International Organizations from the Constitutional Point of View

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1. Divergent Views

International governmental organizations are considered by many in an increasingly interdependent world to be a necessity to which there is no alternative. Dramatic external effects and economies of scale are seen as forces that require the establishment and further development of administrative units beyond national limits (e.g., Bach and Gordenker 1984). Accordingly, international organizations are positively evaluated, and questions of efficiency are considered unimportant or are answered in a favorable way for the organizations.

Other observers, however, take international organizations to be an extreme example of inefficiency and mismanagement. The UNCTAD, for example, is simply called "a failure" in the study by Ramsay (1984). He points out the many scandals in such organizations and regards UNCTAD's rapid growth in terms of budgets and number of employees as an indicator of waste. Accordingly, international organizations are evaluated negatively; it is claimed that there is no need for them and that better alternatives exist.

The divergent views start from the same observation, that today international organizations are of great and increasing importance. There exist about 300 intergovernmental international organizations with roughly 100,000 employees and an administrative budget of about U.S. $7 billion (Blanc 1985). A more extensive definition relying on the Yearbook of International Organizations of 1981 counts between 344 and 1,075 international organizations. They constitute a rather new phenomenon in the international system: 94 percent of the 881 international organizations whose date of foundation is known were created after 1939 and 70 percent between 1960 and 1981. The establishment rate of foundations has accelerated: In the 1960s, 250 such organizations were established, but in the 1970s 354 were created. More than half of all the 1,075 international organizations have a mainly economic task. This also holds for the activities within the system of the United Nations (see Jacobson, Reisinger, and Mathers 1986).

The international organizations reveal a considerable compound rate of growth. As is shown in Table 1, the average annual rate of increase in employees of the UN has been almost 5 percent per year (p.a.) since its foundation, of the European Community more than 9 percent p.a. and of the World Bank more than 11 percent p.a. The OECD, with a growth rate of 2 percent p.a., has the lowest rate of increase, which nevertheless would lead to a doubling of the number of employees in about 30 years.

Table 1: Average annual compound rate of increase in employees of selected international organizations since their foundation

<table>
<thead>
<tr>
<th>Organization</th>
<th>Rate of increase per year in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Nations (UN)</td>
<td>4</td>
</tr>
<tr>
<td>Secretariat</td>
<td></td>
</tr>
<tr>
<td>Specialized agencies</td>
<td>4.8</td>
</tr>
<tr>
<td>Overall</td>
<td>4.7</td>
</tr>
<tr>
<td>International Labor Organization (ILO)</td>
<td>3</td>
</tr>
<tr>
<td>International Atomic Energy Organization (IAEO)</td>
<td>4.5</td>
</tr>
<tr>
<td>World Bank (IBRD)</td>
<td>11.2</td>
</tr>
<tr>
<td>European Community (EC)</td>
<td>9.4</td>
</tr>
<tr>
<td>Organization for Economic Cooperation and Development (OECD)</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: Compiled from Blanc (1985)
Kaufmann 1980), from political science studies based on sociological and systems theory approaches, and from “international political economy” as undertaken in international relations (see e.g., Keohane 1984; Krasner 1985; Katzenstein 1984). Most of these approaches have one thing in common: Nations are seen as actors.

Within public choice there have so far been few analyses of international organizations. Our intention is to show that the dominant approach taking nations as actors can usefully be supplemented by an approach based on methodological individualism. The situation is particularly apt for applying contractual constitutionalism because there is no worldwide authority exerting power on the members of an international organization.

In Section 2 we discuss and criticize the outcome oriented, or end state, analysis, which underlies practically all statements and efficiency studies. It will be shown that within this concept no arbitration is possible on the two divergent views of international organizations. An alternative approach, contractual constitutionalism, forms the content of the second part of the chapter. This approach does not look at the (here unobservable) results of economic and political processes but looks at the processes themselves, emphasizing the agreement between contracting parties on the rules of the game. Thus an organization is considered to be efficient if the members unanimously accept the general rules under which it operates. Because this efficiency concept relates always to the point of view of the contracting parties, the result of the evaluation and the rules favored by these parties depend on the perspective taken by the analysis.

