

The fact that Rhodesian security forces have dealt rather swiftly and effectively with terrorist incursions in the past suggests that the value of  $L_v$  may be small.<sup>9</sup> Also, Rhodesia deals rather harshly with those convicted of aiding terrorists, hence the value of  $P_i$  is quite large. Private rewards to individuals engaged in counter-insurgency are largely symbolic (medals to troops, small cash rewards to tribesmen), so  $D_i$  is perhaps not very large. The value of  $R_i$  is a matter of some concern to Rhodesian authorities, who have tended to restrict so-called political freedom on past experience of "rabble rousing speeches" by prominent nationalists. The value of  $P_p$  depends largely on the psychology of the tribesmen and hence probably varies considerably. In general, however, on the basis of the above discussion, it seems plausible that the value of  $G_e$  is larger than that of  $G_r$ , which suggests that political stability is likely to be maintained, *ceteris paribus*.

In summary, it appears that Rhodesia in the face of considerable international coercion has resisted the demands of Britain, the United Nations and prominent black-African nationalists for major constitutional change. Furthermore, despite the alleged nepotism of white minority rule, insurrection has not been a critical problem in the past. Tullock's (1971) model for revolution appears to provide a plausible explanation of the stability of political equilibrium in Rhodesia relative to other African countries.

<sup>9</sup>To date none of the members of the OAU have been willing to commit troops to an official "liberation" movement; however, some concern does exist in Rhodesia over the increasing number of Chinese "technicians" in Zambia and Tanzania.

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## THE ECONOMIC THEORY OF POLITICS: A SURVEY OF GERMAN CONTRIBUTIONS

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The increasing interest in questions of public choice to be observed in the Federal Republic of Germany, Austria, and Switzerland during the last three to five years has its roots in the works of Downs, Arrow, Buchanan, Tullock, Olson, and a few other American scholars. Links to those German economists of the nineteenth and the first half of the twentieth century who were interested in the integration of economic and political thinking (Friedrich List, Adolf Wagner, Emil Sax, Friedrich von Wieser, Lorenz von Stein, Hans Ritschl, Edgar Salin, etc.) practically do not exist. Even Joseph Schumpeter, though of course widely read and greatly honoured among German speaking economists, did not serve as a precursor of the economic approach to politics until the relevant passages of his book *Capitalism, Socialism, and Democracy* were fruitfully extended by Downs. Thus the leading German theoretician of the '50s and '60s, Erich Schneider, considered himself to be a pupil of Schumpeter; But the application of economics to politics was completely alien to him. Only one German political economist, viz. Karl Marx, had a profound influence on at least part of the academic community, and that not only in German speaking countries. However, the "political economy" influenced by him differs greatly from the one surveyed in this article. As is well known, the adherents of Marxism criticize modern economic theory as being wholly inappropriate for the analysis of political—and even economic—phenomena. In order to avoid unfruitful discussions about what the "Economic Theory of Politics" really is the following very pragmatic criteria are used for the inclusion of works to be covered in the present survey:

- (1) the method employed must be economic;
- (2) the publication must be related somehow to one of the "classics" of the economic theory of politics: Arrow, Downs, Buchanan, Tullock, Olson, etc.;

(3) the contents of the publication must be kept in line with the articles normally appearing in "Public Choice", and

(4) the article or book should not (yet) be widely known in other countries.

This means that stress is laid on publications written in German, and on articles published in German, Austrian or Swiss periodicals.

Only a limited number of publications can be covered, and the selection is necessarily subjective. For a more complete list of contributions the reader is referred to the bibliography at the end of this article.

Before beginning with the survey of publications it may be useful to give a short summary of institutional activities connected with the German Economic Theory of Politics. As said before, a few years ago this theory was nearly unknown. The growing interest, however, of economic practitioners is demonstrated, e.g. by the fact that in 1972 the *Wirtschaftswoche* (leading popular economic journal in Germany) published several articles on the Economic Theory of Politics by Peter Bernholz, Gerd Fleischmann, Bruno S. Frey, Erich Streissler, and Hans Peter Widmaier. Moreover, in their meeting, several study groups of the Verein für Socialpolitik, which is the association of the German speaking economists, dealt with problems of public choice, and the Annual Meeting of the Swiss Society of Statistics and Economics in 1974 will be devoted entirely to this new branch of economics. Finally, in December 1972 a European section of the Public Choice Society was founded in Basel, Switzerland.

Our survey of the scientific contributions to the economic theory of politics splits into five sections: (1) surveys and general articles, (2) party competition and government behaviour, (3) voting problems and decision-making mechanisms, (4) the theory of groups, and (5) application to practical problems.

### 1. Surveys and General Articles

The advent of an economic theory of politics was heralded in German speaking countries by the late Jacques Stohler. In an article entitled "Wirtschaftswachstum und Wohlfahrtsstaat" (1964) he surveyed the most important decision-making mechanisms and showed that the modern welfare state can be considered to be an amalgamation of the price system, polyarchic and hierarchic systems, and collective bargaining, each of them being superior in some respect to the others. Although, in a way, Stohler's article was not revolutionary, he succeeded in drawing attention to this new branch of economics. A much broader survey of the literature (Bruno S. Frey, 1970a) further increased interest and was now followed by an attempt to fully amalgamate "pure" economics and the New Political Economy (Peter Bernholz, 1972).

