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Abstract

The traditional school of economic policy analysis predicts that globalisation will give rise to predatory competition between the governments of the European nation states. The consequence is anticipated to be a marked reduction in, if not the destruction of, the benevolent Welfare State. The objective of this contribution is to present the main arguments that have led us to believe that, this traditional literature notwithstanding, a European constitution should not restrict but rather should encourage horizontal and vertical governmental competition. In our view the European political order, in defining the relationship among member states and also the relationship between the member states and the EU, ought to be inspired by what we know about competition in the commercial sphere.

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1. Introduction

The landscape of globalisation presents a remarkably rugged appearance. This is true if one adopts a genuinely global view. Differences in the extent of global market integration are, however, also discernible if one adopts a narrower European perspective. The European Union was set up half a century ago with the express purpose of achieving deep economic integration. Despite the remaining differences in integration among member states, the initiative has proved to be remarkably successful. The European countries have attained a level of economic integration that provides substantial static gains from trade and significant dynamic gains from increased market competition.

Globalisation increases competition among private economic agents, but also among nation states' governments. The most evident cause of globalisation-induced competition among governments is the increased mobility of capital, labour, households, and consumers. Economic agents find themselves increasingly in a position to circumvent government controls. As a consequence, governments compete more vigorously for mobile factors and tax bases. This mechanism is still rather weak in most parts of the world, but in Europe governmental competition has, over the last decades, become a prevalent and noticeable phenomenon. Contrary to an oft-stated opinion, competition between political-economic systems did not come to an end with the demise of communist regimes in Eastern Europe. Globalisation of the Western European economies in the second half of the last century rather paved the way for an era of unprecedented competition among European nation states.

The political class is averse to competition among governments and is dismissive of the idea that competition can be beneficial. In this respect the political class is not different from the business class which, as Adam Smith already remarked more than two hundred years ago, "seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."[2] If Adam Smith declared collusion among business people to be a conspiracy against consumers, one would expect modern day economists, faced with the phenomenon of globalisation-induced governmental competition, to stress the benefits of competition among governments. After all, does not a restriction of governmental competition by way, for example, of innocent looking tax harmonisation, also define the circumstances of a conspiracy? The conspiracy is by the political class against its principals, the voters. Interestingly, however, there are economists, perhaps a majority, who do regard governmental competition in general and international tax competition in particular as harmful. One might expect economists, because of their training in the merits and power of competition, to systematically praise the virtues of competition wherever it makes an appearance. Traditional economic policy analysts however deplore international tax competition on the grounds that it imperils the provision of public goods and government programs aimed at income redistribution. Moreover, they disapprove of the structural effect of international tax competition, which tends to shift the burden of taxation from capital, the more mobile factor, to labour, the less mobile factor. At the core of this uneasiness with globalisation is the fear that the distributional consequences of globalisation-induced tax competition will snowball into an erosion of the Welfare State's social safety net. Globalisation is thus perceived as debilitating governments, which is the only institution able to hold together a civil society by containing market forces that are blind to higher social objectives. At stake is, according to the French futurist Jacques Attali (1997), nothing less than the future of Western civilisation. A more sober but essentially similar assessment is made by the prominent German economist Hans-Werner Sinn (1997) who also comes to the conclusion that governmental competition is often detrimental to social welfare, because if "governments have stepped in where markets have failed, it can hardly be expected that a reintroduction of a market through the backdoor of systems competition will work. It is likely to bring about the same kind of market failure that justified government intervention in the first place" (p. 248).

The traditional school of economic policy analysis predicts that globalisation will give rise to predatory competition between the governments of the European nation states. The consequence is anticipated to be a marked reduction in, if not the destruction of, the benevolent Welfare State, and the creation of social tensions that ironically could jeopardise the hitherto achieved market integration of Europe, which in turn has been the very cause of governmental competition. This line of reasoning regarding the impending doom of benevolent social institutions has been forcefully promoted by Dani Rodrik in his monograph titled *Has globalisation gone too far?*. The policy recommendations that follow from this view call for a consolidation of the Welfare State through the co-ordination and harmonisation of economic policies at the supranational European level. The advocates of this harmonization believe that the globalisation of the European economies needs to be accompanied by a – probably Franco-German led – drive towards European centralisation.[3]

Since their power and prominence would increase if the above diagnosis was to be adopted, the main institutions of the EU – the European Commission, the European Court, and the European Parliament – would be more than happy to proceed with greater harmonisation or even centralisation in response to the increase in government competition due to globalisation. Some observers suspect that the willingness of these institutions to take on responsibilities is not driven by default but by design. The German Euro-critic Roland Vaubel (1999) has observed that the Commission and the Court pursued market integration with zeal and sometimes ostensibly against the will of the member states. Just as important in the establishment of the common market as the direct personal benefits was, according to Vaubel, the anticipated increase in regulatory power when member states, in an attempt to protect themselves from the greater external political competition, demanded extensive harmonisation or centralisation of economic policy.

Different reasons can be suggested for the so often heard demand for harmonised or centralised European economic policies. In the final analysis, the assessment of the competitive pressure imposed on the European governments by continuing economic integration depends to a large degree on the observer's view of political life. If one views governments not as healers of all sorts of market failures but as a source of political failures, one is led to the conclusion that the increase in government competition in Europe should not be jeopardized by endorsing schemes that would create cartels or monopolise decision-making about economic policies. The devolution of political power that accompanies European economic integration is rather welcomed. This is, of course, the view taken by the political economy school of thought that endorses the public choice approach to government, where government is viewed as composed of people with personal interests and objectives. The traditional school of policy analysis adopts a more *static* view of governmental competition, emphasising potential short run efficiency losses related to international tax evasion. Political economy analysis stresses the *dynamic* aspects, in particular the intermediate-run efficiency gains from the incentive effects of competition and the long-run gains from the discovery of more efficient policies in a political environment characterised by diversity and lively interaction.

One incentive for governments to compete among themselves was suggested by various extensions of the seminal model developed by Charles Tiebout (1956) regarding the mobility of citizens in federal systems. The incentive effect, however, goes beyond the mobility that is the source of horizontal competition in the Tiebout model. The incentive effect of government competition is also present without voter mobility when voters can observe government performance across jurisdictions and can sanction politicians whose performance is inferior to that of others. The French economist Pierre Salmon (1987) was the first to point out that such comparisons of political performance is perfectly analogous to the incentive mechanisms (called a yardstick competition scheme) developed in labour economics, which judges job performance by setting up a contest between employees with comparable job assignments.