In Section 3 we thus take the point of view of governments and their delegates in the international organizations. In contrast, in Section 4 we develop the citizens’ position. A comparison of the two perspectives and concluding remarks are offered in Section 5.

2. The Outcome Oriented Approach

What Is the Output of an International Organization?

In the media as well as with insiders quite clear views exist about the performance of international organizations. Thus, the United Nations—especially UNESCO—is often claimed to be inefficient and to produce a huge amount of waste (e.g., Hüfner and Naumann 1986). The financial institutions of the UN, the World Bank, and the International Monetary Fund are often more favorably considered; they are commonly said to perform their tasks efficiently.

There are some studies that seek to determine the “efficiency” with which international organizations act. The Joint Inspection Unit looks at administrative efficiency in the UN system. But its members may not attack the larger questions, in particular whether a “useful output” is produced. This is a political issue that may not be discussed and evaluated by an administrative unit within the system itself. Countries that threatened to, or actually did, leave an international organization have produced reports on the international organization’s functioning (General Accounting Office 1984; Falk 1975 for the United States) in order to consider and justify this decision. Scientific analyses on the efficiency of international organizations are almost nonexistent because of the fundamental difficulty of defining and measuring what the output is (see e.g., Left 1988). A typical example of such an effort is the study by Scoble and Wiseberg (1976) on international human rights organizations. They consider three types of indicators of “effectiveness”:

1. the survival and growth of an organization;
2. the growth in legitimacy; and
3. direct indicators such as the number of political prisoners released, the change in government policy affected, and the downfall of repressive regimes.

Indicator 1 is only useful in a competitive environment. If this does not exist, which is almost always the case in the international sphere, this indicator uses inputs to measure efficiency, which is, of course, a mistake. Indicator 2 is not useful as long as it is not clearly stated how legitimacy is to be measured. Finally, indicators 3 are partial only and do not allow a comprehensive view of the performance of an international organization.

In principle, economists could employ an optimizing approach stating, for example, the marginal Pareto conditions that must obtain for an optimal allocation of the resources used by international organizations. A particular unit’s efficiency could then be determined by calculating the efficiency losses compared to Pareto-optimality. Although this seems to be easy in general terms, this approach would meet with great difficulties if it were applied to specific international organizations.

Absolute and Comparative Views

Both the positive and the negative view of international organizations mentioned at the outset as well as the outcome oriented studies just mentioned use the “Nirvana” approach: Real life institutions are compared to an unattainable ideal (e.g., see Franck 1985). The views favorable to international organizations implicitly rate the organizations’ performance against a world devoid of international cooperation (e.g., Jéquier 1985). The view unfavorable to international organizations considers all resource use as superfluous, irrespective of any possible demand for the organi-
zations' services. The "Nirvana" approach also obviously underlies the economic optimizing approach, where allocative efficiency is the unreachable goal.

Modern institutionalism rightly rejects such an absolute approach, according to which every organization is necessarily deficient. Rather, existing institutions (or those within reach of being realized) need to be looked at from a comparative perspective. In the case of international organizations, the problem arises of how performances can be compared. As no ready output indicators exist that could be used for a comparison between such organizations, the researchers have to either fix indicators according to their own ideas, or they have to step back and compare some sort of cost-effectiveness indicators or even simply inputs. In either case this procedure is incompatible with the fundamental assumption of the economic approach, namely that the preferences of individuals are the only standard of evaluation. Only if individuals' preferences are revealed in markets is the outcome oriented approach consistent with the economic approach because prices and quantities consumed reflect the individuals' voluntary decisions. If the results of voluntary decisions fulfill the commonly accepted Pareto conditions, then the situation is considered to be efficient; Pareto-efficiency thus coincides with efficiency in the constitutional perspective adopted in this chapter. However, international organizations' activities are not valued in markets nor are the individuals' preferences truly revealed elsewhere (which is shown below), so the optimal outcome is unknown. Thus in our case the outcome oriented concept lacks the normative reference point to which the actual outcome is to be compared: the Pareto-efficient outcome. When goals are fixed exogenously or when resource inputs only are considered, we have a planning approach connected with the concept of a "benevolent dictator."

