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"Some Aspects of the Public-Choice Approach to International Economic Relations"

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Some Aspects of the Public-Choice Approach to International Economic Relations*

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I. Introduction and Overview

This paper discusses the application of public choice analysis to the study of international economic relations. This is an immense topic and the coverage of a single paper of necessity must be quite selective. This will be true both of the areas of application and of the types of public choice analysis discussed. Unlike many of the other approaches or paradigms discussed at this conference which are largely the creation of a single individual, such as Hirschman's exit, voice and loyalty and Leibenstein's x-efficiency
public choice analysis has emerged as a major subfield in both economics and political science, drawing upon the work of a large number of outstanding scholars such as Arrow, Black, Buchanan, Downs, Olsen, and Tullock. It is being pursued today by countless numbers of researchers.

A convenient, though short, definition of public choice analysis is given in the recently published survey book by Dennis Mueller,

> "Public choice can be defined as the economic study of nonmarket decision making, or simply the application of economics to political science. The subject matter of public choice is the same as that of political science: the theory of the state, voting rules, voter behavior, party politics, the bureaucracy, and so on. The methodology of public choice is that of economics, however. The basic behavioral postulate of public choice, as for economics, is that man is an egoistic, rational, utility maximizer."[1]

Another useful description is given in the front of Public Choice, the journal of the Public Choice Society,

> "Public Choice deals with the intersection between economics and political science. It started when economists and political scientists became interested in the application of essentially economic methods to problems normally dealt with by political scientists. It has retained strong traces of economic methodology, but new and fruitful techniques have been developed which are not recognizable by economists.
>
> In general, Public Choice can be viewed as a field of interest to both economists and political scientists who are interested in theoretical rigor, statistical testing, and applications to real world problems."

As these descriptions indicate, public choice analysis includes a number of different strands and modes of analysis. Writers vary in their emphasis on positive versus normative analysis, pure theory versus applications to current problems, and in their taste for highly formalized mathematical and statistical analysis versus the use of looser, more descriptive, analysis which takes public choice considerations as the basis of a conceptual framework for analyzing issues or developments. In the following sections I shall attempt to offer a flavor of some of the applications of public choice analysis to issues relevant to the study of international integration, but this coverage will be far from exhaustive and will reflect largely the ways in which I have found public choice analysis most useful in my own studies of international economic problems.

Another author with this assignment might have written a completely different paper, depending on his or her particular interests, and we do have several other examples at this conference of public choice analysis applied to particular issues (see, for example, the papers by Faber and Breyer, Fratianni and Pattison, and Hamada).

Because of the importance of this caveat, I should begin by indicating a little about my own interests in public choice analysis. I am an economist, and while I have done some work in public choice analysis proper, my major interests have been in international economics. The more I worked on such problems, the more I became impressed with the importance of political factors in influencing the determination of economic policies. It is important to merge political and economic analysis in order to provide positive explanations for interpretations of many international economic policy developments. Likewise this is required for sensible normative analysis of many short and medium options with respect to national policies and international negotiations. In my own work I have found public choice analysis to provide an extremely valuable conceptual framework in attempting to broaden my analysis to deal with political economy considerations. At the same time I have remained impressed with the power of standard or orthodox economic analysis as an aid to clear thinking and useful policy analysis.[2] In general my answer to most of the charges that economics is not relevant to the real world problems is that these tend to illustrate the need for broadening rather than rejecting orthodox economic analysis (see Amacher, Tollison, and Willett [1976a]).

In much of my work over the last few years (a good deal of it in collaboration with Robert Tollison), I have come to use the label, "the public choice approach to the study of economic interdependence"[3] to refer to the application of economic reasoning,

combined with an emphasis on the distributional and collective decision making problems, to the analysis of international economic issues. In discussing this paper with numerous colleagues, I have discovered that there is far from unanimous agreement on what are the key aspects of public choice analysis. For the purposes of this paper, I shall not try to resolve this issue but rather will merely indicate the two major points from public choice analysis that I have found most useful. These are

1) the many possible biases in the operation of the collective decision making process under alternative institutional frameworks which allow government policies in a democracy to deviate from the interests of the informed median voter, i.e., from the interests of the majority of voters, and the consequential ways in which free rider incentives can cause the pursuit of individual rationality to result in collective irrationality;[4] and
2) the importance of taking into account the costs of collective decision making in studying issues of

international coordination and negotiation and the creation, evolution, and reform of international institutions.[5]

The first of these points highlights the danger for many purposes of treating nations as if they were unified rational actors and analyses how factors such as geographic representations, information and organization costs, and bureaucratic interests influence how individual interests are aggregated through the political process. The second point makes one wary of assuming that we should attempt to correct for, i.e., internalize, all externalities through international actions regardless of cost and helps to explain the comparative successes and failures of organizations like the U.N. General Assembly versus the International Monetary Fund and the prevalence of informal forums for international discussion and negotiation among small groups of countries.[6] Like the second, the first point has important normative as well as positive implications. It can be used not only to explain changing patterns in policy outcomes, but also as the basis for policy strategies.

These points are not unique to public choice analysis. Like the man who had been speaking prose all his life and hadn't known it, many sophisticated practitioners, political economists, and political scientists had been talking public choice and using it in practice long before the term was coined. Economists concerned with tariff policy began to explain the prevalence of protectionist policies in terms of the greater ease of organization and lobbying for small producer groups than for large consumer groups long before such considerations were formally systematized by public choice theorists.[7] Similarly, many political scientists unfamiliar with the public choice literature will find that many of its basic points are the same as those of recent contributions in the bureaucratic politics literature.

Thus, my major claim for public choice analysis is not its novelty, but rather its convenience in providing a systematic framework for analyzing a wide range of considerations. Most of the insights which I have derived from public choice analysis are just common sense and can be seen without the need for formal exposure to public choice analysis. As was suggested to me by the organizer of this conference, Pierre Salmon, my brief for greater use of public choice analysis runs the danger of giving readers the impression that there is little in public choice analysis but the relabelling of familiar points in public choice terminology. To some extent this is true, but I am continually impressed by how often extremely intelligent writers and analyists overlook important points which are emphasized by the public choice approach.

Thus, I find that the public choice framework is extremely valuable as an aid to systematic thought. In this regard its potential contribution to improved policy analysis and policy making may come as much or more from the extreme or poor analysis that it helps to expose and weed out, as from the novel contributions which it stimulates. Having spent a good deal of my professional career in government, I cannot overemphasize the practical importance of this former objective.

In the following section I shall attempt to illustrate this point by using the public choice framework to discuss three of the most popular schools of thought concerning international political economy, the Marxist, sovereignty at bay or interdependence, and modern mercantilist or realist or statists schools,[8] in terms of their analysis of one of the major aspects of international economic integration, the struggle between liberalism and protectionism in international trade policies.[9] It will be argued that all of these approaches point to some important elements of truth, but that in their popular versions at least, they all tend to suffer seriously from taking too narrow a perspective, emphasizing one or two factors to the neglect of other major considerations.

