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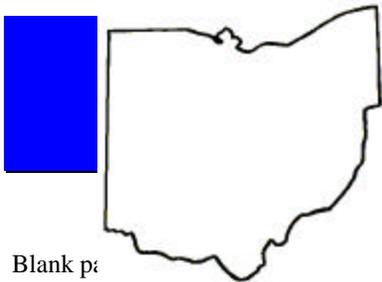
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THE OHIO ASSOCIATION OF ECONOMISTS AND POLITICAL SCIENTISTS

Mission

The Ohio Association of Economists and Political Scientists is a not-for-profit, professional association of practitioners, academics, and students in economics, political science, and related fields. It is devoted to the understanding and dissemination of knowledge, and to the facilitation of dialogue regarding economic and political concepts and events. Our emphasis is on how the interaction of these two social sciences impact Ohioans.

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EDITORIAL POLICY

The *Journal of Economics and Politics* is a scholarly journal directed to a broad audience of economists and political scientists. It is sponsored by the **Ohio Association of Economists and Political Scientists, OAEPS**, but is open to contributions from non-members as well as from members. It has a particular interest in the publication of articles dealing with Ohio and with the region, but it is a general journal. No particular method or approach is favored over another.

Instructions for the Submission of Manuscripts

Four copies of the manuscript should be submitted to the Editor-in-Chief. The manuscript should be clean copy, double-spaced print, using MS Word 97 for Windows or higher. Complete manuscript preparation instructions are available from the Editor-in-Chief upon request. The *Journal of Economics and Politics* is a refereed journal. Refereeing is double-blind; therefore, the names(s), affiliation(s), and address(s) of the author(s), title of the paper, and other identifying statements should be on a separate page. This page will be removed before sending the manuscript to the referees. The first page of the paper should contain the title and text, but no reference to the author(s) that would allow the referees to identify the author(s) or affiliation(s). As a general rule, the paper should be approximately twenty pages long. Under special circumstances, substantially longer papers may be considered for publication in more than one part. Short research notes of two or three pages are encouraged. Mathematical notation, figures, and tables should be held to the minimum required for the presentation of the material. Author(s) of papers accepted for publication must provide the entire manuscripts, including figures, charts, and tables, on one file accessible by MS Word for Windows. This can be e-mailed to the Editor-in-Chief at hrennie@heidelberg.edu. Notes and references should be at the end of the manuscript rather than in the text. Attribution extent and style vary by profession and custom. Consult this issue of the *Journal of Economics and Politics* for the style used in attributions.

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Journal of Economics and Politics

ACKNOWLEDGMENTS

The Ohio Association of Economists and Political Scientists is in its 63rd year. The Mission Statement of the OAEPS emphasizes the interaction of political and economic concepts. It is a professional association of practitioners, academics, and students in economics, political science, and related fields. It is devoted to the understanding and dissemination of knowledge, and to the facilitation of dialogue regarding economic and political concepts and events. Our emphasis is on how the interaction of these two social sciences impact Ohioans.

The *Journal of Economics and Politics* is in its 16th year. This Volume represents continued progress started some years ago. The refereeing process is intended to bring research to our readers that is on the cutting edge of political and economic thinking. The quality of the *JEP* would not be what it is without able referees. I wish to thank a legion of referees who worked with me on Volumes 15 & 16. Their names can not be mentioned since the *JEP* is a double-blind refereed *Journal*, but the results of their labor is evident in the quality of the articles which make up this issue.

Significant cost savings resulted by combining Volumes 15 and 16 under one set of covers. This is the largest single regular issue we have produced. For citation purposes, I have arranged the articles by separate volumes, either Vol. 15 or Vol. 16. This is so designated in the Contents page and in the masthead/header on each page of the *JEP*. Thus, references may be made either to *Journal of Economics and Politics*, V. 15, No. 1, 2002-2003 or to *Journal of Economics and Politics*, V. 16, No. 1, 2003-2004.

The title of our *Journal*, the *Journal of Economics and Politics*, reflects the reality of interdependence. Regional and State issues in economics and politics cannot be addressed in isolation from the environment around them. The growing global/international influences affect us all and certainly affect regional/state issues. The *Journal* welcomes articles on regional and state issues as well as topics of national, international, and global importance.

The *JEP* continues to improve in quality. Much of the credit for this improvement is due to the able assistance of the Associate Editors: Professors Ronald Busch, J. Ransom Clark, Dennis Miller, Dennis Petruska, Tony Stocks, and Timothy White.

I wish to thank the Officers, the Executive Committee, and the OAEPS Membership for the trust they have shown in me through the years by appointing me to the position of Editor-in-Chief of the *Journal of Economics and Politics*. *Nam b'e an diugh an de, cha bhithinn-sa mar a tha mi.*

Henry G. Rennie

Editor-in-Chief

Journal of Economics and Politics

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Abstracts of Articles

***JEP Abstracts* Volume 15, No. 1, 2002 - 2003**

THE EFFECT OF MACROECONOMIC SHOCKS ON LOCAL CORPORATE PHILANTHROPY

Research on corporate philanthropy provides important information on the trends, patterns and rationales for corporate giving. In this regard, the impact of exogenous variables on corporate donations is an interesting topic that merits emphasis. There is both theoretic and empirical literature that examines the factors that “crowd-out” or for that matter, “crowd-in” corporate philanthropy, but it is dated and focuses almost entirely on firm-specific factors. Further, most studies are biased toward larger corporations and neglect to look at giving on a local level. This paper aims to enrich the literature on corporate giving by examining the impact of macroeconomic variables on local giving. The paper focuses on the impact of two macroeconomic phenomena : The recession of 2000-2001 and the September 11th national tragedy on corporate giving at the county- level.

MICHELEA. GOVEKAR, Associate Professor of Management, Ohio Northern University

PAUL L. GOVEKAR, P & M Associates

MEENAKSHI RISHI, Associate Professor of Economics, Ohio Northern University

THE SECOND TIME'S SUPPOSED TO BE THE CHARM:

DO CANDIDATES NEED TO LOSE A STATEWIDE ELECTION BEFORE THEY WIN ONE?

It has long been said in Ohio that candidates for statewide office—particularly senator and governor—are unlikely to win the first time that they run. To see whether this is true, and whether or not this is a *distinctive* element of Ohio politics, I examined statewide races in Ohio and other states from 1960 to 2001. While there are not enough cases for a sophisticated quantitative analysis, the data suggest that Ohio does tend to display a “once to meet, twice to win” pattern and that this is more true of Ohio than other states.

JAMES P. MELCHER, Assistant Professor of Political Science., University of Maine at Farmington

GENDER INEQUALITY AND ECONOMIC GROWTH REVISITED:

THE IMPACT OF GENDER WHEN CULTURE IS CONSIDERED

Several recent studies have examined the relationship between gender and economic growth. The findings of these studies have been mixed because they use different models and estimation methods and different measures of gender development. In this paper, we discuss the literature on gender and growth and estimate an alternative model. We examine the influence of gender inequality on economic growth with an instrumental variables estimation procedure. An analysis of 103 countries suggests that gender inequality (as measured by enrollment and average wage ratios) is influenced by a country’s religion and region. Inclusion of these factors in a growth model therefore may be controlling to some extent for the culture or gender friendliness of a country. We also demonstrate that gender inequality is a significant factor in growth, even when religion and region controls are included in the model.

MARY ELLEN BENEDICT, Department of Economics, Bowling Green State University

LISA WILDER, Department of Economics, Albright College

SUMANGALI KRISHNAN, FORT COLLINS, CO

AN ARISTOTELIAN APPROACH TO PUBLIC ADMINISTRATION

This paper presents an Aristotelian approach to public administration that is elaborated within the context of the framework developed by Dwight Waldo in his classic The Administrative State. Waldo argued that the literature in public administration constituted a political theory since, like all political theories, it dealt with the five “Problems of Political Philosophy.” These five problems include: The Good Life; Criteria for Action; Who Should Rule; Separation of Powers; and Centralization versus Decentralization. Accordingly, Aristotle’s philosophy of politics and ethics is examined from the perspective of these five problems, and then compared and contrasted to the discourse of American public administration.

What emerges from this examination is an approach to public administration in which human happiness constitutes the good life; reason in accordance with virtue constitutes the criteria for action; citizens rule and are then ruled in turn; the various elements of government are loosely separated with considerable overlap; and a proper balance is struck between centralization and decentralization.

ANTHONY DEFOREST MOLINA, Adjunct Professor Of Political Science, Cleveland State University

JEP Abstracts Volume 16, No. 1, 2003 - 2004

THE IMPACT OF PRIVATE SCHOOLS ON PUBLIC SCHOOL PERFORMANCE: EVIDENCE FROM OHIO

The debate over American education reform has involved a great deal of discussion regarding the role of private education. Research suggesting that private schools improve educational outcomes has led to advocacy for vouchers and education tax credits. Opponents of policies designed to increase private school enrollment argue that vouchers and tax credits will reduce the aggregate performance of public school students as the best and brightest transfer to private schools. Voucher and tax credit supporters reject this proposition and argue that greater private school competition will improve the public schools. In this article, we use an extensive database on Ohio school districts to evaluate between these two hypotheses. Our findings reject the proposition that increased private school competition lowers the aggregate performance level of public school students. The opposite hypothesis, that an increased private school presence enhances public school academic achievement, is found to have validity.

JOSHUA C. HALL, Director of Research, Buckeye Institute, Lecturer, School of Management, Capital University
RICHARD K. VEDDER, Distinguished Professor of Economics, Ohio University

CONGRESSIONAL PERSPECTIVES ON THE INFLUENCE OF BUSINESSES THROUGH GOVERNMENT RELATIONS: CONGRESSIONAL STAFF MEMBERS FROM THE OHIO DELEGATION COMMENT ON EFFECTIVE STRATEGIES

Business groups make up a powerful sector of influence within the interest groups theory of politics. This work examines top strategies businesses and alliances use in order to influence government. Using qualitative interviews, the effectiveness of these strategies is evaluated through the perspective of congressional staff members from the Ohio Delegation of the 107th Congress.

SCOTT S. WIGGAM, University of Akron

DOLLAR APPRECIATION AND LAYOFFS IN OHIO MANUFACTURING: TIME SERIES EVIDENCE

It seems obvious that appreciation of the dollar must damage the competitiveness of Ohio manufacturers, but econometric evidence suggests a smaller effect than one might expect. Evidence for the period 1973 to 2002 indicates that a fourteen percent appreciation of the dollar leads to a one percent (i.e., ten thousand job) reduction in Ohio's manufacturing employment base. This by itself cannot explain the state's net loss of nearly 400 thousand manufacturing jobs since 1978; in fact it would take a 38 percent depreciation of the dollar to counteract just one year's secular decline in the state's manufacturing employment. Manufacturing sectors that sell standardized commodities (such as lumber, glass, and primary metals) are somewhat more sensitive to the exchange rate than sectors that produce more heavily processed commodities. The latter serve specialized niche local markets and are partially hedged against dollar fluctuations by their purchases of tradable inputs.