Though the Tiebout mechanism applies only to competition among governments inhabiting a given jurisdictional tier, the Salmon mechanism can, in principle, be extended to explain competition among governments located at different levels of jurisdiction.

Globalisation puts significant constraints on the political leverage of European nation states. Whether these constraints justify the frequently heard calls for policy harmonisation and centralisation at the European level is, however, an open question. Rather uncontroversial, on the other hand, is the proposal that any allocation of policy responsibilities should be based on a wide democratic consensus among European citizens. The very success of European economic integration thus calls for a fundamental rethinking of the future political order in Europe.

The objective of this contribution is to present the main arguments that have led us to believe that a European constitution should not restrict but rather should encourage horizontal and vertical governmental competition. In our view the European political order, in defining the relationship among member states and also the relationship between the member states and the EU, ought to be inspired by what we know about competition in the commercial sphere. The above cited policy implication that Adam Smith drew from his observation of business meetings is a precursor of modern competition or antitrust laws: "It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary." We will argue that a European constitution confined to simply emulating and adapting for the political sphere the existing competition or antitrust laws represents a viable and welfare-promoting political order for 21st century Europe.[4]

In section 3 we elaborate on the case for political competition in government systems. Before doing this, we spell out in section 2 how globalisation allows governments leeway to implement independent policies, which is after all a prerequisite of competition. Section 4 then analyses the channels through which globalisation influences government competition. The concluding Section 5 presents some suggestions for European constitutional reform in the age of globalisation.

2. Globalisation and the European Nation States

In recent decades, few economic issues have been debated as much as globalisation. These debates have spawned immense popular and scientific literatures, and the sensationalist and alarmist tone that characterises a large part of these debates has not always been restricted to the commentaries written for more popular audiences (cf. Cohen, 1996, p. 296). In this section we would like to shed some light on one allegation, to wit that economic globalisation debilitates the nation state to the extent that it becomes ineffective in responding to domestic political demands. Our case for extensive governmental competition in an economically integrated Europe suggests that our conclusion will be different.

To begin with, there is no doubt that globalisation does have distinct effects on the structure of public finance through both the expenditure and revenue sides of the budget. This is so because actual and potential international mobility places additional constraints on national governments. The constraints on taxation are the most obvious. Multinational enterprises can, for example, move their activities to a foreign subsidiary, or they can manipulate transfer prices to re-direct some of their domestically earned profits in low-tax countries. Financial capital can escape taxation by moving abroad, and real capital can in the long-run escape the domestic exchequer via direct foreign investment. Consumers may take advantage of differences in excise or value added taxes by cross-border shopping and nationals can relocate to a foreign country where income taxes are lower. The European nation states thus begin to lose their monopoly on coercion and find themselves in a situation of strategic interaction with their neighbours.

The intensity of governmental competition depends on a factor's degree of international mobility. Labour is typically less mobile than capital. Financial capital is extremely sensitive to tax-induced differences in net rates of return. Commodity arbitrage, including smuggling, is mostly observed for expensive and highly taxed goods such as cigarettes and alcohol. Mobility also has spatial as well as linguistic and cultural dimensions: the Austrian and German labour markets are more integrated than the labour markets of Italy and the UK simply because Austria and Germany have a common border and language. Likewise, cross-border shopping is much less of a problem for the British than for the Dutch government. As we noted at the outset, globalisation is not a uniform phenomenon. The degree of market integration depends on the type of transaction and on location. This is the reason why globalisation-induced government competition has such a strong influence not only on the *level* but also on the *structure* of fiscal activities.

Let us first discuss the effect of globalisation on the *size* of the government budget. International trade and capital market integration as well as international mobility of consumers and income-tax payers reduce the ability of governments to finance publicly provided goods. This is so especially if the governments' redistribution objectives are not in line with those of the population at large, if the tax monopoly is abused to exploit citizens, or if there are incentives leading to slack administration and production. Competition reinforced by globalisation disciplines governments and makes them more efficient.

Some scholars use the term *efficiency effect* to describe the reduction in public services due to international tax competition.[5] Tax competition, however, influences only one side of the market for government services, namely the supply side. To obtain a complete picture of the influence of globalisation on the size of governments, we also need to look at the demand side. The presumption must be that the demand for public spending, especially for income transfer programmes, varies positively with the extent of globalisation, since insurance against personal losses from market dislocations and policies to counteract income inequalities due to global economic integration become a political objective shared by more voters and interest groups. The demand-side effect of globalisation thus increases public spending in order to compensate the losers from globalisation – hence the term *compensation effect*.

The alarmist scenario of a globalisation-induced governmental quandary is predicated on a one-sided examination that focuses exclusively on the efficiency effect, an efficiency effect which is moreover assumed to affect all international transactions with full force. The size of the government sector is, however, also influenced by the compensation effect: a higher demand for public insurance against unforeseen structural effects and increased international risk counters the higher costs of financing these services. Whether the supply or the demand effect dominates cannot be determined theoretically, it is an empirical issue.

We now turn to the structural effects of globalisation on government budgets. From the *efficiency hypothesis*, we expect that governmental competition will benefit mobile factors of production, taxpayers, and consumers consequent on changes in tax policies. Immobile factors, for example, are likely to be more heavily taxed than mobile factors. We should in particular expect a higher tax burden for labour and reductions in tax rates for corporate enterprises and high-income earners. Tax policies are, however, not the only instrument available to governments to attract (say) factors of production. In a global environment, governments compete by means of tax *and* expenditure policies. Public infrastructure may, for example, be decisive for the profitability of an investment project. An exclusive focus on taxes is therefore misleading. We rather expect competing governments to restructure their expenditures to increase the productivity of mobile factors at the expense of public consumption and social transfers.

The structural effects from the *compensation hypothesis* go in the opposite direction. It leads us to expect governments to redirect their expenditures towards public services that benefit victims of globalisation. If the economic risk increases as globalisation deepens, social transfers should increase as well. In the light of the compensation hypothesis, taxes can be interpreted as insurance premia and social policies as insurance benefits. This kind of redistribution can be justified by welfare theoretic arguments but can also be explained by political-economic reasoning. For example, the theory of economic regulation pioneered by the Chicago school makes the point that windfall profits that accrue to a specific group from an exogenous shock, as a rule, are redistributed to some extent even by selfish politicians to those who lose from the shock. The reason for such political behaviour is that marginal political support decreases with increasing income, whereas marginal political opposition increases with decreasing income. The principle of political redistribution expressed as "share the gain and share the pain" also underlies the compensation hypothesis.

