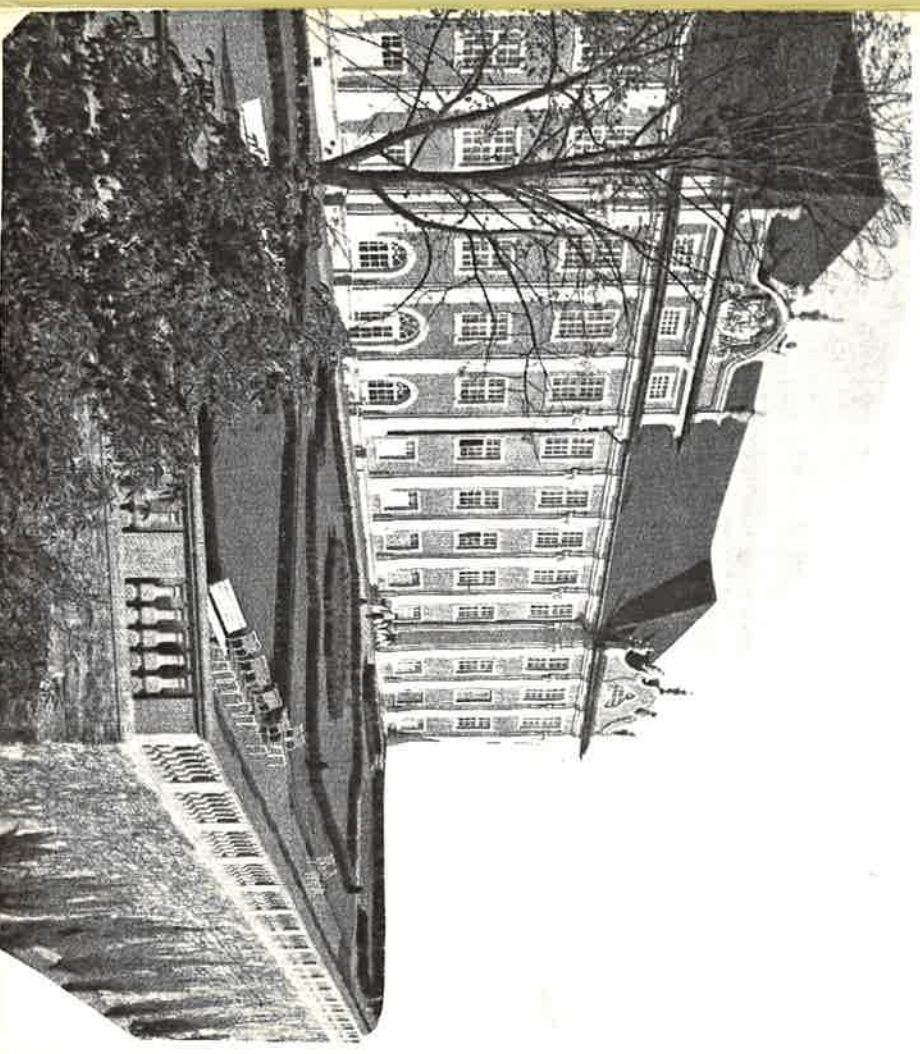# Annual Meeting
of the
European Public Choice Society

Meersburg 1990

Program Committee

Heinrich W. Ursprung (chairman)
Friedrich Schneider (president)
Hannelore Weck-Hannemann

Local Organizing Committee

Joerg Stephan
Ludger Schuknecht
Heinrich W. Ursprung
Brigitte Bacher
Oliver Lorz
Katharina Nopper
Florian Rabe
Kai-Uwe Schanz
Jutta Walz

Address of the Meeting:

Neues Schloß
7758 Meersburg
Tel. 07532/82385

Address of the Local Organizers:

Joerg Stephan - Ludger Schuknecht
Universität Konstanz
Postfach 5560
7750 Konstanz
07531/883713

Acknowledgements

PROGRAM

Wednesday — April 18

14.15 – 14.35

Room 1: Conference Opening

Heinrich Ursprung,   Universität Konstanz (organizer)

Friedrich Schneider,   Universität Linz   (president)

Session 1.1: 14.45 – 16.15

Room 1: Rent–Seeking and Public Goods

Chairman: K.C. Rowley, George Mason University

Rent–Seeking Promotes the Provision of Public Goods

Speakers: Tyler Cowen, George Mason University
(Amihia Glazer, UC Irvine)

Discussant: Albert Breton, University of Toronto

Voluntary Provision of Mixed Public Goods

Speaker: Shmuel Nitzan, Bar–Ilan University
Discussant: Sabri Tekir, Dokuz Eyluel Universitesi

Lobbying: A Formal Analysis

Speakers: Jan Potters, University of Amsterdam
F. van Winden, University of Amsterdam

Discussant: Franz Wirl,
Technische Universität Wien

Session 1.2: 14.45 – 16.15

Room 2: Voting Theory I – Applications

Chairman: Hans–Jürgen Vosgerau,
Universität Konstanz

*Voting Procedures in Apartment Buildings:
A Public Choice Analysis*

Speaker: Gerrit de Geest,
State University of Gent

Discussant: Paulo Trigo Pereira,
Universidade Tecnica de Lisboa

*Coalition Theories: Empirical Evidence for Dutch
Municipalities*

Speaker: Bernhard Steunenberg,
Twente University

Discussant: Angelika Eymann,
Universität Konstanz

*The Concept of Freedom in Modern
Political Economy*

Speaker: J.W. de Beus, University of Amsterdam
Discussant: Arye L. Hillman, Bar–Ilan University

Wednesday — April 18

Session 1.3: 14.45 — 16.15

Room 3: Government Spending

Chairman: Louis Lévy–Garboua,
Université de Paris

Modelling Government Expenditures in Italy

Speaker: Gian Cesare Romagnoli,
Università di Roma 'La Sapienza'

Discussant: Ana Bela Santos,
Technical University of Lisbon

*The Peacock and Wiseman Displacement Effect:
A Reappraisal and a New Test*

Speaker: M. Henrekson, Universität Göteborg

Discussant: Oliver Perschau,
Technische Universität Berlin

*Government Spending, Deficits and Reform:
A Disequilibrium Approach*

Speakers: Leonard Dudley,
Claude Montmarquette,
University of Montreal

Discussant: Carla Marchese,
Università Degli Studi Di Torino

Wednesday — April 18

Invited Lecture I: 16.45 — 17.45

Room 1: Spiegelsaal

Chairman: Heinrich Ursprung,
Universität Konstanz

*Discretionary International Trade Policy:
Benevolent Dictators or Optimizing Politicians?*

Speaker: Arye L. Hillman,
Bar–Ilan University

Winetasting 18.00 – 19.00

Neues Schloss: Ground Floor

We will sample the following local wines:

1988	Müller–Thurgau Sonnenufer, trocken
1987	Müller–Thurgau Sängerhalde, Kabinett
1987	Spätburgunder rot Sängerhalde, trocken
1988	Spätburgunder rot Sängerhalde
1988	Spätburgunder Weissherbst Sängerhalde
1988	Ruländer Sängerhalde
1983	Ruländer Sängerhalde, Spätlese
1983	Müller–Thurgau Fohrenberg, Eiswein

We suggest that you have dinner at one of the restaurants specialized in local fish dishes. Most of them are located on the lake shore promenade.

Session 2.1: 08.30 – 10.00

Room 1: Monetary Policy

Chairman: Tyler Cowen,
George Mason University

An Agency Model of Congressional – Fed Interaction

Speaker: Kevin B. Grier,
George Mason University

Discussant: Peter Moser, Hochschule St. Gallen

Austrian Hard–Currency Policy: An Overvalued Currency and Political – Economic Considerations

Speaker: Paul A. Kocher,
Johannes–Kepler–Universität Linz

Discussant: Federico Foders,
Institut für Weltwirtschaft

The Unit–of–Account Constitution

Speaker: W. William Woolsey,
The Military College
of South Carolina

Discussant: Tyler Cowen,
George Mason University

Thursday — April 19

Session 2.2: 09.00 – 10.00

Room 2: Macroeconomics

Chairman: Gebhard Kirchgässner,
Universität Osnabrück

Government, Trade Unions and the Macroeconomy

Speakers: Manfred Gärtner,
Hochschule St. Gallen

Carsten Detken,
Hochschule St. Gallen

Discussant: Jörg Schimmelpfennig,
Universität Osnabrück

*Macroeconomic Policy Coordination:
A Game Theoretical Approach*

Speaker: Francesco Forte,
Università di Roma

Discussant: Günter Knieps,
University of Groningen

Thursday — April 19

Session 2.3: 08.30 – 10.00

Room 3: Health Economics

Chairman: Jean-Jacques Rosa, Université de Paris

*Equity Considerations in Cost Containment Programs:
An Interest Group Approach*

Speaker: Ursula Backhaus,
Rijksuniversiteit Limburg

Discussant: Claude Montmarquette,
Université de Montreal

On the Political Economy of Hospital Financing in Germany

Speakers: Friederich Breyer,
Fernuniversität Hagen

Friedrich Schneider,
Johannes Kepler Universität Linz

Discussant: Hans De Groot,
Erasmus Universiteit Rotterdam

Optimal Allocation of Health Expenditures

Speaker: Yaffa Machnes, Bar-Ilan University
Discussant: Wolfgang Weigel, Universität Wien

Session 3.1: 10.30 – 12.00

Room 1: Reflections on Public Choice

Chairman: Giuseppe Eusepi, Università di Roma "La Sapienza"

From Competitive Equilibrium to Democratic Equilibrium: Has the Analogy Been Fruitful

Speakers: Pierre Salmon, Universite de Bourgogne
A. Wolfelsperger

Discussant: Gerrit De Geest, State University of Gent

The Endogenous Public Choice Theorist

Speaker: Ulrich Witt, Universität Freiburg

Discussant: Roger Congleton, George Mason University

Is the Label "Conservative" Widely Applied to Public Choice Theory Justified?

Speaker: Jose Casas Pardo, Universidad de Valenzia

Discussant: Juan F. Cainzos, Charles Blankart, Technische Universität Berlin

Session 3.2: 10.30 – 12.00

Room 2: Political Reforms in Authoritarian Regimes

Chairman: Istvan Abel, University of Economics, Budapest

The Economics of the Peaceful Revolution

Speaker: Adi Schnytzer, Bar–Ilan University
Discussant: Bruno S. Frey, Universität Zürich

The "Logic of Relative Frustration" and the "Illogic of Collective Actions": Perestroika

Speaker: David Willis, The University of Hull,
Discussant: Filip Palda, University of Ottawa

Transition from Authoritarian Regimes to Democracy

Speaker: Pedro Puy – Fraga, Universidad de Santiago de Compostela

Discussant: Federico Foders, Institut für Weltwirtschaft, Kiel

Session 3.3: 10.30 – 12.00

Room 3: Regulation

Chairman: Jürgen Backhaus,
Rijksuniversiteit Limburg

Decentralization of Public Enterprises: A Public Choice Approach

Speaker: Jörg Schimmelpfennig,
Universität Osnabrück

Discussant: Georg Ziemes,
Universität der Bundeswehr

State versus Market: The Prussian Railway System

Speakers: Günter Knieps,
University of Groningen

Discussant: R. Fremdling
Jürgen Backhaus,
Rijksuniversiteit Limburg

Optimal Phasing of Deregulation: Normative versus Positive Objectives

Speaker: Franz Wirl,
Technische Universität Wien

Discussant: Beat Heggli, Universität Zürich

Lunch: 12.00 – 14.00

Ground Floor

Menue: Rinderschmorbraten "Burgunder Art"
mit Spätzle und Salat

(beef "Burgundy" with "Swabian noodles" and salad)

Beverages are at your own expense

Luncheon Speech:

Gordon Tullock, University of Arizona
"Government Growth"

Session 4.1: 14.00 – 15.30

Room 1: International Political Economy I

Chairman: Gordon Tullock,
     University of Arizona

The Multinational Firm and International Trade Policy

Speakers: Arye L. Hillman, Bar–Ilan University
     Heinrich Ursprung,
     Universität Konstanz

Discussant: Albert Breton,
     University of Toronto

Protectionism Between Rent–Seeking and Discretionary Power: An Institutional Analysis

Speaker: Hannelore Weck–Hannemann,
     University of Konstanz

Discussant: Pierre Salmon, Université de Bourgogne

Session 4.2: 14.00 –15.30

Room 2: Public Finance I

Chairman: Günter Knieps,
     University of Groningen

Efficiency Indicators as Effort Measures: The Case of the Italian Postal Services

Speaker: Carla Marchese,
     Università degli Studi di Torino

Discussant: Roger Bowles, University of Bath

Fiscal Federalism: Towards an Institutional Approach

Speaker: Paulo Trigo Pereira,
     Universidade Tecnica de Lisboa

Discussant: Bernard Steunenberg,
     Twente University

A Principal–Agent Model of Conditional Grants

Speakers: René Goudriaan,
     Hans de Groot,
     Erasmus University, Rotterdam

Discussant: Gian Cesare Romagnioli,
     Università di Roma "La Sapienza"

Session 4.3: 14.00 — 15.30

Room 3: European Integration

Chairman: Charles Blankart,
    Technische Universität Berlin

The European Community: From Financial to Interinstitutional Agreement?

Speakers: Andres Faina,
    A. Garcia-Lorenzo
    Universidad de Santiago
    de Compostela

Discussant: Günther Schulze, Universität Konstanz

Ocean Use In Europe: Will 1992 Matter?

