

A Directly Democratic and Federal Europe

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Abstract. This paper endeavors to take up the neglected aspects of federalism and direct democracy. It emphasizes the mutual dependence of the two for reaching the goals of efficiency and trust. Direct democracy is seen to preserve federalism, but even more importantly, federalism is taken to enable and to preserve effective direct democracy. Empirical evidence is adduced showing in particular that direct democracy leads to higher efficiency in the sense of lowering transaction costs. A proposal for a novel combination of federalism and direct democracy—which is called FOCJ (the acronym for “Functional Overlapping Competing Jurisdictions”)—is suggested for Europe.

JEL classification: D7, H1, H7, P0

1. A Constitution's Task

A constitution should achieve two tasks. The *first* has been extensively discussed in constitutional economics,² namely that political activities should be organized such that they meet the *citizens' preferences* as fully as possible and at the *lowest cost*. The preference fulfillment criterion directly derives from the basic normative assumption of methodological individualism. The goal of cost minimization (or of X-efficiency) is of particular importance in a period in which governments take a very large share of GNP and where a significant part of it is perceived by many citizens to be wastefully produced.

The *second* task a government should fulfill has in contrast been discussed much less, at least not by economists. The task is to establish an atmosphere of *trust* between citizens and the government. This relationship runs both ways:

- The constitution should be such that the citizens place trust in the law and the government acting within its boundaries. This *trust in government* has, in the case of the European Union, been empirically measured, e.g., by the Eurobarometer.
- The constitution should in turn place *trust in the citizens*. This aspect has been neglected in the constitutional literature; it will, however, be a central aspect of this essay.

The establishment of trust in government by the citizens, and of trust in the citizens by government serves to increase voluntary compliance with the constitution. A minimum amount of voluntary compliance is a necessary prerequisite for the working of any constitution. But increasing amounts of trust also serve to reduce transaction costs as the same level of compliance can be reached with less deterrence and hence with smaller resource inputs in the form of policing and punishing.

The crucial question is how the two sets of goals—efficiency and trust—can best be achieved. It will be argued that the two goals are, in general, in conflict but that there are fortunately two institutions which promote both goals simultaneously. These institutions are *federalism* and *direct democracy*. They have, of course, been extensively discussed

in public choice and the neighboring sciences but somewhat surprisingly they do not play a central role in constitutional economics. This applies in particular to direct democracy which is almost completely disregarded in constitutional economics. The same holds for constitutional proposals made by political economists. The European Constitutional Group (1993) or Buchanan (1990, 1991), for instance, while emphasizing federalism including the right to exit (i.e. to secede), have not proposed institutions of direct political participation such as the popular initiative and popular referenda.³ Another example of the neglect of both institutions in constitutional economics is the book by Vibert (1995). He briefly mentions federalism when he speaks of the jurisdictions' "optimum domain" (pp. 112–14) where he takes into account 'fiscal equivalence'. His major preoccupation is, however, to appropriately assign public activities to the European union level: "It means trying to identify those public goods or public policies whose optimum boundaries coincide with those of the union" (p. 113). Vibert also briefly mentions the possibility of secession (pp. 145–46) but his discussion remains unclear and undecided. Direct democracy is given only 12 lines in a book of 233 pages (pp. 177–78) which not only indicates of how little importance this institution is rated by the author, but also prohibits a serious discussion.

This paper endeavours to take up the neglected aspects of federalism and direct democracy. It emphasizes the mutual dependence of the two for reaching the goals of efficiency and trust. Direct democracy is seen to preserve federalism, but even more importantly, federalism is taken to enable and to preserve effective direct democracy.

Section 2 discusses how federalism increases public-sector efficiency, while section 3 discusses how this can be achieved through direct democracy. In each case the theoretical discussions are kept short and the emphasis is on empirical evidence which shows the efficiency-enhancing properties of the two institutions. Section 4 turns to the question of how trust in government, and trust by government can be established.

Empirical evidence is adduced showing in particular that direct democracy leads to higher efficiency in the sense of lowering transaction costs. A proposal for a novel combination of federalism and direct democracy—which is called FOCJ (the acronym for '*Functional Overlapping Competing Jurisdictions*')—is suggested for Europe in section 5. Conclusions are offered in the last section 6.