ALAN DAY HAIGHT, Associate Professor of Economics, Bowling Green State University

MICHAEL C. CARROLL, Assistant Professor of Economics, Bowling Green State University

DO INSTITUTIONS MATTER? AN INSTITUTIONAL ANALYSIS OF THE EVOLUTION OF THE

CENTRAL-LOCAL FISCAL INTEREST CONFLICT IN CHINA

The theme of this paper is an institutional analysis of the evolution of the central-local fiscal interest conflict in China (integration, genesis, expansion, and regulation) over four-period time by focusing on intergovernmental within budget fiscal flows. The evolution of the central-local fiscal interest conflict in China, as a complex outcome, is explained through the institutional “punctuated equilibrium” model (Stephen Krasner 1984, Baumgartner & Jones 1993) in my analysis. To effectively operate this model, I establish a three-level analytic framework of institutional context to represent China’s overall institutional arrangement. This overall institutional arrangement is punctuated because it possibly is periodically shaken up at breaking points by “institutional breakouts”. An institutional breakout appears in each of the three post-reform periods. And the institutional breakout has experienced a shift from the bottom level to the middle level, and to the top level of the analytic framework of institution context. Within the permanent institutional structure, the fragmented changes create a series of “institutional leaks” caused by the inherent inconsistency of market demand with permanent institutional structure. The institutional arrangement is in temporary equilibrium because the institutional legacy left over from institutional breakouts restricts the side effects of the “institutional leaks” that are by-produced by the institutional breakouts. When the side effects of the institutional leaks expand until to overthrow the logics of the institutional legacy, the equilibrium of the institutional arrangement is ready to be broken up. In this case the empirical application of the institutional punctuated equilibrium theoretical model convincingly belies the other possible explanations of institutional change models such as the status quo incrementalism, zigzag-up incrementalism, and progressive radicalism in terms of the evolution of the central-local fiscal interest conflict in China.

In my paper, central and local governments are regarded as agents in the established framework of institution context. The central theory is that institutional breakouts and institutional arrangements with institutional leaks explain the evolution of the central-local fiscal interest conflict in China. This theory will be reflected from two-fold: First, although these agents have their own preferences as assumed, institutional arrangements determine how the local governments as well as the central government define what their own preferences will be. Second, through the evolution of the central-local fiscal interest conflict, rather than thinking of institutions primarily as constraints, some kinds of institutional configurations might be systematically biased in favor of change. In this case, the fragmented institutional changes produce the institutional leaks inherent in the framework of institutional context in transition. It is just this kind of institutional arrangement with institutional leaks that is systematically biased in favor of political change—the evolution of the central-local fiscal interest conflict.

JINJIE LIU, Department of Political Science, Kent State University

THE EFFECT OF MACROECONOMIC SHOCKS ON LOCAL CORPORATE PHILANTHROPY

Michele A. Govekar

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ABSTRACT

RESEARCH ON CORPORATE PHILANTHROPY PROVIDES IMPORTANT INFORMATION ON THE TRENDS, PATTERNS AND RATIONALES FOR CORPORATE GIVING. IN THIS REGARD, THE IMPACT OF EXOGENOUS VARIABLES ON CORPORATE DONATIONS IS AN INTERESTING TOPIC THAT MERITS EMPHASIS. THERE IS BOTH THEORETIC AND EMPIRICAL LITERATURE THAT EXAMINES THE FACTORS THAT “CROWD-OUT” OR FOR THAT MATTER, “CROWD-IN” CORPORATE PHILANTHROPY, BUT IT IS DATED AND FOCUSES ALMOST ENTIRELY ON FIRM-SPECIFIC FACTORS. FURTHER, MOST STUDIES ARE BIASED TOWARD LARGER CORPORATIONS AND NEGLECT TO LOOK AT GIVING ON A LOCAL LEVEL. THIS PAPER AIMS TO ENRICH THE LITERATURE ON CORPORATE GIVING BY EXAMINING THE IMPACT OF MACROECONOMIC VARIABLES ON LOCAL GIVING. THE PAPER FOCUSES ON THE IMPACT OF TWO MACROECONOMIC PHENOMENA: THE RECESSION OF 2000-2001 AND THE SEPTEMBER 11TH NATIONAL TRAGEDY ON CORPORATE GIVING AT THE COUNTY LEVEL.

I. INTRODUCTION

Henry David Thoreau remarked, “Philanthropy is almost the only virtue which is sufficiently appreciated by mankind”. In the 1900s US corporations were criticized as being too big and impersonal and the first outpourings of corporate donations were motivated by desire to improve public image. Andrew Carnegie began the first truly charitable institutions including the Carnegie Foundation and the Carnegie Institute for scientific research. Others such as Henry Ford and J.D. Rockefeller followed Carnegie’s lead and began to create programs that would support the recreational and health needs of their employees as well as benefit society (Wulfson, 2001). The Community Chest of the

1920s, a precursor to the United Way, literally changed the thinking on charitable contributions and was instrumental in soliciting and channeling corporate contributions. Corporate charitable giving has been rising significantly since the end of World War II. In 1997 Ted Turner, founder of CNN, began challenging wealthy business owners to make charitable contributions. Turner himself donated \$1 billion to the United Nations Children's Fund. The amount of charitable giving continues to climb with all corporate giving totaling \$203.45 billion in the year 2000 (Byrnes, 2002), and direct corporate contributions recording an impressive total of \$12.19 billion in 2002 (AAFRC Trust for Philanthropy, 2003).

In view of the importance of corporate philanthropy, it is surprising that so little attention has been paid to it in the literature. In addition to its paucity, the literature on corporate philanthropy also suffers from its neglect of macroeconomic variables and their impact on charitable giving. This paper seeks to remedy a small part of this ignorance by examining the impact of macroeconomic variables on giving. The paper focuses on the impact of two macroeconomic phenomena - the recession of 2000-2001 and the September 11th national tragedy on corporate giving at the local county level.

We begin by highlighting literature on corporate giving, its motivations and limits; further we address the reported September 11th related surge in corporate giving anecdotally reported in the popular press suggesting competing hypotheses of 'crowding in' or 'crowding out'. We present our exploratory data, methodology and preliminary results; then conclude by addressing this study's limitations, requirements for future research and policy implications for local communities and nonprofit agencies.

II. REVIEW OF THE LITERATURE

Despite its growing importance, research on patterns of corporate giving is still limited. Most studies are biased toward larger corporations and neglect to look at giving at the local level. There

is also no work done on the connections between corporate giving and its impacts on government decision-making and policy. Wolch (1995) offers a profile of the corporations that contribute to charity and concludes that the manufacturing sector has traditionally and continues to be the sector that contributes most to charity (greater than 50% giving to charity) and this remains true despite a declining number of firms in the manufacturing sector. Insofar as other characteristics of the corporation are concerned, some researchers have highlighted the importance of “size” (Maddox, 1981). But other studies indicate that smaller companies often give a larger percentage of their income to charity as compared to other larger companies (Troy, 1982).

What are the motivating factors behind corporate philanthropy? Johnson (1966) and Wolch (1995) offer social responsibility and profit maximization as the most important reasons underlying a corporation’s motives for giving. The profit motive implies that corporations give charitable contributions in order to minimize the after-tax cost of a given contribution. An extension of this profit-motive concerns itself with itself with owner-manager philanthropy. Owners or managers that are company stockholders save by replacing some dividend payments with tax deductible giving through the corporation. Otherwise, owners or managers would have to make personal charitable donations out of post-tax dividends and income (Maddox, 1981). The social responsibility motive suggests that corporations are obliged to work for “social betterment” by maintaining community relations through financial support, contributing to humanistic efforts, expressing environmental obligations, and ensuring consumer rights (Davidson, 1989). The social responsibility motive is not inconsistent with the desire to maximize profit as was evidenced in the 1990s literature on “strategic giving” or “strategic investing,” that examined corporate charity from the perspective of “adding value” (Yankey, 1996, p. 9).

As mentioned above, the literature on corporate giving suffers from its neglect of macroeconomic variables. In particular, none of the theoretical models of corporate charity consider the effect of the business cycle and/or exogenous shocks on the level of charitable giving. Further, while lamenting the lack of local-level studies, not many authors have examined the linkages between the economy and corporate donations from a local perspective. Only one study, conducted by the Center on Philanthropy at Indiana University (How charitable giving..., 2001), has examined the

impact of exogenous shocks and economic turbulence on charitable giving, albeit at a national level. That study concludes that at least over the 1940-87 time period, political and economic crises did not cause the level of overall giving to decline. Can one draw similar conclusions at the local level? In this regard, this paper seeks to add to the limited literature on corporate giving and the economic climate by conducting a local-level examination of corporate giving in the current climate - a post September 11th economy that is also suffering from a recession. It should be mentioned that the analysis in this paper draws on previous work on volunteerism (Ewing, Govekar, Govekar and Rishi, 2002) that had highlighted the association between business cycles and the demand for volunteer labor for nonprofit organizations.

III. CORPORATE GIVING SINCE SEPTEMBER 11TH

September 11th certainly qualifies as a tragedy that led many corporations to exhibit the spirit of “compassionate capitalism” (Du Pont, 2001). *Business Week* documented that in the agonizing hours following the Sept 11th attacks, U.S. corporations gave more than \$120 million for relief in spite of a generalized leveling off of contributions anticipated for 2001 (Lavelle & Prasso, 2001). This amount far outstrips corporate giving at any time in history. However, recent trends suggest that corporate donations are dropping, the victim of recession and spending fatigue in the wake of the September 11th terrorist attacks. This comes at a time when the share of corporate profits going to charity has been decreasing (the amounts have fallen as a percentage of pretax income).

Meanwhile the number of nonprofit organizations in the United States has been rising. This trend is occurring during a period of growing political and social conservatism (Adams, 1987). With cutbacks in government funding and decentralization of its programs, private nonprofit organizations assume greater importance in many vital areas of society. With reduced government support come increased demands for nonprofit services, making increased efficiency and effectiveness essential for their future (Drucker, 1990).

The convergence of these changes with two macroeconomic factors – a shaky economy and the national tragedy- has made the current environment a precarious one for charities such as the

United Way and the nonprofit agencies it supports. The influence of these two forces could be direct or indirect in that in the present economic environment, the post September 11th generosity may end up cannibalizing contributions to key areas, such as health and education (Lavelle & Prasso, 2001). Although it is important to study this direct/indirect impact on a national level, a local level analysis would better highlight the relative importance of macroeconomic factors since impacts may be more directly identified and explained and local nonprofits may be even more dependent than national ones on giving from their own local corporations.

IV. DATA AND ANALYSIS

The data for our county-specific local analysis came from the United Way of Hardin County, Ohio. Hardin County, Ohio, (population 31,945) is located in the northwest central part of the state, south of Toledo, north of Dayton, and west of Columbus. According to the US Census Bureau, the majority of the population (55%) lives in areas classified as rural. The remaining 45% live in small towns and villages. The income per capita in 1999 was estimated to be \$19,950. The county population is 97.5% white with approximately 0.7% black, 0.43% Asian with the remaining population divided among Native American, Pacific Islander, and Other races (The 2001 Scan, 2001).