Theoretical arguments as to whether globalisation undermines the Welfare State are ambiguous and inconclusive. We therefore consider the empirical evidence. Econometric studies that systematically link (capital) taxation and government expenditures to various measures of goods and capital market integration are the most relevant.[6] Most of these studies use data from the OECD countries and are thus readily applicable to the European context.

The studies investigating the relationship between globalisation and capital taxation suffer from various methodological weaknesses. For example, some studies use tax revenue instead of the effective tax rate as the dependent variable. Others use trade integration instead of capital market integration as the crucial explanatory variable. Studies that use an indicator of capital market integration usually resort to rather uninformative dummy variables. These weaknesses notwithstanding, the studies allow us to tentatively conclude that globalisation did not dramatically reduce capital tax rates. Corporate tax rates remained at a remarkably high level considering the predictions usually associated with locational mobility. On the other hand, a marked increase took place in labour taxes, which points to a structural effect of globalisation. The standard tax competition model, which predicts a level effect, apparently does not capture what is going on, whereas the observed structural effect is more in line with the theoretical predictions. In any case, we interpret these results as indicating that the efficiency effect may well constrain government behaviour to some extent in the future, but will not undermine the effectiveness of the basic government activities.

This interpretation is confirmed by regression results on government expenditures. Most studies fail to find a negative relationship between the extent of goods and capital market integration and either the size of government measured as total government expenditures or the social budget. Many of the results are in line with the compensation hypothesis. The idea that globalisation preempts ideologically motivated social policies is also not supported by the data. The results indicate instead that partisan characteristics still play an important role in fiscal policy, and, most importantly for our concern, so do also the democratic institutions that govern the interaction between government and economic interests. Regressions presented by Vaubel (2000), for example, show that federal institutions have a significantly negative impact on government spending and also on social transfers if the extent of global market integration is properly taken into account.

Vaubel's results indicate that political institutions continue to matter in a globalised world. Globalisation therefore leaves nation states with a substantial margin for experimentation and meaningful competition. The focus of Vaubel's study on federal institutions moreover points to an alternative way of examining the popular hypothesis that deep market integration undermines policy independence in integrated jurisdictions. After all, a rather similar hypothesis has been extensively investigated in the context of federal states since Wallace Oates published his seminal book on fiscal federalism in 1972 and since Geoffrey Brennan and James Buchanan advocated fiscal competition as a device to discipline Leviathan in their 1980 monograph on the power to tax.

The substantial literature on fiscal federalism and the size of the public sector is surveyed by Gebhard Kirchgässner (2002) who comes to the conclusion that "taking all currently available empirical evidence together ... we might conclude that there is some evidence that fiscal federalism leads – ceteris paribus – to a smaller size of the government, but the evidence is far from being overwhelming.” This assessment is corroborated by the empirical evidence on income redistribution in Switzerland presented by Lars Feld (2000). Switzerland makes for an especially interesting country study because the Swiss federal system allocates the fundamental responsibility for personal income and corporate taxation to the lower-tiered governments, the cantons; moreover, observed taxation levels show a substantial variation across cantons and even communities. It is, therefore, not surprising that in Switzerland fiscally induced mobility applies mainly to high income earners, whereas in the United States it applies mainly to potential welfare recipients. Even though government competition in Switzerland is especially intense with respect to income taxation, the share of income redistribution undertaken by the sub-national governments increased between 1977 and 1992. Moreover, the redistribution objective was achieved by an increased use of taxation relative to expenditures. This is strong evidence that income redistribution is feasible in decentralised systems, even if the competing governments are deeply integrated in a common market. One might add, following Feld’s assessment, that the Swiss example also indicates that a redistribution policy needs to be based on a broad popular consent – in the Swiss case achieved by a direct democratic political process – to be viable if inter-jurisdictional mobility is high. This is an insight which we believe has strong implications for European constitutional design.

We thus arrive at the conclusion that competition among governments is quite compatible with market integration. We acknowledge that our view is mainly based on the fiscal competition literature. We have focused on fiscal policy, firstly, because the ability of governments to conduct income redistribution is absolutely crucial when discussing the viability of decentralised policy making in the age of globalisation. The second reason is simply that much more is known about fiscal competition that about government competition through (say) regulatory policies.

We might add, however, that the empirical evidence does in particular not support the popular doomsday view of globalisation regarding environmental regulation. The fear that increasing capital mobility will give rise to a downward competition of environmental standards in order to attract productive capital has been the foundation for the so-called ecological dumping debate. The empirical evidence shows that differences in environmental standards have neither a significant impact on the pattern of trade nor on the flow of foreign direct investment. The data do reveal however that trade policy exerts a significant influence on environmental quality: (developing) economies that are more integrated in the world markets suffer – ceteris paribus – less from pollution than more closed economies.[7]

Having cleared the way for our recommendation of a federal Europe composed of competing governments, we are now ready to describe the mechanism of the envisaged political order.

3. On Political Competition in Governmental Systems

There are two glaring inconsistencies in the conventional microeconomic modeling of economic behaviour – inconsistencies to which many non-economists and, ironically, many intellectuals, adhere. First, as producers, labourers, investors, consumers, and in many of the other roles they play, individuals are viewed as pursuing, in the most efficient way possible, ends which increase their profits, incomes, wealth, and utility. They are presumed, in other words, to be motivated to seek their own interests and, in addition, to do so with a minimum of resources. Then, without skipping a beat, as politicians and public sector bureaucrats, individuals are presumed to be consumed by a desire to maximize the common good or some index of social welfare. They are viewed, to put it differently, as selfless persons while also driven to be efficient in the use of resources.

The first inconsistency is related to the assumptions of selfishness and selflessness. It becomes immediately apparent as soon as we take note of the fact that many politicians and public sector bureaucrats have been, in their past, private producers, market labourers, and/or investors, and in the present all are consumers. The implied schizophrenia, dependent exclusively on the imputation of roles, is unacceptable. It is imperative that all actors, in whatever role they are cast, be viewed as either selfish or selfless. Though there are altruistic and public-spirited individuals in the world, in constructing models that can help understand behaviour, in formulating rules to guide action, and in designing policies, there can be little doubt that the assumption that individuals are principally motivated by their own interests is the most productive.