Speaker: Federico Foders,
    Institut für Weltwirtschaft Kiel

Discussant: Ludger Schuknecht, Universität Konstanz

Social Insurence And The Free Internal Market

Speaker: Harrie Verbon,
    University of Amsterdam

Discussant: Jean-Jacques Rosa, Université de Paris

Invited Lecture II: 16.00 — 17.00

Room 1: Spiegelsaal

Chairman: Peter Bernholz,
    Universität Basel

The Political Economy of Trade Policy: Integrating the Approaches of Economists and Political Scientists

Speaker: Robert E. Baldwin,
   University of Wisconsin

Evening in Konstanz

We suggest that you visit the neighboring city of Konstanz. The middle ages shaped this historic city: the mighty Council, the splendid Minster with its cloister and Holy Sepulchre, the Island Hotel – formerly a Dominican Monastery – are all witnesses of a great past.

For your convenience we assembled a short list of pubs and restaurants that reflect the spectrum of Konstanz gastronomy. You can find the location on the enclosed map close to the indicated numbers.

First class restaurants:

Dominikanerstube, Insel Hotel (9)
Staader Fährhaus (near Ferry)

Local food and ambiente:

Neptun (16)
Zeppelin (26)
Elefant (35)
Barbarossa (40)

Local wine pubs:

Küfers Weinstube (34)
Klosterkeller (34, hidden!)
Hintertürle (19)
Salzbüchsle (34)

Student pubs:

Seekuh (33)
K9 (46)

Konstanz
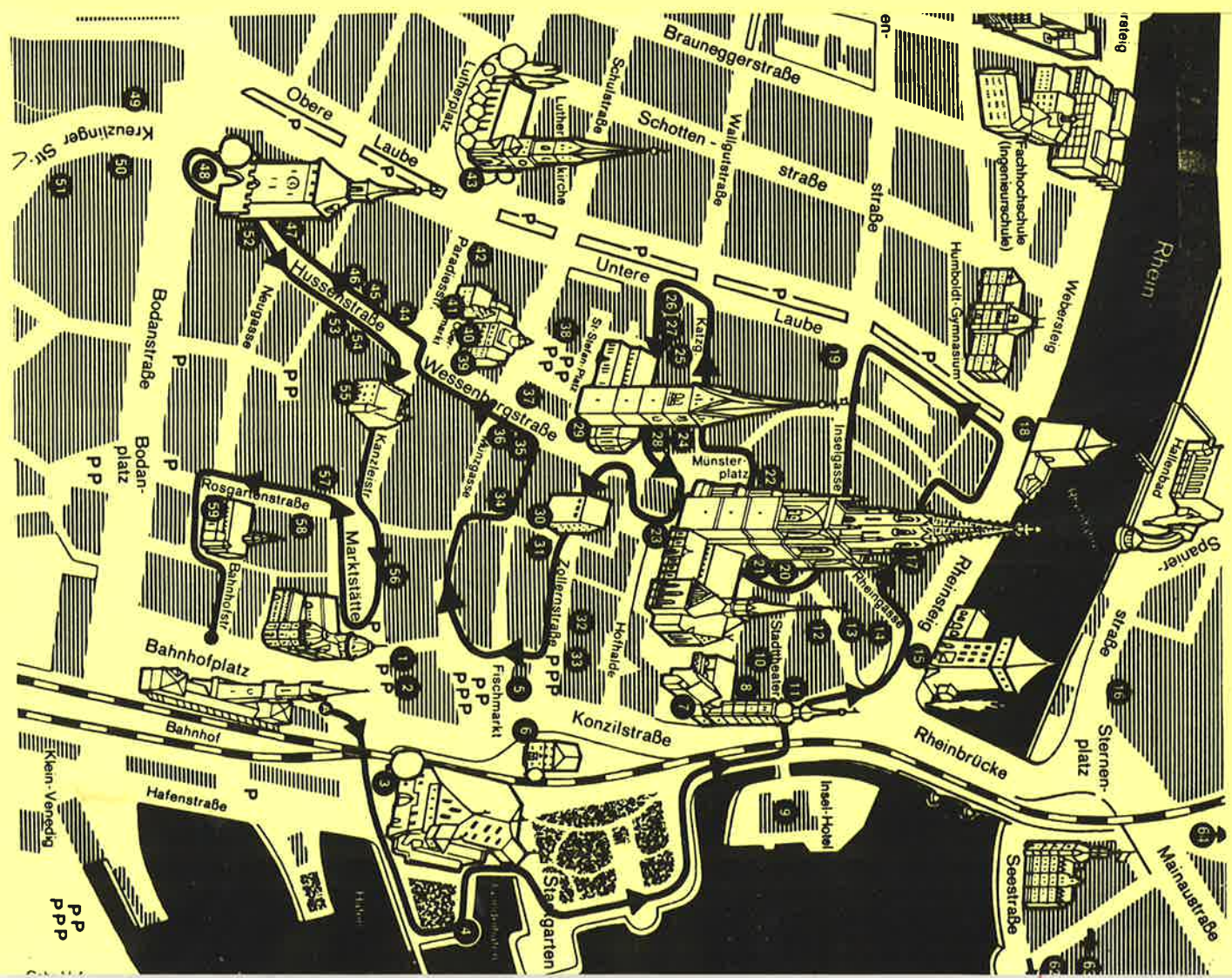
Session 5.1: 8.30 – 9.30

Room 1: Constitutional Economics I

Chairman: Alan Hamlin, Southampton University

Conventions

Speaker: Karl Waerneryd,
Stockholm School of Economics

Discussant: Wolfgang Weigel, Universität Wien

Constitutional Design for a Rent–Seeking Society

Speaker: Zane A. Spindler,
Simon Fraser University

Discussant: W. William Woolsey,
The Military College of
South Carolina

Session 5.2: 8.30 – 9.30

Room 2: Altruism

Chairman: Bengt–Arne Wickström,
Johannes Kepler Universität Linz

A Non–Cooperative Game of Non–Altruistic Intergenerational Exchanges

Speaker: Giacomo Costa, Università di Pisa

Discussant: Friederich Breyer,
Fernuniversität Hagen

Acceptance of Distributional Axioms: Experimental Findings

Speakers: Elizabeth Harrison, Universität Kiel
Christian Seidl, Universität Kiel

Discussant: Reiner Eichenberger,
Universität Zürich

Session 5.3: 8.30 – 9.30

Room 3: Political Popularity

Chairman: Kristian S. Palda,
             Queen's University, Kingston

*The Rise and Prospects of the Republican
Party within the Democratic System of the FRG*

Speaker: Siegfried Franke,
             Fachhochschule für öffentliche
             Verwaltung, Hamburg

Discussant: Oliver Perschau,
             Technische Universität Berlin

*Rally around the Rascals? Unemployment and the
Vote in Danish General Elections 1966 – 77*

Speaker: Peter Nannestad, University of Aarhus
Discussant: Gebhard Kirchgässner,
             Universität Osnabrück

Session 6.1: 9.45 –10.45

Room 1: Constitutional Economics II

Chairman: Peter Bernholz, Universität Basel

*From "Reflective Equilibrium" to the Idea of an
"Overlapping Consensus" in the Rawlsian Theory*

Speaker: Andrea Villani,
             Catholic University, Milano
Discussant: Eric Drissen,
             University of Amsterdam

*Is a Rawlsian Bureaucracy Deadly, Dull or
Dynamic? Optimal Bounds for Bureaucratic Discretion*

Speaker: Roger Congleton,
             George Mason University
Discussant: Michael Fritsch,
             Technische Universität Berlin

Session 6.2: 9.45 – 10.45

Room 2: Public Finance II

Chairman: Hans de Groot,
Erasmus University Rotterdam

Nationalization, Privatization, and the
Allocation of Financial Property Rights

Speaker: Jean–Jaques Rosa,
Institut d Etudes Politiques,
Paris

Discussant: Beat Heggli,
Universität Zürich

A Model of Self–Regulation

Speaker: Christopher Curran,
Johannes Kepler Universität Linz

Discussant: Adi Schnytzer, Bar–Ilan University

Session 6.3: 9.45 – 10.45

Room 3: Voting Theory III

Chairman: Shmuel Nitzan, Bar–Ilan University

Voting as a Marketing Stategy

Speaker: Manfred Holler, Aarhus Universitet
Discussant: Shmuel Nitzan, Bar–Ilan University

On the Theory of Low–Cost Decisions

Speaker: Gebhard Kirchgässner,
Universität Osnabrück

Discussant: Joachim Weimann, Universität Dortmund

Session 6.4: 9.45 – 10.45

Room 4: Miscellanious Papers

Chairman: Ulrich Witt, Universität Freiburg

Economic Liberalisation and Political Liberties: Recent Evidence in Europe

Speaker: Christopher Lingle, Miami University

Discussant: Pedro Puy-Fraga, Universidad de Santiago de Compostela

Dividend Policy: The Point of View of the Samaritan and the Regret-Averse Agent

Speaker: Mariateresa Fiocca, Università di Roma `Luiss'

Discussant: Jose Casas Pardo, Universidad de Valencia

Session 7.1: 11.00 – 12.00

Room 1: Constitutional Economics III

Chairman: Jan Potters, University of Amsterdam

Income Taxation, Expenditure Taxation or Permanent Income Taxation?

Speaker: Charles Blankart, Technische Universität Berlin

Discussant: H.G. Monissen, Universität Würzburg

The Logic of a Fiscal Constitution: Some Empirical Evidence

Speakers: Guiseppe Eusepi, Università di Roma; Eugenio Cerioni, Università di Roma

Discussant: Michael Fritsch, Technische Universität Berlin

Session 7.2: 11.00 –12.00

Room 2: Public Finance III

Chairman: Ulrich Witt,
Universität Freiburg

The Demand for Local Public Services in Portugal: A Public Choice Approach

Speaker: Ana Bela Santos,
Tecnical University of Lisbon

Discussant: Rene Goudriaan,
Erasmus University, Rotterdam

Brecht`s Law: Scale and Scope Effects of German Communities

Speaker: Georg Ziemes,
Universität der Bundeswehr

Discussant: Beat Gygi, Universität Zürich

Session 7.3: 11.00 –12.00

Room 3: Political Institutions

Chairman: Martin Paldam, University of Aarhus

Legal Services in the USA: 1980 to 1988: "The Congress versus President Reagan"

Speaker: K.C. Rowley, George Mason University

Discussant: Peter Moser, Hochschule St. Gallen

Bicameralism and Stability

Speakers: Geoffrey Brennan, ANU
Alan Hamlin, Southampton University

Discussant: Ekkart Zimmermann,
Universität der Bundeswehr

Session 7.4: 11.00 – 12.00

Room 4: International Political Economy II

Chairman: D. Willis, University of Hull

The Political Economy of Trade, Liberalisation and Structural Adjustment

Speaker: Thorsten Amelung,
Institut für Weltwirtschaft Kiel

Discussant: Petr Hanel, Université de Sherbrooke

Reasons Behind Barter Reconsidered

Speaker: Günther Schulze, Universität Konstanz

Discussant: Xavier de Vanssay,
Simon Fraser University, Burnaby

Lunch: 12.00 – 13.30

Ground Floor

Menue: Vesperteller

(plate of cold meat)

Beverages are at your own expense

Room 1: 13:30 – 15:30

Round Table Discussion on Political Economic Development in Eastern Europe

Chairman: Friedrich Schneider,
Johannes Kepler Universität Linz

Panelists: Istvan Abel,
University of Economics, Budapest

Peter Bernholz, Universität Basel

Arye Hillman, Bar–Ilan University

Andrey Neshaev,
Academy of Science, Moscow

Adi Schnytzer, Bar–Ilan University

Boat–Excursion
15:45–23:00

The boat will leave from the Bundesbahn–harbor (not to be confused with the ferry–boat harbor) at 15:45 sharp.

Boat Ride to the "Birnau" Monastery

Guided tour through the famous Barock church

Boat Ride to the flower isle of Mainau

The Mainau is a tropical plant paradise which presents to the visitor perfect garden art, countless blossom in the magic of the season and a unique collection of trees (Arboretum) in idyllic unity.

Dinner at the Restaurant "Schwedenschenke":

18:45	Aperitif (at your own expense)
19:00	Presidental **Address:** Friedrich Schneider, Universität Linz
20:00	Dinner (beverages are at your own expense)
23:00	Departure for Meersburg

Session 8.1: 8.30 – 10.00

Room 1: Law and Economics

Chairman: Wolfgang Weigel, Universität Wien

Equity and Equity – Strange Twins

Speaker: Jürgen Backhaus,
Rijksuniversiteit Limburg

Discussant: Roger van den Bergh
University of Antwerpen

Attitudes to Risk, Transactions costs and the Possibility of Tyrannical Minorities

Speakers: Roger Bowles, University of Bath
Philip Jones, University of Bath

Discussant: Christopher Curran,
Johannes Kepler Universität Linz

Self–Regulation of the Professions in Belgium

Speakers: Michael Faure, University of Leiden
Roger van den Bergh,
University of Antwerp

Discussant: Thomas Wein,
Technische Universität Berlin

Session 8.2: 8.30 – 10.00

Room 2: Public Finance IV

Chairman: Friederich Breyer,
Fernuniversität Hagen

Appropriability and Public Support of R&D in Canada

Speakers: Petr Hanel, Université de Sherbrooke
Kristian S. Palda,
Queens University, Kingston

Discussant: Ursula Backhaus,
Rijksuniversiteit Limburg

Risks on Human Capital, Risk Aversion and Social Security around the World

Speakers: Louis Levy–Garboua,
Université de Paris
Claude Montmarquette,
Université de Montreal

Discussant: Andres Faina,
Universidad de Santiago
de Compostela

The "Pension Game"

Speaker: Ilde Rizzo, Università di Catania
Discussant: Eugenio Cerioni, Università di Roma

Saturday — April 21

Session 8.3: 8.30 – 10.00

Room 3: International Political Economy III

Chairman: Pierre Salmon,
             Université de Bourgogne

On the Political Economy of Sanctions

Speakers: P.A. Black,
             Universiteit van Stellenbosch

Discussant: Jan Potters, University of Amsterdam

A Public Choice Approach to the Supply of
Bilateral Development Assistance

Speaker: Wim Lagae,
             Catholic University of Leuven

Discussant: Torsten Amelung,
             Institut für Weltwirtschaft Kiel

Can Repressive Regimes be Moderated Through
Foreign Aid?