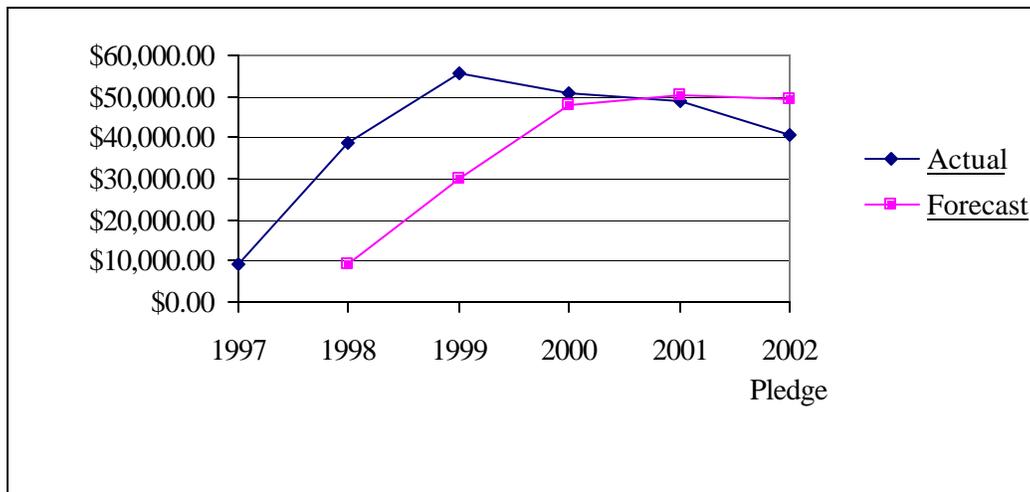
103 separate businesses contributed to the United Way of Hardin County during the six-year period under review, 1997-2001 and 2002. The majority (72%) contributed in at least two years, and 38% contributed in at least four of the six years. Eight businesses contributed in all six years. The lowest participation (38 businesses) occurred in 2001 and the greatest participation (60 businesses) occurred in the 2002 pledge campaign. Since most contributions are made by small businesses, the dollar amount of each contribution tends to be modest (only eight businesses pledged \$1,000 or more in 2002). Further, in the 2002 pledge campaign, the two largest business contributors, Arvin Meritor Corporation (\$5,250) and Honda Manufacturing (\$17,129) accounted for 55% of the total dollars pledged.

Table 1: Actual Business Contributions and Pledges to the United Way of Hardin

		County				
<u>Year</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u> (Pledged)
<u>Amount</u>	\$9,288	\$38,876	\$55,657	\$51,041	\$48,830	\$40,631

Total actual business contributions to the annual United Way campaign for the years 1997-2001 and total business pledges to the 2002 campaign, which was conducted during the period October through December 2001, were obtained from the United Way of Hardin County (Table 1). By inspection, we can determine that business contributions to the annual fund raising campaign increased steadily through 2000, with a slight drop-off in 2001 and a larger fall in the pledges for 2002. In an effort to determine if the 2002 pledges were in line with what should have been expected, the expected level of pledge was forecast using both exponential smoothing and a two-year moving average. Exponential smoothing forecasts a total 2002 pledge of \$49,216 and using a two-year moving average, the forecast pledge is \$46,834. These forecast figures were graphically compared to the actual pledge in Figures 1 and 2.

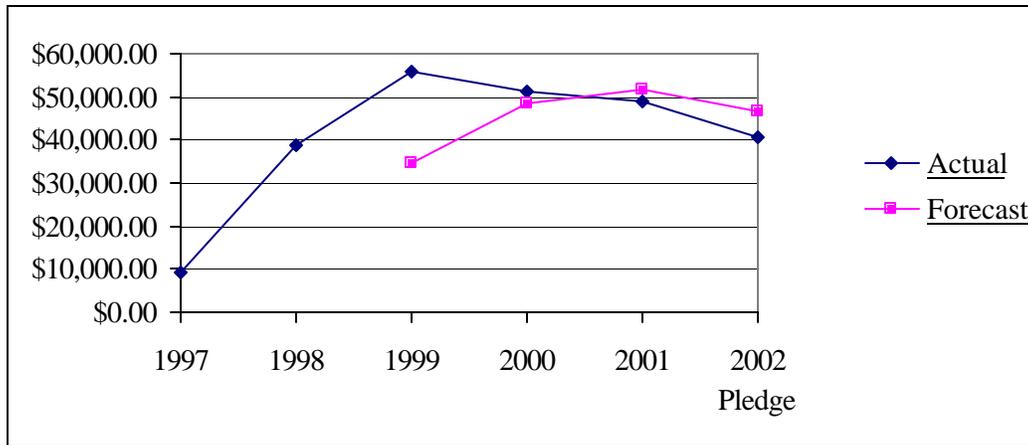
Figure 1: Actual vs. Exponential Smoothing Forecast



The 2001 pledged total of \$40,630 was \$8,586 less than the \$49,216 forecast by exponential smoothing and \$6,204 less than the \$46,834 forecast by the 2-year moving average. Both these forecasting techniques examine the pattern of the variable in the past time periods and use this pattern to extend these values into the future (Hanke & Reitsch, 1994). An underlying assumption is that the future will substantially resemble the past. Given the shock of the September 11th tragedy and the downturn in the economy after a long expansion, this assumption may not hold. Can the available data provide any insight into the effects of these macroeconomic forces on

corporate giving at the local level? We believe it can.

FIGURE 2: ACTUAL VS. TWO-YEAR MOVING AVERAGE FORECAST



Comparing the 2002 pledge campaign results to the actual giving in 2001 is instructive. In the 2002 pledge campaign, 23 businesses that had not donated in 2001 pledged contributions totaling \$6,858. Of these, six businesses had no record of contributions in any of the previous five years. Only one business contributor in 2001 failed to pledge in 2002. This was a bank that no longer serves the community. Additionally, two businesses increased their pledge for 2002 over their actual contribution in 2001. A local grocer store increased their contribution by five times (\$20 to \$100) and Honda Manufacturing increased its total contribution by \$6,670.

At the same time, six businesses decreased their pledge by \$21,640 from the previous year's actual giving. Of this total, three manufacturing corporations accounted for \$18,684 of the decrease. All three of these businesses suffered serious loss of business in that year and one experienced a significant reduction in its work force.

At least in our very limited sample, September 11th did not cannibalize corporate donations. For the companies that did indicate significant changes to their pledge amounts for 2002, local economic conditions relating to the business cycle appear to be more important. Corporations impacted by the recession evidenced declining contributions, those doing well increased. Honda Motor Co. is a case in point. Their local-level charitable contributions were up 65%, at the same

time as profits rose significantly (Honda profits up 74%, 2002). In addition more corporations contributed after the September 11th tragedy than had contributed during the same period of the previous year.

It is worthwhile to mention that our findings at the local level correspond to the conclusions reached by the American Association of Fundraising Counsel about shocks at the national level (Lewis, Blum, Hruby, Sommerfeld, Wallace and Wilhelm, 2001), in that they highlight the impact of cyclical downturns on corporate giving even in a post-September 11th environment.

V. LIMITATIONS OF THE STUDY

The main limitation of this study is that Hardin County, Ohio is not representative of the wider population. This county is whiter, more rural, and therefore more conservative than the United States as a whole. Despite these handicaps, the sample size of 103 firms that donated to the United Way in Hardin County appears adequate for an exploratory analysis. Even though United Way pledges account for a sum barely twice the per capita income, these funds support much needed human services agencies. Particularly during economic downturns, food banks and job training centers experience greater pressure. And United Way corporate donation pledges and annual giving do not represent the whole of corporate philanthropy, but they are corporate philanthropy directly linked to the local environment and community. Finally, there is some question that because of the employee workplace-giving component connected with the annual United Way campaigns, United Way corporate giving may not be independent of macroeconomic variables, particularly employment.

VII. CONCLUDING REMARKS

Given these and other obvious limitations, however, the results of this survey parallel results reported in other areas and provide some level of support for our hypotheses. They do show some effect of these two macroeconomic variables at this time on this particular local context. This provides some motivation for future research on local level corporate giving, to the United

Way as well as to other ‘umbrella organizations’ such as arts councils and local foundations, particularly as national and state government decentralization makes these local actors take on more important impact in providing public goods.

Further research on this issue would require specific corporate giving data and total United Way corporate giving, paralleled by corporate employment numbers and countywide employment for the period. More counties must be investigated, both similar and different from Hardin County OH. Business presence in local ‘special economic incentive’ areas would be a variable of interest when investigating corporate local donations, and local tax incentive benefits might draw local corporate donations.

This research showed an effect of the business cycle countered at least somewhat by a ‘crowding in’ effect of September 11th. The effects we identified in this county came about with **no** change in United Way solicitation strategies; our results suggest adjusting solicitation efforts and provide potential corporate donor segmentation information that United Way administrators and trustees can really use in their annual campaign. If United Way corporate giving is driven by macroeconomic factors, local economic development agencies can identify yet another incentive to attract new businesses. And local area agencies can plan and prepare for economic downturn effects by proactively increasing their efforts, rather than passively accepting resultant corporate donations. Similarly, a better understanding of the associations between the economic climate, corporate giving and the demand for local governmental services can help local governments design tax incentives and the local public goods mix.

As the brief literature review presented both ‘managerial charity’ and ‘social responsibility’ explanations for corporate philanthropy in general, these results highlights policy implications both for tax policy and community governments. Current individual tax policy supports tax-deductible contributions when above a certain percent of annual income, while limiting corporate deductible donations to a fixed percentage. One implication of this study is that corporate giving may be instrumental in supporting the local level charitable services that government hopes will pick up the ‘social safety net’ as nationwide programs are decreased.

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THE SECOND TIME'S SUPPOSED TO BE THE CHARM: DO CANDIDATES NEED TO LOSE A STATEWIDE ELECTION BEFORE THEY WIN ONE?

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Abstract

IT HAS LONG BEEN SAID IN OHIO THAT CANDIDATES FOR STATEWIDE OFFICE—PARTICULARLY SENATOR AND GOVERNOR—ARE UNLIKELY TO WIN THE FIRST TIME THAT THEY RUN. TO SEE WHETHER THIS IS TRUE, AND WHETHER OR NOT THIS IS A DISTINCTIVE ELEMENT OF OHIO POLITICS, I EXAMINED STATEWIDE RACES IN OHIO AND OTHER STATES FROM 1960 TO 2001. WHILE THERE ARE NOT ENOUGH CASES FOR A SOPHISTICATED QUANTITATIVE ANALYSIS, THE DATA SUGGEST THAT OHIO DOES TEND TO DISPLAY A "ONCE TO MEET, TWICE TO WIN" PATTERN AND THAT THIS IS MORE TRUE OF OHIO THAN OTHER STATES.