### 2. Party Competition and Government Behaviour

Frequently it happens that scientists in different parts of the world develop quite similar ideas at almost the same time, as for instance in the case of the vote maximization principle which is mainly attributed to Anthony Downs. It should not be overlooked, however, that Philipp Herder-Dorneich—under the pseudonym of Fred O. Harding—developed the same idea in his dissertation, "Politisches Modell zur Wirtschaftstheorie" (finished in 1957, published in 1959), though his version is less technical, less elegant, and less precise than Downs'. It is primarily concerned with questions of public finance, i.e. less general subjects. The problems connected with information costs are not dealt with as competently as in Downs. Party

competition is not covered adequately either. Yet it is noteworthy that Schumpeter's ingenious idea of vote maximization was picked up in Germany by at least one man. The critical reactions to Herder-Dorneich's book (mainly in the form of reviews) were collected by himself and published in 1968.

The Downsian model can be modified in order to explain certain tendencies observed in economic policy such as foreign trade protection (Peter Bernholz, 1966a). Since these tendencies are not only subject to the political but also to the economic situation of a country, additional reflections are necessary on the economic structure and the growth rates of the different sectors. Bernholz demonstrates that the government will favour sectors with low growth rates and sectors with low capital/employment ratio. Furthermore, he succeeds in deriving priorities among the policies adopted by vote maximizing governments.

Perfect (economic) competition and pure democracy in the sense of Shubik or Davis, Hinich and Ordeshook can well be compared. Both models lead to a Pareto-optimal equilibrium. A paradox results: While in a state of perfect economic competition profits will be zero, in a perfect democracy nobody will vote because both parties offer the same program. This is the exact opposite of what people think. Furthermore, the assumption of exogenously given political preferences has to be questioned. One can assume that the positions of the parties influence the distribution of the voter's preferences. When, e.g., a party moves to the left, it draws the voters' preferences to the left, too (Bruno S. Frey, 1970b).

Fleischmann (1968) criticizes Downs in important points mainly because of his stationary approach and along with it his neglect of factors connected with political innovation. In conclusion it can be said that the Downsian theory, just as the model of perfect competition in economics, shows the same lacunae and thus does not correspond well with reality.

A very important extension of Downs is Reinhard Selten's study on game theory and political science (1971). As soon as there are more than two parties, the model of party competition is upset. Selten shows that in the case of three parties there is no equilibrium at all. With five and more parties he comes to the astonishing result that in the center no position is occupied by more than one party, whereas both extreme positions are held by two parties. In the case of four parties there is no central party at all! Selten draws the conclusion that the Downsian model of party competition conflicts with reality and should thus be discarded. It cannot be generalized and applied to the n-party case.

Downs is further criticized because vote maximization is not the only plausible assumption of government behaviour. Neglecting party competition Larry J. Lau and Bruno S. Frey (1968 and 1971) analyze the modifications resulting from other behavioural assumptions (such as maximization of vote share, maximization of vote majority, minimum winning majority, maintenance of majority, maximization of the probability of winning an election). The government is considered to be subject to two kinds of pressure, viz. internal and external. The internal pressure is described by a utility function of the politicians whose arguments are ideology and popularity which, in turn, depend on economic conditions. The external pressure results from the desire to remain in power. Winning elections is thus treated as a constraint which, moreover, must be taken into consideration by the parties in election years only. The behaviour induced leads to election cycles or "political business cycles": due to the progressive discounting of the past by the electorate the government manages the economy in such a way that the burdens of a restrictive policy are felt only in the early years of each legislative term whereas the benefits of government policy such as high consumption and employment, and low prices make themselves felt during the latter part of the term and immediately prior to elections.

### 3. Voting Problems and Decision-Making Mechanisms

Of course, there has also been a discussion on the paradox of voting in German speaking countries, e.g., in connection with decision theory by Gerard Gäfgen (1961), Hubertus Hoernke (1971), and Karl Brandt (1969), the latter scholar using a matrix approach.

Questions of vote participation met with considerable interest. According to Fleischmann (1967), poor people vote less frequently because their information costs are comparatively high. Alternatively, the opportunity costs of voting, and the productivity of voting or, more generally speaking, of being politically active must be distinguished. The opportunity costs are higher for the rich than for the poor. The dampening effect on vote participation resulting from this is compensated or even over-compensated by the higher productivity of the rich in political action (Bruno S. Frey, 1971, 1973).

Buchanan-Tullock are criticized (Malte Faber, 1973) for not dealing adequately with the decision rules with respect to the redistribution of income. Their assumption that the individuals are completely uncertain about the development of their income in the future he considers to be unrealistic. Using as examples voting on a head-tax, on a proportional income tax, and on a progressive income tax he demonstrates that the redistribution of income is possible only to a very limited extent. A "certain equality" of the individuals regarding their income is a prerequisite for the general application of the rule of unanimity on the constitutional level. In practice, however, there is no such equality, and therefore the unanimity rule must be replaced by some other rule in order to make redistribution possible.

