

The public choice of international organizations

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International organizations are of great and increasing importance today. There exist at least 350 intergovernmental international organizations with far more than 100,000 employees. A more extensive definition, based on the *Yearbook of International Organizations* lists more than 1,000 intergovernmental units. They constitute a rather new phenomenon: an overwhelming share of international organizations was created after 1939, and the rate of their establishment has accelerated. Some of the international organizations have established themselves as independent forces, existing next to the strongest world powers; most prominent among them is the United Nations. In Europe, the European Union has assumed an important economic and political role. Consequently, the inputs going into, and the activities undertaken by particular international organizations, have greatly expanded. In the European Union, for example, the number of full-time employees has grown from 5,200 (1970) to 12,900 (1990), the number of meetings held by the Council of Ministers has risen from 41 (1970) to 92 (1990), the budget has reached 47 billion ecus (an ecu is approximately equivalent to 2 deutschmarks and 1.20 U.S. dollars), and more than 6,200 legislative acts (regulations, decisions, directives, etc.) have been issued (1990).

There are widely divergent views on international organizations: some consider them to be a necessity in an increasingly interdependent world, characterized by dramatic external effects and economies of scale, and thus a logical development of political and administrative units beyond the historical nation states. Indeed, more than half of the existing organizations have an economic task. Accordingly, international organizations are positively evaluated, and questions of efficiency are considered unimportant. Others, however, take international organizations to be an extreme example of waste and lack of democracy and their activity to be useless if not noxious. Accordingly, international organizations are evalu-

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ated negatively and it is often suggested that there exist much better alternatives for the resources used.

On the whole, orthodox neoclassical economists (those assuming social welfare maximizing governments) tend to share the first view, while public choice economists are inclined to subscribe to the second view. This basic orientation is reflected in the general attitude toward international organizations, as well as in the specific topics treated within public choice.

International organizations have been rather neglected by public choice scholars. A major contribution is the fourteen papers collected in Vaubel and Willett (1991), which cover a broad range of topics on international organizations. There are a few journal articles devoted to a *general* public choice theory of international organizations (in particular Fratianni and Pattison 1982; Vaubel 1986, 1992; Frey and Gygi 1990, 1991). In other areas of public choice, international organizations play at best a minor role. Even in international political economy (see e.g., Bernholz 1985, 1992b; Magee, Brock, and Young 1989; Weck-Hanneman 1992) international organizations are referred to only in passing and are not analyzed (exceptions are Frey and Schneider 1984 and Frey 1986, chap. 8). International organizations have, of course, been extensively treated in political science, particularly in international relations. Normally the public choice contributions are either overlooked or neglected on purpose but, again, there are noteworthy exceptions (e.g., Crane and Amawi 1991). In any case, the public choice view of international organizations has so far not had any major impact on other research in this area.

Although there has been little public choice work on international organizations in general, *specific* institutions have attracted much more attention. It should be noted here that public choice scholars use the term "international organization" also for supranational organizations into which individual nations merge (such as the European Union). Nongovernmental international organizations (NGOs), on the other hand, are generally excluded. An abundance of literature exists on their "embryonic" state, namely, on macroeconomic policy coordination and cooperation (see, e.g., Feldstein 1988a, 1988b; Guerrieri and Padoan 1988), but it is often analyzed under the assumption that governments maximize social welfare (for a public choice analysis, see Gygi 1991). Although such coordination may come about as the result of contracts between nations, in most cases some form of centralized institutionalization arises. Important examples are the United Nations Law of the Seas Conference (UNCLOS), the International Energy Program, the GATT and OECD, which have been subjected to public choice analyses (see Tollison and Willett 1976, Eckert 1991; Smith 1991; Moser 1990, Finger 1991; Fratianni and Pattison 1976, respectively). Among the international institutions with a well-established bureaucratic structure, NATO (Olson and

presence of public goods as originally developed by Olson (1965). Indeed, one of the earliest empirical applications has been to burden sharing within NATO. The small member states are able to exploit the large ones because they can free ride on the public good defense provided. It has been shown that the large countries, especially the United States, pay a more than proportional share of the defense effort (Olson and Zeckhauser 1966). The same has been suggested for the European Union. The three largest member countries (Germany, the United Kingdom, and France) pay more taxes than they receive in benefits (transfer fees), while a very small country like Luxembourg receives the largest net receipts per capita (1985-9; see Vaubel 1992, 31).