I. INTRODUCTION

*"Ooh-hoo, Jackie Blue
What's a game, girl, if you never lose
Ask a winner, and you'll prob'ly find*

Ooh Jackie, they've lost at some time"

----Ozark Mountain Daredevils, "Jackie Blue" (lyrics and music by Larry Lee and Steve Cash), from It'll Shine When It Shines,1974

Part of the reason why political scientists study elections is to be able to understand what it takes to be elected to office. One of the most durable and oft-repeated legends in Ohio politics is that a candidate who wants to be elected to statewide office has to lose once before he or she can be elected--that one must run "once to meet, twice to win". Former U. S. Senator John Glenn is just one of many candidates for whom this was true. It is commonly said that this is a distinctive trait of Ohio politics specifically. This article will look at statewide elections in eleven states from 1960 through 2001 in order to examine several questions: 1. How common is it for candidates in Ohio to win statewide office without having lost a

statewide race first?; 2. How does Ohio compare to other states in this regard? and 3. Is there a general need that applies across different states to run and lose for statewide office before a candidate can win such an election?

II. THE IMPORTANCE OF THE QUESTIONS

There are several reasons why these questions bear examining. First, as a powerful belief in one state's politics, the "once to meet, twice to win" phenomenon is the type of belief that commonly colors political activity and discussion but has not been systematically tested for its veracity. In other words, it's the sort of thing many people believe and act on without a sense of how true it is. These are exactly the kinds of questions that social scientists should answer.

A second reason for the importance of these questions concerns the fact that, over the years, political scientists studying American politics have done a great deal to examine the career paths of elected officials. Such studies have ranged from examinations of legislative recruitment to retirement decisions (see, for example, Francis and Kenny 2000; Williams and Lascher 1993; Hibbing 1991; and Fowler and McClure 1989). Missing from much of this discussion is an assessment of how likely a candidate seeking election to statewide office is to succeed the first time out. If candidates commonly need two tries to succeed, we learn that a candidate should not be discouraged by an initial loss, that a candidate should begin relatively early in running for office so that he or she has time to go through the apprenticeship process of losing, and that a candidate should not wait for years for "just the right time" before jumping into the fray. On the other hand, if candidates who win are nearly always successful the first time out, the opposite lessons may be inferred. Under such circumstances, an early loss in one's career may tab a candidate as a "loser", and could make party officials and voters reluctant to back such a candidate in future races. Observers of elections will also be able to predict election outcomes more successfully if

they are more certain whether or not success is a possibility for a candidate the first time running.

It has also been a frequent comment of students of state politics that more studies are needed that include multiple states, in order to make broader statements about American state politics (see, for example, Brace and Jewett 1995). In order to provide this type of more broadly generalizable analysis, I have included in my data set information in elections from the original “Big Ten” states--Ohio, Michigan, Indiana, Illinois, Iowa, Wisconsin and Minnesota. Focusing on Midwestern states gives a “most similar systems” design to my work that I hope sheds particular light on how Ohio compares with states with which it shares commonalities. After that, I will compare Ohio with other states sharing similar traits.

III. THE OHIO BELIEF

It is a longstanding notion in Ohio politics that a candidate must lose first in a statewide race before winning one. As David Sturrock, et.al. (1994, p. 336) argue,

Another law of Ohio politics..[is] Ohio’s ‘once to meet, twice to win’ rule...every Ohio governor and U. S. senator elected since 1958 has previously lost at least one statewide race. This pattern reflects the difficulties of campaigning in a state with many media markets and a political culture that features voter patience and rewards candidate persistence. More than in some states, Ohio voters are willing to give candidates a second hearing, even when their debut was unimpressive (as with Voinovich’s rocky 1988 Senate bid) and to encourage repeat visits. Of course, the ultimate example of this tolerance is Jim Rhodes, who ran eleven times for three statewide offices in 36 years. Although he had lost three times--twice in primaries--he did not exhaust his welcome with the voters until 1986, when they soundly rejected his bid for a fifth gubernatorial term.

This is particularly said to be true of races for the most prominent statewide offices, United States Senator and Governor. It is not uncommon in Ohio for unsuccessful candidates for these offices to be reassured that candidates for these offices who are persistent and try again may succeed someday (for example, see Frolik 1998). As noted above, the argument has been made that because Ohio has so many major cities with no one of them dominant in power throughout the state, nor with a dominance over the state's media of communication, it is relatively difficult for a candidate in Ohio to become well-known statewide. A candidate who has received ample media attention in Cleveland, for example, may be little known in Toledo or Cincinnati. For example, Michael Coleman, the Ohio Democratic Party's candidate for Lieutenant Governor in 1998, was a well-known city council leader in Columbus. Relatively few voters in other parts of the state knew much of anything about him.

The need to lose a statewide race before winning one is particularly noted in races for the most major statewide offices: governor and United States Senator. The "second time lucky" myth is also sometimes phrased somewhat differently for these offices: it is said that one must lose a race for the *Senate or for governor* to be elected to these offices even if one has been successful seeking more minor statewide offices, such as state auditor.

Has it been true that it is necessary to lose a statewide race in Ohio before one can be victorious? Does an Ohio candidate for the U. S. Senate or for governor need to be defeated in a race for one of these two high-level offices before winning one of them? And, is it generally true across a wide number of elections and states that candidates for statewide office need to run and lose before being elected to office? This study will deal with these questions.

IV. MAJOR STATEWIDE RACES

While legend in Ohio has it that one can expect to lose a statewide race before winning one, this belief is particularly strong concerning races for the most critical statewide offices, U. S. Senator and Governor. (A third office, at-large U. S. Representative, would have fallen into this category as well in Ohio due to its statewide visibility while that office was in place from 1930 to the late 1960s). It is further argued that one must lose not just any statewide race before being elected governor or senator, but that one must lose one of these major races.

I gathered information on every elected senator and governor in seven states who served

in office between 1960 and 2001 to see whether these men and women lost a race for a major statewide office (senator, governor, or congresssperson-at-large) before being elected for the first time as a senator or governor. Including 41 years in the data set is designed to avoid overgeneralizing from a limited number of candidates without going back so many years that the experiences did not reflect modern politics. For example, in some states in this data set, such as Wisconsin, strong two-party competition did not exist for long before 1960, and including such years could have caused problems in data interpretation. I sought to find out whether the “once-to-meet” rule applied to Ohio, whether it applied to these offices generally, and whether or not Ohio differed from other Midwestern states in this regard. The figures are presented below:

TABLE 1
Elected Senators and Governors, 1960-2001 in selected Midwestern states: How many lost an election for major statewide office before being elected to one for the first time?

State	Senators	Governors	TOTAL
Ohio	4 yes, 1 no-- 80%	6 yes, 1 no--86%	10 yes, 2 no--83%
Indiana	1 yes, 4 no--20%	1 yes, 6 no--14%	2 yes, 10 no--17%
Illinois	2 yes, 7 no--22%	0 yes, 6 no--0%	2 yes, 13 no--13%
Iowa	0 yes, 8 no--0%	0 yes, 5 no--0%	0 yes, 13 no--0%
Michigan	1 yes, 6 no--14%	0 yes, 5 no--0%	1 yes, 11 no--8%
Minnesota	1 yes, 7 no--12%	2 yes, 6 no--25%	3 yes, 13 no--19%
Wisconsin	3 yes, 3 no--50%	2 yes, 5 no--29%	5 yes, 8 no--38%
TOTAL	12 yes, 36 no--25%	11 yes, 34 no--24%	23 yes, 70 no--25%

Sources: Scammon et.al., 1994; Barone et. al., 1995, chapters on affected states; Moore, 1994; Curtin 1996, chapter 4 and Appendix B; Ohio Secretary of State; Wisconsin Legislative Reference Bureau *Blue Books* and *Wisconsin Books (series)*, 1954-1998; Melcher 1995, Appendix 2; 1998 election results postings on Electnet (<http://www.electnet.org/>); Stinnett and Backstrom 1964; U.S. Congress 2002.

While the number of cases in each individual state is small, and thorough quantitative analysis is therefore not feasible, the chart certainly

suggests that Ohio's experience in this regard has been very different from that of its Midwestern neighbors. From 1960 to the present, only in Wisconsin have even a third of elected senators or governor lost a race for a major statewide office before they were elected governor or senator. In contrast, only two of Ohio's elected senators and governors in that time period have won a major statewide office on their first try. And, one of those two, newly elected Governor Bob Taft, had previously been on a losing gubernatorial ticket as the Republican candidate for lieutenant governor. (The other, longtime Democratic Senator Steve Young, was elected as an at-large congressman from Ohio in his first try for major statewide office--but that happened over 70 years ago, in 1930). While it seems clear that the odds are stacked against an Ohio candidate in his or her first try for major statewide office, it seems equally clear that this norm does not apply in other Midwestern states.

V. WHAT ABOUT PARTISAN STATEWIDE OFFICES IN GENERAL?

Ohio has six partisan offices which are elected statewide, and have been elected on their own or as the top half of a ticket continuously since 1960. These offices are United States Senator, Governor, Attorney General, Secretary of

State, Auditor of State, and Treasurer of State. In contrast to Table 1, losses for minor statewide offices are included in Table 2 for governors and senators in order to provide a clearer basis for comparison to other statewide offices. As was the case in Table 1, the majority of the men and women elected to these offices from 1960 to 2001 lost a race for statewide office before becoming a statewide elected official. Table 2 shows the breakdown by office:

TABLE 2
Ratio of Ohio-wide elected officials in selected offices who lost before attaining any statewide office, 1960-2001

Office	Lost before winning for 1st time	Didn't lose before winning	%
losing 1st			
US Senator	4	1	
80%			
Governor	6	0	
100%			
<i>(Major offices subtotal)</i>	<i>(10)</i>	<i>(1)</i>	
<i>(91%)</i>			
Attorney General	1	4	
20%			
Secy. of State	2	3	
40%			
Auditor	5	1	
83%			
Treasurer	1	5	
17%			
<i>(Minor offices subtotal)</i>	<i>(9)</i>	<i>(13)</i>	
<i>(41%)</i>			
TOTAL	19	14	
58%			

 Sources: Curtin 1996, chapter 4 and Appendix B; Ohio Secretary of State.

To show how strong a pattern this is in Ohio,

I compared Ohio with Wisconsin, for which data for statewide office elections was readily available for me, and which came the closest to Ohio in its rate of novice candidate success in seeking election to the United States Senate and for Governor. Wisconsin has had statewide races continuously since 1960 for all of the offices used in the Ohio table above, except for state auditor (which has never been an elective office in Wisconsin). But even Wisconsin does not reflect the norm of losing before winning statewide office to nearly the degree that Ohio does:

TABLE 3
Ratio of Wisconsin-wide elected officials in selected offices who lost before attaining any statewide office, 1960-2001

Office	Lost before winning for 1st time	Did not lose before winning	%
losing 1st			
US Senator	3	3	
50%			
Governor	3	4	
43%			
<i>(Major offices subtotal)</i>	<i>(6)</i>	<i>(7)</i>	
<i>(46%)</i>			
Attorney General	1	5	
17%			
Secy. of State	0	3	
0%			
Treasurer	2	3	
60%			
<i>(Minor offices subtotal)</i>	<i>(3)</i>	<i>(11)</i>	
<i>(21%)</i>			
TOTAL	9	18	
33%			

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 Sources: Wisconsin Legislative Reference Bureau *Blue Books* and *Wisconsin Books (series)*,

1954-1998; Melcher 1995, Appendix 2; 1998 Wisconsin election statistics.