My critique will sound quite familiar to some political scientists who have recently been extending both the statist and bureaucratic politics approaches to include the importance of domestic interest-group considerations.[10] In defense of the public choice approach I would argue that had more political scientists adopted or at least been familiar with such a framework, it would not have taken so long for the importance of domestic considerations to be "rediscovered." This is similar to Williamson and Teece's argument in their paper in this volume that the adoption of a markets and hierarchies (M & H) framework would have facilitated anticipation of many of the disappointments that have arisen in organizing and operating the European Communities. Indeed, while generally applied to different questions, I find both the M & H and property-rights approaches in economics and my own particular conception of the public choice approach to be quite similar, particularly in their emphasis on information, and decision-making and transactions costs, and the tendency to look for divergencies between individual and group incentives.[11] These approaches discipline one to look at what factors influence the relative importance of a broad range of considerations, and thus are naturally synthetic in contrast to the single-factor theories which tend to dominate much of the literature dealing with international economic relations.

To the economist probably the most useful and unique parts of the public choice approach are its emphasis on the importance of distributional considerations and the frequency with which aggregate economic efficiency considerations fail to dominate actual policy making, and its demonstration that analyses based on assumptions that national policies deviate from aggregate economic efficiency need not necessarily imply assumptions of irrationality or non-maximizing behavior by individual actors. On the other hand, for practitioners and political scientists, the most novel aspects of the public-choice approach are probably the normative insights derived from its technical concepts such as externalities and public goods, which come from standard economics, and its analysis of the effects of alternative types of voting and vote trading mechanisms from public choice theory proper. Thus, not surprisingly, the public-choice approach to political economy analysis is probably most valuable in the political emphasis it adds for economists, the economics emphasis which it adds for political scientists, and the convenient merging of the two which it provides for practitioners.

I would stress again, however, that it is not only in its novelty or uniqueness, but also in its convenient systematic framework for phrasing and analyzing questions that the public choice approach has already made many important contributions to improving the quality of policy analysis and research on international issues, and holds the prospect for a rapid addition of such contributions in the future.

As indicated above, in the following sections several major alternative schools of political economy thought are discussed and their analysis of government policies with respect to liberal versus protectionist trade policies and integration versus disintegration in the world economy are synthesized and extended within a public choice framework. In Section III the public-choice approach is further illustrated by a summary of a number of applications to international monetary questions. Section IV considers some normative applications to the management of international economic interdependence and international collective-decision making.

II. Integration and Disintegration in the World Economy: A Comparison of Alternative Political Economy Approaches

A. Setting the Stage: An Overview of Conflicting Views

There has been a great deal of discussion and controversy about perceptions of recent trends in economic interdependence and regional and global economic integration. While many have argued that there has been a strong trend toward increased interdependence and economic integration in the world economy, others have emphasized evidence of increased nationalism and disintegration in the world economy. This debate emerged in the 1960's and became even more pronounced with the events of the 1970's.

Part of the differences of view reflect the choice of different base periods for comparison, but they are also heavily influenced by the use of different concepts of interdependence and integration and methods of measuring these concepts. At perhaps the most basic level is the distinction between the focus on the strength of market forces as indicators of the strength of economic interdependence or integration, and the focus on integration in terms of international institutions and the degree of national policy coordination and encouragement or discouragement to international trade and investment. Thus, for example, while many argued during the 1960's that increased market interdependence was also leading to increased institutional integration and coordination that spelled the ending of the traditional power of nation states, the 1970's have frequently been characterized as a period of increased market interdependence combined with a disintegration of the world economy in an institutional and policy making sense due to increased nationalism.

On this description, the 1960's broadly supported the views of the sovereignty at bay or interdependence school of thought on the effects of economics on political decision making, while the 1970's are more consistent with modern mercantilist views. As will be discussed in the following subsection, however, the correctness of these widely held views are open to considerable question. Not only is there a good deal of evidence to suggest that the increase in some important aspects of market interdependence has often been greatly exaggerated, but there are also important arguments that the reversal or at least slowing down of the post war trend toward progressive liberalization of international trade policies may be due to a weakening rather than a strengthening of the power of national governments to pursue unified policy strategies.

After some of the evidence on trends in market interdependence is briefly reviewed, the subsequent subsections will summarize the major traditional political economy approaches to international economic relations and then critique and synthesize these approaches within a public choice-bureaucratic politics framework within the context of discussing the changing balance of pressures for and against liberal international trade policies.

B. Trends in Market Interdependence: A Mixed Bag

While many of the assertions that we have recently entered a new era of economic interdependence which has undercut countries ability to control their own macroeconomic independently have been heavily influenced by the high degree of synchronization of economic activity among the major industrial countries during the early and mid-1970's, it is not really clear that there has been a strong upward trend in the degree of macroeconomic sensitivity among the industrial countries. There is the appearance of a significant upward trend when comparing the first half of the 1970's with the last half of the 1960's. When taken in conjunction with the substantial rise in foreign trade as a proportion of GNP for most countries and the even more rapid rise in the proportion of world GNP accounted for by the activities of multinational corporations, this does appear to offer substantial support for views that we have entered a new era of economic interdependence and that the end of independent national business fluctuations is at hand. Such views are further supported by the huge increases in international capital movements over this period.

Other analyses suggest that such views of increased macroeconomic interdependence may be greatly overstated, however. When one compares the entire post war period, the high level of synchronization of economic activity is not found to be substantially above previous peaks and the unusually prelonged period of high synchronization during the 1970's is at least partially explained by the effects of the common external shock of the oil embargo and price increases in 1973-74, rather than direct macroeconomic interdependence among the industrial countries. Thus it may well have been as much coincidence and common external shocks which gave rise to the high synchronization of the 1970's as it was any systematic trend toward increased economic interdependence.[12]

Such a view tends to be supported by most of the direct estimates which have been made of the international transmission of macroeconomic variables and of the sensitivity of international capital movements. While the results are by no means uniform, most empirical studies of the international transmission of price and income effects find numbers which are considerably lower than would seem to be implied in many of the discussions of locomotive and convoy theories of the need for international coordination of macroeconomic policies.[13] This may reflect in part a tendency for policy officials to attempt to externalize the problems they face in order to deflect domestic criticism.

While it seems probable that macroeconomic interdpendence has not increased as much as many have assumed, there has clearly been a substantial increase in the policy importance of some forms of market interdependence. The effects of the oil shocks are a prime example, as are the problems generated by increased import penetration in many industries. Besides these standard types of microeconomic market interdependence, there have been greatly increased attention to the effects of international externalities and public goods, and pressures for reform of our institutions concerned with international collective decision making. Increased concerns over the past two decades with military cost sharing, international environment issues, and the law of the sea negotiations and the calls from the developing countries for a new international economic order (NIEO) are all examples. These illustrate the importance of recognizing that economic interdependence is not a one-dimensional concept, and that trends and the policy issues connected with different types of economic interdependence may be quite different. Thus while the "facts" concerning the absolute magnitude and trends in various aspects of economic interdependence and integration of the world economy are open to widely differing interpretations, there can be little question that many facets of economic interdependence are quite important politically. There is also increasing recognition that for both positive and normative purposes, analysis of the issues surrounding economic interdependence and the integration or disintegration of the world economy often requires a blending of political and economic considerations.

C. Traditional Major Political Economy Approaches to International Issues

Political economy analysis takes many different tacks, however. Indeed major schools of thought about the relationships among economic and political factors in international economic relations are diametrically opposed in many respects. Probably the three most dominant schools of political economy analysis of international economic analysis during the 1960's were the sovereignty at bay or interdependence school, the dependencia or Marxist school, and the modern mercantilist or realist, or statist school. Any attempt to briefly summarize the major thrusts of these schools of thought must of course do grave injustice to the actual degree of sophistication and qualifications presented by many of the authors associated with the schools and to the degree of diversity of thought within these schools. However, particularly as filtered down into more popular discussions, I believe that the following characterizations do accurately reflect influential strands of thought about the political economy of international economic relations.