International public goods need not be provided by international organizations. A once-and-for-all assignment of property rights may give nations incentives (see Tollison and Willett 1976 for transnational externalities). Cooperation and a satisfactory provision of such goods may also come through a network of bilateral contracts (Coase 1960), provided the transaction costs are not excessive. Most international agreements lead to the establishment of at least a secretary's office charged with putting into effect and supervising the agreements, thus forming the nucleus of an international organization. A more developed international body has a certain amount of decision-making power within the rules laid out in its constitution. The agreement reached among the member states relates only to the general rules not to particular actions. A consensus on these "rules of the game" can only be arrived at behind the veil of uncertainty, that is, no country knows for certain how it will be affected in particular but expects to benefit from their existence over a sequence of yet unknown future events. One of the most basic ground rules relates to the way the decisions are to be taken (i.e., the voting rules).

1.2 Voting rules

There are a great many options in the way decisions are to be taken in an international organization (Facts are given in Zamora 1980). Three aspects are primordial.

First, what *kind* of decision rule has to be applied for what kind of issue. In public choice theory, a large number of different procedures has been suggested (see Mueller 1989). They range from the well-known majority rule over rank and point voting to new decision rules such as the demand-revealing process (see Tideman and Tullock 1976), approval voting (Brams and Fishburn 1978) or veto voting (Mueller 1978). It is interesting to note that the voting rules in international organizations

tend to be very conservative, and none of the new alternatives to the majority rules seem to have been applied.

Second, within the majority rule the *size* of the majority has to be determined (Buchanan and Tullock 1962; Rae 1969). In this respect, the situation in a national polity or committee and an international organization differ considerably. In the former, the citizens can exit only with considerable cost and are thus vulnerable to exploitation by the rest of the community through the political process, that is, Buchanan and Tullock's "external costs" of decision making are large. In an international organization, on the other hand, the autonomous member states can exit fairly easily. This difference forces the collective decision process to focus more on public good-type issues and to adopt higher qualified majorities in their voting rules. Indeed, the extreme of 100 percent majority or unanimity is important in many international organizations (e.g., the UN Security Council), a major reason being that nations forced against their will either do not observe the decision or may even leave the organization. Other forms of qualified majority and of blocking minorities, or veto power, are common in international organizations, in particular in order to secure the rights of some special class of members.

Third, the voting rules have to specify the *number* of votes attributed to a member nation. The attribution of one vote per country applies only to some institutions (e.g., to the General Assembly of the UN). Often, more populous countries get more votes (as in the EU Council of Ministers), and in the case of the UN financial institutions the countries get a vote weight corresponding to their financial contribution to the budget. A quota change thus affects a country's influence measured by the ex ante Shapley-Shubik or Banzhaf power index (for the International Monetary Fund, see Dreyer and Schotter 1980).

The allocation of vote weights has a rather straightforward effect on the expenditure behavior of the members of an international organization (Frey and Gygi 1991). Consider the one-country, one-vote rule obtaining in the UN General Assembly. A very small number of countries carry the overwhelming share of the organization's finance: the United States (in 1991 roughly 25 percent of the total), Japan (approximately 11 percent), Germany (approximately 8 percent), France (approximately 6 percent), and the United Kingdom (approximately 5 percent) contribute more than half the budget while 150 countries contribute the remaining; most pay far less than 1 percent of the total. These latter countries have, of course, a strong incentive to vote for any increase in the budget (and even more so against a decrease) because they are not financially affected but may participate in the benefits of such extensions. Hence, not surprisingly, this constitutional vote assignment leads to chronic financial problems. Only the few large payers have the incentive to keep the budget under control

tion). This positive association is strengthened by a self-selection process, because those politicians and bureaucrats with a favorable view of an international organization are more inclined to apply to, and accept, such an assignment. For those representatives who are appointed "contre coeur," cognitive dissonance tends to lead to a positive identification with the particular international organization. It is also rational (in the narrow economic sense) because the other members of the international organization oppose and block the actions of delegates who are considered to be a threat. To have any influence, delegates are well advised to support strongly the organization to which they are attached. Politicians and bureaucrats who are the delegating decision makers tend to identify the performance of the international organization with the performance of the respective delegates. Moreover, the national delegates may see the international organization as a possible future job provider. Not rarely, national delegates participate in the foundation and development of an international organization, to be thereafter offered high level jobs in it.

Delegates are subject to a number of constraints. First of all, each delegate has to take into account the actions of other national representatives as well as those of the international organization's administration. Secondly, national bureaucrats see to it that the international organizations do not interfere too much with their own functions and in particular oppose actions of the delegates that tend to make them superfluous. The national ministry of finance is interested in controlling the funds going to the international organizations to maintain its influence. The delegates are thus subject to financial constraints. Finally, the national politicians in need of reelection make an effort to force the delegates to act in a way the politicians conceive to be popular with the voters. The delegates must respect this demand to act in the so-defined national interest because they depend in turn on the politicians to remain in their function.

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

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

1. The delegates must have extensive possibilities to act within the particular international organization and to exert influence, or

at least to have their views known. Assemblies, meetings, sessions, and working groups serve this purpose, allowing the delegates to project themselves favorably to the public and to their own governments. These forms of get-togethers are considered to be output both by the delegates and by the administrators of international organizations.