Speaker: Filip Palda, University of Ottawa
Discussant: Zane A. Spindler,
             Simon Fraser University, Burnaby

Saturday — April 21

Session 9.1: 10.30 –12.00

Room 1: International Political Economy IV

Chairman: Petr Hanel, Université de Sherbrooke

International Governmental Organizations:
Wasteful or Stabilizing?

Speaker: Beat Gygi, Universität Zürich
Discussant: Pedro Puy–Fraga, Universidad de
             Santiago de Compostela

The Principal–Agent Relation in the Economic
Theory of Political Institutions:
US Trade Policy 1934

Speaker: Peter Moser, Hochschule St. Gallen
Discussant: C.K. Rowley, George Mason University

Political Rather than Administered Protection:
The EC–Antidumping Policy

Speakers: Angelika Eymann, Universität Konstanz
             L. Schuknecht, Universität Konstanz
Discussant: Robert E. Baldwin,
             University of Wisconsin

Session 9.2: 10.30 – 12.00

Room 2: Political Economic Systems

Chairman: Gian C. Romagnoli, Università di Roma

On the Interaction Between the Public and the Private Sector

Speakers: Eric Drissen, University of Amsterdam
             Frans van Winden,
             University of Amsterdam

Discussant: Martin Paldam, University of Aarhus

Interest Groups, Political Parties and Extremist Challenges in National Consensus Formation

Speaker: Ekkart Zimmermann,
             Universität der Bundeswehr

Discussant: P.A. Black,
             Universiteit van Stellenbosch

The Development of the Rich Welfare State of Denmark, an Essay in Interpretation

Speaker: Martin Paldam, University of Aarhus
Discussant: M. Henrekson, Universität Goeteborg

Session 9.3: 10.30 – 12.00

Room 3: Voting Theory IV

Chairman: Manfred Gärtner,
             Hochschule St. Gallen

The Ultimatum Game: Theory and Experimental Evidence Reconciled

Speaker: Alberto Cassone, Università di Torino
Discussant: Costas A. Rigas, University of Piraeus

Social Choice and Graphs

Speaker: Costas A. Rigas, University of Piraeus
Discussant: Peter Bernholz, Universität Basel

Party Policy in Response to Voter Behavior

Speakers: A. Schram, University of Amsterdam
             Frans van Winden,
             University of Amsterdam

Discussant: Louis Levy–Garboua, Université de Paris

Saturday — April 21

Session 9.4: 10.30 – 12.00

Room 4: Rent–Seeking

Chairman: Hannelore Weck–Hannemann,
          Universität Konstanz

Regional Rent–Seeking in Canadian Sales Tax Reform

Speakers: Zane A. Spindler,
          Xavier de Vanssay
          Simon Fraser University, Burnaby

Discussant: B.A. Wickstrom,
            Johannes Kepler Universität Linz

*Rent–Seeking in General Equilibrium:
A Didactic Exercise*

Speaker: Hans G. Monissen, Universität Würzburg

Discussant: Matthias–W. Stoetzer,
            Technische Universität Berlin

*Competition of Mass Media and the Location
of Political Parties: Incomplete Information*

Speaker: J. Weimann, Universität Dortmund

Discussant: Joerg Stephan, Universität Konstanz

Saturday — April 21

12.15 – 12.45

Room 1: Members' Meeting

Everybody is invited to participate.

ABSTRACTS

Torsten Amelung

The Political Economy of Trade Liberalization and Structural Adjustment in Middle-Income Developing countries

The paper both theoretically and empirically analyzes the factors underlying a successful trade liberalization policy. The focus is on interest group activities and formation of coalitions which affect the degree of outward orientation in a developing economy. The first section derives a theoretical framework, which allows for the analysis of interest groups and institutions both in authoritarian and democratic systems, since political systems in developing countries tend to be less stable than western-type democracies.

The second section gives a description of the various interest groups that play a pivotal role in the formulation of a country's trade policy, i.e. the military, the bureaucracy, trade unions, traders, industrialists and foreign creditors. Given the theoretical framework developed in the first section, one can analyze the organizational power of the various groups and their vested interest in particular trade policies. As the respective empirical evidence for the case of Turkey shows, there is some indication that trade policies are mainly determined by the activities of these interest groups. Moreover, fundamental changes in the degree of outward orientation are not due to the emergence of new interest groups but rather to changes in the interest structure of particular groups over time.

Finally the third section shows to which extent these findings can be used for explaining trade liberalization attempts in other countries. This is done by altering determinants which are exogenous to the theoretical framework in section one, such as factor endowments, country size and external political factors i.e. wars and strategic relevance of a country. Some of the main conclusions can be briefly summarized as follows:

1. There is no reason to assume that authoritarian governments are more successful in trade liberalization.

2. The sustainability of inward oriented policies is due to a country's export potential in raw materials. The longer the inward oriented policies prevail, the more difficult it is for the government to foster structural adjustments towards more outward orientation.

3. Excessive import substitution policies not only weaken the economy of a country but also lead to a division of interest groups and political markets for protection. This division ultimately leads to a fragmentation within the government.

4. Trade liberalization is not mainly due to export oriented industries or consumer interests but rather to inward oriented assembly industries, which are highly dependent on imported inputs and foreign exchange.

Jürgen Backhaus

EQUITY AND EQUITY - STRANGE TWINS:
THE IMPACT OF EQUITY DRIVEN POLICY MEASURES ON THE EQUITY OF THE STATE

The equity of every business corporation is the net value of its capital, the wherewithall goods and services are produced, revenues collected, and obligations met.

The equity of the state likewise is the net present value of revenue sources, largely dependent upon the productive capacity of its citizens.

Curiously, in much of the health economics literature, equity is considered to be achieved if

- public prices vary according to personal income[1]
- there is "solidarity" between good risks and bad risks[2]
- technologies are economically assessed, before being introduced[3]
- responsibilities are diffused and limited as a matter of course[4]
- access to public supply of health care services is at the same time considered a basic human right and restricted by administrative procedures not subject to judicial review[5]
- the general practitioners serve as entry barriers into the public health care system[6]

The purpose of this paper is to give an analysis of the curious relationship between these twins. After a thorough documentation on the equity induced health care measures in part one, their impact on the equity of the state is analyzed in part two by using standard public finance and public choice theory. Part three offers some practical recommendation on how to contain the equity cost of equity-driven policy measures in public health care provision.

[1] Ministerie van Welzijn, Volksgezondheid en Cultuur, Financieel overzicht van de gezondheidszorg en maatschappelijke dienstverlening 1986, Staatsuitgeverij, s' Gravenhage, 1985.

[2] Roscam Abbing, en F.F.H. Rutten, Solidariteit versus equivalentiebeginsel

[3] Ger Haan, Effecten en kosten van in-vitro-fertilisatie, proefschrift, 1989, p.166.

[4] Publicly authorized corporate forms are introduced, which resemble foundations, but are exempt from liability. These institutions implement delicate policy measures.

[5] Ger Haan, op. cit, p. 163.

[8] M.H.L. van Tits, An Experiment with Financial Incentives for General Practitioners in the Netherlands, Research Paper for "The Joint Meeting on the First European Conference on Health Economics," Sept. 1989.

Ursula Backhaus

EQUITY CONSIDERATIONS IN COST CONTAINMENT PROGRAMS, AN INTEREST GROUP APPROACH

The Dutch health care system is an expansive and complex experiment. This provides an enormous challenge to health economists, who are rarely offered a chance to have their theories tested in practice. This essay, obviously, will provide only a glimpse of this experiment. Yet, the focal purpose of this article is to show that standard economic analysis goes a long way towards explaining the many bizarre features of the Dutch health care system under the cost-containment program. The entire program is driven by considerations of EQUITY.

Consider the example of heart surgery. The Dutch health care system has been in the news lately. It is both, export and import oriented. Patients needing heart surgery are exported for treatment to Brussels and London. At the same time, patients in need of the same operations are imported from Germany and other countries. This is the fascinating result of cost-containment measures taken by the government in co-operation and consultation with the major professional and interest groups.

Cost-containment measures in the public health industry have become a universal feature in Europe. The case documented here is certainly no exception, yet one can learn from this particular experience, because a number of new features have arisen that have not yet been used elsewhere. The paper tries to show in an exemplary way how modern and simple tools of economic analysis can help us understand how certain cost-containment measures actually work. The paper first gives a sense of some of the major measures, continues by discussing the relevant economic theory, and thirdly considers specific equity aspects of the Dutch legislation along with efficiency aspects. A summary and outline of future research forms the conclusion.

P. A. Black

ON THE POLITICAL ECONOMY OF SANCTIONS

This paper adopts a public choice approach to the question of economic sanctions. Its main purpose is to study the political impact of sanctions in terms of their effect on certain interest groups in the sanctioning and target countries.

As far as the sanctioning country is concerned, we argue that the imposition of sanctions often serves the interests of particular pressure groups, such as the producers of importables and other lobbyists pursuing non-pecuniary objectives. These interests may be best served not by a total trade embargo on the target country, but rather by the mere threat of such action, or by the imposition of a certain finite level of sanctions. In either case economic sanctions may play an important signalling role in furthering the political aspirations of the sanctioning country.

In the target country the effect of sanctions will likewise depend on the relative degree of political power amongst interest groups. In the case of South Africa, for example, it will depend not only on the extent to which such groups are harmed or favoured by the sanctions campaign itself, but also on the extent to which they benefit or lose from the restrictive policies of the apartheid government. We develop a mathematical model of interest group behaviour to explain a range of possible responses on the part of different interest groups. Some groups may, for example, respond by comparing the (net) costs of sanctions with the costs that may arise from a reduction in the extent of discriminatory practices in the South African economy. Others may again respond in terms of "rally-around-the-flag" considerations, or on the basis of what they perceive to be the public interest.

The model is also used in a dynamic sense to explore the competitive nature of group behaviour (á-lá Becker) and, finally, to derive a so-called optimum rate of sanctions. The latter is defined in terms of the relative abilities of interest groups to dismantle or reinforce offending policies in the target country.

Roger Bowles

Philip Jones

Attitudes to risk, transactions costs and the possibility of tyrannical minorities

by Roger Bowles and Philip Jones
University of Bath, UK

Abstract

In an earlier paper (Bowles and Jones, 1990) we explored a model in which members of a profession vote on the structure of indemnity insurance premiums. This introduced the possibility that under a simple majority voting rule the minority might prove 'tyrannical'. In the current paper we extend the model substantially by incorporating an explicit account of the role played by transactions costs in a Downsian-based model, using traditional assumptions about attitudes to risk. A 'possibility theorem' is derived illustrating the circumstances under which a minority can expect to make gains at the expense of a majority. The conditions required for the 'orthodox' expectation that the majority will prevail are established and the potential for the minority to succeed is identified. The paper concludes with a review of the implications of these findings extending well beyond the professional indemnity scheme context for which the model was initially developed. In particular it offers insight into voter participation by different income groups.

Reference:

Bowles R and Jones P (1990) "Medical Indemnity Insurance in the UK: a Public Choice Approach" Geneva Papers on Risk and Insurance, 14(no.54), January 1990, forthcoming.

Geoffrey Brennan

Alan Hamlin

BICAMERALISM AND STABILITY

Geoffrey Brennan and Alan Hamlin
Australian National   Southampton University
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ABSTRACT

A key result of public choice analysis concerns the global instability of simple majority voting. The one dimensional median voter theorem does not generalise to the case of many policy dimensions. This theoretical instability of simple majority voting led Tullock to ask "Why so much stability?" is observed in practice in political systems that rely heavily on simple majority voting.

The central purpose of this paper is to offer a partial answer to this question. This answer hinges on the role of bicameralism in the political system. We investigate the link between bicameralism and stability, and show that stable and Pareto efficient bicameral voting equilibria exist. Bicameralism, then, may be an important institutional arrangement in the promotion of stability.

But not all bicameral arrangements entail stability. A second theme of this paper is the discussion of alternative views of bicameralism; and the relationship between those views, stability and alternative political arrangements such as corporatism.

Friedrich Breyer (Hagen) and Friedrich Schneider(Linz)

On the Political Economy of Hospital Financing in Germany

Abstract

In health economics as in many other areas of economics there is a large gap between the policy recommendations often made quite unanimously by academic experts and the measures eventually taken by political decision-makers. Thus there is the permanent danger that the academic health economists get frustrated and withdraw from the ungrateful business of policy counseling. A better understanding of the laws of political decision-making would help to lower the expectations and thus to prevent illusions on the chances of realisation of policy proposals.

In this contribution we concentrate on a limited branch of the health system, which has in recent years been the subject of important political decisions in Germany, namely the financing of hospital services. Using the recent changes in the financing law as an illustrative example, we can confront them both with the experts' proposals and with the preferences of the concerned interest groups and thus to gain insights into the structure of political decision-making in the health field.