The first inconsistency is father (or mother) to the second. We have known since Adam Smith's *Wealth of Nations* (1776) – with elaborations and refinements added on as economics became more systematic – that if self-seeking behaviour is kept in check – in effect, regulated or controlled – by competition, it can yield beneficial results.[8] This is the famous invisible hand theorem. It has corollaries. One of them is that if individuals and organizations pursue their interests – while abiding by rules that are virtually all related to property and contract law – that pursuit begets competition.

In the analysis of public sector behaviour – in Public Economics (formerly Public Finance), Welfare Economics, and even in Public Choice Theory – governments are (almost always tacitly) assumed to be monopolists.[9] If we suppose, as we must, that those who inhabit the supply side of the public sector are persons and organizations like those we find in the marketplace and elsewhere in society – that is, persons and organizations that seek their own interest – it would appear that we are left with a situation in which no constraint exists to regulate behaviour. But we are not. The corollary of Smith's invisible hand theorem must be assumed to kick in.

There are in real world democracies some instances in which politicians and bureaucrats are more or less unconstrained or seem to be, but those instances are fewer than appears to the untrained eye – to the eye that has not learnt to detect the manifestations of competitive behaviour. In most situations, the actors on the supply side are constrained. In some cases, the constraints may be only weakly binding, but it is seldom the case that public sector actors are free to do what they want. The constraints are of two sorts: a) electoral contests at more or less regular time intervals; and b) checks and balances. These two features – both necessary for the existence of a democratic order – promote and encourage competition.

Though there is still considerable confusion, even at the highest levels of debate, about electoral rules and especially about how the product of these rules are influenced by the political institutions in which they are incorporated and, in turn, help mould these institutions, there is general familiarity with elections and the sort of competition they beget. The same cannot be said about checks and balances. To get a handle on the realities which these concepts capture, it is essential to accept two propositions. First, that checks and balances are *not* a characteristic of the American system of government and of that system alone – they are a feature of all governmental systems. Second, that governments are *not* monolithic bodies, but instead are compound structures made up of a large number of autonomous and quasi-autonomous elected and non-elected centres of power. Of special interest for the present discussion are the centres of power which come to mind when we think of decentralized (and federalized) governmental systems – the central governmental institutions, the member states (countries, provinces, states, cantons, republics, etc.), and the even more remote peripheral bodies.

There is no better way of understanding what is meant by checks and balances than to refer to Epaminondas Panagopoulos's (1985) superb summary of the evolution, over the last two millennia, of the discussions that eventually clarified these difficult concepts. Three interconnected ideas, central to the history of this evolution, are particularly important for the present discussion. All three relate to the relationship between checks on the one hand and balances on the other (for a detailed discussion of the matter, see Breton, 1996, Chapter 3).

The first is the notion that to have the capacity to check it is necessary that the centres of power that constitute compound governments be balanced or "equipoised" vis-à-vis each other; hence the concentration of the literature on the separation and distribution of powers and responsibilities and on the division and dispersion of political power among the centres that make-up compound governments. Over the years, the institutions that provided the background to the reflections first of the Greeks, then of the Romans, followed by the Venetians, the Florentines, the British, the French and the Americans, kept changing, but the preoccupation, throughout, remained focussed on the necessity of guaranteeing balance between ever new constellations of centres of power, on the means of achieving that balance, and on the consequences of moving away from it. The position we take in this paper is that one should identify the notion of balance with that of autonomy or quasi-autonomy which derives from a properly understood idea of the separation of powers.

The second idea − in fact, an implicit assumption − that is central to the history of the debates on checks and balances is that if centres of power are balanced, they will necessarily check each other. The burden of this assumption is that if the *institutions* are balanced or equipoised, the *behaviour* adopted by participants in the political process will, of necessity, be characterised by the use of checks. Checking behaviour, in other words, derives from balance. The assumption found its way naturally and unobtrusively in the discussions no doubt because the analysts were primarily concerned with the problem of balance − that is, with the problem of institutional design − and also, one surmises, because they were observing that equipoised and hence autonomous and quasi-autonomous centres of power in fact checked each other. It is, however, an unfortunate assumption for at least two reasons. First, it easily leads one to the view that the capacity to check derives from institutional arrangements and from legal and constitutional dispositions alone and not also from the productivity of the resources allocated to the use of checking instruments and from the responses of citizens to the use of these instruments. Second, it induces one to disregard the possibility of collusion between sub-sets of centres once a separation of powers, and hence balance, is achieved – collusion which is often disguised as harmonisation.

The third idea which drove many of the protagonists engaged in the millennial debates on checks and balances follows from the first two. It is that balancing is a 'substitute' of sorts for checking and that, as a consequence, one need be concerned with only one of the two, especially if one's primary preoccupation is the design of a 'good' compound government. This, too, helps us understand why the literature is largely focussed on balances. It will transpire, as we proceed, that checks and balances are related, but it should also become clear that the relationship between the two realities is a complicated one. It might be better to sometimes use the words checks and balances and at other times the words checks and counter checks to describe that particular dimension of political competition.

For many persons the concept of political competition is unacceptable. The realities that it evokes are, to them, unsavory. In addition, in the minds of many laypersons, competition is incompatible with, and even antithetical to cooperation, that is to the execution of actions leading to coordination. With this as background, the idea that governmental centres of power compete among themselves is often thought to be impertinent and cynical. It will be useful therefore to examine briefly the types of behaviour which are generally associated with checking and counter checking.

We have already noted that economic models of perfect and imperfect competition have for many years been applied to politics. We mention two applications. In the perfect competition tradition, Charles Tiebout (1956) assumes the existence of numerous local governments supplying goods and services for which a demand exists, which are compelled by the competition of other local governments to supply these goods and services efficiently at tax prices equal to their marginal costs. Competition in this context is between local governments (the counterpart of firms) for the patronage of mobile citizens (the analog of consuming households). Competition insures that both local governments and citizens behave, at least if the costs of mobility are low, as price-takers. In the imperfect competition tradition, Anthony Downs (1957) models the rivalry of political parties along the lines of the locational or spatial competition theory suggested by Harold Hotelling (1929).