Measurement and Aggregation Problems

Our discussion of the outcome oriented approaches has shown that they are useful only if the performance or output of international organizations can be identified. In such studies, the problem has simply been identified as a difficulty of measurement. In fact, the problem lies much deeper: It is an instance of the fundamental problem of preference aggregation.

An international organization does not only undertake one activity and pursue one goal but pursues several different ones. Each member has different preferences with respect to the relative importance of these activities. For simplicity, three activities or goals are distinguished, say, the pursuit of world peace (P), the promotion of economic development (D), and the achievement of justice (more equal world income distribution) (J). Consider three members of an international organization (M1, M2, M3) with the following preferences

\[ M_1: P > D > J \]
\[ M_2: D > J > P \]
\[ M_3: J > P > D \]

(where the symbol > stands for "preferred to"). Under these preference patterns and using the simple majority rule, the members cannot agree about the relative weights to be attributed to the three activities. Obviously this is a case of the Condorcet paradox producing cycles. There is no nondictatorial way to define the output (i.e., the collective welfare) of an international organization based on the preferences of the members. This result applies generally (see Arrow 1951) provided four conditions apply. Output can, of course, be defined if it is done dictatorially by a member having the position of a hegemon in the international system. This case may have obtained when Rome, Britain, and the United States were dominating the world, but it is not relevant under present conditions.

The members may agree on what constitutes the output of an international organization if the members' preferences are sufficiently similar. The activities and goals of international bodies being complex and multidimensional, an agreement is possible only if the preferences of the members are practically identical (see Plott 1967; Kramer 1973), a condition that does not apply in reality in view of the inter-country differences with respect to goals and resources. As shown by Scn (1970, p. 123-4), Arrow's impossibility theorem may be generalized to cardinal individual utility functions. If the (three) members i (i = 1, 2, 3) have differing views about what is to be considered output \( X_i \) of an international organization

\[ X_i = f_i(P, D, J) \]

it is not generally possible to derive aggregate output

\[ X = h(f_1, f_2, f_3) = H(P, D, J). \]

It follows that the attempt to define and to empirically measure the aggregated output and therewith the efficiency of an international organization—an attempt that would be of relevance to its members—is a mistake. Productivity measurements with respect to some single output elements, however, may still be useful for members of an organization,
but this is only additional information about the production process and does not provide any overall valuation.

Rules Not Outcomes

Because the output of an international organization cannot be uniquely determined under democratic conditions, the outcome-oriented approach should be dropped (all the more as it cannot be empirically handled). Indeed, the performance of an international organization emerges from the action of the relevant decisionmakers. Such decisionmakers are the organizations’ directors and other groups of employees; the national representatives (delegates); the national finance ministries and bodies extending credits; national parliaments, interest groups, and bureaucracies; and individual voters and taxpayers.

An international organization’s performance or output cannot be prescribed by outside intervention (by a planner); the only way to influence performance is to set the rules under which the interaction takes place (see Buchanan and Tullock 1962, or Buchanan 1977, Brennan and Buchanan 1986). Particular outcomes are connected with particular rules by the behavior of the decisionmakers. Provided an adequate theory of behavior is used, rules may be suggested in order to determine the resulting outcome.

It follows that no “output” or “efficiency” of an international (or governmental) organization exists independent of the prevailing rules or institutions. When the rules are changed, the concepts of “output” and “efficiency” change. Rules must therefore be the cornerstone of any analysis. In the concept of contractual constitutionalism, the rules or institutional arrangements may not be imposed from outside but can only be set by the voluntary consent of all the decisionmakers concerned. In the case of international organizations the members cannot be forced to accept particular rules because no world government exists having the power of enforcement (see, for a practical example, Halderman 1981, p. 26–28). Therefore this situation is especially apt for the application of the constitutional approach: If members join an organization they do it voluntarily and accept the rules of the organization. A unanimous consent about the rules is achievable because each member has to decide more or less behind a veil of ignorance, i.e., without knowing in which position exactly it will be in the future. Although complete uncertainty about the future position may not obtain—a rich member may, for example, expect with a high probability of accuracy to remain rich in the future—the veil of ignorance nevertheless induces the members to take a more objective stance, i.e., to consider a longer time horizon or to precommit themselves to a certain future behavior. Short-run egoistic interests tend to be set aside to a greater extent than in the daily political process. As a consequence, the members may be able to find rules that are expected to be advantageous to each of them.