In its strong form, the major message of the sovereignty at bay or interdependence school is that the end of the nation state as a viable entity is coming and that this is a development to be welcomed. Prominent examples of this view appear in some of the writings of Harry Johnson, Charles Kindleberger and Raymond Vernon. This approach adopts the neo classical or classical liberal economic view that international exchange is normally mutually beneficial. It adds the judgment that economic interdependence and the market forces pushing toward economic integration are strong and growing sufficiently so that the scope for independent political action by national states is rapidly diminishing. Economic goals are viewed as becoming increasingly important in the hierarchy of national goals and economic interdependence is seen as having grown to the point that it is becoming too costly to break. Thus citizens won't be willing to pay the economic costs of national political sovereignty. Liberal trade policies and policy harmonization will be the order of the day.

In short hand form, we might say that this approach assumes that economics will dominate national political considerations and that this will be a desirable development, moving us all closer to being citizens of one world through mutually beneficial international economic specialization and exchange.

The Marxist approach agrees with the interdependence school that economics will tend to dominate politics, but has a less benign interpretation of this relationship because of the belief that market forces generally give rise to exploitation. While economic factors will dominate national policies, this is because governments are the tools of the capitalists--not the people. Thus while Marxists tend to argue that economic considerations are powerful and economic interdependence is high, they see this as working only for the benefit of the special interests of capitalists. In our short hand, economics dominates politics and this is bad. (The normative thrust of Marxist writings of course tend to favor autarky and the overthrow of the special interests, so that to the extent that Marxist revolutions are successful, this dominance would begin to decline.)

The modern mercantilists differ strongly with the beliefs of the interdependence and Marxist schools that economics dominates politics. The mercantilists are attracted to the idea of a strong nation state and believe that the strength of the forces pushing toward greater economic integration have been greatly overstated. They view, "the nation state and the interplay of national interests (as distinct from corporate interests) as the primary determinants of the future role of the world economy."[14] This approach is very much in the tradition of balance of power writings in the international relations literature, which use unified rational actor models of countries and focus primarily on the high politics of national security to the relative neglect of the bread and butter economic questions of low politics. To a large extent during his days as national security adviser and Secretary of State, Henry Kissinger's approach to policy was a personification of modern mercantilist views. In the old continuing debate over whether the State Department controlled the multinational corporations or the multinationals controlled State, the modern mercantilists would come down squarely in favor of the first interpretation, which Marxists believe in the latter.

Modern mercantilists do not deny that governments may have economic objectives, but they do not tend to see these objectives as synonymous with the economic interests of the average citizen, as does the interdependence school. Likewise, while many of the popular versions of interdependence school thinking have been criticized for naively assuming that interdependence makes conflicts of interest passé,[15] mercantilists tend to see conflict as the center of international relations. As Gilpin has summarized, mercantilism reflects "attempts of governments to manipulate economic arrangements in order to maximize their own interests, whether at the expense of others or not."[16]

Mercantilist views of the normative aspects of international trade are less clear. Even if beneficial, liberal trade considerations are definitely viewed as less important than national political goals, especially those involving foreign policy considerations. There may well be a split among modern mercantilists about the desirability of liberal trade policies. For example Calleo and Rowland (1973), are quite hostile to traditional liberal economic arguments for free trade (many of which they manage to seriously misinterpret in the process of their criticism), but end up arguing for liberal trade policies on political grounds. Thus modern mercantilism does not take as axiomatic the old mercantilist idea that a major objective of economic policy should be to manipulate trade barriers in order to generate a trade surplus. They do tend to come down on the side of power over plenty when there is perceived to be a conflict between these two objectives, however.

D. The Recent Trend Toward Protectionism and the Explanatory Power of the Three Approaches

The recent trend toward increased protectionist pressures and attacks on the basic principles of a liberal international economic order during the 1970's are clearly at variance with the prediction of the interdependence school. While on the surface these trends might appear to offer strong support for the modern mercantilist school, this appears to be true primarily only with respect to the developing countries. The increasing militancy of many of the developing countries in attacking liberal economic principles and calling for a New International Economic Order does fit to a considerable degree with the modern mercantilist view about relationships between politics and economics combined with the adoption of normative Marxist rhetoric. And while a major trust of the NIEO proposals has been to manipulate economic arrangements to transfer income to the developing countries, it has been argued that the NIEO activity has also been motivated in large part by the desires of negotiators and leaders from the developing countries to achieve power, status, and political rather than economic objectives (see, for example, Brunner [1976], Grubel [1977] Tucker [1977], and Willett [1979a]. Certainly there have been many instances in which developing country officials have supported measures which would or have adversely affected the standard of living of the general population of their countries. For example, the vast majority of the developing countries would be hurt economically in aggregate by the LDC proposals in the Law of the Sea Negotiations for a very restrictive international regime to control ocean mining. Among the LDC's there are many more consuming than producing countries for the metals that would be mined, but perceived political benefits of striking a blow against the old international economic order has dominated the decision-making of most of these consumer countries.[17] And even in the developing countries much of this behavior can perhaps be explained better by bureaucratic politics and public choice analysis of the interests of particular officials than by national power and security maximization in the interests of the whole country.

In Japan, mercantilism does not take the form of an attack on the international economic order, but it does give rise to considerable protectionist manipulation of trade which contains elements of both old style and modern mercantilism. Likewise, French international monetary policy under De Gaulle was clearly a model for modern mercantilist theory. (For recent decisions of differences in international economic decision making among the industrial countries see Cohen [1977], Katzenstein [1976] and [1978], and Krasner [1977].)

In the United States, on the other hand, and to a lesser extent in a number of European countries, modern mercantilism has been a major force for liberal trade policies. Since Cordell Hull's days as Secretary of State, every American President has accepted the view that liberal trade policies were an important component of U.S. foreign policy objectives. Despite an ample amount of rhetoric from both government officials and businessmen which is consistent with Marxist and dependencia interpretations of these policies as motivated by economic benefits from free trade imperialism, I have little doubt that the major motivation for such support through consecutive administrations was the belief that liberal trade policies would contribute to a strengthened Europe and a more peaceful world.

Of course, despite the basic thrust of this policy objective, not all administrations believed the link between free trade and world peace to be as strong as did Hull, who to tell the truth, was clearly overly optimistic on this score. Exceptions were made for trade with some countries such as the Soviet bloc, Cuba, and Rhodesia, and there was a serious temporary wavering of belief which lay behind the Nixon-Conally economic shock of August 1971. In the main though the U.S. Executive Branch has been one of the main supporters of liberal trade policies for the last 40 years, and for reasons which have at least as much to do with political as with strictly economic concerns.

The increase in protectionist pressures in the U.S. and in much of Europe in recent years has not been due primarily to strong national governments manipulating international economic arrangements to their perceived political advantage, but rather from weak national governments giving in to the political pressures of domestic economic interest groups.[18] This phenomena, which has been labelled neo-mercantilism and the New Protectionism, is not consistent with the basic stories of the three major schools of thought which have been reviewed, although all three theories have important elements to offer in a more comprehensive explanation of trends toward integration and disintegration in the world economy.