To gain further insights into the kinds of behaviour associated with competition and competitiveness, it is helpful to complement the models of perfect and imperfect competition just noted with the model of competition proposed by Joseph Schumpeter (1911, 1942) and other Austrian economists, which we may call the model of *entrepreneurial competition*. To model Schumpeterian entrepreneurial competition, one must distinguish between two central components There is first a steady-state "circular flow" equilibrium in which the marginal equalities on the supply side (see, Samuelson, 1982, pp. 10-11), those on the demand side, and the equality of supply and demand over all markets are satisfied. The steady-state circular flow can be characterized as "a stationary solution to a dynamical process" (Samuelson, 1943, p. 61) in which 'the same things' keep repeating themselves. The circular flow equilibrium, therefore, is a long-run neoclassical equilibrium and the competitive behaviour which obtains in that equilibrium is that of neoclassical theory.

The second component is associated with innovation and entrepreneurship on the one hand and with imitation on the other. Schumpeter, in his later work, identified innovative behaviour with "Creative Destruction" (capitals in the original) which, through "the introduction of a new good", "the introduction of a new method of production", "the opening of a new market", "the conquest of a new source of supply", and "the carrying out of the new organization of any industry" (Schumpeter, 1911, p. 66), brings forth new 'things' and eliminates others. Creative destruction derives from and indeed defines entrepreneurship. Innovation, when it is successful and therefore profitable, induces others, covetous of the innovational rents, to imitate the actions of entrepreneurs either by simple duplication or by producing substitutes. In the process, the imitators increase the demand for labor, capital and other factors of production, thus pushing up their prices and the entire schedule of average costs. By increasing the supply of goods and services, they push down their prices. The increase in unit costs and the fall in supply prices eventually eliminate the rents of entrepreneurship and bring forth the circular flow equilibrium of neo-classical theory.

We must now recognize that the entrepreneurial innovation which sets the competitive process in motion, the imitation which follows, and the Creative Destruction that they generate are not inconsistent with cooperative behaviour and the coordination of activities. It would be a mistake, however, to focus on these acts of cooperation and coordination and conceive of Creative Destruction as the outcome of a cooperative process. In looking for new technologies, supply sources, organizational forms, products, methods of finance, labour-management relations and other new ways of solving supply problems, entrepreneurs will consult with other people, collaborate with them on certain projects, harmonize various activities and even integrate some operations. All these actions describe what is generally meant by cooperation and coordination. If these activities serve to bring forth new innovations, they serve to foster competition. Indeed, to the extent that cooperation and coordination make it possible for innovations to come on stream more rapidly than they would otherwise, they become a force in the process of Creative Destruction. As a general rule, we can say that in the absence of collusion, cooperation and competition can and will generally co-exist and also that the existence of one is not proof of the absence of the other. In particular, we can say that the observation of cooperation and coordination does not deny that the underlying determining force is competition.

The stationary element (the neoclassical circular flow) and the dynamical process (the innovational-imitational mechanics) both apply to political life as much as they do to economic life. Indeed, there are politicians and other public sector actors who, like some of their counterparts in the business world, are entrepreneurs and who therefore innovate by creating new goods and services, by introducing new techniques of production, exploring for new sources of supply, devising new methods of financing their operations, designing and instating new organizational forms, inaugurating new promotion methods, discovering new ways of obtaining information about the preferences of their constituents as well as by originating new ways of achieving a better match between the volume and the quality of goods and services provided and the volume and quality desired by citizens.

These political entrepreneurs often achieve their ends by forming a new consensus, by introducing symbols capable of producing solidarity, by galvanizing popular energies in the face of an emergency and, last but not least, by creating, adapting and cultivating "ideologies" which, following Downs (1957, p. 96), we can define as "verbal image[s] of the good society and of the chief means of constructing such a society" or, following Joseph Kalt and Mark Zupan (1984, p. 281) as the "more or less consistent sets of normative statements as to best or preferred states of the world".

How does entrepreneurial competition relate to checking behaviour? Checking is used by centres of power to extract concessions from other centres and to force them to compromise on initial positions. To put it differently, a centre of power undertakes to check another centre in order to oblige the latter to compromise. The often repeated dictum that 'politics is the art of compromise' is a backhanded endorsement of the view that politics is competitive and that a primary means of competition is the use of checks, since no one would compromise unless forced to do so. Concessions and compromises, we insist, cannot be conceived as pertaining *exclusively* to the negative actions of giving up on, backing down from, or renouncing an initial position; they must also and, we suggest, principally be thought of as belonging to the class of positive activities associated with innovative Schumpeterian entrepreneurship. In other words, for a politician to compromise is to come up with something else, with an alternative that meets the objection of the centre of power that made use of the check, while also meeting the preferences of one's own constituency.

If the foregoing is applied to intergovernmental relations in decentralized governmental systems, it is important to begin by distinguishing between horizontal and vertical competition. In standard theory the distinction is not made, except in a most off-handed way. It restricts its attention to the first and assumes that the motor behind this horizontal intergovernmental competition is the interjurisdictional mobility of persons and capital searching for the best and lowest cost bundle of goods and services. The assumption has its roots in the early work of Tiebout (1956). Whether interjurisdictional mobility is strong enough a force to motivate intergovernmental competition is not known, however. If, as is generally believed by American scholars, it is powerful enough to do so in the United States, we agree with Dieter Bös (1983) that it does not have that power in the other decentralized governmental systems found in the rest of the world. However, were the mobility mechanism powerful enough to motivate horizontal competition, comprehensive competition would still be absent, because mobility has nothing to do with the problem of the assignment of powers to different jurisdictional tiers.[10] To deal with this problem we need to refer to vertical competition and to the fact that even if individuals are able to move from jurisdiction to jurisdiction they cannot move from one jurisdictional tier to another. In decentralized systems, one is a citizen of *all* the tiers that are constitutive of the governmental system. Therefore, if competition exists between tiers, it cannot be the result of mobility.

As noted in the Introduction, a decade and a half ago, Pierre Salmon (1987) applied the theory of labour tournaments initially proposed by Edward Lazear and Sherwin Rosen (1981) to horizontal intergovernmental competition arguing, in effect, that if the citizens of a jurisdiction evaluate the performance of their government by comparing it to the performance of governments elsewhere but at the same jurisdictional tier, they would induce their own government to do as well or better than these governments and in the process would prompt their governing politicians to compete with opposition politicians. One virtue the Salmon mechanism, in addition to the fact that it is a complement to the Tiebout mechanism whenever that last mechanism is operative, is that it will also motivate vertical competition whenever citizens use the performance of governments located at other jurisdictional tiers as benchmarks to evaluate what their own government is doing.