An additional possible explanation for the difference between Ohio and other states in this area may lie in the “issueless” nature of Ohio politics. As noted in John Fenton’s 1966 classic *Midwest Politics*, Ohio politics has tended to avoid sharp ideological choices, has tended to favor the status quo, and has revolved around issues such as the efficiency in management that a particular candidate may bring to a position (see also Binning 1995, chapter 2; Knepper 1997, p. 447-8; Knepper 1994, p. 2-3). In such an environment, voters may be cautious about backing a candidate that they do not know well.

Wisconsin, in contrast, has a progressive legacy in which political experimentation is a central part of the state’s political ethos. While Robert La Follette was the most visible among Wisconsin’s progressive leaders, even modern Republican politicians, such as longtime Wisconsin Governor Tommy Thompson, make much of the state’s Progressive legacy and see themselves as the true heirs to it (see Thompson 1996; Niland and Witte 1991; for La Follette on himself, see La Follette [1913] 1961). In this type of climate, voters may be more receptive to new candidates with new ideas about government, and may feel less need to see a candidate more than once.

These tables also suggest that there may be a difference in the necessity of running and losing races between major offices (such as senator and governor) and minor offices. Even in Ohio, it was not unusual, or was even common, for certain offices for people to be elected in their first statewide race. Minor statewide offices are often seen as a stepping stone for higher ones. So, candidates first seeking these offices (as opposed to incumbents seeking re-election to them) naturally tend to be younger and less experienced in politics than candidates for more prestigious offices. In open seat races for these offices, it is not unusual for both major party candidates to be running in their first race.

A previous version of this article that was presented as a Midwest Political Science Association paper looked solely at Midwestern states. While comments from the panel, discussants and audience were all very favorable, there was a strong consensus that the next step in my analysis should be to look at other states in which there is no one dominant media market, and to include states outside of the Midwest. Such comparisons can help answer a key question: Is Ohio’s distinctiveness in this area simply a function of being a state without a single dominant media market, or does Ohio still differ from other such states for some other reason? The latter

would suggest that there is something unique about Ohio politics that explains the “once to meet, twice to win” character of its statewide races.

The most common suggestion made at the convention and afterward was to add New Jersey, a state whose citizens depend heavily on out-of-state news sources from Philadelphia and New York, to the analysis. Others suggested states such as Texas, Pennsylvania and California, which are, like Ohio, large states with numerous large population centers. I added all of these to the next phase of the analysis, along with Maine. I added Maine in order to provide a small-state comparison to these larger states. Like these other states, Maine is not dominated by a single media market, and no newspaper in Maine is delivered statewide. While the Portland media market is the state’s largest and dominates the southern part of the state, this is neutralized by the greater difficulty candidates from southern Maine have in appealing to voters in northern Maine as compared to politicians who do the opposite (Potholm, 1998, p. 341-2).

Once again, I gathered information on every successful candidate in these states for the U.S. Senate and Governor who was elected between 1960 and 1998, to see if they had lost an election for major statewide office (governor or senator) before being elected to such office. The results follow below:

TABLE 4
Elected Senators and Governors, 1960-2001 in selected states without a single dominant media market: How many lost an election for major statewide office before being elected to one for the first time?

State	Senators	Governors	TOTAL
Ohio	<i>4 yes, 1 no--80%</i>	<i>6 yes, 1 no--86%</i>	<i>10 yes, 2 no--83%</i>
California	3 yes, 5 no--37%	0 yes, 6 no--0%	3 yes, 11 no--21%
Maine	2 yes, 4 no--33%	0 yes, 6 no--0%	2 yes, 10 no--17%
New Jersey	0 yes, 6 no--0%	4 yes, 4 no--50%	4 yes, 10 no--29%
Pennsylvania	1 yes, 6 no--14%	2 yes, 5 no--29%	3 yes, 10 no--23%
Texas	3 yes, 3 no--50%	2 yes, 6 no--25%	5 yes, 11 no--25%
TOTAL	13 yes, 25 no--34%	14 yes, 28 no --33%	27 yes, 53 no--34%

Sources: Scammon/Scammon and MacGillivray, 1956-2000 editions; Wallace 1995, ch.4 and 7; Lippman and Hansen 1971, ch. 3; Lipez 1974, ch.1; Steinberg 1968, p. 592; Curtin 1996, chapter 4 and Appendix B; Ohio Secretary of State; Dunn 1998; Congressional Quarterly, 1998; Political Graveyard.Com.

Overall, there were more cases in these states than in the Midwestern states of Table 1 who lost a race for major statewide office before winning one. This does suggest that there may be some validity to the media market hypothesis. However, Ohio is still clearly far in front of even these states in the lose-first-before-winning category. Perhaps there is a degree of caution about new candidates in Ohio not found in these other states, or perhaps there is an apprenticeship norm. Ohio political

activist Michael Cheselka, who has held high positions in Ohio campaigns, told me in an interview that Ohio's relatively strong parties may well follow such an approach in which fresh candidates are steered into races where they are unlikely to win in which they "pay their dues" by helping fill the party's ticket (Cheselka interview, 1999).

VI. POTENTIAL CHANGES IN THE FUTURE

Traditionally, it has been thought to be advantageous to be an experienced politician in seeking office. The measures used by political scientists, such as candidate quality scores, to examine candidate backgrounds have been based on this assumption. Candidates with more experience running for office and/or being elected to office have been scored "higher" on these measures than candidates who lack such experience. (For an example in statewide elections, see Squire 1992). In recent years, however, there has been a voter backlash against such "experienced politicians", and such experience may no longer always be helpful. Ross Perot's strong 1992 presidential campaign and the election in 1998 of Jesse Ventura as governor of Minnesota reflect, in part, a modern hunger among many voters for an alternative to traditional "career politicians".¹ In such an environment, the fact that neither had sought a major office before was, for many (if not most) of their supporters, a major advantage of their candidacies rather than an obstacle to their support.

Ohio has not been immune to such sentiments. Just as voters did in several other states, including Maine, Ohio voters passed initiatives in the early 1990s designed to limit terms of both the state's members of Congress and members of the state legislature. (Ohio already limited governors to no more than two consecutive terms, though the number of nonconsecutive terms had no limits). The limits on Congressional terms never went into effect, as they were rendered unconstitutional by the U. S. Supreme Court's decision in *U. S. Term Limits v. Thornton*. The

¹ On Ventura in this regard, see Shefchik, 1998; Smith, 1998; and of course Ventura's own *I Ain't Got Time to Bleed* (1999). Ventura had been elected mayor of Brooklyn Park, a suburb of Minneapolis, but had never sought any other elective office.

limits on state legislative terms, however, remain in force. The first time that a class of Ohio state legislators was unable to run for re-election was in 2000 (*Cincinnati Post* editorial board, 1999), and it is still too early to assess the effects of this change.

In such a political climate, it is more likely that more novice candidates without experience running for office at the level they are seeking will be emboldened to try. This may make it more likely that more races will pit “non-career politicians” against each other, and that in turn makes it more likely that more candidates will be elected who have not yet lost a race for an office at that level. Many races in the future could pit two candidates for office against each other who have not run for an office at that level before.

VII. CONCLUSIONS

My preliminary investigation of this topic suggests that states can vary widely in terms of whether or not it is necessary to lose a major statewide race before winning one. However, it is clear that it has not been *necessary* in most states to lose such an election before winning one. It would also appear from my limited data that it is less necessary to lose before winning minor statewide offices than it is before winning major ones. Ohio, however, differs substantially from other Midwestern states on the matter of whether it is necessary to run once and lose for statewide offices, and differs from other states with no dominant media market on this score as well. In Ohio, it is more likely than not that a candidate for statewide office won't win the first time he or she tries. It is especially true that for Ohio's senators and governors that if you “ask a winner, you'll prob'ly find [that] they've lost at some time”.

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APPENDIX A

Statewide elected officials for selected offices in Ohio and Wisconsin, 1960-1998: Did they lose any statewide race before winning one?

OHIO

Governors	Ran and lost before attaining office?
Taft II	Yes, lost 1986 race for Lieutenant Governor (but no major races)
Voinovich	Yes, lost 1988 race for U. S. Senate (after having been elected Lt. Governor)
Celeste	Yes, lost 1978 gubernatorial election
Rhodes	Yes, lost 1950 gubernatorial primary
Gilligan	Yes, lost 1968 U. S. Senate race
Di Salle	Yes, lost races for governor and U. S. Senate

Senators	Ran and lost before?
DeWine	Yes, lost 1992 race for Senate
Voinovich	Yes, lost 1988 race for Senate (after having been elected Lt. Governor)
Metzenbaum	Yes, lost 1974 race for Senate
Taft Jr.	Yes, lost 1974 race for Senate
Young	No

Attorneys General	Ran and lost before?
Montgomery	No
Fisher	No
A. Celebrezze Jr.	No
W. Brown	No
Saxbe	Yes, lost 1954 U.S. Senate race

Auditors	Ran and lost before?
Petro	Yes, lost 1990 auditor race
T. Ferguson	Yes, lost 1966 auditor race
J. Ferguson	Yes, lost 1950 Senate race
Cloud	No
Tracy	Yes, lost state treasurer race in 1958
J. Rhodes	Yes, lost 1950 gubernatorial primary

Secy. of State	Ran and lost before?
Blackwell	No
Taft II	Yes, lost 1986 Lt. Gubernatorial race
S. Brown	No
A. Celebrezze Jr.	No
T. Brown	Yes, lost 1948 Sec. State primary

Treasurers	Ran and lost before?
Deters	No
Blackwell	No
Withrow	No
Donahey	No
J. Herbert	No
J. Ferguson	Yes, lost 1950 Senate race

WISCONSIN

Governors	Ran and lost before?
T. Thompson	No
Earl	Yes, lost 1974 Attorney General primary (but no major races)

Dreyfus	No
Lucey	Yes, lost 1966 governor's race
Knowles	Yes, lost 1957 special Senate election
Nelson	No
Reynolds	No
Senators	Ran and lost before?
Feingold	No
Kohl	No
Kasten	Yes, lost 1978 gubernatorial primary
Proxmire	Yes, lost several gubernatorial elections in the 1950s
Nelson	No
Wiley	Yes, lost 1936 gubernatorial election
Attorneys General	Ran and lost before?
Doyle	No
Hanaway	No
B. La Follette	No
Warren	No
G. Thompson	Yes, lost Attorney General election in 1960
Reynolds	No
Secy. of State	Ran and lost before?
D. LaFollette	No (Note: Unlike other prominent Wisconsin La Follettes, Doug LaFollette did not put a space between the parts of his last name).
Phillips	No
Zimmerman	No
Treasurer	Ran and lost before?
Voight	No
Zeuske	No
C. Smith	Yes, lost Treasurer race in 1968
Clemens	No
D. Smith	Yes, lost Treasurer race in 1958

APPENDIX B

Statewide elected officials for governor and senator in Illinois, Indiana, Iowa, Michigan, and Minnesota, 1960-1998: Did they lose a *major* statewide race (governor, senator, at-large member of Congress) before first winning one?