This contractual constitutional approach concentrating on rules will be applied in the remaining part of the chapter. In accordance with the fundamental principles in economics, here the criterion of “efficiency” is the fulfillment of individual preferences. It was shown above that the consideration of technical aspects (X-efficiency, cost comparisons) is only useful as information for the members of the organization. This shift of emphasis is not without difficulty in the case of international organizations, because there is a very large distance between individuals and international organizations. Therefore, one relationship is split into two: first, the rules that the national delegates prefer to impose in order to bring about a desired performance of an international organization (discussed in the next section); second, the rules the individual voters as consumers and taxpayers want to set in order to bring about a desired behavior of the delegates (dealt with in Section 4).

3. Delegates and Rules

Nations and Their Delegates

Most studies analyzing the behavior of international organizations (including political economy approaches) take nations to be the relevant actors (e.g., Keohane 1984; Bernholz 1985). Although such a view may be useful for a range of positive analyses, it is seriously deficient when policy is the issue. According to the basic tenet of economics, only individuals are to be taken as evaluators. It is individuals who act in accordance with their preferences and constraints. Nations do not have preferences, unless very restrictive assumptions are made concerning the aggregation of individual preferences. Our opinion is that models with unitary actors do not predict political processes as well as models with interacting groups on the national level.

In the context of international organizations we do not depart from nations that act but rather from country representatives or delegates. Although delegates often claim to pursue solely the “national interest,” the economic approach holds that they pursue their own interests. “National interest” as perceived by the delegates is just one determinant of their behavior, but it will be argued that there are indeed rather marked conflicts between what rules governing the behavior of international organizations are desired by the delegates and what rules are desired by the voters as consumers and taxpayers in a particular country.
The Constitutional Point of View

The Behavior of Delegates

In representative as well as in direct democracies (such as Switzerland) the national representatives are not directly elected by the voters but are usually appointed by the government or by the heads of the national public administrations, in few cases by the national parliaments. The delegates may be politicians or members of the national bureaucracies (diplomats). These individuals do not have the same interests and are not subjected to the same constraints, but they are sufficiently similar with respect to their demand for rules that they are treated as one group.

If we follow the economic model, behavior is determined by preferences and constraints. A delegate's preference function contains income, prestige, and a peaceful (conflict-free) life. These are all positively connected with the existence and growth of the international organization with which the delegate is connected. This positive association is strengthened by a self-selection process, because those politicians and bureaucrats with a favorable view of an international organization are more inclined to apply for, and accept, an assignment. Those representatives who are appointed "contre coeur" have the choice to suffer day after day or to develop a cognitive dissonance leading to a positive identification with the particular international organization. The latter is cheaper. This positive association is perfectly rational because a politician or bureaucrat who is the delegating decisionmaker easily identifies the performance of the international organization with the delegates attached to it. Moreover, the national delegates may see the international organization as a possible job provider. It is not rare for national delegates who participate in foundation and development to be thereafter offered high-level jobs in such an organization.

Delegates are subject to a number of constraints:

1. No one can determine the rules unilaterally, i.e., each delegate has to take into account the actions of other national representatives as well as those of the international organization's administration (as far as it exists).

2. The representatives of the national administration see it to it that the international organizations do not interfere too much with their own functions and in particular will oppose and prohibit actions of the delegates that tend to make the representatives superfluous. The national ministry of finance is interested in controlling the funds going to the international organizations in order to increase its influence. The delegates are thus subject to financial constraints.

3. The national politicians who need to be reelected in order to stay in power make an effort to force the delegates to act in a way the politicians conceive as popular with the voters. The delegates must respect this demand to act in the so-defined "national interest" because they depend in turn on the politicians to remain in their function. Politicians also try to use international organizations by transferring to them problems they are unable to solve at the national level (Vaubel 1986) and to use international organizations for their personal benefit as an arena to raise their prominence (e.g., by talking at a general assembly of the UN or other prestigious international organization; e.g., see Kaufmann 1980, ch. 6). The delegates are induced to support such goals.