2. Federalism Raises Public-Sector Efficiency

The theoretical arguments in favor of federalism are well-known.⁴ Citizens are better informed and more concerned about political issues than in a centralized state, and they establish political competition among jurisdictions by being able to choose between them. This competition forces the sub-national units to respond to the citizens' demands, and to offer their services at the lowest cost (tax price) possible, as the individuals otherwise exit to a better-run political unit. More recently, Barry Weingast (1995) has developed the notion of 'market-preserving federalism' where 'market' refers to political competition.

Over the last years strong empirical evidence has been collected analyzing the question of whether decentralization serves as a constraint on Leviathan. Are federal constitutions able to effectively check the growth of the public sector? So far, there is only mixed evidence with respect to differences within countries. Thus, Oates (1972, 1985) finds no

statistically significant relationship between the size of government and the degree of fiscal decentralization. Nelson (1987) finds an effect for multi-purpose units but not elsewhere. In contrast, Forbes and Zampelli (1989) demonstrate a positive and statistically significant relationship between the number of (multi-purpose) competing governments and public-sector size. One problem with these studies is that they identify efficiency with public expenditures, i.e., they disregard the issue of 'technical' (or X-) efficiency.

Econometric studies analyzing differences between countries do not provide convincing evidence either. The recent cross-country growth studies following Barro's (1990) lead have so far disregarded federalism as a determinant of the size of public expenditure or of economic activity. On the other hand, much historical evidence, as well as case studies, have been assembled which strongly suggest that federalism tends to reduce government size, and in particular, raises innovation and economic growth. The most comprehensive works are due to Rosenberg and Birdzell (1986) and Jones (1981) who show, for instance, that the competition between the fragmented (North) Italian cities in the Middle Ages and thereafter greatly contributed to their flexibility and inventiveness, and made them rich. This feature of decentralization is not restricted to Europe. The same has been observed e.g., in China (Pak 1995) which blossomed as long as it was decentralized, and fell way behind Europe when the emperors were able to establish a strong central authority. As has been shown by Baumol and Baumol (1994), decentralization not only raises economic output but also personal freedom and artistic achievements. Mozart is only one of a large number of great artists who thrived under the fragmented political structure of the Holy Roman Empire of German Nations.

3. Direct Democracy Raises Public-Sector Efficiency

3.1. *Theoretical Aspects*

Following the fundamental normative assumption of methodological individualism one may argue that direct democracy via obligatory and optional referenda and initiatives is the best-suited institution. The burden of proof lies with those who claim that an indirect system—one in which (professional) politicians represent the interests of the voters—is superior. Principal-agent theory starts from the very premise that agents—here the politicians—do not fully comply with the principals'—here the voters'—wishes. Indeed, one may presume that the politicians to some extent, and in some regards, form a 'classe politique', which sets itself above the citizens, systematically deviates from their preferences, and actively pursues rent-seeking activities at their cost.

This view of politicians, both of the party or parties in government *and* those in opposition, is a far cry from the model of party competition as envisaged by Schumpeter (1942) and Downs (1957). It is not easy to demonstrate this gap between the wishes of the voters and politicians because the voters are not able to express their demands with respect to particular issues within the parliamentary channels of representative democracies. All they can do is to vote for a *particular* party at the discontinuous elections. Certainly, *if* perfect political competition between the parties exists, politicians seeking office are forced to take these wishes into account. However, parliaments and other political committees make it easy to

close deals that are in the interests of all politicians but at the cost of the anonymous voters and taxpayers. The most pertinent examples are the income, side benefits, and pension rights of the members of parliament. (Abundant empirical evidence for Germany is provided e.g., in Arnim 1993, 1995.) But the systematic deviation of the 'classe politique' from the voters' wishes also extends to laws and policies where the professional politicians tend to side with those interests that add to their influence and importance. In general, politicians can derive larger rents from intervening in the economy than when they abstain.

Yet, there is one country in which the systematic deviation between the voters' and the politicians' interests can be observed. In the semi-direct democracy of Switzerland it often happens that the political establishment—i.e., the government and parliament—decide an issue in one direction, but the citizens decide quite differently (often to the politicians' surprise which shows that they are quite distant from the voters' preferences). An example was the referendum on whether Switzerland should join the United Nations held in 1986. Virtually the whole *classe politique*, with very few exceptions, strongly argued for entry, but the Swiss citizens rejected the proposal with a huge majority of 76 percent.