ILLINOIS

Governors	Ran and lost major race before?
Ryan	No
Edgar	No
J. Thompson	No
Ogilvie	No
Walker	No
Kerner	No
Senators	Ran and lost major race before?
Fitzgerald	No
Durbin	No
Moseley-Braun	No

Dixon	No
Simon	Yes, lost 1972 Democratic gubernatorial primary
Percy	Yes, lost 1964 gubernatorial race
Stevenson	No
Dirksen	No
Douglas	No

INDIANA

Governor	Ran and lost major race before?
O'Bannon	Yes, lost 1988 gubernatorial primary
E. Bayh	No
Orr	No
Bowen	No
Whitcomb	No
Ristine	No
Welsh	No

Senator	Ran and lost major race before?
E. Bayh	No
Lugar	Yes, lost 1974 Senate race
Coats	No
Quayle	No
Hartke	No

IOWA

Governor	Ran and lost major race before?
Vilsack	No
Branstad	No
Ray	No
Hughes	No
Erbe	No

Senator	Ran and lost major race before?
Grassley	No
Harkin	No
Jepsen	No
Clark	No
Culver	No
Hughes	No
Erbe	No

MICHIGAN

Governor	Ran and lost major race before?
Engler	No
Blanchard	No
Milliken	No
Romney	No
Swainson	No

Senator	
Stabenow	Yes, lost 1994 Dem. gubernatorial primary (also lost Lt. governor general election)
Abraham	No
C. Levin	No
Riegle	No

Griffin	No
P.McNamara	No
Hart	No

MINNESOTA

Governor	Ran and lost major race before?
Ventura	No
Carlson	Yes*
Quie	No
Perpich	Yes, lost 1978 gubernatorial election
W. Anderson	No
LeVander	No
Rolvaag	No
E. Andersen	No

Senator	Ran and lost major race before?
Dayton	Yes, lost 1982 Senate race
Grams	No
Wellstone	No
Boschwitz	No
Durenberger	No
Humphrey	No
McCarthy	No
Mondale	No

For sources of information, see Tables 1, 2 and 3.

*--Arne Carlson's case is a most unusual one. Carlson lost the 1990 Republican gubernatorial primary to Jon Grunseth, but was named the Republican candidate after Grunseth withdrew in the midst of a scandal. Carlson went on to win the election for governor. I have decided to include Carlson among those who lost before winning, but in some senses he does not fit entirely well within the category. All other cases in this category, except for Preston Smith in Texas (see Appendix C) ran again some years after first losing; Carlson wound up as the Republican nominee for Governor as if he had won the primary. For an account of this election written from the perspective of a Grunseth supporter, see Hoium, 1991; Carlson's ex-wife's view of the race is outlined more briefly in Chapter 30 of her book *This Broad's Life* (Carlson, 1996).

APPENDIX C

Statewide elected officials for governor and senator in five non-Midwestern states, 1960-1998: Did they lose a major statewide race (governor, senator, at-large member of Congress) before first winning one?

CALIFORNIA

Governor	Ran and lost major race before?
Davis	No
Wilson	Yes, lost 1978 gubernatorial primary
Deukmejian	No
Brown Jr.	No
Reagan	No
Brown Sr.	No

Senator	
Feinstein	Yes, lost 1990 Senate race
Boxer	No
Wilson	Yes, lost 1978 gubernatorial primary
Cranston	Yes, lost 1964 senate primary
Hayakawa	No

Tunney	No
Kuchel	No
Murphy	No

MAINE

Governor	Ran and lost major race before?
King	No
McKernan	No
Brennan	No
Longley	No
Curtis	No
Reed	No

Senator	Ran and lost major race before?
Collins	Yes, lost 1994 gubernatorial race
Snowe	No
Cohen	No
Mitchell	Yes, lost 1974 gubernatorial race
Muskie	No
Smith	No

NEW JERSEY

Governor	Ran and lost major race before?
McGreevey	Yes, lost 1997 general election
Whitman	Yes, lost 1990 Senate race
Florio	Yes, lost 1977 Dem. gubernatorial primary and 1981 gubernatorial general election
Kean	Yes, lost 1977 Rep. gubernatorial primary
Byrne	No
Cahill	No
Hyghes	No
Meyner	No

Senator	Ran and lost major race before?
Corzine	No
Torricelli	No
Lautenberg	No
Bradley	No
Williams	No
Case	No

PENNSYLVANIA

Governor	Ran and lost major race before?
Santorum	No
Specter	Yes, lost 1978 R. gubernatorial primary
Wofford	No
Heinz	No
Schweiker	No
Scott	No
Clark	No

Senator	Ran and lost major race before?
Ridge	No
Casey	Yes, lost 1966, 1970 and 1978 Dem. gubernatorial primaries
Thornburgh	No

Shapp	Yes, lost 1966 genl. election
Shafer	No
Scranton	No
Lawrence	No
TEXAS	
Governor	Ran and lost major race before?
Bush	No
Richards	No
White	No
Clements	No
Briscoe	Yes, lost 1968 Dem. gubernatorial primary
Smith	Yes, finished second in 1968 Dem. gubernatorial primary @
Connally	No
Daniel	No
Senator	Ran and lost major race before?
Hutchison	No
Gramm	No
Bentsen	No
Tower	Yes, lost 1960 Senate election
Yarborough	Yes, lost 1952, 1954 and 1956 Dem. gubernatorial primaries
Johnson	Yes, lost 1941 Senate primary election

@—Preston Smith could easily be scored in the other category. While he finished second in the 1968 Texas Democratic gubernatorial primary, he went on to win a runoff primary election for that office later that year, and then won the general election. As a result, he was never *finally* defeated in a statewide race before going on to win one.

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GENDER INEQUALITY AND ECONOMIC GROWTH REVISITED: THE IMPACT OF GENDER WHEN CULTURE IS CONSIDERED

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Abstract

SEVERAL RECENT STUDIES HAVE EXAMINED THE RELATIONSHIP BETWEEN GENDER AND ECONOMIC GROWTH. THE FINDINGS OF THESE STUDIES HAVE BEEN MIXED BECAUSE THEY USE DIFFERENT MODELS AND ESTIMATION METHODS AND DIFFERENT MEASURES OF GENDER DEVELOPMENT. IN THIS PAPER, WE DISCUSS THE LITERATURE ON GENDER AND GROWTH AND ESTIMATE AN ALTERNATIVE MODEL. WE EXAMINE THE INFLUENCE OF GENDER INEQUALITY ON ECONOMIC GROWTH WITH AN INSTRUMENTAL VARIABLES ESTIMATION PROCEDURE. AN ANALYSIS OF 103 COUNTRIES SUGGESTS THAT GENDER INEQUALITY (AS MEASURED BY ENROLLMENT AND AVERAGE WAGE RATIOS) IS INFLUENCED BY A COUNTRY'S RELIGION AND REGION. INCLUSION OF THESE FACTORS IN A GROWTH MODEL THEREFORE MAY BE CONTROLLING TO SOME EXTENT FOR THE CULTURE OR GENDER FRIENDLINESS OF A COUNTRY. WE ALSO DEMONSTRATE THAT GENDER INEQUALITY IS A SIGNIFICANT FACTOR IN GROWTH, EVEN WHEN RELIGION AND REGION CONTROLS ARE INCLUDED IN THE MODEL.

1. INTRODUCTION.

A number of recent studies examining the causal factors of economic growth have focused on the relationship between gender inequality and growth. Theoretically and empirically, the results of these studies have been mixed because researchers approach the problem with different theoretical considerations and econometric models. One group hypothesizes that income inequality generally (Alesina and Rodrik, 1994) and educational gender inequality specifically (Dollar and Gatti, 1999; Klasen, 1999) is inversely related to growth or to labor productivity (Knowles *et. al*,

2002). These studies explain the relationship using either a political economy theme of class struggle or a discrimination rationalization suggesting market failure and economic inefficiency. The problem is examined with econometric models that account for assumptions about the recursive (Klasen, 1999) or endogenous (Dollar and Gatti, 1999) nature of the relationship between gender inequality and growth. Another set of studies extends the neoclassical approach to investigate the gender inequality-growth relationship. These studies investigate the association between female labor force participation and growth, using models with female labor force participation as the dependent variable and growth as one of the independent variables (Cagatay and Ozler, 1995). Others hypothesize that some countries, particularly less developed export economies, grow more quickly with gender inequality because the gender wage gap attracts investment and signals profitability (Erturk & Cagatay, 1995; Seguino, 2000).

This paper reexamines the conflicting issues between the social and neoclassical approaches in dealing with gender inequality and economic growth. We examine how culture affects gender inequality, which in turn affects a country's economic growth. In other words, we hypothesize that culture indirectly influences growth through its affect on gender differences in education and wages.

This paper first overviews the studies regarding gender and the macroeconomy. The following sections then present an instrumental variables (IV) econometric model and results from a data analysis on 103 countries. This model examines whether: (1) Culture, as represented by religion and region, influences the extent of gender inequality; and (2) The gender enrollment and wage gaps influence economic growth after controlling for culture in the first step. A standard growth model is employed to control for other growth generating factors. Conclusions regarding the analysis follow.

II. GENDER AND ECONOMIC GROWTH.

A. The Neoclassical Approach.

Solow's (1956) neoclassical growth model indicates that a country's per capita growth rate tends to be an inverse function of per capita income. Under the assumption that savings, as it relates to capital accumulation, and population growth, as it relates to the labor pool, are exogenous, the model implies that variations in these two variables lead to variation in steady

² The authors thank Dr. Roberta Gatti for the religion information, Jaime Ventura for his research assistance, and session discussants at the 2000 Southern Economics Association conference for their helpful comments.

states for different countries. Higher savings are indicative of richer countries, while higher population growth rates tend to be associated with poorer countries. Further, poor countries are more likely to grow faster than rich countries because they have a higher marginal productivity of capital (they have more room to expand and grow).

Over time, researchers have made adjustments on the labor side of the model in order to improve its predictive power.³ Lucas (1988) suggests that human capital investment should also be included in the model to account for the effect an educated population has on knowledge and technological progress. Barro (1991) augments the model by including initial levels of human capital. One result of these extensions has been the rise of endogenous growth theory. In other studies, Mankiw *et. al* (1992) and Taylor (1998) use conditional convergence models (that include education) and find that Solow's model makes correct predictions once controls for savings and population growth are included in the model without the assumption of endogeneity.