E. A Public Choice Synthesis

In attempting such a synthesis, the public choice approach has a great deal of attractiveness.[19] Essentially the public choice approach adopts the basic methodology of orthodox economics, but adds particular emphasis on distributional effects and the collective decision making process. While rejecting the Marxist notions that the operation of the free market is generally exploitative, emphasis is placed on cases of market failure due to public goods, externalities, lack of competition, etc. which may require government activities to promote efficiency. Its approach to the case for government intervention is even handed, however, in that it stresses the possible "failures" in the operation of government processes, as well. It emphasizes comparisons of imperfect but realistic alternatives. An ideal market would always operate more efficiently than an actual government, and an ideal government would always be more efficient than an actual market.

Thus the public choice approach adopts the traditional classical liberal economic framework of the interdependence school, but pays more attention to both market and political failures. Of course the leading names associated with the interdependence school such as Vernon, Johnson, and Kindleberger, have been well aware of both types of failures, but have tended to explicitly or implicitly minimize their importance in many of their writings. These "failures" were then in turn still further minimized in the more popular versions of this approach, as adopted for example in political speeches, to an extent that probably would have drawn criticism from the original authors themselves.

Likewise, the public choice approach helps keep one from falling into the fallacy of believing that because international exchange is usually mutually beneficial to the parties engaged, this eliminates conflicts of interest. While the adoption of an orthodox economic framework with its emphasis on trade as a positive sum game does lead to a more optimistic view than the zero sum view of economic and power games implied by some Marxist and mercantilist writers, the game of economics is still mixed motive. Concerns about the distribution of the share of mutual gains and effects of increased competition on the incomes and employment of other producers assures that conflicts of economic interests are not passé.[20] Recognition of this point is not sufficient, however, to resolve the continuing debate over whether extensive international trade relationships tend to increase or decrease the likelihood of war and other severe forms of national political conflict.[21]

The public choice approach starts with the recognition that economic policies are based upon the outcomes of conflicting interests as aggregated through the process of government collective decision making, not by the maximization of a social welfare function by a benevolent dictator. Thus to predict the outcome of the collective decision making process, one needs to know not only how various individuals view their interests, but also how these varying interests end up being effectively weighted in the collective decision making process.

Of course reaching judgments on what interests are can involve an extremely complex set of issues. While most large scale quantitative studies have of necessity viewed interests in terms of economic gains and losses, for many issues a much broader set of interests and motivations are relevant. For example several studies have shown that ideology as well as direct economic interests may have a substantial influence on the policies individuals favor (see, for example, Mitchell [1977] on congressional voting as energy issues and Russett and Hanson [1975] on the foreign policy attitudes of American businessmen). Because of the costs and difficulties of obtaining complete information, we likewise find that governments and individuals may often operate on the basis of simple theories or images which do not conform to reality and hence can lead to perceptions of interests which are incorrect (see, for example, Amacher, Tollison, and Willett [1979] and Jervis [1970]). Likewise studies by economists and political scientists on bureaucratic behavior have emphasized a wide range of interests which government actors may have (see, for example, Downs [1967].

Recognition of such considerations makes it harder to derive simple general purpose hypotheses for empirical testing, and suggests that much useful empirical work will involve more qualitative case study analysis in addition to the types of formal statistical studies such as those which have been employed to investigate the determinants of tariff structures. At present I would argue that there is tremendous scope and opportunity for both types of approaches. The appropriate degree of complexity of motivation to be considered would depend both on the particular questions being investigated, and the amount of knowledge accumulated from past studies. Looking at the world in this manner makes it more difficult to definitively refute particular hypotheses, but it does not undercut the importance of subjecting theory to empirical analysis in order to gain a better idea of the relative importance of different factors under different types of circumstances.

With my position on these methodological issues having been stated, let me now turn to an analysis of the political assumptions or hypotheses which appear to underly the major schools of thought being considered.

The predictions of the sovereignty at bay or interdependence school writers seem most consistent with the assumption of a concept of an ideal democracy in which political decisions are determined by the majority vote of all citizens, who in turn are fully informed of their own interests. From the perspective of traditional economic analysis there is a strong presumption that liberal trade policies will generally improve potential economic welfare. With an ideal compensation mechanism the winners could compensate the losers with net gains to spare. Thus, with compensation, a move toward liberal trade would be Pareto optimal (i.e., at least some would benefit and no one would lose), and if gaming strategies were absent, would pass a unanimity voting rule.

With majority rule, even without compensation, one would expect liberal trade policies to pass because the vast majority of voters would incur economic gains, while only a minority would find that from a long run perspective increased competition from abroad hurt them more as a producer than they gained as a consumer. Thus on the basis of the informed median voter, norms widely used in public choice theory, liberal trade policies would normally be the order of the day.

The major rationale for protectionist policies in such a world would be the national advantage, optimum tariff arguments which have played such a strong role in the development of the pure theory of international trade, but which seem to explain only a small portion of actual protectionist policies. All other rationales for trade protection are second best arguments (see, for example, Bhagwati [1968]), which would be unlikely to be adopted in our ideal democracy. Indeed, from a global standpoint, even the terms of trade rationale for tariffs is a second best consideration.

The informed median voter norm, however, is primarily a benchmark for normative rather than positive analysis. Indeed the essence of much public choice theory is the delineation of various reasons why actual outcomes of collective decision making may be "biased away" from the informed median voter norm, due to such factors as differences in information, power positions, and incentives for lobbying and monopoly type elements in voting rules and other aspects of the government decision making process. The typical consumer-voter does not have nearly as strong self-interest incentives for informed participation in the political process as in private economic decision making, and even when informed and politically active, the typical voter consumer faces severe disadvantages relative to organized lobbying groups and government officials in making their interests count.

Note that the conflict of interests between consumer and particular producers is not the same as the conflict between workers and capitalists posited in Marxist theory, nor are organized workers an impotent political force. Big labor as well as big (or at least organized) business often troops to national capitals seeking protection. Likewise much of actual protectionist pressure is divorced from the issues about the aggregate labor and capital shares emphasized in much two-factor trade theory analysis. Because both labor and capital often view themselves as being industry specific over a considerable time period, most serious protectionist pressures involve a coalition of workers and management in particular industries, seeking protection at the expense of the rest of the economy.

It is true that the AFL-CIO in the U.S. has turned generally protectionist and this has helped stimulate some protection proposals for across the board measures, such as the Burke-Hartke proposals in the U.S. investment abroad.[22] However, there have been sufficient liberal forces to defeat these wide-ranging protectionist proposals motivated by views of basic labor-capital distribution issues. Apparently at the present time in the U.S. log rolling on trade measures faces considerable diminishing returns as compared with the days of the Smoot-Hawley Tariff of 1930.

Most protectionist policies today take the form of specific actions, many by Executive actions rather than Congressional action. Somewhat paradoxically, as will be discussed below, the pattern of Executive Branch protectionist actions has developed not because the Executive Branch is more protectionist than Congress, but rather for just the opposite reason. This reflects an important element of truth in the statist or modern mercantilist views. The concerns of the national government can play an important role in policy formation independently of the short term wishes of the electorate, and even over the long run the interests of government officials can often have a substantial influence on policy outcomes.

The commitment of the Executive Branch to liberal trade policies has been an extremely powerful force in the U.S. According to the modern mercantilist view, however, it should be the dominant force. The modern mercantilist paradigm assumes a purposeful unified nation state which determines policies. It is closely akin to single rational actor theories of national policies adopted in much of the realist and balance of power literature. They are in a sense akin to the interdependence school approach in that they downplay the importance of conflicts of interest within a country on the determination of national policies, but they take a quite different view of the forces which determine these unified national policies.