A major channel through which politicians rig decisions in their favor is by agenda setting. Issues which they prefer dodging are not put on the agenda, which makes it difficult for the voters to express their preferences. Certainly, the politicians are forced to deal with strong demands in the population, and the opposition has an incentive to raise issues unwelcome to the government, but few politicians in representative democracies with established party machines have a strong incentive to put issues on the agenda which are disadvantageous for the *classe politique* as a whole. Hence, for instance, few parliaments openly discuss members' incomes and their many other privileges. In contrast, in a direct democracy, the institutions of the initiative allows outsiders to put an issue on the political agenda. Not surprisingly, the institutions of direct democracy are opposed by a myriad of arguments (see Frey 1994 for a list and a refutation), and even less surprisingly, most politicians are strongly against even the slightest move in that direction.⁵ The voters seem to feel differently. A national Gallup survey in the United States in 1987, revealed that 76 percent of the population agreed with the statement that "Citizens ought to be able to vote directly on important issues and policies instead of having their representatives voting on them." Only 18 percent preferred representatives to decide alone, and 6 percent were indifferent (Cronin 1989: 80). While one should be careful with such surveys, it is interesting to note that similar statements were also supported by a majority of citizens in other countries, even in those where referenda do not presently exist (Möckli 1994).

There are many different variants of institutions of direct democracy. Some of them are ineffective in fulfilling, and may even subvert, citizens' preferences. An example are plebiscites which are a means of the government and sometimes the authoritarian ruler or dictator, to rally the population's support. The individuals have no possibility to take a stand on an issue but are forced to either vote for or against their ruler. An example was de Gaulle's plebiscite on regionalization; when the French did not follow his decision, he resigned in anger, thus (in his view) 'punishing' the voters.

Another instance of a dubious type of referendum are 'tele-democracy' or 'computer-democracy' in which the voters are asked to decide instantly on issues. This arrangement overlooks one of the essential features of direct democracy disregarded in public choice,

namely that of public deliberation induced (Bohnet and Frey 1994). A referendum should be looked at as a process consisting of the following stages:

- In the pre-referendum stage the issue to be decided on is put on the table, and (in principle) everyone has the opportunity to participate in the public and private discussion. Unlike Jürgen Habermas' (1985, 1992) notion of an 'ideal discourse' in which everyone is assumed to be completely unprejudiced, no persuasive language is admitted, and the discussion goes on until a consensus is reached. A pre-referendum discussion is focused and has a clearly determined end-point. It has the great advantage of resulting in a binding decision and is therefore far from the inconclusive, 'academic seminar' type of discourse envisaged by Habermas.⁶
- In the second stage, the actual vote is taken.
- In the third post-referendum stage, discussion plays again an important role because the ballot outcome has to be interpreted. The government does not only look at which side has won but takes the size and the distribution (in particular between regions and cultures) into account. It follows that the referendum does not simply consist of a mechanical aggregation of preferences.⁷

A third type of ineffective referenda is a process whereby too many issues are put before the citizens to vote on at the same time. In California e.g., voters only decide about ballot issues every other year, and then have to decide on a large number of propositions (sometimes over one hundred). Obviously, this represents an overload for the individual, nobody can make a reasoned decision on such a large number of issues. In Switzerland, in contrast, citizens are normally called to the polls four times a year and are asked to cast their vote on two national propositions, on average, as well as on a small number of cantonal and communal issues.

3.2. *Empirical Evidence*

There are impressive research results available showing that the institutions of direct democracy have systematic and sizeable effects on society. In various analyses Werner Pommerehne and co-authors⁸ found that for Switzerland, in the communities where the institutions of direct democracy are further developed—i.e., initiatives and referenda are applicable to a wider range of issues—the government sector is smaller than in those with less developed direct democracy. Almost twenty years later, Matsusaka (1995) found that in those 23 American states in which citizens can initiate and approve laws by popular vote, government spending has been lower in the order of four percent compared to the 27 states where laws can be proposed only by elected representatives.⁹ He finds moreover a lower level of redistributive activity in the more directly democratic states. Pommerehne and co-authors also established that government growth is curbed, and that government production is more efficient (i.e. less costly) in communities in which initiatives and referenda play a large role. All these results are deduced by carefully controlling for other influences; the effects identified can thus be attributed to the differences in democratic institutions. Recently, Feld and Savioz (1996) have looked at the effect of direct democracy on economic

performance in Switzerland using a cross-section analysis for 1989. The cantons classified as 'directly democratic' have a per capita GNP between 13 and 18 percent higher than in the cantons classified as 'representative.' The authors explicitly test, and reject the possibility of reverse causation, i.e. the higher income can be attributed to the more directly democratic institutions.