Despite the advancement of the research described above, the specific relationship between growth and gender is not directly considered in these studies. Walters (1995) argues that macroeconomic research is gender-biased because it misses how women as a group affect the overall economy. He examines a variety of approaches used by growth theorists and finds that in almost all theoretical approaches, the reproductive sector of the economy is either assumed to be exogenous to growth or that the impact of women as they influence the productive sector is misrepresented. Walters argues that the reproductive sector of economies influences the labor pool in terms of quantity and quality of future workers and therefore should be considered endogenous in long run growth modeling. He also conjectures that if women and men have different preferences for human capital investment, then differential levels of gender equality, in terms of control over income, will influence the rate of long-term growth.

Several empirical studies support Walters, suggesting that an educated female population reduces fertility and improves family health, thus increasing children's health and educational attainment (Schultz, 1995; Subbarao and Raney, 1995). Other studies have extended the growth model to examine whether feminization of the labor pool is a function of the current income status of the country and the degree of openness the country has attained. These studies suggest a U-shaped relationship between female labor force participation rates and economic growth

³ Because the focus of this paper is on gender inequality, we focus on how researchers change the assumption of exogenous population growth. We recognize that other studies (Romer, 1987, 1989; Rebelo, 1991; Barro and Sala-i-Martin, 1995) focus on adjustments to capital.

(Oppenheimer, 1970; Pampel and Tanaka, 1986; Boserup, 1970; Goldin, 1994, Cagatay and Ozler, 1995).

The feminization of the labor force is also considered as a factor of economic development. Ertürk & Cagatay (1995) conduct a theoretical exercise to examine how economies efficiently use female labor in the workplace and within the household in response to economic cycles. In a capacity utilization model, they assume that: (1) Investment is a function of the female labor force participation rate (women receive lower wages and thus workforces with high levels of female participation are attractive to investors); and, (2) Savings is positively associated with a higher rate of female household labor (A higher intensity of female household work leads to a higher production of nonmarket goods for the household and therefore creates the opportunity for saving). The authors conclude that rich countries follow the model quite well, but that poor countries do not easily recover from an economic contraction with increased feminization of the labor force.

Seguino (2000) extends the Ertürk & Cagatay hypothesis empirically and examines twenty semi-industrialized countries with various degrees of trade openness, but with exports related to industries having high levels of feminization. Using a neoclassical growth model, Seguino concludes that for this set of countries, the gender wage gap stimulates investment and exports and therefore output. She hypothesizes that the costs to gender inequality may be low in countries with patriarchies that have social institutions keeping women in traditional roles with lower paid market work or unpaid household work.

B. The Gender Equality - Efficiency Argument.

Klasen (1999) and Dollar and Gatti (1999) from the World Bank take an entirely different approach in investigating the relationship between gender inequality and growth. Their research focuses on the impact of gender differences in education or other labor force characteristics and how it relates to output. These studies examine discrimination as a market failure.

The fact that gender inequality is higher in developing countries is evident in reports from international organizations (e.g., the *United Nations 2000 Human Development Report*). Equality of women in education and the workplace has efficiency implications if women and men have similar distributions of ability. The focus of recent work has been on educational differences because if gender differences in education occur, they will lead to differentials in labor force participation and earnings (Walters 1995; Klasen, 1999). Educated women not only directly influence growth through their productive efforts; they will also influence long-term growth by the

education decisions they make for their children.

Klasen (1999) employs a system of equations where the direct and indirect effects of gender differences in education can be determined because the gender education variable is included as a function of capital investment, labor force growth, as well as GDP per capita growth. Using IV estimation, Klasen finds that the ratio of female to male enrollment positively affects economic growth directly (as denoted by the statistically positive coefficient on the variable in the growth equation), as well as indirectly, particularly as the enrollment variable affects investment (increases in gender equality in enrollment increases investment).⁴

Despite the advancement to the understanding of the gender effects on the macroeconomy, Klasen did not investigate how culture may influence gender inequality and ultimately growth. Gender is related to cultural differences because gender inequality in education may be the product of rational choices by parents who expect higher returns to education for male over female children (Dollar and Gatti, 1999). As noted earlier, differences in education paths for boys and girls lead to differences between men and women in the labor market. Thus, if societal norms as they relate to gender cause parents to favor male children, the rules by which individuals make economic choices may reinforce discrimination because females are not viewed as viable candidates for human capital accumulation. This cycle indicates that social influences may be important determinants to economic growth.

Dollar and Gatti (1999) examine this issue by creating a simultaneous model of gender inequality and growth. The gender model uses female secondary attainment as dependent on male secondary attainment, level of output, a measure of civil liberty, and religion and region binary variables.⁵ The growth model incorporates some of the standard variables, plus controls for black market activity in a country and political stability. Dollar and Gatti find that a large degree

⁴ Klasen performs a variety of analyses in his paper in addition to IV estimation. He estimates a reduced form equation on growth to compare the coefficient on the ratio of female to male schooling and finds a large coefficient estimate, which he can decompose into the direct and indirect effects from the IV estimation. He uses female labor force variables and finds a positive albeit statistically insignificant effect, probably due to the loss of observations when employing these variables. He also does a series of sensitivity tests and finds robust results.

⁵ Dollar and Gatti also test for other measures of gender inequality, including life expectancy, economic equality under the law, equality in marriage, and the percentage of women in political office. However, these variables are not observed for a number of countries and although the authors generally find similar patterns for the independent variables in the gender model, the results are not statistically significant.

of gender inequality in education is accounted for by the religion and civil liberty variables. They also find a positive impact of female secondary attainment on growth.⁶

Dollar and Gatti provide an important addition to the literature on gender inequality and growth with their findings. However, their econometric model assumes that gender inequality and growth are endogenous, which may be incorrect. Klasen (1999) finds evidence that the endogenous assumption is invalid. He tests whether the female-male ratio of enrollment is sensitive to different time periods so that he can include only initial levels of the variable to the growth model. This test confirms the positive impact of gender equality in education on growth. He also uses two-stage least squares estimation and finds the gender inequality measure gains considerable magnitude in the growth model, suggesting that the causality runs from gender inequality to growth and not the other way around.

C. A Further Examination of Gender and Culture.

It appears as though the World Bank researchers have opened the door for further examination of the gender and growth relationship. Dollar and Gatti (1999) provide the necessary cultural effects on gender inequality, while Klasen (1999) provides a reasonable econometric model to account for gender and culture on growth.

Our model follows that of Klasen (1999) most closely through the use of an instrumental variables technique. However, our data form a snapshot in time rather than a panel data set. Klasen examines his panel model in detail and finds that estimation with decadal dummies but no country-specific fixed effects is the best specification. We employ this idea in our analysis in studying a wide variety of nations at a particular point in time with averaged data. This method is common in a number of recent studies (Knowles *et. al*, 2002).

Our hypothesis is that the gender inclusiveness of a nation will affect economic growth. Measuring gender inclusiveness is an imperfect process. There is no perfect, single statistic to account for the nature of gender relationships in a country. As a result, we have an error-in-variables problem. As is typical of models with measurement error, the regressor related to gender is correlated with the error term in the growth model. Because the regressor itself is stochastic and dependent upon other independent variables in the growth model, an instrumental

⁶ Interestingly, Dollar and Gatti find an inverse relationship between male secondary attainment and economic growth, which they do not explain in models where the coefficient is statistically significant. They also find stronger statistical results for “developed” countries, which they define as countries with female secondary attainment rates of 10.35 percent or higher.

variables technique is used to remove the correlation of the gender determinant with the error term.

Gender friendliness is influenced by the wealth of a country and by other economic and cultural factors. Since each of these characteristics enters into the growth model itself, estimation including both the stochastic regressor on gender differences and these other terms would result in biased estimates of the coefficients. The result is that the factors related to gender equality are used to create the instrument; by this construction, the gender variable is independent of the error in the growth model and therefore results in unbiased coefficient estimates.

A recursive estimation procedure is employed by which gender friendliness is estimated as a function of cultural determinants; the growth rate is then estimated based on casual factors including capital accumulation, population growth, human capital accumulation, and institutional variables. The initial level of 1980 GDP per capita is also included to denote the higher marginal productivity of investments in less developed nations. A final model uses a three-step recursive process, whereby gender differences in school attainment is first estimated with an instrumental variables technique; the instrument from this first step is then used in a wage ratio regression; the final instruments are included in the growth model. This final model suggests that enrollment effects enter not only directly in the growth model, but also indirectly through the effect of human capital differences as they relate to wages differences.

III. DATA DESCRIPTION AND MODEL ESTIMATION.

We have collected data on 103 countries to examine the relationship between gender inequality and growth. Appendix 1 describes the data and sources used. Due to well-documented problems associated with such data gathering, we eliminated a number of countries before reaching our sample size. However, an examination of the missing observations does not reveal a bias toward wealthy countries.

Based on the literature, we test two measures of gender friendliness. The ratio of the female to male enrollment reflects the value society places on female human capital development relative to males. Our hypothesis is that the educational development of a society's citizens, regardless of gender, increases the productive capacity of society and therefore the more equal the schooling attainment rate of men and women, the more efficient the society operates. Gender friendliness is also tested with the value placed on female work in the labor market as compared

to male work, or a measure of average wage differences.⁷ As hypothesized by Seguino (2000), a gender wage gap may increase the economic growth of country when societal norms keep women in traditional, low-paying roles. Testing the competing hypotheses from the literature may reveal why some researchers find a positive impact on growth with their educational measures of gender equality, while others find a negative impact when employing measures of labor market equality. Further, culture may play a role in finding different outcomes for the two gender friendliness variables. For example, some countries, such as Japan, have very high rates of female educational attainment but also high levels of gender differences in wages and labor force participation (Strober and Chan, 1999). Thus, education may not capture all of the gender effects on growth because a country may educate its women but still discriminate against them in the workplace.

The enrollment ratio model includes several economic factors, including initial levels of GDP in 1980,⁸ the 1990 educational expenditures as a percentage of GDP, the population growth from 1970 to 1995, and the 1995 life expectancy for the population. The enrollment ratio model therefore estimates how the wealth of the country, the value the country places on education, the size of the potential labor pool, and loosely, the general health of the country affects the relative schooling of females and males in society. The wage ratio is a function of the initial level of GDP in 1980, the percentage of urbanization in 1995, the gender development index, and the enrollment ratio. The gender development ranking estimates how a country fares in terms of gender, economic, and health considerations, and a low ranking represents a higher level of equality. Initially, the enrollment ratio is assumed to be exogenous in the wage regression; as mentioned in the previous section, the enrollment ratio will also be estimated in a three-step recursive model.