I would argue that for some purposes these unified rational actor models have a great deal of usefulness, but that in considering international economic issues they have moved into an area in which they must be substantially modified. Initially use was made of the models in the international relations literature largely to analyze national security considerations in which the influence of actors outside of the executive branch was relatively minor. Even within the national security area, however, it has become increasingly recognized that there are often substantial differences of view and interests among different agencies and actors, and that these differences may have a substantial influence on policy outcomes (see for example, Allison [1971], Allison and Halperin [1972], and Halperin [1971] and [1974]).

As one moves into economic issues, the number of relevant actors within the executive branch increases greatly. In the case of the Law of the Sea Negotiations, for example, because it did have important economic aspects, the Commerce, Interior, and Treasury Departments and the Council of Economic Advisors and Office of Management and Budget became heavily involved, in addition to the Defense and State Departments and the National Security Council staff. Likewise, the importance of Congress and outside pressure groups tends to increase. Indeed there has been a major movement in the international relations literature recently to emphasize the importance of domestic political considerations on the conduct of foreign policy (see, for example, Katzenstein [1976] and [1978]. Thus as applied to international economic issues, the bureaucratic politics approach to foreign policy, when broadened to include the important influence of actors outside of the Executive Branch, becomes quite similar to the public choice approach when it is broadened to recognize that important actors may have non-economic interests.

These approaches help explain why the totality of national policies contain numerous inconsistencies when viewed from the standpoint of the single rational actor model. Why does the United States give foreign aid to developing countries which helps build up their export capacity and then sometimes restrict the entry of the output from this increased productive capacity into the U.S.? The answer of course is that the effective weights of the various U.S. interests in the forums which determine the different sets of policies are substantially different. This of course, is one of the central aspects of public choice analysis, the study of how in various institutional environments for collective decision-making the rational pursuit of individual interests by a large number of actors may lead to results which are collectively irrational (inconsistent) by the standards of a single national actor model.

Taking a public choice approach also helps one to remember that in general the competitive check with the general public places on the discretion of the government actors is usually neither infinite nor zero. It presents the basis for analyzing many of the factors which effect the influence of different groups of actors, including the executive leader, components of the bureaucracy, the legislature, special interests outside of government, and the general public. For example, to the question of whether government budgets in a democracy tend to be "too large" or "too small" in the sense of deviations from the preferences of the informed median voter, the answer of public choice analysis is that some activities are likely to be too small, while others are likely to be too large. (See, for example, Amacher, Tollison, and Willett [1975] and [1976]). With respect to international economic questions, the arguments which Anthony Downs [1960] has advanced for believing foreign aid expenditures may tend to be too small are not at all inconsistent with the arguments that government protectionist activities will be too great.

It is also interesting to note that ignoring the role of the Executive Branch in public choice analysis in both of these instances would lead to predicting larger deviations from the informed median voter model than predictions based on a legislative model alone. In both instances executive behavior in the U.S. under both Democratic and Republican Administrations has been to favor more foreign aid and less protectionist government activity than Congress. In general, foreign policy considerations will neither completely dominate nor be completely subserviant to domestic political interests as is implied by many extreme forms of the various political economy schools of thought. Nor are foreign policy or domestic concerns homogeneous entities. Different interest groups and government bureaus may have quite different perceptions of "the National interest." In emphasizing factors which can be important almost all of the different approaches have merit, but in versions which tend to assume or assert that only this or that factor matters or is of primary importance, all are deficient.

What is needed is a synthetic framework which facilitates the analysis of the relative importance of these different factors and how they may vary over time and from one issue area to another. I find the public choice approach to be a useful framework for such analysis, although much the same result can be achieved by sophisticated analysts from any of the more specific approaches. Thus, for example, while in his recent book on U.S. raw materials policy Krasner [1978] labels himself as taking a statist approach, his emphasis on the extent to which foreign policy is constrained by domestic considerations places him very much in a synthesizing rather than a single factor tradition.

Recognition that the importance of different factors will vary from one issue area to another helps explain the prevalence of the mercantilist or statist approach in the international relations literature. As was noted above, the major concern of this literature has traditionally been with issues of national defense and security, and particularly where nuclear strategy is concerned, these are issues on which domestic political actors have tended to have relatively little input. Thus it is not surprising that much analysis viewed these issues in terms of unified rational actor models and that the initial break away from this tradition emphasized conflicts among competing government groups. While a part of the further broadening of mainstream foreign policy analysis to domestic considerations stems from increased public and Congressional involvement in debates over national security issues, much of it also reflects the increased importance of economic relative to military considerations on the foreign policy agendas of the industrial countries in recent years. By their nature many of these bread and butter economic issues involve a much greater range of substantially interested parties. Thus decision making on economic issues is likely to be subject to much domestic political constraints or influence on government officials than many types of traditional national security issues.[23] This may explain

why Henry Kissinger with his taste for secret government-to-government negotiations was so reluctant to become concerned with international economic issues where many more influential actors were involved and the scope for personal diplomacy was weakened.

Since Cordell Hull became Secretary of State in the 1930's, however, the Executive Branch of the United States government has taken the position that the U.S. has a strong foreign policy interest in international trade policies. Specifically Hull believed that protectionist trade policies were one of the important causual factors leading to World War II and that the establishment of a liberal international trading system at the end of World War II was an important ingredient in the promotion of U.S. security interests in the establishment of a peaceful world.

In contrast to the relatively weak executive branch involvement with the passage of the highly protectionist Smoot-Hawley Tariff in 1930, subsequent administrations, both Democratic and Republican, have been active supporters of trade liberalization and opponents of most protectionist proposals. Thus in my judgment the switch in U.S. policies from the protectionism of 1930 to the trade liberalization from 1934 onward must be explained primarily in terms of modern mercantilist influences rather than a changing coalition of domestic interest groups.[24]

On the other hand, the extreme modern mercantilist view of policy formulation cannot adequately explain the recent slowing down and perhaps reversal of the post war trend of progressive trade liberalization. While it can be argued that the national security basis for support of liberal trade policies has weakened (see, for example, Gilpin [1977]), I believe that two other factors have had much greater influence. One is the substantially increased incidence of serious import competition. While industries have incentives to seek protection to improve their economic position, whether their economic position is good or bad, in the vast majority of cases the chances of receiving such protection are greater, the less prosperous the industry appears to be (exceptions tend to occur in the smaller, more complicated issues in which general awareness of the policies is low). A view of a particular concept of fair play is rather widespread among political actors and the general public which supports aid for declining industries facing heavy import competition, but not for more prosperous industries. This does serve as a partial check on protectionist pressures, but one which varies with the perceived legitimacy of the protectionist pressures.

This increase in effectiveness of protectionist arguments in persuading "neutral" politicans, has been coupled with a decline both in the power position of the U.S. Executive Branch relative to Congress and in the saliance of national security arguments. On both of these counts the ability of the Executive Branch to offset protectionist pressures has declined. The fact that the majority of the protectionist policies have been actually adopted by the Executive Branch rather than Congress, has been primarily a result of attempts to head off the possibility of even more protectionist Congressional policies if the Executive did not act.

The resulting increase in the incidence of protectionist pressures has thus been in large part due to the decline in the strength of the U.S. Executive Branch. This reflects a decline rather than an increase in the explanatory power of the modern mercantilist model. There have been similar trends in many European countries where coalition governments and governments with small legislative majorities are in weak positions to fight domestic protectionist pressures.