As a result of this constellation of preferences and constraints, national delegates tend to be favorably disposed toward the international organization they are attached to, but they must make sure that the national sovereignty is not restricted too much and that the "national interest" as perceived by the delegating politicians is adequately served.

The Rules Supported by Delegates

The national delegates support rules that further the growth and importance of, and increase their influence in, the respective international organization. In particular they are in favor of establishing the following rules:

1. The delegates must have extensive possibilities to make their views known. The rules must allow for a large number of assemblies, meetings, sessions, and working groups so that the delegates may project themselves favorably to the public and to their own governments and so that they can raise their (implicit) income and prestige by traveling. These forms of get-togethers are considered to be output both by the delegates and by the administrators of international organizations. From their point of view, such activities are correctly part of the performance.

2. Rules to safeguard each nation's share of employees in the international organization's administration (for a comprehensive compilation of existing rules see the UN Yearbook). This mitigates the conflict between national delegates and contributes to a peaceful life. At the same time such rules give evidence that the delegates are fighting for their respective "national interest."

3. The establishment of a monopolistic position for the international organization in a particular field. Due to the positive association with the development of the organization, the delegates personally benefit thereby. An "efficiency gain" in the form of a better allocation of resources due to outside competition is of no use to the delegates. Such a gain would not be attributed to their activity and would likely result in actions by the international organization isolating what delegates and politicians regard to be the "national interest," e.g., the loss of jobs by nationals.

4. Rules that make it difficult for a nation to leave the international organization. For a national delegate this has the obvious advantage that he or she can further enjoy the rents produced by his or her position. Furthermore, the international organization is better able to expand its
activities at the national taxpayers' cost, which has positive spin-offs for the national representatives. In the same vein, the delegates support rules that make an exit an all-or-none decision. As is known from Niskanen's (1971) model of bureaucracy, such a situation enables the suppliers of the services (i.e., the international organizations) to "exploit" better those who pay for the services, in this case the national finance ministries and therewith the taxpayers.

5. Rules that make the international organization financially independent. At first sight it seems surprising that the delegates should support such rules because they give up an instrument of control through financial means. However, the national representatives to an international organization anyway have little or no control over finance; it is in the hands of the national governments, or more precisely, the ministry of finance (see, e.g., Koch 1984).

Strengthening the financial independence of international organizations is indeed in the interest of the national delegates: It raises the survival prospect of the organization and therewith the delegates' rents. Increased financial discretionary room for the international organization is advantageous for the national delegates as they can expect to share in the benefits. The administrators and the delegates have a common incentive to form a coalition against the national taxpayers.

Rules serving to enlarge financial autonomy are:

1. the admissibility of budget deficits and
2. fixed contributions attached to a growing tax base. The best system in this respect has rules that fix the national contributions as a percentage of the international organization's budget, i.e., of expenditures. As the international organization's administration is to a considerable extent able to determine the budget, the spenders at the same time determine the receipts once the financing rule is set. National contributions as a fixed percentage of the budget is indeed the common financing rule in the UN system (except for the financial suborganizations as the IMF and the World Bank).

Table 2 presents the highly skewed contribution shares of selected countries to the United Nations as percent of the UN regular budget.

4. Individuals and Rules

Exerting Influence

In representative as well as in direct democracies foreign policy is determined by government and the public administration. The citizens

Table 2: Contribution shares to the UN regular budget for selected countries 1985 (scale of assessments in % of total)

<table>
<thead>
<tr>
<th>Member states</th>
<th>shares in %</th>
<th>cumulated shares in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. United States</td>
<td>25.00</td>
<td>25.00</td>
</tr>
<tr>
<td>2. USSR (incl. Ukrainian)</td>
<td>12.54</td>
<td>37.54</td>
</tr>
<tr>
<td>3. Japan</td>
<td>10.32</td>
<td>47.86</td>
</tr>
<tr>
<td>4. Federal Republic of Germany</td>
<td>8.54</td>
<td>56.40</td>
</tr>
<tr>
<td>5. France</td>
<td>6.51</td>
<td>62.91</td>
</tr>
<tr>
<td>6. United Kingdom</td>
<td>4.47</td>
<td>67.58</td>
</tr>
<tr>
<td>7. Italy</td>
<td>3.74</td>
<td>71.32</td>
</tr>
<tr>
<td>8. Canada</td>
<td>3.08</td>
<td>74.40</td>
</tr>
<tr>
<td>9. Spain</td>
<td>1.93</td>
<td>76.33</td>
</tr>
<tr>
<td>10. Netherlands</td>
<td>1.78</td>
<td>78.11</td>
</tr>
<tr>
<td>11. Australia</td>
<td>1.57</td>
<td>79.68</td>
</tr>
<tr>
<td>12. Brazil</td>
<td>1.39</td>
<td>81.07</td>
</tr>
<tr>
<td>13. German Democratic Republic</td>
<td>1.39</td>
<td>82.46</td>
</tr>
<tr>
<td>14. Sweden</td>
<td>1.32</td>
<td>83.78</td>
</tr>
<tr>
<td>15. Belgium</td>
<td>1.29</td>
<td>85.07</td>
</tr>
</tbody>
</table>