The initial formulation of the Salmon mechanism and, to our knowledge, all subsequent formulations, assumed that citizens compared the performance of their own government to that of a benchmark government in terms of the "levels and qualities of services, of levels of taxes or of more general economic and social indicators" (Salmon, 1987, p. 32). However, as argued by Breton (1996), competition in governmental systems compels all centres of power to forge Wicksellian connections (defined in the next two paragraphs) that are as tight as possible so as to be granted the consent (vote) of citizens.[11] In the light of this result, we suggest that citizens evaluate the relative performance of governments in terms of the tightness of Wicksellian connections – both for horizontal and vertical competition.

What are Wicksellian connections and why is it an improvement to articulate the Salmon mechanism on them rather than on the vector of goods, services, taxes, and other indicators on which the mechanism has hitherto been articulated? A Wicksellian connection is a link between the quantity of a particular good or service supplied by centres of power and the taxprice that citizens pay for that good or service. Knut Wicksell (1896) and Erik Lindahl (1919) showed that if decisions regarding public expenditures and their financing were taken simultaneously and under a rule of (quasi) unanimity, a perfectly tight nexus between the two variables would emerge. Breton (1996, passim) argued that competition between centres of power, if it was perfect and not distorted by informational problems, would also generate completely tight Wicksellian connections. In the real world, competition is, of course, never perfect and informational problems abound, and as a consequence Wicksellian connections are less than perfectly tight. Still, as long as some competition exists, there will be Wicksellian connections.

The virtue of a Salmon mechanism expressed in terms of Wicksellian connections is that a given citizen can carry out comparisons of performance in terms of a common standardized variable, whether the benchmark government inhabits the same or a different jurisdictional level from that in which the citizen dwells. A variable that serves that purpose well is the size of the utility losses inflicted on citizens whenever the volume of goods and services provided by centres of power differs from the volume desired at given taxprices. Put differently, citizens experience the same kind of utility losses from decisions made by governments whatever the jurisdictional tier the governments inhabit. The goods and services supplied can differ, but the efforts to achieve tightness in Wicksellian connections will not.[12] Indeed, the ability to compare performance horizontally is likely to reinforce the ability to execute vertical comparisons and *vice versa*.

How does vertical competition manifest itself? When powers are assigned to different levels of government, the assignment is never precise or explicit enough to cover all possible contingencies. Adapting the theory of contracts, which says that a contract is incomplete whenever its meaning, though obvious to the signatories of the document, is ambiguous to third parties, we could say that assignments are always incomplete in the sense that even if their meaning was absolutely transparent to those who drafted and endorsed the initial constitutional document, that meaning can no longer be clear to successor generations that are the *de facto* third parties of contract theory. Constitutions or other documents that spell out the assignment of powers are therefore, of necessity, also imprecise. As a consequence, it is always possible for governments at one jurisdictional tier to invade[13] – to make inroads, incursions, or forays into – the policy domain of governments located at a different tier. The invasions need not actually take place – it is sufficient that they be possible. It is easy to provide evidence confirming that governments, more or less continuously, invade the policy domains of governments inhabiting other tiers. In Canada and the United States, external affairs is a federal (or national) power, though many provinces and states have representation abroad. Education, in most federal states, is an exclusive provincial or state responsibility, though in most if not all instances, central governments play a role. Cases of constitutional invasions in Italy are described in Breton and Fraschini (forthcoming).

4. Globalisation and Government Competition in Europe

Globalisation is driven by two different influences: purposeful political action and technological innovation. These two influences, in turn, shape five channels through which globalisation impacts on governmental competition. In this section, we describe these five channels.

A first channel acts as conduit for the Tiebout mechanism, and involves the consequences for government competition and the survival of the European Welfare States as EU citizens become increasingly mobile. In the absence of the opportunity to relocate, politically weak groups of citizens find it impossible to escape involuntary redistribution. They can reduce their exposure to an offensive tax, but the ability to substitute away from a taxable activity is often limited. In a globalised environment exploited minorities have the means of "voting with their feet" to move to a jurisdiction in which the Wicksellian connections are more to their liking. In the limit, with perfect mobility, perfect information, perfect divisibility, and with scale economies appropriately utilized, voter-mobility results in a first best solution; mobility "acts like a silent unanimity rule and produces the same outcome as we would expect under this voting rule in an immobile world" (Dennis Mueller, 1998, p. 177). This implies that redistribution programmes that are not supported by voters at large will tend to disappear as voter mobility increases, whereas generally accepted redistribution programmes will survive. Notice, that redistribution programmes that are sustainable in a globalised environment do not need *universal* acceptance but rather general acceptance by the voters *in the jurisdiction in which the redistribution takes place*. Globalisation may thus well reduce the size of the Welfare State, but only by eliminating programmes which lack popular support.

A second channel, which accommodates globalisation-induced mobility of goods, factor inputs, and consumers, is associated with international tax evasion. A precondition for the mobility of tax bases is, of course, extensive liberalisation of international market access. International transactions, however, will only take place in a liberalised environment if incentives exist to undertake cross-border transactions. Capital, for example, will only flow readily across borders if technologies to administer and monitor the foreign investments are available. The breaking-up of production chains within multinational enterprises, the just-in-time import of inputs, and the efficient management of international portfolios is a viable alternative to domestic transactions only if the additional costs of international transactions do not exceed the cost reduction offered by the access available to foreign markets. Only if the political will to liberalise international markets is accompanied by a general availability of advanced information and communication technologies can we expect market integration to generate effective competition among governments. These conditions appear to be increasingly satisfied in Europe at the onset of the 21st century.

Most theoretical studies that look favourably on international tax competition assume that governments, in financing public goods, are restricted to using taxes that can be evaded through international transactions. If this assumption is coupled with the classical benevolent-dictator portrait of government, one necessarily arrives at the result of an under-provision of public services due to free-riding behaviour on the part of some tax-payers through capital tax evasion, cross-border shopping, and so on. The benevolent dictator presumption of the standard approach to modelling international tax competition leads to the conclusion that governmental competition cannot provide efficiency gains and imposition of artificial restrictions on one (internationally mobile) tax base neglects the possibility of shifting the tax burden to a base that is less exposed to free-riding. In a model that allows for competition-induced efficiency gains and for tax schemes that specifically charge the beneficiaries of publicly provided services, international tax competition clearly increases the efficiency of the public sector and reduces the Welfare State to programs that find the approval of the citizens at large.