2. Each nation's share of employees in the international organization's administration must be secured, mitigating the conflict between national delegates and contributing to a peaceful life. At the same time such rules make it clear that the delegates fight for their respective national interest.
3. An international organization must as far as possible be given a monopolistic position in a particular field. Due to the positive association with the development of the organization, the delegates personally benefit thereby.
4. Rules are demanded that make it difficult for a nation to leave the international organization. For a national delegate this has the obvious advantage that she can further enjoy the rents produced by her position. Furthermore, the international organization is better able to expand its activities at the national taxpayers' cost, which has positive spin-offs for the national representatives. In the same vein, the delegates support rules that make exit an all-or-nothing decision. As is known from Niskanen's (1971) model of bureaucracy, such a situation enables the suppliers of the services (i.e., the international organizations) to "exploit" the demanders for the services, in this case the national finance ministries and indirectly the taxpayers.
5. Rules serving to enlarge the financial autonomy of an international organization are welcomed by delegates; most favored are the admissibility of budget deficits and fixed contributions attached to a growing tax base. The best system for the delegates is to have the national contributions fixed once and for all as a percentage of the international organization's budget (i.e., of expenditures). Once established, the respective financial contributions are not normally questioned by the national parliament and government but are taken as sacrosanct. As most international organization's administrations are to some extent able to determine the budget, the spenders at the same time determine the receipts, once the financing rule is set. National contributions as a fixed percentage of the budget is indeed the common financing rule in the UN system (except for financial suborganizations such as the IMF and the World Bank).

the case of the European Union). Such rules weaken the possibility of the international organization's administration disregarding the interests of the citizens of any member state. Third, output can be partitionable. Such a rule allows the international organization to support those of its undertakings that benefit national individuals and resist others that are harmful. "Exit in steps" is herewith made possible, as has, for instance, been done by the United States and France in the United Nations (see e.g., Brinkmann 1978). And, fourth, the "government" or "board of managers" of international organizations can be elected by popular vote, either directly (this could, for example, be envisaged for the commissioners of the European Union) or by some indirect procedure. Such a voting rule would give the leaders of an international organization an incentive to pay more attention to the preferences of the citizens of the member nations. It would also help to resist the demands of particular producer interest groups whose influence compared to consumer and tax payer interests tends to be even stronger on the international than on the national level (Olson 1965; European Community lobbying is discussed, for example, by Andersen and Eliassen 1991).

The analysis reveals striking differences as to what rules governing international organizations are desired by delegates and politicians as compared to individual citizens. Indeed, their interests are antagonistic particularly with respect to whether an international organization should have a monopoly or be subjected to competition and whether exit should be facilitated or prevented. The sharp differences in the interests concerning these rules do not normally become apparent. The conflicts are not easily seen by the individual voters, particularly because the delegates and politicians use the rhetoric of the "general national interest" to help construct rules that are "reasonable" from their point of view.

An occasion in which the conflict about the rules becomes visible is when the voters are allowed to make their views known by a referendum. Such a case occurred in Switzerland. On 16 March 1986 the voters were asked whether Switzerland should join the United Nations as a full member. In the preceding campaign the whole political establishment – the members of the federal executive and parliament, the top bureaucrats of the federal administration, and the media – were unanimous in urging entry. Visible opposition was raised only by some marginal groups. All the more surprising was the result of the vote: 75 percent of the Swiss voters rejected the proposition and not one single canton could muster a majority for it. The Swiss press criticized the rejection of entry into the UN heavily. The citizens were accused of being uninformed and incompetent. Public choice theory suggests quite a different interpreta-

tion. In contrast to the politicians, the overwhelming majority of Swiss citizens did not expect any benefit from joining the UN, given the rules that presently apply within the United Nations.

3. Bureaucracy and efficiency

3.1 *Ill-defined output*

Public choice looks at international organizations as a public bureaucracy – but one in which its characteristics are more pronounced than in the national setting. International bureaucracies and bureaucrats have greater room for discretionary behavior because the national bureaucrats, politicians, and voters have little incentive and possibility (see Section 2) to control them effectively. No political actors would gain by tightly monitoring and overseeing an international organization. They find it more advantageous to let things go and intervene only if they feel their own nationals employed in the organization are unfairly treated or that their interests are directly threatened by the organization's activity. This also happens when major scandals connected with international organizations become known, because domestic voters may hold the national politicians responsible. Otherwise, the international bureaucrat's discretionary room remains unaffected.