These results from various countries, periods, areas, and issues strongly suggest that the institutions of popular initiatives and referenda are not only preferable from the point of view of democratic theory but also from a more narrowly economic point of view. We find ourselves in the enviable position of being able to state that there is no trade-off, but rather concurrence of democratic values and economic performance.

There are no corresponding econometric studies for comparisons between countries because Switzerland is the only country in the world with extensive direct democratic institutions at the national level.¹⁰ However, suggestive evidence is available. Switzerland is not only the most directly democratic country but also among the richest ones in terms of per capita income, and is also well-positioned according to other indicators such as income distribution, health, absence of crime, and ethnic peace.¹¹ One could say, at least, that direct democracy has not prevented Switzerland becoming economically very successful, but this paper is prepared to go further and to causally attribute Switzerland's success to the direct political participation possibilities of the population.

4. Establishing Trust

As it has been pointed out, the issue of trust by the citizens in government, and even more so, trust by government in the citizens, has been neglected in constitutional economics. This also applies to the discussion of the future European constitution.

4.1. *Trust in Government by Citizens*

The extent to which individuals rely on the state they live in has been analyzed in several different ways:

- (1) *Civic virtue*, or sense for *civic duty* (see Burt 1993). This idea has been pushed by the communitarians and designates particular moral and political qualities of a citizen. In political science, the public virtues have always played a role, but have recently been emphasized as a crucial factor for a just and efficient state (e.g., Kelman 1992).
- (2) *Social capital* is a concept which has been brought forward by James Coleman (1990). It goes back to Tocqueville (1835–40) who thereby explains the success of democracy in America.
- (3) *Trust* has recently interested scholars from many different fields. Examples in sociology are Gambetta (1988); in administrative science, Wilson (1993); in political science, Mansbridge (1990) and Fukuyama (1995); and in social psychology, Kramer and Tyler (1996). In economics, the importance of trust has early been pointed out by Kenneth

Arrow (1974), and more recently by Oliver Williamson (1992), but the concept plays a minor role compared to the weakly related, and very fashionable notion of reputation (of the government and/or of the central bank).

(4) *Morale* which in the context of government mainly refers to tax morale.

There is a wide consensus today that trust in government is important and therefore cannot be neglected, but it is a rather elusive concept which is difficult to operationalize and measure. A serious effort in this direction has been undertaken by Putnam (1995), who seeks to capture trust in government with a whole series of indicators such as the amount of political participation, and how embedded individuals are in the community (e.g., the extent to which they belong to social clubs). Putnam finds that social capital has clearly fallen in the United States over the last few decennia, and that there is cause for serious concern.

4.2. *Trust in Citizens by Government*

A constitution may reflect different extents of trust in its citizens. On one extreme, it may not place any trust in them at all. The laws are constructed on the assumption that the citizens always exploit them to the largest extent possible, and that there is no tax morale at all. On the other extreme, the constitution may enshrine the idea that the citizens do not actively exploit the system, and that in particular, an appreciable amount of tax morale exists in the population. Such a constitution welcomes the citizen's participation in political affairs and therefore offers them extensive institutions for direct political participation.

The extent of trust in the citizens is not independent of civic virtue, or the trust that citizens place in government (Frey 1996). A distrusting constitution, and correspondingly distrusting laws and regulations, tend to *crowd-out* the sense of civic virtue, and in particular tax morale. In contrast, a trusting constitution tends to raise the citizens' intrinsic motivation towards their state, and thus bolsters civic virtues. Two equilibria may be envisaged: one with high trust, low deterrence and much directly democratic participation possibilities, and therefore high tax morale; another one with low trust, high deterrence, few or no direct participation possibilities, and therefore low tax morale.

Empirical evidence for Switzerland (Pommerehne and Frey 1993) on tax compliance suggests the existence of these equilibria in reality. One third of the 26 Swiss cantons were classified as 'directly democratic', and one third as 'representative' democracies, the other third being in-between. The econometric analysis was performed for three periods (1965, 1970, and 1978). The extent of non-declared income was proved to be dependent on the type of constitution (controlling for all other influences normally considered relevant, such as expected punishment for cheating, marginal tax rate, deduction possibilities, etc.). In the 'directly democratic' cantons, tax non-compliance was 7.7 percentage points lower than in the other cantons. This amounts to a smaller non-declared income of Sfr. 1,600.– per tax-payer a year which is a significant sum. In the more representative cantons, tax non-compliance was systematically higher. It can therefore be inferred that two tax equilibria with different amounts of tax morale exist. The institution of direct democracy therefore

contributes also in this case to economic efficiency, as the government has lower costs in raising a given revenue *and* (as we saw before) the tax share is lower.