The paper is organized as follows. After a short introduction, we describe (in Section 2) 5 basic types of hospital payment systems, which were available alternatives at the decision on the reform of the hospital financing system in the early 1980s, and we identify the types of actors whose interests could have influenced the legislative process. Section 3 is devoted to a theoretical analysis of how these groups of actors might evaluate the respective payment systems. This is done on the basis of a very simple model of the provision and financing of hospital services. In Section 4 these theoretical hypotheses are empirically tested using the official statements made by the respective interest groups prior to the legislation in 1984/85. In Section 5 we examine the influences of the groups on the process within a public-choice model, and in section 6 we draw some conclusions.

Roger D. Congleton

Is a Rawlsian Bureaucracy Deadly, Dull, or Dynamic? Optimal Bounds for Bureaucratic Discretion

This paper explores the powers that a Rawlsian analysis would confer on a national bureaucracy. Since all modern states have extensive bureaucracies, a government which conforms to contractarian normative theory is also likely to have at least a limited bureaucratic component. While previous work in this area has focused on the extent of government's authority vis à vis markets, see Gauthier (1986), Buchanan (1975) or Rawls (1971), the role of bureaucracy in a contractarian state has been neglected. Yet, if the various analyses of bureaucracy are correct, the scope of both governmental activity and market processes are substantially influenced by bureaucratic arrangements.

State bureaucracy is simply that portion of the government's labor force which is not directly elected by popular ballot. They are agents of the citizenry but are largely unknown to them. The range of autonomy possessed by bureaucracy in modern states varies from the nearly complete autonomy of authoritian regimes to the quite limited autonomy granted local school districts to provide education services funded by public tax receipts. If bureaucrats simply implement decisions made by well-known elected officials, the proper bounds of bureaucratic discretion would be of little interest. However, not only is such passive civility unlikely to obtain and impossible to assure through monitoring activities, it is probably undesireable. In many cases, bureaucrats are employed because of expertise that they possess which neither elected officials nor voters do. For example, bureaucrats are often employed to advise elected officials concerning what is possible and desireable. If information costs preclude direct decisions by elected officials, even democratic regimes will granted the bureaucracy limited autonomy to do what is best.

The purpose of this paper is to determine whether contractarian normative theory can shed any light on the extent to which bureaucracy should be granted autonomy. Using some fairly elementary tools from economics and game theory, the paper demonstrates that a maximin bureaucracy will be granted significant but highly compartmentalized discretion.

Giacomo Costa

A NON-COOPERATIVE GAME OF NON-ALTRUISTIC

INTERGENERATIONAL EXCHANGES

by Giacomo Costa,

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The prevailing approach to intergenerational exchanges was initiated by Phelps and Pollak (1968) and employs the assumption of altruistic individual preferences. There are however in the literature fragments of a different and bolder approach committed to the assumption of selfishness. In commenting the paradoxes he had come up with in his pioneering study of the overlapping generations economy Samuelson (1958) had remarked: "It each man insists on a quid pro quo, we apparently continue until the end of time, with each man worse off than in the social optimum...Yet now easy it is by a simple change in the rules of the game to get to the social optimum. Let mankind enter into a Hobbes-Rousseau social contract in which the young are assured of the retirement subsistence if they will today support the aged, such support being guaranteed by a draft on the yet unborn."

Couldn t however this be the outcome of a non-cooperative equilibrium rather than of "social coercion or contracting", as Samuelson thought was necessary? Both Hammond(1975) and Shubik (1981, 1985) have discussed social situations very similar to the Samuelson one. They suggest to look at the overlapping generation economy as an infinite person non-cooperative game in extensive form, and show that there are strategies supporting the social optimum. In the present paper, I show that Shubik's suggested strategy is unsatisfactory because it turns out not to be credible, i.e., it is not sub-game perfect. Several types of subgame perfect strategies supporting the social optimum are discussed, and it is shown that some of them are not satisfactory, either, because they lack a property whose counterpart in infinitely repeated games is renegotiation-proofness. This property, which implies a useful sort of independence of past deviations, is defined and compared to a time-consistency property that had been suggested by Hammond.

The concepts of social contract,custom and altruism,are briefly discussed in the light of these results.

Tyler Cowen
Amihia Glazer

Rent-Seeking Promotes the Provision of Public Goods

by

Tyler Cowen
George Mason University

Amihia Glazer
Henry McMillan
University of California, Irvine

In the absence of adequate incentives, public officials will devote too little time and effort to proposing policies that can benefit others. To the extent, however, that solving such problems generates rents to legislators, rent-seeking in politics can motivate public officials to provide public goods. For example, legislators who draw up new bills may win pork barrel benefits for their districts; these benefits motivate them to draft the legislation. The prohibition of rent-seeking, even if possible, may not be desirable. We apply the concept of the motivational effects of rent-seeking to examine the content of legislation, the effects of graft and corruption in government, the role of agenda-setting in social choice theory, and the validity of cost-benefit analysis.

Gerrit De Geest

"Voting procedures in apartment buildings: a public choice analysis"

In apartment buildings, voting procedures exist for a wide range of decisions, like the provision of new nonrival goods (f.e. placing an elevator in an old building), the provision of goods with positive external effects within the building (f.e. placing a sculpture as decoration for the entrance hall) and the production of norms concerning individual behaviour that generates external effects.

In this study, we will depart from a comparison of the Belgian, Dutch, French, German, Italian and Swiss legislation on condominiums. We will also pay special attention to the usual contractual arrangements in Belgium, because this country has the most liberal legislation.

A closer examination lears that there is not one but a complete set of decision rules. For some decisions, unanimity is required, for others a special majority or even a simple majority is sufficient. In some cases, the judge can decide instead of the majority. There are forms of direct democracy (by the general assembly of all owners) as well as forms of representative democracy (decisions made by a representative, a 'manager' or 'syndic').

Finally one has to explain why the principle of 'one man one vote' is generally abandoned en replaced by the principle of 'every man has a number of votes according to the value of his apartment'.

Untill now, there is almost no literature in which these decision rules are analyzed from an economic point of view (in contrast to the voting rules of in corporations f.e.).

This paper aims to be an empirical evaluation of:
- the Buchanan & Tullock thesis of optimal majorities;
- the Nitzan and Paroush theorem;
- Wickströms theory about 'optimal majorities for decisions of varying importance'.

Carsten Detken,

Manfred Gärtner

Carsten Detken and Manfred Gärtner

GOVERNMENTS, TRADE UNIONS AND THE MACROECONOMY

AN EXPOSITORY ANALYSIS OF THE POLITICAL BUSINESS CYCLE

Abstract

The paper briefly reviews the state of the art on the political business cycle in the context of a simple textbook model of the macroeconomy, including the standard results that Nordhaus-type political business cycles disappear under rational expectations but that due to time inconsistency an inflationary bias remains.

Then the assumption of a neoclassical labor market is dropped and trade unions enter the picture. It is show that a trade union which possesses political interests and some degree of monopoly power maximizes utility by generating a *supply-side political business cycle*. Political business cycles of this mold do not vanish under rational expectations.

Eric Drissen

Frans van Winden

ON THE INTERACTION BETWEEN THE PUBLIC AND THE PRIVATE SECTOR

A General Equilibrium Approach

ERIC DRISSEN

FRANS VAN WINDEN

In this paper the interaction between the public and the private sector in an economy is analyzed. To this purpose, a general equilibrium model is constructed that builds on a microfoundation to the behavior of consumers and producers (including their reaction on government policy changes) and on the modern political economic approach to government behavior. The model allows for redistribution policies as well as the production and consumption of public goods. Furthermore, the tax-transfer system presented in this paper considers both an official or (quasi-)constitutionalized part (captured by a uniform income tax) and a part representing the existing political influence structure determining the actual levels of the tax rate and leading to special provisions. The general equilibrium solution is investigated by means of a comparative statics analysis and compared with the solution of a traditional general equilibrium model (that is, without endogenous government behavior). Finally, the tax-transfer system is compared with some alternative tax systems, in particular lump sum taxation.

Leonard Dudley, Claude Montmarquette

GOVERNMENT SPENDING, DEFICITS AND REFORM:
A DISEQUILIBRIUM APPROACH

by

Leonard Dudley and Claude Montmarquette*

Centre de recherche et développement en économique and Economics Department

Université de Montréal

November 1989

Abstract

Previous models of public spending fail to explain why inflation rates are distributed non-randomly across countries. Here we propose a disequilibrium model in which, under conditions of excess demand, the supply side adjusts contemporaneously to accommodate a part of the desired additional spending. The public-choice, supply-side and disequilibrium models are each special cases of our more-general framework. Using cross-country data for 1970, 1975 and 1980, we find that governments accommodated about 44 per cent of excess demand. Our results suggest that while the Ricardian approach to government deficits is appropriate for industrialized countries, it is unsuited to most developing countries. Moreover, economic reform would appear to be a precondition for effective political reform.

Giuseppe Eusepi
Eugenio Cerioni

The Logic of a Fiscal Constitution: Some Empirical Evidence

The eighteenth and the nineteenth centuries represent the age of the political Constitutions which determined the end of the absolutism and the beginning of modern parliamentary systems. Indeed, the purpose of the Constitution was that of putting a certain limit against the excessive power of the sovereign.

The basic assumption, namely the maintenance of liberty could be reached only if the political market, through the game of the majority and the minority, would have been able to answer to the needs of the citizens.

With few exceptions, the Classicists believed, that the two fundamental rules i.e. the balance budget internally and the gold standard externally were conditions both sufficient and essential conditions to ensure efficient outcomes.

The most recent theoretical developments show the necessity to have a fiscal and a monetary Constitution beside a political one.

The electoral mechanisms for the selection of the representatives in a context with no pre-existing rules within which the representatives could make their decisions do not guarantee that the outcomes be satisfactory both in terms of freedom and resource allocation.

In fact nowadays public indebtedness that the no-taxation without representation of the American colonists is not sufficient, especially in a consociated democracy but not necessarily just in it, to ensure the equilibrium. On the other hand the balance budget is becoming less and less the aim of Governments and Parliaments. In addition the excessive fragmentation and the overall complexity do not allow a democratic control not even through the appointed institutions (such as the Corte dei Conti in Italy).

The crisis of the Keynesian theory has increased the number of scholars who see the solution to the problems of public finance in fiscal rules rather than in discretionary power.

Our work will try to show whether it is possible or not to find statistically significant evidences of the impact constraints play on government's behaviour.

Both difficulties in international comparisons and the systematical elusion of the constitutional rules, as it happens in Italy, make it difficult to understand the emerging differences under the simple rule/no-rule assumption.

Angelika Eymann and Ludger Schuknecht

Political or Administered Protection?

The EC-Anti Dumping Policy

In this paper, we argue that Anti-Dumping in the EC can be politically determined as opposed to US measures which are largely dominated by administrative factors. The institutional setting results in high administrative discretion and political accountability of EC-bureaucrats.

In the second part of the paper we test EC Anti-Dumping investigations for political and administrative determination. We apply the tests used by Finger, Hall and Nelson (1982) to the EC and supplement them.

A. FAIÑA and A. GARCIA-LORENZO, Ftad. de Derecho, La Coruña, Spain.

TOWARDS A POLITICO-ECONOMIC MODEL OF THE INTEGRATION PROCESS

The aim of the last year communication by A. FAIÑA and M. VAZQUEZ-TAIN was to show in its first part the logical roots of the European integration process, the method, with the model of constitutional choice by BUCHANAN & TULLOCK (1962), applied to the main agents of the process, european citizens in general and, in particular, the european governments themselves. This new paper will deal with a more accurate and formal representation of the basic relationships involved in long term demand and supply functions for european integration.

As from the essential elements of the citizens' and governments' constitutional choice, the demand correspondence of european integration (the amount of functions attributed to the supranational level in the Community) will be derived in exchange for political influence over the decision-making process of the Community. This demand correspondence is to be considered in the long term. We assumed that in the long run the volume of external costs expected from the supranational collective action is reduced while the harmonizing and unifying task of the Community reduces the degree of heterogeneousness of interests and ideologies between the different groups across the member countries. The european integration demand must face the integration supply, defined as the correspondence between the flow of ordinary decisions that the CM (Council of Ministers) must take to exercise the functions attributed to the EC and the costs of reaching decisions in the CM. We assumed governments intention is to maintain very inclusive voting rules -near unanimity- even for the ordinary affairs to be debated at the CM. Consequently the decision costs of the CM will be high and its integration supply will be low. So the interaction between supply and demand of the european integration leads us to the conclussion that the European Union, if ever possible, must have a strong popular impulse to beat a progressively higher resistance brought on by the reluctance of governments to control the decision-making process in the supranational level. This means that the dynamics of european integration, <<La méthode Monnet>>, will not operate on its own but will rather need popular pressures from the political market to conquer governments' reticence to lose control of this process. These pressures and reticences will become higher according to the advances of the european integration process. Nevertheless there could be a governments' interest in the setting of supranational institutions within the EC, for this means joining to an international club of political and economic influence. To explore this subject with the help of the economic theory of clubs will be the aim of the second part of our paper.

Mariateresa Fiocca

The Samaritan, the regret-averse individual and the dividend policy

A large stream of literature has grown around the irrelevance of dividend policy (Miller and Modigliani, 1961). After about thirty years, the invariance proposition is still open to discussion and an extensive and established economic literature attempts to build a bridge linking the orthodox theory and the 'real world'. Real-world applications of the invariance proposition seem unsatisfactory and the empirical evidence of Miller and Modigliani argument has been largely questioned on the ground of several imperfections of the capital market: transaction costs, asymmetrical informations and most notably (corporate and personal) taxation.