Several economists have applied their tools to political questions of the Swiss democracy. Peter Stolz (1968, and particularly 1972a) compares the influence of the voters and their behaviour in parliamentary democracies with that of the voters in direct democracies with referenda. Voting behaviour in public finance issues in a canton may be interpreted economically (Rene L. Frey and Leopold Kohn, 1970). With the aid of a statistical test the authors demonstrate that voters apply a similar reasoning when voting (i.e., decision on public goods) and when selecting private goods. They compare the individual benefits to the individual private or public costs.

Another contribution deals with the relationship between logrolling and the voting paradox. It is proved that explicit and implicit logrolling always implies the Arrow paradox (Peter Bernholz, 1973a).

### 4. The Theory of Groups

Olson's approach to the theory of groups was further developed in several contributions, among others by Elisabeth Liefmann-Keil (1969). She reaches two interesting conclusions. Firstly, interest groups have a conservative bias. They are extremely strong when fighting against structural changes in the economy because then they can provide their members with private goods. Secondly, interest groups are interested in having economically weak members. Weak members put the group into a better bargaining position. The group can speak for its poor members and is likely to gain a differential rent or producer's surplus for the rest. This leads to the paradoxical conclusion: Without weak members an interest group is weak!

How is it that interest groups can survive when there are political entrepreneurs? Three answers may be given to this question raised by Wagner: (1) interest groups hold a favourable position, one might even say a quasi-monopolistic

position with respect to information sources, (2) normally they have market power, and (3) they are able to finance parties. The competition among the interest groups is a further interesting topic in this context (Peter Bernholz, 1969, 1973b).

### 5. Application to Practical Problems

To our knowledge the question whether there exist political-economic cycles and how they could be explained was first raised by Kalecki in 1943, and Akerman in 1947. Two different kinds of cycles are to be distinguished, viz. those resulting from elections (one of which has already been discussed in section 2), and those resulting from lags in the adaptation of political attitudes and ideologies to changing economic data.

The notion of intertemporal spillovers is used to analyze the splitting up of time in legislation periods (Elisabeth Liefmann-Keil, 1970). Most of the decisions taken in one period have an influence also on later ones. Intertemporal spillovers limit the flexibility of the governments in the realization of their programs. In election years governments are compelled to be very active—especially in carrying through programs with short-run results. In non-election years there is more scope for long-run activities, i.e. for investments in long-run political success.

This theoretical result has in part been confirmed empirically by H. P. Bank (1970) in the Federal Republic of Germany. In this country welfare legislation increases sharply before elections whereas afterwards there is but little activity in this field.

The second type of political-economic cycle has been analyzed by Bruno S. Frey in several papers (1968b, 1968c, 1972b, and 1972c). A government party that is sure to be reelected will have a higher time horizon than a government confronted with a strong opposition. This influences the rate as well as the structure of investment, and the growth rate of the economy. Two alternative assumptions are made with respect to governmental behaviour:

- (a) The government does not invest as long as there is an oversupply of infrastructure: the economy grows rapidly, prices rise little, and the voters are content, hence the government party is likely to win the election. As soon as the infrastructural capacities are fully used up there is a decline in growth, prices rise, and the voters blame the government for a bad policy. The opposition party offers a clear alternative (more infrastructure) and wins the next election. Since the capacity effect is not produced immediately but the voters, on the other hand, want to see the activity promised by the new government, an oversupply of infrastructure is likely to result. Now the new government can rest on its laurels. But gradually national income catches up, and a new period of undersupply of infrastructure sets in which leads eventually to an overthrow of the government.
- (b) It may also be assumed that the government acts more rationally and invests when reelection prospects are high in order to increase the chance to be reelected in later periods.

The connection between economic and political variables has been analysed following the lead given by Goodhart/Bhansali and Kramer, whose approach and results are in part criticized. By using data for the United Kingdom and the Federal Republic of Germany the influence of the growth rate of production, of prices, and the rate of unemployment on the monthly popularity of the government is econometrically tested. The main result is that there is only an influence to be

noticed if the economic variables cross certain reaction thresholds of voters. Within these empirically measurable boundaries popularity series are random while outside, the relationship between popularity and economic variables can be evaluated by regressions (Bruno S. Frey and Hermann Garbers 1971, 1972).

Quite a number of further studies have been done in order to explain real-world problems with the help of the economic theory of politics. We just want to mention Kulp (1961) on trade unions, Streissler on the Arrow paradox in judicial decisions (1967) and on stagflation (1972), Bernholz (1966b) on foreign trade, Widmaier and Roloff (1972) and Stolz (1972b) on economic policy, Widmaier (1970) on social policy, Bruno S. Frey (1972b) on environmental policy, René L. Frey (1973) on interpersonal income redistribution, and Liefmann-Keil (1973) on intertemporal income redistribution.

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