The large leeway granted international organizations for their current activities is also due to the immeasurableness of their output and therefore efficiency (e.g., Leff 1988; Frey and Gygi 1991). Outside public choice, many studies have sought to determine the "efficiency" with which international organizations act. Thus, for example, the Joint Inspection Unit looks at administration within the UN system. But its members may not attack the larger question, in particular whether a "useful output" is produced. This is a political issue that they may not discuss and evaluate. Even if they were allowed to do so (an effort for a scientific analysis is made, for example, by Scoble and Wiseberg 1976), it is impossible to find an objective standard of what an international organization's output is. Such an organization undertakes many activities, say the pursuit of world peace, the promotion of economic development, and the achievement of justice (more equal world income distribution). If the member states (who for the moment are taken to be a behavioral unit) have different preferences, it is in general impossible to consistently define what aggregate output is. If the members decide by majority rule, they cannot agree on the relative weights attributed to the three activities, which is a case for the Condorcet paradox producing cycles. The same happens when other aggregation mechanisms are used, provided some rationality conditions apply (Arrow's 1951 impossibility

World Bank credits received by thirty-two developing countries. In particular, the former states of a recipient country as a colony or dominion helps to receive credits, an aspect that would be difficult to explain in a behavioral model based on "need," "desert," or "benevolence."

4. Evaluation

The major strength of the public choice of international organizations is its issue orientation, coupled with a sound and imaginative use of the concepts of (modern) political economy. In contrast to other areas of economics and also public choice (e.g., social choice theory or the modeling of perfect political competition), the analysis has not become increasingly self-contained and academically oriented but has looked at real world issues from the particular point of view of public choice. Therewith it has brought in a completely new element into the research object, in particular, the emphasis on selfish individual behavior and the incentives faced under varying circumstances (different constraints) as well as on the choice of rules in a constitutional setting. The approach constitutes a significant departure from the organic view of international organization common in international relations theory and (traditional) political science. To a considerable extent, the public choice scholars active in the field could draw on a ready-made theory, an example being the whole area of voting theory, ranging from the general impossibility theorem over agenda setting to the properties of particular voting rules, including the theory of pivotal groups on which the game theoretic power indexes (discussed in Section 2) are based. On the whole, however, these models have (so far) not proved to be useful because they were constructed for national policies. Thus, the well-known models of bureaucracy by Niskanen (1971) rely on special institutional assumptions (the U.S. political system) that are not relevant to the same extent for the setting in which international organizations act. More general models of bureaucracy (e.g., Breton and Wintrobe 1982) seem more applicable.

The public choice theory of international organizations is only at its *beginnings*. Many parts of public choice have not yet been applied, or at least not adequately exploited. Examples that immediately come to mind are international organizations as clubs; the role of exit and voice in a comparative perspective; a fuller use of rent-seeking models; the whole supply process of international organizations (including its particular production technology features); the determinants of the size and growth of the bureaucracies; the competition between international organizations and their relationship to bilateral and multilateral contracts and agreements, and so forth. The public choice approach in this area has only made first attempts to use econometric methods to test the

theoretical propositions; there is scope for much more, especially as the databases for such work can be borrowed to some extent from quantitative international relations theory.

With respect to *policy*, public choice has contributed the crucial insight that there is little prospect of changing an international organization's behavior in the current politicoeconomic process (e.g., by substituting its top bureaucrats). Rather, the "rules of the game," which affect the incentives and the behavior of the member countries and employees in the organization, need to be changed. This has, for instance, been exemplified in the deviation between the vote share and the financial contributions share on an international organization's budget.

Several concrete constitutional reforms have been suggested that, behind the veil of uncertainty, may serve to better fulfill the preferences of citizens as consumers and taxpayers: competition between various international organizations; facilitation of exit of member countries and a partitioning of the activities or the possibility of a partial exit; fiscal equivalence; and a strengthening of the direct participation of the citizens via election of top decision makers in the international organizations and via popular initiatives and referenda (see Schneider 1992 for the European Union). Such constitutional proposals should also be analyzed for, and adapted to, extensions of international organizations (such as the United Nations or the European union). So far little thought has been given to the possibility of at least partly privatizing (governmental) international organizations. The willingness to pay for some of the services offered by them might be exploited, say the use of international waterways (provided a respective international organization keeps them open and secures them); the development of natural resources especially on the seabed or in Antarctica; the use of outer space (where the service may consist of allocating scarce goods such as frequencies or satellite orbits); or the preservation of cultural goods (where, for example, UNESCO may receive a share of entry fees). More speculative is a monetary compensation for the preservation of peace (which is at best implicitly done today), the peace-keeping operations of the United Nations, for example. One would even think of an "insurance system for peace" (Frey 1974) wherein an international organization offers to maintain the physical integrity of a country against an appropriate premium. The task of public choice economists is to go beyond mere proposals to carefully analyze the incentives created by the rules of international organizations, as well as the effects of these incentives on the behavior of international bureaucrats. If economists take up this challenge, they could make the public choice of international organizations even more relevant and important. This could transform the area from a rather neglected one into one central to public choice.