5. Federalism and Direct Democracy for Europe

Our analysis has argued, based on both theoretical arguments and empirical evidence that federalism and direct democracy have attractive features. They directly promote the fulfillment of individual preferences, are able to keep the state in check, and lower transaction costs by bolstering trust between the citizens and the state. In all three respects these institutions are superior to a centralized, representative state. Yet, very little of all that is visible in the European Union as it stands today, and in the proposals for a future European constitution coming from inside the system, e.g. from the European parliament. It might be argued that the European Union, while not having any institutions of direct democracy, at least has a federal structure. It may be pointed out that the Council of Ministers consists of delegates from the various member states. Nevertheless, important features of a truly federal constitution are missing. Thus, there is no second chamber of the European Parliament representing the states. The members of the Commission are appointed by the national governments but they increasingly have an incentive to act in what they perceive to be 'European interests' which tend to parallel their own interests. The power given to the various EU-actors to harmonize all sorts of policy areas ranging from social to monetary policy is used by the EU-bureaucracy to increase the importance of the central state (see Vaubel 1992, 1994). Regional policy has little to do with decentralization because the regions are defined from above and are dependent on the central state for subsidies.

A significant step towards a stronger form of democracy in the European Union would be to introduce the popular initiative and referendum beginning at the lowest and highest level, and to hope that it would progress to the level of provinces and nations. The EU-constitution should allow citizens to introduce these direct democratic institutions at the communal level. However, at least in some member states—think for example, of France—the effect would be minor because the extreme centralism does not leave relevant decisions to the local citizens.

Elements of direct democracy should also be introduced at the EU-level. For important issues, especially those concerning constitutional changes or amendments, a majority of both the European population as a whole, and an approval in the majority of the nations, should be required. Interestingly enough, even nations who otherwise do not decide by referendum have left the decision on entry into the EU to the population as a whole, and have subjected the Maastricht treaty to a referendum (France, Denmark). Thus, part of the population is already familiar with being directly involved in decisions concerning Europe. The professional politicians of all nations and (almost) all parties, the 'classe politique' as a whole, will, of course, vehemently reject such a suggestion. They will raise all the standard counterarguments used for the same purpose at the national level—which does not make them more correct.

As the discussion shows, federalism and direct democracy are closely linked. There is not only 'market-preserving federalism' (Weingast 1993), but also 'federalism-preserving democracy.' The latter means that a democracy relying on representation by (professional)

politicians tends to undermine the federal structure, the United States and the German Federal Republic being two prominent examples. For the will of the citizens to prevail in the long run, a constitutional system must be devised which establishes mutually reinforcing federalism and elements of direct democracy.

One such constitutional system is the FOCJ, *Functional, Overlapping, Competing Jurisdictions*. These new governmental units have four major characteristics:

- *Functional*: the political units extend over areas defined by the tasks to be fulfilled and are therefore of much different size: A few FOCJ may extend over the whole European Union (or even beyond), defense and free trade being examples for the respective functions; other FOCJ may be very small as in the case of local environmental issues. FOCJ are not determined and imposed by higher level governments but *emerge* in response to the 'geography of problems.' Both entry and exit are possible.
- *Overlapping*: in line with the many different functions there is a corresponding number of governmental units extending over different geographical areas.
- *Competing*: individuals and/or communities may choose the political units they want to belong to, and have political rights to express their preferences directly via initiatives and referenda.
- *Jurisdictions*: the units established are governmental, they have enforcement power and can, above all, raise taxes to fulfill their tasks. In the case of goods and services which have mainly private characteristics (e.g. schools), individual citizens are the constituent members. When public features are dominant, communities should be the constituent members in order to preclude individual free-riding.