We are led to agree with Dennis Mueller (1998, p. 182) regarding the advocates of the traditional normative theory of economic policy analysis who pose as impartial observers who "know what the proper level of taxation for the country should be and how this money should be spent, and fear that any loss in tax revenue will harm these programs. Such fears are unfounded, if governments provide the goods and services their citizens want, and use benefit taxes to finance them."

A third channel through which globalisation affects international government competition is through the Salmon mechanism. To understand how governmental accountability depends on the degree of global economic integration, consider the member states of the European Union whose governments provide a given set of goods financed with some tax scheme, and assume that the transformation of tax revenues into public services is subject to a country-specific shock that is not observed by the voters. If the shocks are completely uncorrelated across countries, the voters can base their evaluation of domestic government performance only on the observed performance in terms of the Wicksellian connection between taxes paid and services received. Under these circumstances, politicians face a rather weak re-election constraint. The political agency problem strongly favours the agents, namely the political class, who must be presumed to use their political leeway to pay off pressure groups who provide them with political support, indulge in their ideological proclivities, enjoy the easy life of an unconstrained agent, or simply plod along.

The scenario changes dramatically if economic integration gives rise to a positive correlation among shocks across European countries. After all, the common European market is characterised not only by the feature of *common access* but also by the fact that the individual economies become increasingly indistinguishable and begin to share a *common European quality*. This is so because trade and capital market integration have, over time, blurred the *internal* structural differences between the economies that used to have distinct national characteristics, and the European Monetary Union has taken care of the country-specific *external* shocks in the form of different exchange rate exposures. European economic integration is thus accompanied by more homogeneous exogenous shocks for national political-economic systems. In the limit with individual shocks perfectly correlated, this homogeneity in shocks would result in optimal Wicksellian connections in all countries, because the Salmon mechanism among the national governments would provide each government with an incentive to do better than their peers. We would end up with a first-best equilibrium in the tradition of Bertrand. To be sure, the country specific shocks will never be perfectly correlated, but some correlation will help voters gather information on the relative performance of their government so that they can respond to bad local political performance on election day.[14]

The same reasoning applies to *vertical competition* which emerges if the nation-state governments and the supra-national (European) government provide public services that share common features in production. If one attempts to integrate the Government of Europe into the framework of governmental competition, it is of great importance that the policy responsibilities of that European government not be isolated from the policy responsibilities of member-state governments by way of assigning to the European government responsibilities that member states can no longer access. A wrongly understood and incompetently implemented subsidiarity principle is liable to throttle vertical government competition that represents an indispensable mechanism for enhancing incentive compatibility at the European level.

Empirical evidence relating to the impact of the Salmon mechanism is available for some federal countries. In federal systems the performance of the junior governments is sufficiently comparable so that the voters can alleviate the agency problem by making meaningful comparisons between jurisdictions. In their classical article Timothy Besley and

Anne Case (1995) analyse U.S. state data and find that vote-seeking and tax-setting are indeed tied together through the nexus of what they call political yardstick competition. Similar results have also been derived for several European countries.[15]

Of course, the Salmon mechanism can only work properly if the governments do not collude. This caveat also applies to mobility-induced governmental competition described above, but the conditions for a successful government cartel are especially favourable in the case of yardstick competition because the increase in political support deriving from aggressive yardstick competition wears off relatively fast compared to the more lasting gains derived from the attraction of valuable factors of production. In any case, the possibility of collusion among governments needs to be taken into account whenever the political order in a globalised world is discussed. Moreover, there cannot be any doubt that governmental competition needs to rely even more heavily on political institutions set up to supervise and enforce political competition when competition is vertical. A European constitutional assembly thus needs to address the issue of encouraging political competition not only among member states but also among governments of the member states and the EU government.

Closely related to vertical competition within the hierarchical levels of compound governments is the fourth channel linking globalisation to government competition. Hierarchical governmental structures exhibit incentive effects similar to hierarchies in private enterprises where promotion to a senior position is coupled to an above-average job performance at the junior level. This kind of promotion mechanism is also at work in federal states if the top political assignments at the federal level go to contenders who have documented outstanding performance in junior governments. This appears to be the case in many federal states. Contenders for the United States presidency, for example, have often a track record as state governors, viable candidates for the position of the Federal Chancellor in Germany depend on a strong performance as prime minister of one of the “Länder”, and many Swiss Federal Counsellors have successfully served in a cantonal government. With increasing political integration, a position in the European government will become the prize of a successful political career and will be more and more valued. The German slander for a politician who has outlasted his days “Hast du einen Opa, schick ihn nach Europa” (If you have a grandpa, send him to Europe) is already now a thing of the past. The high valuation of EU-level government assignments, coupled with increasing globalisation-induced comparability of government performance in the European nation states, will undoubtedly give rise to stronger horizontal and vertical governmental competition if the future political order in Europe is designed in such a way that this promotion mechanism can make an impact. An obvious way to achieve this objective is to have EU government positions decided through general elections.

Political fragmentation and decentralisation are a prerequisite for government competition, but entrepreneurial innovation sets the competitive process in motion. As we have argued above, globalisation consolidates isolated political-economic systems and thereby sets the stage for governmental competition. But economic integration also stimulates political innovation and entrepreneurship. This is the last channel of influence that we discuss. First of all, it is important to notice that the processes of innovation and competition reinforce each other: on the one hand innovation gives rise to competition, on the other hand competition drives entrepreneurial behaviour. A political order that attempts to promote innovation thus needs to take advantage of all possibilities to stir competition. In the European context this means that a constituent assembly should understand that even in the age of globalisation-induced governmental competition, political fragmentation and decentralisation are not tantamount to inescapable political divergence; that globalisation provides the European political system with the innovation incentives essential for regaining a leading position in the global political arena; and that globalisation facilitates the transmission of political innovations via imitation so that the whole political system will profit from local instances of progress. Europe’s constitutional thinkers should remember that Western Europe, from the age of enlightenment until the industrial revolution, used to be the most dynamic of the globe's regions. According to the economic historian Eric Jones, Western Europe achieved this leading role because competition among the European states did not suppress unorthodox thoughts and the states were open enough to cross-fertilise each another.[16] Taking this episode as an example, the designers of a new European political order are well advised not to stifle globalisation-induced governmental competition in a time when Europe can ill afford to forgo the favourable conditions for innovation and growth that accompany competitive governments.