However, the dividend story may be re-formulated in the light of some psychological attitudes and/or some behavioural rules individuals adopt. In this circumstance, dividend and capital gains are not perfect substitutes, namely dividend policy is not a matter of irrelevance, even when taxation and other frictions of the capital market are neglected.

Following these lines of reasoning, in the present work we suggest a possible interpretation of the relevance of dividend policy in the light of Buchanan's 'Samaritan's dilemma' (1975) and a recent theory of choice behaviour under uncertainty, the regret theory by Loomes and Sugden (1982, 1983). In the analysis both the approaches are implemented as a (psychological) counter-argument against the irrelevance proposition.

Dr. Federico Foders

Ocean Use in Europe: Will 1992 Matter?

According to the Treaty of Rome and the Single European Act economic activities in EC member countries will be integrated into one single market from 1993 onwards. The free movement of goods, services and factors among the 12 member states is the overall objective of project 1992. No sector of the economy, not even public procurement, is to be excepted. One sector, however, seems to have been forgotten: ocean use, particularly the utilization of offshore oil and gas. Europe's offshore oil industry, located in only a few resource-rich coastal states, is currently well protected against competition from other (EC and non-EC) countries and very likely to remain protected even after 1992.

This paper first analyzes the regime for offshore oil prevailing in the European countries drawing heavily on the political economy of domestic-content protection (Grossman (QJE, 1981); Findlay, Wellisz (PC 1986)). The relevant legal and institutional instruments and public policies are identified, and the gainers and losers from this regime are determined. Then, estimates of the level and distribution of potential gains and losses associated with

i) a harmonization of national offshore oil regimes following EC plans to subject offshore oil to EC rules on public procurement and

ii) a liberalization of the offshore oil regime in EC member countries along the lines of the US offshore hydrocarbon regime

are presented. Finally, the paper discusses the pros and cons of alternative regimes and their contribution to efficient resource use.

Siegfried F. Franke

"The Rise and Prospects of the Republican Party within the Democratic System of West Germany"

The unexpected success of the Republican Party in the last election in West Berlin as well as in the election to the European Parliament reveals very clearly a considerable potential of right-wing voters. The development leading to such an disturbing potential has been neglected for quite some time. Most of the political reaction seems to point the moral. To our opinion, however, sermonizing is no answer to the adherents of the success of the Republican Party. We are sure that there is an economic explanation of the success of the Republican Party.

This explanation interpretes the usual voter's density function in a different way. In contrast to the usual spatial interpretation it is merely understood as the potential of voters who may prefer one party or the other, but it is also possible that they withhold their opinion. The consequences for the (two) popular parties and the possibilities for the existence and the development of small parties can be explained with the analytical framework of loss functions. The loss functions describe the potential of voters which possibly vote for small or even radical political parties. Additionally, we will use the categories "exit" and "voice" (Hirschman).[1]

The main determinants of the loss functions are the party-political preferences of the voters, their state of information, and, very important, the influence of political measures to their income. The aim of the paper is to investigate these determinants very carefully with reference to the adherents of the Republican Party. This will lead to a deeper understanding of the economic causes of the rise of the Republican Party and its further development. Certainly, this could serve as a better foundation for political discussions than sermonizing.

R. Fremdling

G. Knieps

State versus Market: The Prussian Railway System

Abstract

During the last decade there has been an intense debate on the possibilities for deregulation and privatization within the transportation sector. In the U.S.A. several laws have been passed to allow market entry and flexible tariffs in the airline market, the intercity-bus market and trucking industry. Similar deregulation activities are currently discussed in European countries, also with the aim to support the development of the common market in 1992. Nevertheless, the discussion on the reform of railway systems somehow lags behind. In the U.S.A. tariff flexibility has been granted since the Staggers Rail Act of 1982. A large number of institutional alternatives, for example the legal right of free access to railway tracks in order to provide competitive railway services, have not been taken into consideration nor even discussed. On the contrary, the mutual usage of railway tracks by different railway companies ("Anschlußzwangsverordnung") could no longer be enforced by the Interstate Commerce Commission. Moreover, in European countries the debate on the reform of railway systems takes the overall legal monopoly of railway companies for granted.

In this paper we shall analyze the development of the railway system in Prussia. For several reasons this is a particularly interesting case. Firstly, different phases of state participation could be observed until nationalization in 1879. Secondly, the role of a competitive supply of railway services was already discussed in an early stage of railway development. The analysis of the development of the Prussian railway system may enlarge and stimulate the current discussion on the reform of European railways. The paper is organized as follows. In the following part II, the gradual development of the Prussian railway system is characterized. Parallel to the evolutionary construction of the railway network an institutional change from a large number of private railway companies towards one single nationalized railway system in 1879 can be observed. In part III the arguments in favour of nationalization are reconsidered. In particular, the statement that competition on the tracks (lines) would not have been possible is rejected. In part IV solutions superior to nationalization are discussed, in particular the regulation of the market power of railway track owners, the competitive supply of railway services and the creation of a universal service fund in order to guarantee socially desired subsidizations.

Hans de Groot and René Goudriaan

REGULATION AND FUNGIBILITY IN THE PUBLIC SECTOR

The assumption of strictly hierarchical relations between levels of government or between central government and executive agencies or subsidized institutions, often made in economic theory, is clearly unrealistic. In particular, the assumption that local governments or executive agencies simply follow orders of their public sponsors, neglects a basic notion of public choice theory. Local interests and preferences are as much as important for the outcome of agency decisions as central directives. Recently, this has been recognised in different studies of the 'fungibility' of conditional grants received by local governments in the U.S.

In this paper we present a principal-agent model that explains to what extent local governments or agencies try to convert conditional grants into general revenue to be spent for their own purposes. The model incorporates explicitly the costs and benefits of monitoring or incentives which are the main instruments of central government to assure compliance with central directives. Conditions for the optimal level of monitoring by central government are derived.

Kevin Grier

There are three existing hypotheses about political influence on monetary policy: partisan models, election cycle models, and congressional influence models. This paper considers these theories statistically using U.S. data. We construct a comprehensive political model of money growth and test to see if this political model is superior to standard macroeconomic reaction function models of Federal Reserve behavior.

Beat Gygi

International Governmental Organizations: Wasteful or Stabilizing?

It is shown that formalized international governmental organizations (IGOs) are one type of various institutions stabilizing cooperation between governments (often called regimes). For governments there is a trade-off between stability and flexibility of an IGO over time. Stability of an IGO is determined mainly by the barriers to exit for the member states. These barriers include explicitly agreed-on penalties when a government leaves the IGO irregularly, specific investments of governments (hostages) and self-interested managers looking for support by their domestic governments. The essential characteristic of an IGO is thus a management that enjoys discretionary leeway and is interested in keeping the organization alive. There is a Principal-Agent relationship between the governments and the management of the IGO, thus the possibilities of governments' delegates to influence the managers' behavior are determined by the rules fixed in the treaty of the IGO. This includes (1) monitoring institutions, (2) incentives for the managers, (3) institutions that channel voice from member countries in the IGO and (4) exit options of members. Exit is the last radical solution if the other institutions have failed to match the differing interests of managers and interest groups within the IGO. The FAO serves as an illustrative example for an IGO that is just about to lose an important contributor: the USA.

Petr Hanel
Kristian Palda

Appropriability and Public Support

of R&D in Canada

Petr Hanel, U de Sherbrooke
and CREDIT, Quebec
Kristian Palda, Queen's University, Ontario

Abstract

Canadian federal government expenditures on R & D are substantial, its support to private sector innovation growing. We investigate the extent to which federal funding is influenced by the presence of appropriability of research results.

We begin discussing the overall distribution of federal research funds, asking whether it could be explained by public goods or market failure argument. Our main investigation, however, concerns the allocation of total grants and specific-program grants to (SIC) industries. This we undertake against the background of various definitions of (in-)appropriability and spillovers. While these have different operational forms, both of them must be taken into account when attempting to explain R & D outlays in the private sector. We venture to build a model of grant determinants, test it against some available data and present a first round of results. These are contradictory: on the aggregate level (between total grants and tax credits, and when total grants are related to SIC industries) there seems to be no connection between inappropriability and subsidy; while there is some evidence of it under one specific grant program.

We believe this is the first time that the recently emphasized proxies for appropriability are used in the R & D-subsidy context.

Elizabeth Harrison
Christian Seidl

ACCEPTANCE OF DISTRIBUTIONAL AXIOMS:
EXPERIMENTAL FINDINGS

by Elizabeth Harrison and Christian Seidl, Kiel

The most common measures of income inequality satisfy well-known value judgements, such as scale invariance, the population principle, the transfer principle, etc. They can be regarded as distributional axioms. So far, hardly any axiomatic system is known that produces exactly one and only one measure of income inequality. Rather, income inequality measures are either required a priori to satisfy some distributional axioms or they just happen to satisfy some distributional axioms.

Such distributional axioms are relied upon because they express value judgements about the properties income inequality measures should possess. Should, for some reason, distributional axioms happen to be untenable, then the case for income inequality measures which satisfy such dubious axioms becomes untenable as well. In that case we must resort to constructing different income inequality measures.

This leads us to the question of which criteria can be used to judge the tenability or intenability of distributional axioms. We think that a first and foremost criterium for the tenability of distributional axioms is their acceptance by the general public. When distributional axioms are frequently rejected by the population to which they are assumed to apply, we feel that this casts considerable light on the dubiousity of the axioms themselves as well as on the appropriateness of the consequent inequality measures implied. For this reason we applied the method of asking respondents to reveal their preferences with respect to various distributional axioms.

Questions about the acceptance or rejection of distributional axioms are best kept simple and presented in the garb of readily comprehensive examples of income distributions. We therefore devised two simple questionnaires and selected four different groups of people from whom we collected responses, viz. from staff economists, a group of economics majors, an economics class of college sophomores and a group of high school seniors. The questionnaires contained four and seven pairs of income distributions, respectively.

Without receiving prior information regarding the principles represented and without being furnished any monetary denomination, subjects were asked to consider each pair of income distributions separately and, based on their personal understanding of "abstract equality", to choose for each pair (1) whether income vector A was "more equally distributed" than income vector B; (2) whether income vector B was more equally distributed than vector A; or (3) whether the distributions were indeed equal.

The data was then analyzed using cross-tabulation and database selection techniques to determine which distributional criteria were preferred among the experiment participants. Second, using a logit model we analyzed sequences of individual responses to test the appropriateness of hypothesized logical inconsistencies with respect to mutually exclusive selection criteria.

Our preliminary results show that the scale-invariance axiom, not the translation-invariance axiom, is by far the more commonly held value of distributional equality among our sample. Furthermore, when examining the responses to the population principle, we found significant violations of the axiomatized replicative equality. In addition, we found that the transfer principle was far from being universally accepted and that the ordering on which the generalized Lorenz curve relies lacks support among the respondents.

Magnus Herrekson

The Peacock and Wiseman Displacement Effect: A Reappraisal and a New Test

by

Magnus Henrekson

Abstract: Peacock and Wiseman's displacement effect remains one of the most frequently cited explanations to the growth of public spending, not the least in public finance textbooks. According to this hypothesis government spending tends to evolve in a steplike pattern, coinciding with social upheavals, notably wars.

Despite these frequent references an appropriate hypothesis has not yet been tested in a rigorous manner. In this paper we reappraise the displacement literature in order to (1) identify what various scholars have really meant by displacement, (2) to review and assess previous empirical tests of the hypothesis, and (3) based on reasonable interpretations of displacement, to devise and carry out a test of the hypothesis, a test which will attempt to avoid the methodological shortcomings of previous tests and is as closely as possible consistent with Peacock and Wiseman's original writings.

In a survey of the displacement literature we show that one can identify at least four distinct versions of the theory. Earlier empirical tests of displacement suffer from several methodological shortcomings and comparability between the studies is impaired by different choices of time periods and data series. Moreover, in all studies except that of Pryor (1968) the time dimension is completely suppressed, despite the fact that the P-W hypothesis purports to explain the development of public spending over time.

We devise a test that directly focuses on the time-series behavior of government expenditure. This new test is restricted to post-WW II displacement, since this is the only upheaval for which the necessary data is available. Due to the fact that government spending during the war years has been explicitly modeled in these countries and the fact that data for a "long" period is required, Sweden and the U.K. are the only countries found to qualify for the test.

In the first stage an ARMA(p, q) model with trend is fitted to the postwar data to obtain a suitable time-series representation of the spending series. The interpretation of this representation allows us to reject the first two versions of the displacement hypothesis. In order to test version III, i.e. whether there has been upward displacement in government expenditure due to WW II as a share of GDP or per capita, the war years are explicitly modeled and the postwar shift is tested for using Box-Tiao intervention analysis applied to the period 1922-87.

The results clearly disprove the hypothesized upward displacement. Instead the model indicates that WW II led to a permanent downward shift in government spending net of trend on the order of 4.6 percent of GDP for the U.K. The (insignificant) point estimate for Sweden indicates a downward shift of 2.3 percent. The effect of the war is remarkably similar in the two countries despite the considerable difference in the nature of their war involvement.

Arye L. Hillman

Heinrich W. Ursprung

Abstract

This paper examines the relation between the multinational firm and the determination of international trade policy. At issue is whether the multinational firm exerts a protectionist or liberalizing influence on countries' national trade policies. Vertical integration appears quite unambivalently to give the multinational firm reason to favor liberal international trade policies. Horizontally integrated multinational enterprises, on the other hand, are inherently more protectionist than national firms since they own local import-competing production facilities at home and abroad, and hence have an interest in protection in both markets. Such protectionist presumption notwithstanding, we nevertheless demonstrate that via the process of political competition the horizontally integrated multinational enterprise has a liberalizing influence on the determination of countries' international trade policies.