On the other hand, while I believe that the explanatory power or strength of modern mercantilist forces has declined relative to both domestic interest groups and support of old style nationalist mercantilist, modern mercantilism is still an extremely important factor. Indeed, as several participants in this conference argued, perhaps the most striking aspect of recent trends in trade policy is not that there has been some increase in protectionism, but rather how successfully Western governments have managed to contain the increase protectionist pressure and avoid the repeat of the 1930's beggar-thy-neighbor trade warfare which many feared would follow the oil shock.

This synthetic perspective also suggests the importance of international economic cooperation in reducing the incidence of protectionist pressures. Frequent contact among national leaders helps to remind them of the importance of avoiding giving in to domestic protectionist pressures. In the models of interest group pluralism, leaders of other countries would be considered an important interest group lobbying for liberal policies. Indeed the most substantive result of the recent series of economic summits among the heads of state of the major industrial countries may have been to increase the resolve to minimize the extent to which national governments give in to protectionist pressures.

Within such a model we also can see an alternative scenario of how the tendencies for adoption of protectionist policies may escalate across countries. The basic fabric of internatinal economic cooperation among the industrial countries has been sufficiently strengthened over the post war period so that most protectionist actions by any one country are unlikely to stimulate direct retaliatory actions of serious magnitude by other countries, as might be expected under an old style mercantilist model. Such actions are likely, however, to reduce the resolve with which national leaders in other countries attempt to hold off domestic protectionist pressures. Thus, for example, while over a wide range the adoption of more protectionist policies in the U.S. would be unlikely to lead directly to retaliatory trade measures in Europe, it would be likely to contribute indirectly to an increased incidence of protectionist policies over time.

III. Some Applications to International Monetary Questions

Public choice analysis also has great scope for helping to explain policy behavior in a wide range of international economic policy areas beyond protectionism versus liberalism in trade and investment policies. The international monetary area offers a number of examples. One of the most prominent is the question of why greater use was not made of exchange-rate adjustments under the Bretton Woods system. While part of the answer has to do with the national economic costs involved in discrete exchange-rate adjustments, much of it lies in the additional political costs of initiating exchange rate adjustments perceived by national decision makers. For deficit countries, devaluation was widely viewed as an admission of financial failure and was quite likely to shorten the tenure of top financial officials. Thus there were strong bureaucratic incentives against devaluations. Likewise, there were strong political incentives against revaluations which are very similar to the political incentives which generate deviations from liberal trade policies. While a revaluation would benefit more people (consumers) than it would harm (exporters and import competitors), it was reasonable to presume that more effective political support would be lost from the latter groups than would be gained from the former. Again as with trade policies, one does not have to be a public choice theorist to recognize the importance of such factors, but the public choice approach does offer a convenient framework for analyzing such considerations and a tendency to think in public choice terms decreases the likelihood that such considerations will be overlooked in economic analysis.

This was particularly important for the debate over whether a "new look" adjustable peg system would be workable. Advocates of such a view argued that the main problem with the Bretton Woods exchange rate system was that it hadn't been used "properly," but that we now knew that exchange-rate adjustments needed to be made more promptly so that an adjustable peg system would work much better in the future. Critics (such as myself) argued to the contrary that given modern political systems there would be an inherent tendency to delay exchange rate adjustments too long and that we could not realistically expect adjustable peg systems to work much better in the future than in the past. From this perspective a major argument for exchange-rate flexibility was to reduce the extent of politicalization of exchange rate adjustments. While not usually spelled out in public choice terms, such arguments were very much in a public choice tradition and I might add are one of the reasons why I am doubtful that the new European Monetary System will be successful over the long run.

Public choice type reasoning has also been used to explain why the gold exchange standard remained viable for longer than would have expected on the basis of Triffin's classic analysis of the liquidity-confidence dilemma in the Bretton Woods system.

The main reason was that a small number of major dollar holders could collectively be assured of the stability of the system and that the recognition of their mutual interdependence and perceived stake in avoiding a crisis induced change in the system were sufficient to avoid a breakdown until the period of massive U.S. deficits in the 1970's. (See Officer and Willett [1969] and [1970] and Willett [1977, ch. 3].) Had the dollar holdings of all 100 plus countries been of nearly equal importance on the other hand, public choice analysis would suggest that such voluntary reluctance to convert dollars into gold would not have emerged. (Indeed during the period of the de facto inconvertibility of the dollar into gold, gold was freely bought and sold with the U.S. by many smaller countries.) The differences between private and collective decision-making also help explain why the relationships between national monetary aggregates and national spending may be quite different from the relationships between international reserve aggregates and world spending, and can provide an explanation of how bureaucrats and political incentives can lead to rational behavior which would deviate substantially from the predictions of the demand for international reserve models based on optimization of national economic efficiency. (See, for example, Sweeney and Willett [1977] and Willett [1980].)

Another area of application concerns the effects of alternative international monetary systems on inflation. The public choice approach presents a very useful framework for analyzing the discipline arguments with respect to fixed versus flexible exchange rates. (See, for example, Willett [1980].) Also relevant is the recently developing literature on political business cycles, which applies public choice type analysis to macroeconomic policy making and shows that where voters are not fully informed, vote maximizing politicians will have incentives to destabilize the macroeconomy.[25] The incentives to engage in such political business cycle activities will be influenced by the nature of the international monetary system and may in turn affect the desirability of alternative international monetary arrangements. Such considerations may have important implications for the European monetary system. I have argued elsewhere that adjustably pegged exchange rate systems are likely to maximize the incentives for political business cycle behavior. (See, Willett [1979d] and Mullen and Willett [1980].) Expansionary policies under pegged exchange rates are likely to yield more favorable short-run inflation-real income tradeoffs than would occur with a depreciating exchange rate, thus increasing the incentives to attempt to gain votes by expanding before an election and devaluing after. There can also be short-run political benefits from the announcement effects of creating or recreating a regional monetary system. On the other hand, as Hamada has stressed in his paper for this conference, political incentives are skewed against the long-run viability of European monetary union because of the short and medium term costs of adjusting domestic economies to the dictates of the balance of payments at pegged exchange rates.[26]

These considerations would lead one to expect a cyclical pattern of the formation and disintegration and then reformation again of pegged rate, European monetary systems, as national governments seek to secure the short-run political advantages of such arrangements but prove unwilling to pay the medium term costs necessary for such arrangements to be maintained. The experience with European monetary integration efforts during the 1970's has been quite consistent with this analysis. While learning behavior on the part of the public should diminish over time the political incentives to play such games, rational voter ignorance is likely to be sufficient to preserve incentives for such behavior for some time to come. (On the political considerations which may have influenced the latest EMS efforts, see Vaubel [1979].)

Public choice analysis has also been applied to the problems of international monetary coordination (see Hamada [1976] and [1977]), and to the issues of international exchange-rate surveillance and the sharing of the oil deficits among the oil importing countries in a way which would minimize beggar-thy-neighbor policies and the threat of international financial instability (see Willett [1975], [1977, ch. 4], and [1978b]).[27] In all of these cases, there are important international public goods aspects to national financial policies.

In contrast with much of the economics literature on such issues which has focused on the determination of global economic optima, the public choice approach focuses on the problems of international collective decision making and implementation as well. For example, it is of only limited help to reach agreements on how oil deficits should be shared if there is little idea of how these targets will be implemented. This is especially true when the major problem was not to obtain some precise optimum allocation (which differed according to different plausible criteria), but rather to avoid a destructive scramble by individual countries for trade and current account improvements which were collectively infeasible.