Cumulated shares of remaining
145 member states: 14.93

Total: 100.00

Source: Yearbook of the United Nations 1988
have only an indirect influence on the way international organizations are dealt with. It is one of the many issues on which elections are decided, but the individuals may to a limited degree also influence the political process through voice, in particular via the press and public opinion surveys (see, e.g., Kay 1977 for the views of U.S. citizens concerning the United Nations).

The citizens are interested in rules that induce the international organizations to take their preferences into account. The first channel for the achievement of this is inducing the national delegates to fight for the interests of the consumers/taxpayers and restricting them to the sole pursuit of taxpayers' interests. This can be achieved by introducing the rule that the delegates are to be elected by the citizens or at least by parliament in a public session. Another possibility is to introduce the national constitutional rule that the entry into and the exit from international organizations are to be subjected to popular referendum. The national delegates then have a strong incentive to support rules governing a particular international organization that the voters find acceptable. Another possibility would be to regulate the career pattern of national representatives by rewarding them for pursuing the citizens' interests and punishing them for not doing so. Such a compensation scheme is, however, extremely difficult to devise.

The individuals also want to make sure that national interest groups do not exert undue influence on the delegates. This may be achieved by imposing rules on the national political process to restrict their activity, or, preferably, by supporting the formation of otherwise unorganized groups (see Frey 1983, ch. 7). Lobbying opportunities in the international organization may be attributed, for example, in equal quotas to producers' and consumers' interest groups.

The second way to ensure that international organizations act according to individual preferences is via rules that facilitate financial control. As practically all their activities require costly resources, this avenue may be quite effective. Sunset laws concerning the contribution to international organizations, for example, will at least attract some publicity to the national political process from time to time.

The Rules Supported by Individuals

The following rules governing the international organization's behavior are of prime importance from the point of view of the citizens of a (prospective) member country:

1. Competition is allowed, and possibly created, so that the international organization is forced to serve the individuals' interests. Competition may exist not only from rival international organizations but also from

The Constitutional Point of View

alternative institutional arrangements for providing the international public good. Although at first sight such competitive institutions seem rarely to exist, there are many instances in which several international organizations are active in the same field and in which there is at least some competitive pressure. Examples are the Red Cross and Amnesty International (a nongovernmental international organization), which are both active in the care and the bringing about of the release of political prisoners; the United Nations General Assembly and the summit meetings, where the heads of governments of industrial nations meet for consultations; and ad hoc banking consortia, which are active in international public debt negotiations together with the UN's financial institutions. In all these cases, competition is weak and always tends to be restricted by the international organizations involved; it nevertheless forces the international actors to perform better than otherwise. The taxpayers/voters have an interest that rules are established that prevent the restriction of such competitions and, above all, do not give a monopolistic position to any one international organization.

2. Exit is to be made easy. Such rules weaken the possibility that the international organization's administration may disregard the interests of the citizens of any member state. However, the citizens of a particular country would not profit from too lenient rules, because in that case the international organization threatens to break down due to free riding in the presence of the international public goods produced by it. This, however, should only be a consideration in the case of true public goods; administrators of international organizations have an incentive to define as public a wide range of goods that do not share the characteristics of nonexcludability and nonrivalry. The more international private goods are produced, the more lenient the exit rules should be formulated from the point of view of individuals.