Manfred J. Holler

EFFICIENT EXPLOITATION THROUGH MAJORITY VOTING

Manfred J. Holler*

Abstract:

The dictatorship of majority and the potential to exploit the minority are often considered a major shortcoming of a democracy based on majority voting. In this paper it will be argued that discriminatory policy making is a substantial means to reach efficient outcomes, if stability is positively evaluated by the voters and the social choice setting is strategic.

First, it will be demonstrated that global policy measures - such as nondiscriminatory taxes and subsidies - may lead to Pareto inefficiency, instability, and failure of coordination.

Second, it will be argued that the majority voting inherently leads to stability and a balance of interests over time if (a) policy measures are specific and (b) discrimination triggers distributional issues in the political arena. If the latter are essential, then, in a simple Downsian two-party system, government can only be re-elected with the support of the opposition (because distributional issues potentially imply cyclical majorities). This induces either a logrolling solution in which government and opposition (majority and minority) participate as (almost) equal partners, or a taking-turns solution which results from a sequence of government defeats.

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"The Austrian hard-currency policy: The case of an overvalued currency and politico-economic considerations."

ABSTRACT

In the first part of this paper some arguments are mentioned, which support this policy:

a) Lowering of the "imported" rate of inflation. This argument is based on the Scandinavian model of inflation;

b) minimizing the risk of exchange rate variations;

c) Considerations with a view to the theory of optimum currency areas.

In the second part some consequences of the Austrian currency policy are discussed, which show the disadvantages:

a) The appreciation in real terms and the overvaluation of the Austrian Schilling. In computing and using an indicator, which represents the diverging development of the economic performance, and comparing it with the development of the exchange rate the argument of overvaluation is derived. The real term appreciation is demonstrated with the different time path of the real effective exchange rate of the Deutsch-Mark and the Austrian Schilling.

b) The policy constraint to modify the exchange rate in the same manner as the Deutsch-Mark does.

In the third part some politico-economic conclusions are drawn. The Austrian central bank was very successful in inserting the goal of price stability and the instrument of the hard-currency policy into the objective function of the government. This bears the consequence, that the costs of this policy are neither discussed nor (apparently) seen, though it has set constraints for other aims of the objective function (income policy, employment policy). In this positive analysis considerations for the other organized interest groups are also carried out, so that in the end it is possible to offer an explanation, why in view of the (high and potential) costs this policy is not doubted by the Austrian social partnership: The benefits of this policy are easy to understand or are evident, but the costs are on a macro-economic level and compounded with a (merely) potential risk, and the burden is not distributed equally.

Wim Lagae

PROPOSED TITLE : A PUBLIC CHOICE APPROACH TO THE SUPPLY
OF BILATERAL DEVELOPMENT ASSISTANCE. An analysis for 7
DAC donors in 1987.
by Wim LAGAE

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ABSTRACT

National foreign aid policy concerns the selection of
countries to receive aid and the amount they receive.
This paper is focused on the motives behind official
foreign bilateral aid spending of 7 DAC donors in 1987 :
Belgium, France, Japan, the Netherlands, Norway, the
United Kingdom and the United States. Public choice
theory, analysing actual aid disbursements and
emphasizing the role of different pressure groups in the
decision process, provides a point of departure.
As in L. Dudley and C. Montmarquette (1976), we assume
that the supply of aid is explained by the impact of
foreign aid on the donor economy, as perceived by the
decision takers in the donor country. The impact function
is a combination of altruistic motives and the political
and economic self-interest of a donor. We first analyse
the decision wether or not to grant aid. Next, the model
attempts to explain the amount of aid granted, once the
decision to give to a particular country had been taken.
The estimation results reveal the differences among
donors in motives underlying their bilateral foreign aid
supply. On the one hand, there is a different
responsiveness to relative degrees of need in developing
countries. On the other hand, the perception of national
donor interests also differs: the sensitivity of aid-
giving to export flows, the aid flows to former colonies
and the importance of political prestige within the donor
community.

Louis Lévy-Garboua
Claude Montmarquette

RISKS ON HUMAN CAPITAL, RISK AVERSION AND SOCIAL SECURITY
AROUND THE WORLD

by Louis Lévy-Garboua, (LLAMIA, University of Paris I)
and Claude Montmarquette, CRDE, University of Montréal

One major aim of Social Security systems since their creation
has been to provide coverage against the risks on human capital
occuring through work injury, illness, unemployement or old age.
Since the development of Social Security systems around the world
has had a major influence on the growth of governements, the
social insurance motive should be carefully examined and
empirically assessed in the public choice literature.

However, this has not been done systematically (Varian, 1980,
is a notable exception), possibly because taxes and transfers,
usually based on income, are not directly connected with risks on
human capital.

We assume in this paper that work-related risks may affect
the value of human wealth and lead risk-averse individuals to seek
insurance and self-protection. Thus, social contributions and
social benefits are analysed respectively as insurance premiums
and indemnities. New theoretical and empirical implications of the
social insurance hypothesis are derived from this simple framework.

We are able to observe 44 Social Security systems in 1980 with a
fairly equal number of industrialized and developing countries,
and to build new aggregate data on four human capital risks : old
age, illness, work injury and unemployment. The data set includes
social contributions, social benefits, administrative expenditure
(loading) and the rate of insurance coverage.

A simple equilibrium model of insurance applicable to the risks on
human capital is suggested and tested on this data set. If
individuals are expected-utility maximizers and the price of
insurance depends upon the probability of risk, Arrow's remarkable
proposition that the optimal insurance be full insurance with a
deductible can be used. We are then able to test or estimate with
non-linear techniques the constancy and value of the relative risk
aversion, the loss function and risk parameters. We explain both
the rate of coverage and the premium rate. Allowance can be made
for1 the incompleteness of insurance markets, namely that
unemployment insurance is not always available.

We also discuss the links between the development of Social
Security and economic growth, and compare the relative risk
aversion found for risks on human capital with parallel estimates
on property-liability insurance.

Christopher Lingle

Jaffa Machnes

ECONOMIC LIBERALISATION AND POLITICAL LIBERTIES:
A CASE STUDY OF SPAIN

Optimal Allocation of Health Expenditures

Yaffa Machnes

The allocation of public expenditure for medical care among different projects and different age groups is in constant dispute in all societies.

At present, medical care is distributed according to the observed needs of the population and the political power of the geographical and age groups.

The actual frequency of illness is used as an estimator of the probability of the healthy population becoming sick. The return to investments in safety and in illness prevention is also expressed as the change in the probability of getting sick. But, as shown by Cahanman and Tversky, individuals are unable to make rational decisions in a probabilistic dimension even for states of nature that are independent of their health. Thus, the central planner who distributes resources should gather information about the probability of illness and conduct a cost-benefit analysis for each project. The allocation decisions should be based on these data.

We assume an individual's utility increases with the length of life and that he perceives medical care as a device that prolongs life. Our aim is to maximize life expectancy of the population and we adopt the stochastic dominance criterions for choosing the optimal medical care projects. This analysis introduces an objective criterion for choosing the optimal medical care projects.

The Fund is established by HAYEK concerning economic freedom and the Rule of Law form the basis of an analysis of the course of the liberalisation of economic policies in the waning years of FRANCO's rule in Spain. Support is found for the thesis that political liberties which emerged in Post-FRANCO Spain were and are inextricabl linked to the evolution of economic freedoms.

However, despite the importance of free markets as an underpinning to the newly established political dispensation in Spain, a return to greater intervention and centralisation in Spain follows the course of "WAGNER's Law". As in other Western, industrialised nations governmental expenditures (and a return to intervention) have risen with rising national income.

In this analysis, the question of the alternatives to unchecked government intervention is posed. The primary solution is revealed in terms of a greater reliance upon private choice in open markets.

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Carla Marchese

Efficiency Indicators as Effort Measures. The Case of the Italian Postal Services.
by Carla Marchese. University of Torino

The economic theory of principal-agent relationship and of efficient contracts is oftenly applied to public choice problems.

It is well known that the design of an efficient contract is rendered more easy if it is possible to infer the hidden effort of the agent through comparisons of the performances of different agents or through tests. Models which refer to this possibility seem to unconsciously parallel the new developments in the literature on technical efficiency measurements through production or cost frontiers: the assumptions maintained to design a optimal contract or to estimate a stochastic production frontier are oftenly the same. If things are like that efficiency indicators could be used as a basis for the assignment of the fees within efficient contracts. Efficiency indicators could improve upon the simple observation of the outputs of different agents and give a better estimate of their hidden effort.

The paper discusses shortly the relevant literature and presents some technical efficiency estimates for the Italian postal services.

Peter Moser

The Principal-Agent Relation in the
Economic Theory of Political Institutions:
An Application to the Organization of U.S. Trade Policy

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Abstract

As firms are designed to reduce the costs of contractual performance that harass spot market exchange, political institutions are created to mitigate enforcement problems faced in legislative exchanges. One possibility to provide legislative agreements with durability is to delegate certain policy decisions to a third party. Analogous to the theory of the firm, a principal-agent relation is created and monitoring devices have to keep shirking of the agent within limits. As it argued for the judiciary, the committee system and the bureaucracies, the paper demonstrates that also the delegation from U.S. Congress to the President may improve the enforcement structure of political exchange and, therefore, enlarge the exchange opportunities for legislators.

This idea is applied to the congressional delegation of trade negotiating authority to the U.S. President in the Reciprocal Trade Agreement Act of 1934. I address myself to the question what kind of policy the President is likely to enforce, and what were the reasons in the 1930's to adjust the use of institutional enforcement devices.

Peter Nannestad

Unemployment and the vote in Danish general elections 1966-77

Up to now there have only been two major attempts to estimate VP-functions on Danish data. Madsen (1980) used nationwide election data from all general elections between 1920 and 1973 to analyze the influence of macro-economic variables on the deviation from the "normal vote" for the dominating party in coalition governments. As for unemployment (both level and change), he found a rather weak relationship to deviations from the "normal vote", and - contrary to his expectations - the coefficients turned out to be *positive*. If anything, the Madsen study thus seems to support the "stability hypothesis" (Paldam and Schneider 1980) on how unemployment may influence the vote.

The study by Paldam and Schneider (1980) is based on (quarterly) popularity data from 1957 to 1978 (with some lacunae). For the period 1957 to 1968 they found a significant, *negative* relationship between the popularity of the (socialdemocratic) government and changes in unemployment, i.e. a "responsibility pattern" as they named it. From 1971 onwards, on the other hand, a different picture emerged: Now the relationship between changes in unemployment and (socialdemocratic) government popularity turned out to be *positive*, albeit the coefficient just failed to become statistically significant. For this period, then, the "stability pattern" surfaced.

We are thus left with two partially contradictory results on the relationship between unemployment and popular support of the government in Denmark. In part at least, these differences may simply be due to differences between the two studies with respect to the time periods covered and the data on popular support (Electoral results vs. opinion polls) used, however. It could well be, e.g., that opinion polls are inherently biased in favour of the "responsibility pattern", since threatening to "throw out the rascals" when interviewed for a poll may be psychologically and politically very different from actually doing so at election time.

In order to gain some more insight into the relationship between unemployment and popular support for the government in Denmark, the first part of the paper examines data from Danish general elections between 1966 and 1977 (a total of 6 general elections). The data used are economical data on unemployment and electoral results from about 35 Danish cities, and the analysis is primarily cross-sectional. (For a similar approach see e.g. Rattinger (1979; 1980)). The results tend to support the findings reported by Paldam and Schneider (1980): Up to 1973 the "responsibility pattern" emerges, but beginning in 1975 we find the "stability pattern". On the other hand, as in the Madsen study, the relationships are generally rather weak.

Based on these findings the second part of the paper shortly examines some possible explanations. It is also discusses how the relationship between unemployment and vote may be fitted into the model of reactive voting set out and tested in Nannestad (1989).

Filip Palda

Deciding on Foreign Aid to Repressive Regimes

Filip Palda
University of Ottawa
November 1989

My paper looks at what may happen to the welfare of the rulers and the ruled in a repressive, less developed country when national income changes and asks how in consequence foreign aid to such a regime should be granted. The principles of aid are derived from two ingredients. First, a model is built of the uses to which target countries put their aid. It is assumed that rulers may pocket some part, give some part to their people, and spend some part on repression of their people. The resulting behavioural equations are shown to be constraints on foreign donors who have humanitarian objectives to fulfill. These constraints guide the donors in their aid to repressed LDC's.

The factors that drive income are taken as given and are not studied. The object is to explain how a policy of foreign economic aid may affect both the distribution of wealth and the level of repression in a developing country. The proposed theory shows that even with vast resources and varied instruments, a donor may not be able to lower repression and at the same time to change the distribution of income in an equitable manner. For if aid is to be effective it must be accepted by the oppressive ruler. He will accept aid only if it raises his utility—an unsavoury proposition that is seldom mentioned. This cramps the donor's ability to attach conditions to the use of gift he offers.

The word "condition" is used here in a qualified sense. The donor may offer a fixed sum every year, from which he subtracts proportionately to the recipient's outlays on repression and to which he adds proportionately to the expenditures for the benefit of the population. The amounts added or subtracted are the conditions attached. The fixed sum and the conditions attached are the "aid package". An aid package works by changing the budget constraints of the rulers who control a country's wealth and who may spend that wealth on themselves, on the people or on repressing the people. Reasoning in this way alerts one to the great fallacy of established aid policy: that gifts in kind will go in full to their intended recipients.

A gift in kind such as food, frees resources once devoted to agriculture, to use by the repressive ruler. An intelligent package of aid will try to influence the rate at which resources may be transformed from one use to another.