IV. Some Normative Aspects of Public Choice Analysis

In normative terms, the public choice approach emphasizes how in situations involving international public goods and international externalities, independent action by individual countries is likely to lead to suboptimal provision of international cooperative actions, and that the resulting distribution of costs is likely to violate attractive equity standards as well. (See the classic analysis by Olsen and Zeckhauser [1966].) The public choice approach is not just concerned with when countries should coordinate policies or give up traditional national sovereignty to international decision making bodies, however, but also with the problems of how national governments may be induced to adopt cooperative policies and how institutions and informal agreements may be designed to help increase the incentives for cooperative actions and reduce the incentives for beggar-thy-neighbor policies. In other words, unlike much traditional analysis, the normative side of the public choice approach treats international cooperation as a scarce resource, and international collective decision making and enforcement as costly activities which should be allocated to their most highly valued uses.

Likewise, the public choice approach tends to recognize that institutions and agreements do not always operate in the manner their originators intended. They are attuned to the need, in James Buchanan's terms, to close the system of social analysis, focusing on political as well as market failures.[28] Thus public choice analysis tends to be skeptical of beliefs that just securing an international agreement or creating an international organization will of necessity improve the situation. And even where international agreements are effectively binding, imperfections in the collective decision-making process, such as substantial divergencies between the distribution of voting power and of countries' stake or interest in decisions (see Mueller, Tollison and Willett [1976] and Tollison and Willett [1979]), can themselves lead to deviations from optimality which could be greater in some cases than those generated by the absence of any international agreement at all. (For arguments that this may well be the case with respect to many current proposals for international regulation of ocean mining and analysis of a number of other public choice aspects of the Law of the Sea Negotiations see Tollison and Willett [1976].)

Likewise in some environments, where countries are jealous of giving up formal sovereignty, and a number of major countries are cognizant of the collective dangers of beggar-thy-neighbor policies, one may at times be able to secure more effective cooperation and less undersupply of international public goods through general agreement on vague principles coupled with strong informal multilateral discussions and surveillance than through attempts at more detailed formal agreements. I have argued that this is probably currently the case with respect to international surveillance of exchange-rate policies under floating rates (see Willett [1977, ch. 4] and [1978b]).

The focus on supply side difficulties as well as the demand for international economic cooperation coupled with recognition of the advantages of allowing individual diversity of choice, makes public choice theorists skeptical of approaches which advocate attempts to internalize all international externalities through international collective agreements. In general, economic interdependence of both market and non-market varieties establishes a presumption that one should consider the case for international cooperative actions such as policy coordination or harmonization or the establishment of internatinal decision making bodies, but there will be both costs and benefits to international harmonization of policies. International harmonization allows joint objectives to be accomplished more effectively, but reduces the scope for individual countries to choose their objectives.

The balance of cost and benefits for countries is likely to vary tremendously depending on the issue area, the geographic domain being considered, and the internatinal collective decision-making process to be adopted. These can be analyzed within a framework of fiscal federalism, (see the papers by Breton and Oates in this volume). For example, while there are many world-wide aspects of environmental pollution, it is doubtful that it would be wise to attempt to deal with all of them through the creation of a single world-wide organization. Many of these problems are primarily of a bilateral or regional nature and can best be handled at those levels. And even where the problems are worldwide such as the location of industry due to different pollution control standards in different countries, attempts at worldwide regulation may end up creating more costs than benefits from the standpoint of many countries.

Externalities and public goods will usually not affect all parties equally. For example, while there is some degree of macroeconomic interdependence among virtually all countries, the strength of these effects vary tremendously. The same would be the case for many international environmental and cost-sharing issues. It can be argued that in such situations an ideal collective decision-making process would assign pro rata costs and voting rights in proportion to each countries' stake in the particular issue (see Mueller [1971], Mueller, Tollison, and Willett [1976], Musgrave [1969, p. 296], and Tollison and Willett [1976] and [1978]). In practice, of course, such a system of both weighted and variable voting rights in a general purpose international institution is hardly feasible. Who would be given the power to determine countries' stakes in the outcome and assign the voting rights? This question would be likely to dominate negotiations to the virtual exclusion of substantive issues.

Even while infeasible in full-fledged form, this theoretical approach does have important practical implications, however. It supports the rationality of weighted voting in organizations like the International Monetary Fund and the International Energy Agency and suggests the potential desirability for establishing different decision-making forums for policy areas in which countries' interests are likely to vary widely. It suggests the rationality of having a wide range of regional and ad hoc informal groups which can to some extent tailor effective voting power to various types of problems. It also suggests the reasonableness in many instances of smaller negotiations among the most affected countries as opposed to broad multinational negotiations which include large numbers of countries which will be only marginally effected by the outcomes. The ineffectiveness of many large one nation, one vote forums of the United Nations illustrates the point. Acceptance of the general reasonableness of such a public choice based approach to the determination of international forums would, of course, not be expected to eliminate controversy about actual practice or assure that the approach would always be applied wisely. It provides a very useful framework for looking at such questions, however.

The public choice approach suggests that attention be given to approaching international policy issues in the sequence of their likely benefit-cost ratios rather than attempting to indiscriminately rush after the internalization of all international externalities. It is of course possible to deal with more than one issue at a time and in some cases there may be important interdependencies among issues so that simply sequentially going down a list of issues in order of their expected benefit/cost ratios would be unlikely to be optimal. For example, linking issues with offsetting distributional patterns may be an important method of increasing the number of mutually advantageous international agreements where direct side payments are not feasible (see Tollison and Willett [1979]). Furthermore, the likelihoods of actually securing effective agreements may vary greatly. Many such factors should be taken into account in determining the agenda of international negotiations. (Of course individual countries may also have incentives to influence agendas in ways which will improve their own bargaining positions.)

In considering the agenda for international economic negotiations attention needs also to be given to the costs and benefits of international negotiations and institutions themselves. Public choice analysis has tended to adopt the economists' assumption that preferences and attitudes are given, while much of the discussion about worldwide and regional institution building has been about the longer run effects of these institutions in changing attitudes and preferences (see, for example, the discussion and references to functionalist theory in Nye [1971]).

Public choice theorists probably do not have a comparative advantage in studying the evidence on the process of such changes, but they do need to be aware of such considerations, just as in studying optimum currency areas we ideally need to know what factor mobility, etc., would be after, as well as before currency unification (see Tower and Willett [1976]).

It should also be noted that public choice analysis of the demand and supply of cooperative operations can be applied to regional or subgroup efforts to exploit other nations as well as to problems of general international cooperation. A case in point is OPEC. While OPEC certainly cannot be analyzed adequately in terms of economic considerations alone, the traditional economic analysis of chiseling or freeriding problems in cartel and public goods theory has very important implications for positive analysis of OPEC and for the delineation of normative policies both by and against OPEC (see, for example, Willett [1976], [1977b] and [1979c] and references cited there). The mixed motive nature of the European nations participation in many international economic forums should provide an extremely interesting area for both positive and normative analysis.

V. Concluding Comments

The application of the public choice approach to such issues is still in its infancy and there is much exciting work to be done, both in terms of further development of the theory of international collective decision-making in an international context (for a partial agenda of questions see Tollison and

Willett [1979]) and in applications to specific problem areas. One of the most important needs is for more systematic integration between the analysis of countries' internal decision-making processes and issues of international decision-making, thus helping to explain why "countries" often take positions in international negotiations which differ from the apparent aggregate interests of its individuals.

The public choice approach can not by itself offer definitive policy guidance and both its positive and normative aspects often replicate arguments which were well known long before public choice analysis emerged as a distinct discipline or subdiscipline. It does, however, provide an extremely valuable framework for posing the issues and analyzing the challenges of economic interdependence and international integration.