3. Output is to be partitionable. Such a rule allows the delegates of a member country to support those undertakings beneficial to the residents of his (her) country and to resist those that are harmful. In the extreme, this rule makes it possible to "exit in steps," as has, for instance, been done by the United States and France from the United Nations (see, e.g., Brinkmann 1978).

Conversely, individuals have an interest in preventing the international organization's directorate from confronting the members with an all-or-none budget proposal.

4. There is to be fiscal equivalence (Olson 1969, 1986; Tollison and Willett in this volume) in the sense that those nations with a larger financial contribution should also have a larger say (i.e., a higher "voting power" according to the Shapley/Shubik or Banzhaf index; see Dreyer and Schotter 1980) in how the money is to be used. If this equivalence
is not guaranteed, an inefficient use of the scarce resources is programmed. A country, for instance, that makes only a very minor financial contribution but that has the same voting power as all the other contributors is rational to always vote for the expansion of the budget, even if it benefits only little therefrom (e.g., only by the fact that some nationals are additionally employed).

In the financial organizations of the UN system the rules on the distribution of votes and the voting rules are more in the spirit of fiscal equivalence than in other UN organizations. This may explain why the World Bank and IMF are often considered to be efficient. In the International Monetary Fund, each member country receives 250 basic votes (but these make up only 4 percent of the total vote) and one vote for each 100,000 units of special drawing rights contributed. The resulting distribution of contributions and voting power is shown for selected countries in Table 3.

As may be seen, the United States, for instance, contributes 19.9 percent of the budget and has a voting share of 19.1 percent. In the World Bank the situation is quite similar. The United States contributes 23 percent of the total subscriptions and has a voting share of 20.8 percent.

5. The “government” or “board of managers” of international organizations is to be elected by popular vote. This may be done either directly (this may, e.g., be envisaged for the commissioners of the European Community) or by some more indirect procedure. Such a voting rule would give the leaders of an international organization an incentive to pay attention to the preferences of the populations of the member nations.

5. What Can Be Done?

Our analysis has revealed rather striking differences as to what rules governing international organizations are desired by delegates as compared to individual citizens. Indeed, with respect to three rules their interests are completely antagonistic:

1. Delegates support rules securing a monopolistic position of an international organization; individuals profit from rules that allow, or actively create, competition.
2. Delegates want rules making exit from the international organization difficult for member countries; individuals gain by rules easing exit.
3. Delegates gain from rules giving financial independence to international organizations; individuals gain from financially controlling them by rules such as fiscal equivalence.

The crucial question is which of the two sets of actors is able to attain more in the rule-setting politico-economic process. In this light, the

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Table 3: Distribution of financial contribution and voting power in the International Monetary Fund for selected countries (April 1989)

<table>
<thead>
<tr>
<th>Member state</th>
<th>Quota: General and SDR Departments, percentage of total</th>
<th>Voting Power: General and SDR Departments, percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. United States</td>
<td>19.92</td>
<td>19.14</td>
</tr>
<tr>
<td>2. United Kingdom</td>
<td>6.88</td>
<td>6.63</td>
</tr>
<tr>
<td>3. Federal Republic of Germany</td>
<td>6.00</td>
<td>5.79</td>
</tr>
<tr>
<td>4. France</td>
<td>4.98</td>
<td>4.81</td>
</tr>
<tr>
<td>5. Japan</td>
<td>4.69</td>
<td>4.53</td>
</tr>
<tr>
<td>6. Saudi Arabia</td>
<td>3.56</td>
<td>3.44</td>
</tr>
<tr>
<td>7. Italy</td>
<td>3.23</td>
<td>3.16</td>
</tr>
<tr>
<td>8. China</td>
<td>2.66</td>
<td>2.58</td>
</tr>
<tr>
<td>9. India</td>
<td>2.52</td>
<td>2.47</td>
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<tr>
<td>10. Netherlands</td>
<td>2.45</td>
<td>2.41</td>
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</table>

Cumulative shares in percent for the first ten nations 56.89 54.96

possibilities the individual taxpayers/citizens have to influence their nation's delegates is of great importance. The more strongly the delegates depend on the will of the voters in their country either because of the need for reelection, direct referenda, or financial controls, the more the rules governing the behavior of international organizations will be constructed in favor of the citizens' wishes.