The influence of growth on repression is given special attention and is contrasted to a recent line of research which emphasizes the reverse, namely, the influence of repression on growth. Regression estimates of both these models are shown to be of special importance to the practical assembly of a package of aid.

Martin Paldam

The Development of the Rich Welfare State of Denmark, 1850 - 1990, an Essay in Interpretation.

Abstract:

The paper discusses the political economy of economic growth in Denmark 1850-1990. It concentrates on three themes: the two periods of the strongest growth and structural change: (i) 1870-1900 and (ii) 1958-1974. (iii) The last theme discussed is the development of the particular "big compromise" that is the basis for the modern Danish welfare state.

i. Here the driving force was agricultural exports of new products (butter, bacon and later cheese) from a new class of family-farms which had replaced the old feudal class of big estates exporting grain. The change occurred roughly 100 years after the large land reforms creating the new class, and during a period where the political system was paralyzed, at a time where the public sector was constant at approximately 9 % of GDP. To the extent there was a political power it was in the hands of the political enemies of the new farm class. Hence, this spectacular period of growth occurred at a period where rent seeking was blocked.

ii. The second period of high growth has almost the reverse explanation. It occurred thanks to the very rapid expansion of the public sector and the house building sector, also as a result of public policies. It is noteworthy that during that period there was a remarkably strong consensus among Danish policy makers, civil servants and economists in a very simple type Keynesianism (the 45°-variety). However, the Keynesianism was very responsible: During that period there was a permanent surplus on the public budget.

iii. The paper finally discusses the origin of the "big compromise" on which the present Danish Welfare State rests: here large scale redistribution-socialism goes hand in hand with an open-economy-liberalism as regards property rights and production. I.e. redistribution is exclusively between persons while there are relatively small subsidies to trade, industry and agriculture compared to other developed economies.

Jose Casas Pardo
Juan Fernandez Cainzos

IS THE LABEL "CONSERVATIVE" WIDELY APPLIED TO PUBLIC CHOICE THEORY JUSTIFIED?

by

Jose Casas Pardo
University of Valencia
and
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Open University, Madrid

Abstract

It is a fact not to be denied that Public Choice Theory is widely considered to be conservative (if not reactionary or even anti-democracy) in its assumptions, analysis and deductions, implications and recommendations, both by the majority of social scientists (including many fellow economists) and by the lay educated people at large. It is also a fact that Public Choice Theory is currently being instrumentalized to their advantage by ideologically committed neo-liberals, which is tarnishing the conception many people have about this branch of the social sciences, and even to some extent denying to it its scientific character.

In this paper we address some of the issues involved in this topic, which have led to such (in our opinion) misconception of what Public Choice Theory is all about. Some of the issues we try to clarify are: 1) Is this the right question to make?. Here we deal, on the one hand, with the inadequate division between progressive and conservative Economics; and on the other, with the implied presumption that ideology rather than intellectual coherence and explanatory power is the ultimate test of a social theory; 2) Can mainstream orthodox Economics be considered conservative per se? (this israther large topic, which, naturally, we do not pretend to exhaust); and 3) Is Public Choice Theory additionally conservative?. Here we analyse the implications of the Public Choice Theory approach about political processes and political behaviour of individuals, about the statusquo, about redistribution of income and wealth, about a community of individuals interacting and engaging in political exchange on a equal basis (leaving aside situations of power), and about the importance of institutional arrangements, both at the constitutional and post-constitutional levels.

Shmuel Nitzan

Abstract

This paper focuses on voluntary participation in the provision of (generalized) mixed public goods in a symmetric full information setting where the marginal product of participation is positive but decreases with the degree of participation. Our definition of mixed public goods is useful, first, in eliminating conceptual ambiguity regarding the public characteristics of goods and, second, in enabling classification and study of closely related collective action problems that may not look related at first glance.

For pure public goods, earlier studies have shown that with a discrete, stepwise production function (the good produced under this case is sometimes called a threshold, step, binary or lumpy good) equilibria are not necessarily inefficient (Hardin, 1982; Palfrey and Rosenthal, 1984; Bagnoli and Lipman, 1986, 1988). The current paper establishes that for mixed public goods pure strategy Nash equilibria might be efficient even under the more general and common case where the production function is continuous. Furthermore, when equilibria are inefficient the public good can be overprovided.

Our study makes clear that the nature of goods determines the logic of collective action. The proposed definition of mixed public goods and the corresponding game of private provision of mixed public goods provide a natural and convenient framework for studying the "severity" of the problem of inefficient equilibria and for analyzing the relationship between the characteristics of intermediate public goods (the degrees of subtractability and non-excludability in consumption) and the emergence of underprovision, overprovision or appropriate (efficient) provision of the good. Finally, we show how the efficiency problem can be resolved by an appropriate institutional control of the degrees of nonexcludability characterizing the collectively provided good.

Paulo Pereira

ABSTRACT: The aim of our paper is to analyse the scope of fiscal federalism literature. The assignement of functions and fiscal instruments to the different levels of government are according to OATES and MUSGRAVE the central issues on this field. This "normative" approach has been subject to several criticisms, namely from scholars which emphasize the explanatory and predictive purpose of economic or political science. However the main opposition is not between "norma- tive" and "positive" approaches but between benevolent dictator's and Leviathan's hypothesis about the behaviour of political agents. In fact, accepting the former hypothesis, "normative" advices became predictive because politicians will do what economists say they should. We argue that functions of government can only be analysed in an ethi- cal framework and we suggest that the scope of fiscal federalism analysis must be constitutional and institucional design.

Jan Potters
Frans van Winden

Lobbying, a formal analysis

Jan Potters and Frans van Winden

University of Amsterdam

ABSTRACT

It is frequently recognized that *lobbying* is an important means of influencing public policy.

Formal models of lobbying, however, are almost completely lacking. This paper presents a formal game-model of lobbying, central which is the strategic transmission of information.

The "traditional" game-theoretical assumptions will be employed that players have rational expectations, update their beliefs in accordance with Bayes' rule, and maximize expected utility. More particularly, the outcome of the game is required to be a sequential equilibrium.

It is analyzed how the outcome of the game depends on such elements as: the "amount" and "type" of incomplete information on the part of the policy-maker, the credibility/reputation of the lobbyist, and the "distance" between the players' interests.

Pedro Puy-Fraga

CONSTITUTIONAL POLITICAL ECONOMY AND CONSTITUTIONAL REVOLUTION: TRANSITION FROM AUTHORITARIAN REGIMES TO DEMOCRACY

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One of the most interesting political features of the past decade is the continuous process of political and constitutional reform in authoritarian regimes and the pacific development of constitutional democracies in several countries all around the world. Earlier changes in southern european countries (Greece, Portugal and Spain) have been followed by changes in some South American countries and more recently in eastern Europe. The Spanish transition from an authoritarian political system into a parliamentary democracy has been taken as an example of pacific constitutional change for many of the south american countries (particularly Argentina and Chile), and more recently to some of the eastern countries (especially Hungary and Poland) due to some specific characteristics of the Spanish process. Although the final result (democracy) conformed a "revolution" compared from the starting point (dictatorship) the whole process was not revolutionary, in its classical sense, compared with similar shifts in Portugal and Greece.

Several theories have been addressed to explain spanish constitutional revolution. They differ on their methodology and explanatory power. Basically, they can be reduced to:

a) Marxist political economy has tried to demonstrate how changes in the economic infrastructure (in the sixties) have resulted in changes in the political superstructure (in the seventies).

b) Several (dispersed) studies have stressed the role of the dirigent class in directing in a benevolent way the whole process. They all adopt a very paternalist and determinist approach to the process of change, which would imply the impossibility of any pacific transition unless particular historic figures emerge in every country trying to adopt pacifically a new democratic constitution.

None of the attempts have, at the moment, tried to explain recent constitutional revolutions following the individualist methodology of the constitutional calculus as first introduced by Buchanan and Tullock in 1962. The subject of this paper is to show how such changes can be explained using such methodology, within the research program of Constitutional Economics. Thus, Constitutional Political Economy would not only serve as a normative criteria for evaluating existing Constitutions, but also as a positive theory with explanatory power of processes of constitutional change and revolution.

Costas A. Rigas

SOCIAL CHOICE AND GRAPHS

ABSTRACT

Ilde Rizzo

Abstract

THE "PENSION GAME"

Ilde Rizzo
University of Catania

The paper is aimed at exploring the inter-generational issues involved by the fulfilment of pension unfunded obligations, i.e. the obligations arising within a Pay As You Go (PAYG) social security system.

This issue is not without practical interest. Most Western industrialized countries have experienced a rapid expansion in social security expenditure over the last few decades. Questions arise regarding the long-term outlook for PAYG systems. Demographic as well as economic projections would suggest that, given the existing rules of computation and indexation of pensions, then if the PAYG budget has to be balanced, the pension burden is due to increase because of the ageing of the population and decreasing employment opportunities. Because of such increase, it is claimed that young generations might refuse to fulfil the pension obligation and, therefore, doubts are cast upon the future of the PAYG system itself.

The aim of this paper is to suggest that the PAYG system does not need to be scrapped and that the above mentioned inter-generational conflicts, notwithstanding their relevance, might be solved, once the "contract" underlying PAYG unfunded obligations is adequately reformulated.

The above issue will be dealt with using some basic concepts of game theory as theoretical framework: a "pension game" will be constructed and the differences existing with more conventional games will be outlined. In this light, the possibility of cooperation will be examined and the conditions to be fulfilled in order to get such a cooperative outcome will be discussed.

The main policy implication stemming from the paper is that the uncertainty of pension obligation can be reduced, and therefore a "cooperative" outcome for the "pension game" is likely to arise if a suitable fulfilment system is devised, the main feature being the fair sharing of the "demographic risk" underlying pension obligations.

Gian Cesare Romagnioli

Modelling government expenditures in Italy

by Gian Cesare Romagnoli

Abstract

The substantial acceleration of government expenditure growth in Italy since the early 1970s has gone well beyond other experiences of the Wagner's Law in other western countries. One implication of this phenomenon has been the occurence of larger and larger budget deficits and of an increasing public debt in spite of the significant expansion of public inlays and especially of taxation revenues.

The few attempts to model the determinants of government expenditures in Italy have had little success. My argument is that these poor results are mainly due to the exclusion of basic variables in the above mentioned econometric specifications which however show little behavioural content. In other words it seems worthwhile to build non conventional, interdisciplinary, behavioural models which would eventually better account for the evolution of government expenditure in Italy.

Consequently I am actually working at modelling these expenditures introducing demand variables, financial perspective and supply variables with explicit reference to socio-economic, ideological-cognitive and politico-institutional determinants.

Jean Jacques Rosa

In this paper our aim is to set forth a positive theory of privatization and nationalization, or, in other terms, a theory of the scope of the public sector.

The underlying framework consists of an optimization model of rational government behavior in a political equilibrium setting. Public firms are one means of raising and redistributing revenues, alternative to explicit tax and subsidies (and/or debt financing), a third way being regulation.

Depending on the relative costs of these different ways of pursuing political advantage, the rational government will extend or restrict the scope of the public sector at the margin. At any time, public and private bidders compete for the ownership of firms. Privatization (or nationalization) is determined by differences in the cost of capital for both types of bidders. A "property equilibrium" results when bid prices are equalized.

The relevant determinants of nationalization and privatization are shown to be the marginal social cost of taxes, the interest rate, and the debt/taxes ratio of public finances.

Empirical tests of the theory are run on a sample of the public sectors measures of various european countries during the 1971-1985 period. Econometric results do yield signs of independent variables as expected in theory and explain a significant fraction of the variance of public sectors extent, accross countries and through time.

Charles Rowley

Legal Services In The USA: 1980-1988:
The Congress Versus The Executive

Abstract

Throughout his two terms as President, Ronald Reagan fought to shut down the federal program of legal services in the US. Despite Republican control of the Senate, 1980-1986, President Reagan failed in this high priority mission. This paper, which is a chapter in a book entitled THE RIGHT TO JUSTICE uses public choice as a lens to interpret the battle between the Congress and the President and to explain why the President lost.

Pierre Salmon, Alain Wolfelsperger

From competitive equilibrium to democratic equilibrium:
Has the analogy been fruitful?

Already in the famous paper in which he presented his existence theorem of majority-rule equilibrium, Duncan Black (1948) noted what he thought to be a compelling analogy between his concept of equilibrium (hereafter "democratic" equilibrium) and competitive equilibrium. Since then, comparisons between the two equilibria, in terms of substance or for the purpose of methodological justification, have been central to many discussions of "democratic" or "political" equilibrium, as illustrated by the book edited in 1981, under the second name, by Ordeshook and Shepsle. This has taken place in the context of growing awareness of a serious discrepancy between theory and observation: the rule of majority is infinitely more likely to lead to disequilibrium than to equilibrium in the theory (chaos theorems) but disequilibrium does not seem to be a serious problem in reality.

In the first part of the paper, we discuss a number of hidden differences between the "democratic" equilibrium and the competitive equilibrium research programmes. We compare the two in terms of the roles they give to equilibrium and processes, to the normative and the positive, and to simple statics and comparative statics.

In the second part of the paper, we discuss, from a methodological point of view, the two main categories of solutions to the puzzle of "theoretical disequilibrium-cum-empirical stability" that have been sought within the research programme of "democratic" equilibrium. We consider first the search for alternative concepts of equilibrium (Copeland, etc.). We turn then to the introduction of institutional structures.

We argue in the third part of the paper that the analogy with competitive equilibrium, although fruitful in a sense (in an unanticipated way), has been on the whole misleading. Democratic institutions are first of all institutions and thus, if comparisons are to be made, that must also be first of all with non-political organizations such as business firms.