FOOTNOTES

*The revision of this paper has benefited greatly from the comments of conference participants. I should also like to acknowledge helpful comments and suggestions from Leon Hollerman, Stephen Krasner, Craig Stubblebine, Ron Teeples, Edward Tower, and especially Jacques Le Cacheux, Pierre Salmon, and Robert Tollison. This does not imply that those cited are in agreement with all parts of this paper.

[1] Mueller [1979], p. 1. This book offers the reader an excellent survey and references to the public choice literature. For an earlier article-length survey see Mueller [1976].

[2] By orthodox economics I mean the basic mode of analysis adopted by Western mainstream economists, as contrasted with Marxian economists and many of the views of new left economists. The orthodox economic approach is often also called liberal or neoclassical economics. For recent characterizations of the orthodox economic approach and its contrasts with other modes of economic reasoning, see Amacher, Tollison, and Willett [1976], and Lindbeck [197], and for a specific discussion in the context of international economic issues see, Willett [1979a]. The key idea of this approach is the desire to utilize the market system in instances in which the invisible hand works reasonably well and to consider government intervention only on grounds of income distribution objectives or "market failures" such as public goods, externalities and natural monopolies. It is of course important to consider possible government as well as market failures.

[3] The reader will forgive me, I hope, for using this opportunity to advertise a book which Tollison and I have in progress with this working title.

[4] For perhaps the clearest exposition on this basic point see Olsen [1965]. For reviews of a good deal of the literature in possible biases in the collective decision making process as they relate to budget size in a democracy, see Amacher, Tollison, and Willett [1975] and [1976b].

[5] Major discussions of the dangers of assuming ideal costless government policies and the costs of collective decision makers include Buchanan and Tullock [1962], and Coase [1960]. For applications to international issues, see Tollison and Willett [1976] and [1979].

[6] Here I use the term success in terms of effectiveness in implementing internationally agreed policies. For further discussion of these issues, see Tollison and Willett [1979].

[7] For references to the public choice literature on this topic see footnote 19.

[8] In characterizing these schools I have drawn particularly heavily on Robert Gilpin's recent characterization and discussion [1975] and on Bergsten, Keohane, and Nye [1975], and Katzenstein [1976]. See also Gilpin [1977], and Russett and Hanson [1975]. These works contain numerous references to the contributions reflecting these various approaches.

[9] There are, of course, many important facets of interdependence and integration, political, social, and economic, and even when dealing only with economic integration, a number of different aspects and concepts are important. Adequate discussion of all of these questions would take at least an additional full-length paper, thus I shall merely refer the reader to a previous effort by Tollison and myself [1973], and recent works by Cooper [1968], Katzenstein [1976] and [1978], Keohane and Nye [1977], and Nye [1971], and the extensive references cited in these.

[10] On the bureaucratic politics approach and extensions with emphasis on the role of domestic interest groups, see Allison [1971]; Allison and Halperin [1972]; Katzenstein [1976] and [1978]; and Krasner [1976], [1977], and [1978]. For an interesting application to U.S. international economic policy making, see S. Cohen [1977].

[11] For a useful survey of the literature using the property rights approach, see Furubotn and Pejovich [1972].

[12] See Hickman and Schleicher [1978]; Pigott, Sweeney and Willett [1978]; and Ripley [1978].

[13] See Deardorff and Stern [1977]; Hickman and Schleicher [1978]; and Willett [1978a].

[14] Gilpin [1975], p. 45.

[15]See, for example, Bergsten, Keohane, and Nye [1975].

[16]Gilpin [1975], p. 45.

[17]For further discussion of the New International Economic Order proposals and the Law of the Sea Negotiations see Amacher and Sweeney [1976] and Amacher, Haberler, and Willett [1979], and the extensive references given in these books.

[18]For further discussion see Amacher, Haberler, and Willett [1979]; Bergsten, Keohane and Nye [1975]; Krauss [1979]; and Malmgren [1970-71]. It should be noted that the old mercantilism also had a substantial element of special interest lobbying. See, for example, Baysinger, Ekeland, and Tollison [1980], and Ekeland and Tollison [1980].

[19]For recent applications of public choice anaylsis to international trade issues, see Amacher, Tollison, and Willett [1979]; Baldwin [1977]; Brock and Magee [1978]; Caves [1976]; Finger [1979]; Kindleberger [1975]; Kindleberger and Lindert [1978]; and Pincus [1975] and [1977]. See also the earlier analysis by Breton [1964] and Johnson [1965].

[20]For an excellent discussion of this point and criticism of the overly optimistic writings of some of the interdependence schools, see Bergsten, Keohane and Nye [1975]. This article gives a good example of how much of the work by knowledgeable economists and political scientists interested in political economy is quite consistent with my conception of the public choice approach.

[21]While such influential thinkers as Plato and Rousseau believed that foreign trade increased the dangers of war and hence should be discouraged, others have argued just the opposite - that trade relations promote friendships and understanding and reduce the chances of war. As will be discussed shortly, this latter view was a major plank of U.S. post war foreign policy. For a useful discussion of the relationships between trade, war, and national security, see Knorr and Trager [1977].

[22]For discussion of the causes of the changes in the AFL-CIO position from fairly liberal to protectionist, see Bergsten [1971] and Willett [1979a].

[23]The most relevant group of actors will also vary considerably from one economic issue area to another as well. For example, there tends to be a much wider group involved with trade than with international monetary policy issues. I am currently beginning a study which will attempt to analyze in more detail the factors which influence the scope of bureaucratic discretion and the relative influence of different groups in the formulation and implementation of international economic policies. For example within the exceedingly complicated Law of the Sea Negotiations it was extremely difficult to monitor the actual behavior of negotiators and there appear to have been numerous instances in which negotiators offered unauthorized concessions in hopes of successfully concluding a set of negotiations to which they have become personally committed. Thus implementation problems were much more severe than with trade and monetary issues. The complexities of the negotiation also achieved an unusually high degree of bureaucratic influence on the formulation of policy. Here the "special interests" involved were often not economic, but they can still easily be analyzed within a public choice framework. Such a framework is very useful in helping to explain why this was a type of issue in which the range of bureaucratic discretion was unusually high.

[24]On the basis of U.S. trade policies over this period and discussion of Cordell Hull's view of the world, see Calleo and Rowland [1973] and Eisenach [1979].

[25]For a recent review of the rapidly expanding literature on the political business cycle and public choice aspects of macroeconomic policies, see Frey [1978]. For an application of such political economy analysis to the behavior of monetary authorities, see Laney and Willett [1980].

[26]These short and medium term costs will depend on the traditional optimum currency area considerations, see, for example, Tower and Willett [1976]. While a number of participants at the conference tended to downplay these considerations on the grounds that the long run inflation-unemployment trade off tends to be aproximately vertical, thus uncutting the traditional long run argument for preserving independence of macro policies from the balance of payments. While tending to agree with these long run arguments, I believe that the traditional optimum currency considerations remain highly relevant for many short and medium term considerations which are and should be of considerable policy concern. For further discussion on this point, see Willett [1979d].

[27]Other recent public choice and political economy type analysis of international monetary relations includes Cohen (1977]; Cooper [1975]; Dreyer and Schotter [1979]; Hirsch, Doyle, and Morse [1977]; Koehane and Nye [1977]; and Strange [1976].

[28]See Buchanan [1972].

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