Under normal conditions, the sharp differences in the interests concerning these rules do not become apparent. There is generally almost no direct contact between delegates and individual voters. The conflicts therefore are not easily seen by the individual voters, particularly because the delegates use the rhetoric of the "general national interest" in order to help to construct the rules that are "reasonable" from their point of view.

There are two occasions in which the conflict about the rules becomes visible. The first is when the voters are allowed to make their views known by a referendum. Such a case occurred recently in Switzerland. On March 18, 1986, the voters were asked whether Switzerland should join the United Nations as a full member. In the preceding campaign the delegates (having the status of observers only), other diplomats, and moreover the rest of the political establishment—the members of the federal executive and parliament, the top bureaucrats of the federal administration, and the media—were unanimous in urging entry. Visible opposition was raised only by some marginal groups of voters. All the more surprising was the result of the vote: 75 percent of the Swiss voters rejected the proposition and not one single canton could muster a majority for it (the rejection rate was up to 89 percent). It is rare that a referendum has such a clear outcome.

In the Swiss press the rejection of entry into the UN was heavily criticized. The citizens were accused of being uninformed and incompetent. Public choice suggests a quite different interpretation. Assuming that the voters are both capable and willing to decide rationally, it must be concluded that the overwhelming majority of Swiss citizens do not expect any net benefit from joining the UN, given the rules that presently apply within the United Nations.

A second occasion in which the conflicting opinions between the delegates and the individual citizens concerning the rules governing international organizations are apparent is when citizens in a particular country become dissatisfied with particular international organizations. This happened several times in the United States, where many voters expressed misgivings about the way their country fared in the United Nations, and there were demands to reduce the financial contributions or even to leave the organization. The government had to react, but most delegates (diplomats) pointed out the great usefulness of the UN to the United States, identifying "national" interests with their own interests.

If we take the fulfillment of the preferences of individuals to be the sole criterion for welfare, then the economists’ task is to help bring about rules that further such outcomes in the politico-economic process (Buchanan 1964). The study of international organizations, at least if undertaken by economists committed to individualism, should turn its attention away from such notions as "national welfare" or "Pareto efficiency" (with respect to outcomes) because it distracts from the fundamental problem. Instead, researchers should concentrate on how rules govern the behavior of the actors in international organizations. In addition, they should suggest what rules serve the interests of the citizens and how these interests can be developed and introduced.

Notes

1. Institute for Empirical Economic Research, Kleinstr. 15, CH-8008 Zurich. A preliminary version of this chapter was presented at the European Public Choice Meeting in Reggio Calabria in April 1987, as well as at research seminars at the George Mason University and at the Universities of Basel and Zurich. We are grateful for helpful comments to Heinz Buhofner, Michael Hutter, Gordon Tullock, Hannelore Weck-Hannemann and Carl-Christian von Weizsäcker.


4. This is, moreover, done in a rather peculiar way because the rating "Adequate" is deprecatory and would give a staff member the right of appeal, so even officials who can recognize poor work when they see it end up rating all staff work as 'Outstanding' or 'Very Good'" (Ramsay 1984, p. 391). This is just one instance of the more general phenomenon that organizations established to control other organizations are ineffective and by their use of resources even lead to further waste (see Downs 1967, 147–150).

5. There are two definitions of efficiency in economics, the traditional one excluding, and a more recent one including, transaction cost. For the substantial difference see Stephen Margolis (1987). For various efficiency concepts see Luckenbach (1988).

6. This latter criticism has already been raised by Julius Margolis (1981) in the context of limitations of the growth of government.

7. In the case of the Condorcet paradox there is no clear-cut result of a majority-voting process: In the example given, after each voting process the defeated party may propose another bill that will defeat the preceding one.

8. The Pareto principle, the unrestricted domain of preferences, the independence from irrelevant alternatives, and transitivity.
9. When some problem arises, it is common to hear that immediate action has been taken in the form of (all kinds of) meetings resulting in some report, as if this action as such has alleviated the initial problem.

10. Apart from the fact that the delegates’ utility is positively connected with the size and growth of the international organization they are attached to, a particular representative has little incentive to extensively control the budget because such activity constitutes a public good.

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