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THE DEMAND FOR LOCAL PUBLIC SERVICES IN PORTUGAL

- A public choice approach -

ABSTRACT

The paper discusses the role of the median voter hypothesis as a descriptive theory of local government fiscal behaviour.

A demand function for local public services is estimated using data for Portugal. Under specified conditions this function describes the actual Local Authorities' expenditures as if it corresponded to the level demanded by a 'representative voter' who earns the local average income and faces the average tax-price.

The author also shows that the estimated demand parameters can be used to construct a normative indicator of horizontal fiscal inequity.

Jörg Schimrelpfennig

Decentralisation of Public Enterprises: A Public Choice Approach

by

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Abstract:

A proposal to reduce cost inefficiency usually associated with (large) public enterprises is to decentralise the enterprise by creating separate balance sheets for its business sectors. By bringing accountancy practices more in line with the private sector one hopes to have a better basis for valuing the true performance. Any impact of decentralisation on output levels or prices seems to be non-existent or of no interest.

The validity of this claim is investigated along the lines of a public choice framework. However, output levels are endogenized in order to discuss the simultaneous effects on output levels and, thus, the likely implications on total economic welfare. The results depend crucially on the preferences of the politicians and bureaucrats involved and the regulatory device governing their interaction.

Adi Schnytzer

The Economics of Peaceful Revolutions

The downfall of communist governments in various East European countries in 1979 has been accomplished by "peaceful revolution." This paper analyses the voluntary collective action apparently implied by the massive demonstrations in Czechoslovakia, East Germany and Bulgaria. The abolition of a communist monopoly of political power is modelled as a public good and it is shown that simple Nash behavior on the part of the population is sufficient to explain observed outcomes. In the final part of the paper it is shown that this result is invariant under various assumptions regarding uncertainty.

Zane A. Spindler

ABSTRACT: "CONSTITUTIONAL DESIGN FOR A RENT-SEEKING SOCIETY"

This paper explores the implications of the idea of government as a rent-rights commons and the idea of a constitution as a set of property-rights, or rules for determining property-rights, to that commons. Inevitably, rent-seeking activity occurs in constitutional design and creation as well as on the government commons so created. Self-interested constitutional designers will have incentives to limit their own rent-seeking activity at the constitution-making stage and also incentives to limit the rent-seeking activity of themselves and others on the constitutionally constrained commons. This paper will argue that given imperfect foresight and imperfectly over-lapping generations, constitutional design will generally provide sufficient constraint to avoid rent-seeking "tragedies of the commons" but will stop short of providing such complete constraint that the commons is completely "enclosed" or privatized, or, alternatively, that there is "minimal government".

Bernard Steunenberg

Coalition theories: empirical evidence for Dutch municipalities

ABSTRACT

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Most empirical studies on coalition theories employ data about cabinet formations to test the hypotheses to which these models point to (see for instance: De Swaan, 1973; Taylor and Laver, 1973; Schofield, 1987). In this paper attention is paid to the formation process in Dutch municipalities where political parties represented in the local council have to form the board of the Mayor and Alderman.

The outline of the paper is as follows. Firstly, the logical foundation of the various coalition theories will be discussed in order to derive hypotheses about coalitions that are expected to be formed. Also possible combinations of the various principles will be treated. Secondly, the hypotheses are tested against data of Dutch municipalities. The results will be compared with results found in other studies. This section will close with a conclusion about the empirical validity of the models. Finally, using the empirical results I will discuss problematic aspects of the present theories and point to perspectives to develop these models.

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Arthur J. H. C. Schram

Frans A. A. M. van Winden

PARTY POLICY IN RESPONSE TO VOTER BEHAVIOR

by

Arthur J.H.C. Schram

Frans A.A.M. van Winden

Abstract

In this paper, party policies are discussed under various assumptions concerning objectives and restrictions. The restrictions concerning voter preferences are operationalized by using a previously developed (and published) model of voter behavior. In this model, individual transitions in party choice are explained by party performances with respect to group-specific economic variables. The paper starts off by investigating under which circumstances an objective of vote maximization in a two party system yields the same party policies as an objective of maximization of an additive social welfare function. It has recently been shown in the literature that under specific assumptions concerning voter behavior, both objectives bring forth the same policies. Using our own (less restrictive) model to describe voter behavior, specific conditions are derived that need to be fulfilled for this result to hold true. Furthermore, the paper discusses optimal policies for a party under varying circumstances. Account is taken of, inter alia, the difference between election years and other periods, the role of campaign promisses, the influence of public bureaucrats, and the sensitivity to the specification of the model of party choice.

Harrie A.A. Verbon

SOCIAL INSURANCE AND THE INTERNAL MARKET

Harrie A.A. Verbon

ABSTRACT

This paper addresses the issue whether in an internal market like the European Community - where decision-making on social insurance systems takes place autonomously by every member state - the engendered migration of labor and capital will lead to an abolishment of these systems. It is assumed that decision-making by the member countries upon their social insurance system takes place by maximizing expected utility of the non-homogeneous labor force. The effects of a free internal market for the decision-making process are analyzed. It is shown that immigration of high-risk workers from other member countries - due to the redistributive nature of the system - implies a downward pressure on the benefit rate if the immigrants do not have enough political influence. In a free market with mobile capital it can be advantageous to keep social insurance benefits low to attract capital (tax competition, in the popular press sometimes called social dumping). It is demonstrated that as long as decision-makers are risk averse, a complete abolishment of the social insurance system will not be decided upon. On the contrary, it is shown that if some country tries to obtain a comparative advantage in attracting capital by lowering its benefit rate, the reaction of other countries may be to increase the coverage of their social insurance systems.

From the analysis it follows that harmonization of benefits and eligibility criteria is not necessarily a policy goal worth to be attained, but that the conversion from a Pay-As-You-Go to a capital funding system for the social insurance systems can be an effective way to prevent inefficient migration in an internal market.

Karl Wärneryd

Conventions

The Evolutionary Approach

Karl Wärneryd[*]

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Abstract

This paper deals with the emergence and functioning of social institutions that solve recurrent coordination problems. Examples of such institutions (known as conventions) are traffic rules, natural language, industrial standards, and money. From a normative game-theoretical standpoint, coordination games are problematic because of the multiplicity of equilibria. I observe, however, that from a neoinstitutionalist perspective this multiplicity should be an important part of the explanation of real-world conventions, rather than a problem. The paper goes on to discuss the evolutionary (or "positive") game-theoretical approach to the emergence of conventions. The typical critical mass, or network externality, feature of coordination games with many participants implies that efficiency is not a selection criterion.

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Hannelore Weck-Hannemann

PROTECTIONISM BETWEEN RENT-SEEKING AND DISCRETIONARY POWER:
AN INSTITUTIONAL ANALYSIS

The Political Economy of Protectionism focuses on the political process In order to explain why protectionist measures are prevalent all over the world. Most of the literature concentrates on the demand for protectionism, and politicians just act as brokers for pressure group/voter interests. However, politicians (and in particular public bureaucrats) may not be exclusively concerned with political support maximization. Depending on political and institutional restrictions they may also have discretionary power which they may use in their own interest.

In this paper the literature is discussed with respect to the underlying assumptions about the behaviour of the various actors and the institutional setting in which the political process takes place. A comparison of alternative institutions is undertaken in order to determine whether and under what conditions rent-seeking behaviour or discretionary power is expected to be prevalent in the political market for protectionism. Moreover, the process-oriented approach allows to derive hypotheses about the level and the structure of protectionism.

Joachim Weimann

Competition of Mass Media and the Location of Political Parties in the Case of incomplete Voter-Information

Joachim Weimann*

Abstract

In a simple spatial model of political competition it is assumed that voters are not perfectly informed about the true position of the politicians in the ideology space. Voters can make better prediction if they collect information transferred by TV-networks. Because of limited capacity to process information, gathering this information is always connected with the necessity to select. Therefore, the recipient may use a choice criterion with respect to the networks similar to the one he uses for his voting activities: He assigns to each network a political orientation and chooses that one which is closest to his own position. For the networks this opens up the possibility of product differentiation by taking a political orientation. Using the concept of subgame perfect equilibria this situation is analysed in a two stage game. At the first stage parties and networks choose a location in the ideology space and on the second stage parties decide how much information they produce. The production of information is costly and there is a loss of information which depends on the ideological distance between party and network. The game is analysed for the case of two parties and two networks. It turns out that in equilibrium neither parties nor networks take the median position or extrem positions.

David Willis

The "logic of relative frustration" and the "illogic of collective action": the case of Perestroika: is the disintegration of the single party systems in the Eastern European States a consequence of their success?".

Abstract

This paper seeks to explore the evidence for, and political saliency of a "paradox of relative frustration" (Hirschman, 1979; Boudon, 1981) in accounting for political instability in the East European States, where increased political instability has coincided with "Perestroika", economic liberalisation, popular demands for political reform, and increased freedom of expression. Political successes in expanding freedom of individual choice, and rising economic expectations and entitlements, that is, economic successes rather than economic failures, are seen as major factors contributing to the political instability of the East European states. The paper examines recent historical evidence on the relationship between economic performance, individual freedom of economic choice, and political instability, identifies a "paradox of relative frustration", and considers the implications of the observed paradox of for public choice models of regime support based on the assumption of utility maximising behaviour and consumer satisfaction with government economic performance.

Franz Wirl

OPTIMAL PHASING OF DEREGULATION: NORMATIVE VERSUS POSITIVE OBJECTIVES

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Abstract

Deregulation is a subject that is traditionally endorsed by economists but that meets either little reception by politicians or is substantially weakened within the political process. Many papers discuss this aspect, primarily from a rent seeking aspect. This paper emphasizes the dynamics of deregulation when consumers have sunk costs on the basis of a past, regulatory regime. The paper proves first that deregulation should be radical rather than transitory within a conventional, normative framework, even if the consumers act naively. As a contrast, a positive model of a vote maximizing politician is introduced that can explain why actual deregulation proceeds often gradually.

Ulrich Witt

The Endogenous Public Choice Theorist

- abstract -

Public choice theory has effectively explored defects in collective action and political processes. However, little attention has been given to the fact that any recommendations as to how to improve the situation can only be realized on the basis of precisely those defective institutions. What turns up here can be identified as a problem of self-reference. Normative contributions by Buchanan and Hayek may serve as an example. In order to clear up the seemingly paradoxical situation, "endogenization" of the political economist within an extended theory is suggested. A straight-forward extension is briefly outlined.

W. William Woolsey

ABSTRACT

Title: The Unit-of-Account Constitution

The purpose of a monetary constitution is to provide a predictable macroeconomic environment. Robert L. Greenfield and Leland B. Yeager have instead developed a laissez-faire approach to monetary stability. The unit of account is defined in terms of a nearly-comprehensive bundle of goods and the means of payment are privately issued. The purpose of this paper is to develop a unit-of-account constitution consistent with their payments system.

The paper discusses the unit of account and the medium of account. It then proposes constitutional rules to regulate the politicians' choice of a medium of account. Deferred payments are insulated from macroeconomic unpredictability, but an attempt to insulate all spot prices results in the conceptual problems implied by universal indexing. At least some spot prices must be quoted in terms of money, so monetary forces can cause unpredictable fluctuations in these spot prices and in the unit-of-account price of money.

Fortunately, private monetary institutions combined with indirect convertibility allows for a market process that reverses deviations of the price of money from par. The paper shows how the unit-of-account constitution combined with private monetary institutions allows speculators on financial markets to serve as macroeconomic entrepreneurs, effectively harnessing the market to provide a predictable macroeconomic environment.

Georg Ziemes

Brecht's Law.
Scale and Scope Effects of German Communities

by

Georg Ziemes

A. Introduction

The main purpose of the paper is the estimation of appropriate cost functions of German communities. Communities are seen as multiproduct firms.

Since Arnold Brecht (1932) many authors have tested "Brecht's Law" that hypothesizes a positive relationship between the population density and cities' outlays. Negative scale effects are relevant for the intergovernmental grants relationships of many countries.

B. Methodology

For estimation and data reasons a multiproduct translog cost function is chosen over the dual production function to jointly estimate scale and scope effects. The cost function and the wageshare function are simultaneously estimated by the "full information maximum likelihood" technique.

The 1983 data for the sample of 1136 German communities come from published and unpublished (e.g. "Statistische Landesämter") sources.

Many subsamples (e.g. by states, by size of cities, by population density) are estimated in addition to the full sample to "stabilize" the results. For a similar reason different output vectors (population, regional space, numbers of hospital beds, of kindergarden places, of pupils of different school types, street kilometers, accidents etc.) are used.

C. Empirical Results

In general, the results show that there are negative scale (Brecht's Law) and enormous positive scope effects; it is also shown that homogeneous cost functions (e.g. Cobb-Douglas or CES functions) which are used frequently in the literature are not appropriate. Already the scale effects show that the constant price assumption of many demand studies is not based empirically, and that therefore their results could be importantly misleading.

Ekkart Zimmermann

By Ekkart Zimmermann

ABSTRACT

There is no genuine cross-national analysis of the world economic crisis of the thirties, of the political turbulence it led to and of the economic and political measures that were taken. In this study the focus is on Great Britain, France, the Netherlands, Belgium, Germany, Austria, Sweden and the United States. Drawing on previous work, we emphasize the formation of national consensus in times of economic and political challenges thus pointing to a key variable amongst a set of variables to explain the survival or collapse of democratic polities. We trace the representation of political parties and interest groups in government, the cooperation between parties and interest groups and splits within the respective camps (labor, agriculture, big business and small business).

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