5. Some Markers for Constitutional Design

The theory of constitutional design is still very much in a state of flux. Basic questions remain without agreed upon answers, and some questions are not even asked. There is, for example, no agreement on the role and function of the judiciary in interpreting constitutional documents. Nor is there any consensus on the degree to which constitutional rules should be binding. Should the provisions of constitutions be specific or general? Should constitutions evolve to mirror changing ethical, social, political, and economic realities? or should the "original intent" prevail? If the latter, how does one ascertain this original intent? These are just a few of the questions begging for answers.

It is in a context of this sort that we venture to formulate some markers that could serve as guides for the formulation of a constitution for Europe. Our selection will, of necessity, be incomplete, but points in a direction that favours individual freedom, public policy innovation, and flexibility to meet the challenges of a constantly and rapidly changing world.

At least since Tocqueville's (1835-1840) *Democracy in America*, the view has been incessantly repeated (see, among others, Oates, 1972, 1999; Begg *et al*., 1993) that the centralisation of a power implies a *uniform* implementation of the policies nested in that power. That belief has been adhered to in the face of evidence from all the federal countries centralisation does *not* entail uniformity of policies. In Canada for example, the policies designed and executed by the federal government regarding the country's oceans – the Atlantic, the Arctic, and the Pacific – are specific to each ocean, that is they vary from one ocean to the other. The same is true in respect of the fisheries, agriculture, unemployment insurance, etc. In matters such as monetary policy, national defence, and passports, uniformity is the rule. Technical considerations and circumstances dictate the extent of uniformity, not whether the power is centralised or not.

Some powers have to be centralised. When deciding to do so, it is important to be respectful of diversity and to stay away from uniform provisions as much as is efficiently possible. In other words, the benefits of uniformity should be compared with costs, and net benefits should be maximised. The same holds true with respect to harmonisation. Sometimes this entails considerable uniformity, but it is often possible to harmonise while being respectful of diversity. A good example of the latter are the EU-wide arrest warrants that have been approved by the fifteen member states. The principle behind the agreement on the EU-wide warrants – an element of harmonisation – is the mutual recognition of distinct national legal systems – a respect for diversity. Another good example is provided by the development of model legal frameworks, such as UNIDROIT, that can serve as guides to legal arrangements and legal evolution.

The competitive devaluations of currencies and the tariff wars of the 1930's, as well as the competitive downgrading of some television programming to maintain higher ratings, are cases of races to the bottom. However, the history of the behaviour of exchange rates and of barriers to trade in the post World War II period as well as the history of the cinema provide evidence that such races are not inevitable. The elimination of races to the bottom in regard to exchange rates and tariffs seems to be attributable to the creation of international bodies and to regimes (see Ruggie, 1983; Keohane, 1984) that regulate behaviour and to which all countries are committed. This is a question that is deserving of more attention. It would seem that, in general, no one benefits from races to the bottom. When possible, agreements on protocols that can prevent governments from such races should be devised without removing the incentive to compete.

All decentralized governmental systems are made up of constituent units of unequal size. New South Wales and Tasmania in Australia, Ontario and Prince Edward Island in Canada, Germany and Luxembourg in the European Union, Uttar Pradesh and Sikkim in India, California and Delaware in the United States, and so on. This disparity in size negatively affects the *modi operandi* of checks and counter checks at both the horizontal and vertical levels of intergovernmental relations – a consequence of a lack of balance. The temptation is to deal with the biases identified with the operations on competition by suppressing it. The challenge therefore is to invent institutions that make it possible for the smaller units to compete effectively. The American or the Australian senate, made up of equal numbers of senators from each state, is one such institution. The Canadian system of Equalization Grants, which equalizes per capita revenues in the provinces is another.

At end of this exercise, it is surely superfluous to insist that, in designing a constitution, care should be taken to remove all artificial barriers to mobility of goods, services, capital, and people. In addition, institutions should be encouraged that will allow citizens to evaluate the performance of their governments by comparing that performance at the lowest cost possible with that of other governments in the Union.

Endnotes

[1] The authors thank Arye Hillman for helpful comments.
[2] Adam Smith (1776), Book I, Ch. 10, paragraph 82.
[3] See Section 5 for a discussion of the concepts of harmonisation and centralisation.
[4] The view that constitutions of federal systems should, above all, regulate and supervise competition among the lower-tiered governments has already been advanced by Breton (1987). In the 1990s this view has found some support especially with German economists [cf. Vaubel (2000), note 5].
[5] For a specific model of this efficiency effect derived from his theory of competitive governments, see Breton (1998).
[6] The respective literature is extensively surveyed in Schulze and Ursprung (1999). More recent results are to be found in Bretschger and Hettich (forthcoming), Burgoon (2001), Cusack and Iversen (2000), and Vaubel (2000).
[7] A recent survey on the theoretical and empirical literature on various topics in the field of international environmental economics is to be found in Schulze and Ursprung (2001).
[8] We write 'can yield' and not 'will yield' because assumptions related to, for example, returns to scale and external effects are needed to generate the 'will yield'.
[9] Below, we note two exceptions to that proposition.
[10] In the Tiebout model and in the models that derive from that seminal contribution, the division of powers is a consequence of the "span" of public goods – local public goods are assigned to local governments and the other public goods to a central government which, however, plays no role in the models. This last point is powerfully made in Keen (1998).
[11] For a defense of that assumption see Breton (1996, pp. 48-57). See also the literature on probabilistic voting in, for example, Calvert (1986).
[12] As in the tournament model suggested by Nalebuff and Stiglitz (1983), the comparison of performance will be more precise if the random disturbances affecting performance are common to all centres of power instead of being idiosyncratic to each.
[13] We are in search of a vocabulary. We use the expressions invade and invasion – which may convey a sense of hostility which is generally not part of the actions undertaken – for lack of a better term. In the discussion which follows, invasions can be challenged before tribunals. Whether they are hostile or not is therefore not material.
[14] A formal signal extraction model which gives rise to the described effects is to be found in Zantman (2000).
[15] Cf. Ashworth and Heynels (1997) for Belgium, Büttner (2001) for Germany, Schaltegger and Küttel (forthcoming) for Switzerland,
[16] The volume edited by Bernholz et al. (1998) confronts the hypothesis that competition of political systems has been a crucial condition for innovation and prosperity in the history of mankind with empirical evidence from selected periods of history.

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