FOCJ amalgamate various concepts developed in the theory of fiscal federalism, in particular 'fiscal equivalence' (Olson 1969, Oates 1972), 'voting by feet' (Tiebout 1956), and 'economic clubs' (Buchanan 1965). They are related to the single-purpose districts of the United States and the 'Zweckverbände,' as they are called in German-speaking countries, which, however, are often not legally independent political entities [U.S. and Swiss single-purpose communities are exceptions (see Mehay 1984)], and do not raise their own taxes. Most importantly, the citizens are not allowed to raise their demands via initiatives and referenda. FOCJ with direct participation (often via citizens' meetings) have, however, existed in some Swiss cantons for centuries and still work well.¹²

FOCJ fit in well with the political economy of Europe in two respects. Firstly, the idea of 'variable geometry,' 'multiple speed,' and 'various tracks' is often proposed as a way to mitigate the tensions in Europe, but it is normally considered to be against the 'European spirit.' Here it is argued, that multiple functional units emerging in a non-constructivist manner (see Hayek 1960, Buchanan and Tullock 1962) are an asset to be supported and not restrained. Secondly, the 'European spirit' rightly understood is based on *diversity*. Decentralized and overlapping political units have always been an important feature of European history. The various, often quite small, governments in the Holy Roman Empire of German Nations, especially in today's Europe and Italy, were highly productive. The rise of Europe has been attributed to such diversity and the resulting competition between the

political units fostered economic, technical and artistic innovation (Jones 1981, Rosenberg and Birdzell 1986, Weede 1993).

6. Conclusions

Federalism and direct democracy are highly efficient institutions to fulfill individual preferences, to check the growth of government, to lower transaction costs by establishing an atmosphere of trust between citizens and their state, and to foster economic development. Yet in the present institutions of the European Union, as well as in most proposals for a future European constitution, such institutions play a minor role, and are often not even mentioned at all. While elements of federalism and of direct democracy can be introduced partially (and this would be better than not having them at all), they are not likely to survive for an extended period in the current politico-economic process: federalism will be undermined by the 'classe politique' of a representative democracy, and direct democracy of the citizens will not be permitted in a centralized state. For this reason, a new institutional form is suggested here: Functional, Overlapping, Competing Jurisdictions (FOCJ). The European constitution should guarantee a '*fifth freedom*' (in addition to the freedom of mobility of goods, services, labor, and capital) ensuring that the emergence of FOCJ may not be blocked by governments of a higher level. Every citizen as well as every community should have the right to appeal to the European Court if this fifth freedom of political competition via the emergence of new jurisdictions is hindered.

Notes

1. Financial support by the Swiss National Fund (Project No. 12-42480.94) is gratefully acknowledged.
2. See Buchanan and Tullock (1962); Buchanan (1991a); Frey (1978); and most recently Mueller (1996).
3. As always, there are exceptions. Not surprisingly, several Swiss political economists have suggested elements of direct democracy for Europe, e.g., Blankart (1992); Kirchgässner (1994), as well as the present author, Frey (1992, 1994); Frey and Bohnet (1994).
4. See e.g., Tiebout's (1956) voting by feet, Olson (1969), and Oates' (1972) fiscal equivalence, and Buchanan's (1965) clubs.
5. Even in Switzerland, where the institutions of direct democracy are well entrenched, politicians are less enthusiastic in practice, and often try to reduce the range of issues put to direct vote.
6. Interestingly enough, in his newest book dealing with discourse theory and the law, Habermas (1992) states that the discussion in parliaments (in the Bundestag) come nearest to the ideal discourse. He does not even consider the possibility that the pre-referendum discourse has many more attractive features than parliamentary discussions between professionals where the outcome of the decision has almost always been decided beforehand by the party leadership.
7. Even in Mueller's (1989) otherwise excellent book on public choice, direct democracy is identified with the logical problem of preference aggregation.
8. See Pommerehne (1978, 1982, 1990); Pommerehne and Frey (1976); Schneider and Pommerehne (1983).
9. Note: Matsusaka claims that "None of these arguments (concerning the influence of direct democratic institutions on government spending, BSF) at present is based on more than anecdotal evidence. . . ." though the much earlier work by Pommerehne (the Zurich School) has not only been written in English but has been published in leading journals. For an attempt to explain such occurrences (which are not based on errors but are due to the incentive structure of American economists) see Frey and Eichenberger (1993).

10. According to Butler and Ranney (1994).
11. See e.g., the extensive analysis in Gwartney, Lawson, and Block (1996).
12. FOCJ are more fully discussed in Frey and Eichenberger (1995, 1996). As frequently before, Tullock (1985, 1994) has been one of the inventors; he calls the concept 'sociological federalism.' See also Casella and Frey (1992).

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