As a general definition of culture, we use Freilich's (1989) conceptual design whereby culture is comprised of tradition and ideas, which Frielich calls "a set of plans or a guidance system" for human behavior. Culture can be considered as a static statement of a society or as an adaptive mechanism to change. With either viewpoint, however, the spatial situation of a society and the religious beliefs can be considered a large part of a society's culture. One of the early leaders in the field, Clifford Geertz, believed that religion was the ultimate representation of culture because religious beliefs direct human behavior in the political, social, and economic arenas

⁷ Average wages by gender are not available. $W_f/W_m = N_m/N_f * E_f/E_m$ where the ratio of average female to male wages is equal to the ratio of the male to female working population multiplied by the female to male earnings ratio. N_i and E_i are available from the World Bank.

(Kuper, 1999). Others have embraced religion as they explain the social behavior of civilizations (Freilich, 1989; Kuper, 1999). Regional locations may also be associated with culture because cultural norms are transmitted through language and history (Sperber, 1996) and such norms can be spread to others regionally because of the commonality of language and events.

Each religion binary variable equals 1 if the country is predominately associated with the religion; when a country did not have one prevalent religion, that country is labeled as a “mixed religion.”⁹ We arbitrarily use a predominately Protestant religious culture as the benchmark with which to compare all other religions. The Protestant religion generally tends toward progressive views regarding women¹⁰ and therefore the other religions are expected to have negative coefficients in the gender equality model. Likewise, some regions are more restrictive regarding women’s rights than others.¹¹ We use OECD countries as a benchmark to describe regional differences because this block of countries tends to have more formal rights for women than other regions of the world.

Economic growth is measured as the 1990-1999 rate of change in GDP. This time frame is appropriate because we wanted to investigate our model with current information, but we did not want to employ a measure that was too lengthy and would be a function of additional structural shocks to the global economy that occurred in the 1980s.

As mentioned previously, the growth model incorporates the usual determinants of the augmented Solow model, including initial GDP in 1980, the percent of capital investment in GDP in 1995, the population growth between 1975 and 1990, the 1995 secondary school enrollment rate,

⁸ All GDP values in the paper are PPP-adjusted. We also tested a base year of 1989. The results were not substantially different from those presented in the paper.

⁹ Religious predomination came from two sources: (1) Dr. Roberta Gatti graciously sent her file with percent religion from her 1999 study. We used the percentages and determined a country to be predominately of a certain religion when that percentage was greater than .5 and no other religion was strongly prevalent. When no one religion seemed to dominate a country, we labeled that country as mixed, meaning that at least two religions were prevalent in the country; and (2) the SPSS data World95 was used to check our determination from the Gatti data and amend it to include new countries. CIA World Factbook figures were also consulted when there was question about the religion.

¹⁰ Of course, there are Protestant religions that are extremely conservative in their views regarding women. However, the general trend is that Protestant Christian religions tend to have more openness regarding women as clergy (e.g., Lutherans and Episcopalians) and in general, some Protestant religions were actively involved in the movement toward gender equality.

¹¹ Ideally, we would have preferred to use country-specific determinants of female rights rather than regional dummy variables. However, such information is available on a limited number of countries and their inclusion would have biased the sample toward developed countries.

and the 1990 tertiary (higher education) attainment rate.¹² Initial GDP and investment are in natural log form. We also include variables suggested by recent research: (1) a binary variable that equals 1 if the country has a closed economy accounts for trade openness (Sachs and Warner, 1995); (2) several binary variables to control for high taxes, high levels of government production, and high levels of regulation (Barro, 1990, 1991); and (3) a binary variable that accounts for high levels of black market activity (Dollar and Gatti, 1999). We also include the percent of urbanization of a country as a measure of industrialization. The IV estimates for gender friendliness are included and tested individually and together in the growth model.

Table 1 presents the descriptive statistics for the variables in the analysis, as well as additional variables that may shed light on differences in the growth rate and gender inequality for countries, such as life expectancy. We also include the Heritage Foundation information about the degree of trade openness, government productivity expenditures, regulation, and black market.¹³ The table includes descriptive information by developing and developed countries, as defined by the World Bank.

Indicators of female development suggest women generally face economic and health disadvantages in less developed countries. Women in developed countries live about an average of 6 years longer relative to men, while the advantage for women in less developed countries is about 4 years. Less developed countries also show a male advantage of about 2.5 percentage points in school enrollment, while women in developed countries have a slightly higher rate of enrollment than men. The Gender Development Index, which is based on life expectancy, literacy and economic power differences between men and women, ranks countries from 1 to 163, with a ranking of 1 indicating the greatest gender friendliness. The average gender development ranking for less developed countries was 105.0; for developed countries, the average ranking was 33.5. These numbers suggest a wide gap in gender equality between developed and less developed countries, suggesting a high degree of gender inequality in developing countries that skews the overall sample average (75.8).

¹² 1995 values for the tertiary attainment rate were unavailable; however, a review of rates for 1980 through 1990, does not indicate a dramatic shift every five years in the relative standing of countries to each other. Thus, we suspect that the 1990 rate is an acceptable proxy for a country's level of higher education attainment in the 1990s.

¹³ Ideally, we would have preferred to use even finer division of these variables in the regression analysis as provided by the Heritage Foundation. However, the finer divisions (e.g., closed economy, medium trade, and open trade) led to small cells of observations that were inappropriate for the statistical estimation.

Less developed and developed countries have differences by other descriptive measures. Less developed countries are more likely to have high barriers to trade (almost 66 percent have closed trade policies) and high levels of black market activity (67.2 percent are categorized as having high levels of black market activity). Less developed countries also have comparatively higher levels of regulation (21.3 percent). None of the developed countries in the sample is designated as having high regulation. Only about 7 percent of the developed countries have high levels of black market activity. However, developed countries are categorized more often as having high taxes (64.3 percent versus 44.3 percent for less developed countries). These factors, as well as considerations about financial markets (banking, foreign investment, monetary policy) and property rights, have been included in the overall Heritage ranking, which indicates a much lower average ranking for developed compared to less developed countries (37.7 versus 86.1).¹⁴

Turning to religion, we find that a higher percentage of less developed countries are predominately Catholic (32.8 percent), with the Muslim religion (31.1 percent) ranking next. The top two predominate religions in developed countries are Catholic (50.0 percent) and Protestant (26.2). In Table 2, we also find a relationship between religion and several key gender factors. The gender development index indicates that Protestant countries have the lowest average gender development ranking at 39.8, and predominately Orthodox countries have the second lowest ranking at 50.1. Countries that are predominately Tribal/Animist have the highest average gender development ranking (125.8), followed by Muslim countries (112.3). However, countries with a predominately Tribal or Animist religion also have the highest ratio of female to male average wage, an estimate that surpasses countries with a predominately Protestant affiliation. This result is likely due to the fact that wages may be compressed, with little variation between or within gender for countries that follow a Tribal/Animist religion. The female to male enrollment ratio is lowest in predominately Tribal/Animist and Muslim religions (84 and 85.5 percent) while countries that are predominately Protestant, Catholic or Orthodox, have on average more women than men enrolled in school (the ratio is greater than 100). Table 2, in conjunction with the frequency distribution of religion by level of development, suggests that the high degree of gender inequality in less developed countries may be at least partly related to religious affiliation.

Regarding region, Table 1 indicates that 47.6 percent of the developed countries are OECD countries, with far smaller percentages falling into the Latin America (16.7 percent), Mideast (9.5 percent), Eastern Europe (11.9 percent), Asia/Pacific (7.1 percent), and Africa (7.1 percent)

¹⁴ A low ranking of the Heritage Ranking indicates a high level of economic freedom.

categories. Less developed countries follow a completely different pattern: This group is situated in Africa (37.7 percent), Latin America (23.0 percent), Asia/Pacific (16.4 percent), and the Mideast (9.8 percent). Table 3 presents the relationship between region and gender factors. We find that the OECD countries have the highest level of gender equality, as indicated by a low average gender development ranking. Africa has the highest level of gender inequality, even though the female to male wage ratio is similar in comparison to the OECD, Mideast, and Latin America regions (approximately 72 percent). The Asian/Pacific region has the lowest female to male average wage ratio (52.9 percent), although its female to male enrollment ratio is comparably better (smaller in size, but close to the ratio for the OECD, Middle East and Latin American regions, and higher than the ratio for the African region).

Finally, when comparing religion and region to growth, we find some variation with both factors. Not surprisingly, the countries with a predominately Eastern religion have the highest average growth rate in the 1990s (5.85 percent) and the Asia/Pacific region is similar (5.1 percent). These percentages are highly related because Eastern religions are in Asian countries. Harrison (2000) reviews several researchers who have concluded that Confucian values led to East Asia's economic successes. This result suggests a direct tie between religion, region and economic development. Except for those countries with a predominately Orthodox religion, all other religions are positively related to growth, although those countries associated with the Protestant religion have the slowest average rate of growth in the 1990s. Likewise, OECD countries exhibit a slower average growth rate in the 1990s compared to other regions.

To further test for average differences in gender inequality by religion and region, we first run our gender model using OLS estimation. Table 4 presents the coefficient estimates for two gender variables: the female to male enrollment ratio and the female to male average wage ratio.

Turning first to the enrollment ratio, we find that the OLS model does reasonably well overall (the adjusted R^2 is .517 and .616 for models in Columns (1) and (2); the F-statistics are statistically significant). As expected, wealthier countries have higher average female to male enrollment rates in 1995; likewise, countries with higher life expectancy rates also have higher enrollment ratios. The coefficient on educational expenditures is positive, but not statistically significant in any of the regressions, as is the coefficient on population growth.

The proxies for culture, religion and region, have coefficient estimates that are statistically and economically significant. Column (1) includes only the regional variables. It indicates that on average, the other regions of the world have higher female to male enrollment rates compared to

OECD countries, holding other factors constant. The result is further strengthened by the inclusion of religion (Column (2)) in the model. Two competing effects appear to be working here: Non-Protestant countries have a lower average female-to-male enrollment ratio; however, countries located in non-Protestant regions tend to have higher average female-to-male enrollment ratios. This result suggests that religion affects the culture toward women schooling differently than what you generally observe in a particular part of the world. Further, religion and region effects are separately important to the determination of enrollment, as denoted by the opposite signs and a restricted F-test.¹⁵

The OLS regressions for the female-to-male average wage ratio are in Columns (4) and (5).¹⁶ Recall that in these regressions we assume that enrollment is exogenous to the wage ratio model. In reviewing the overall outcomes for these regressions, we find that the model weakly explains the wage-ratio and the female-to-male enrollment ratio is positively related to the wage ratio. In other words, countries that educate their women to the same or higher degree as they do men will have a wage gap that grows closer to zero. When we examine the effect of religion and region on wages, we find that on average, the wage ratio is lower for countries compared to the OECD countries. In particular, the female to male wage ratio for Asian countries is on average 25.60 percentage points lower compared to OECD countries. The coefficients for the other regions are also negative, but not statistically significant. Column (5) adds the religion variables to the model and finds that the result for Asian countries is larger (the coefficient is -37.51), but the Eastern religion, which predominates in Asia, reduces the negative effect. The result indicates that the female-to-male average wage ratio is on average 18.875 percentage points higher in countries with Eastern religions compared to countries with a predominately Protestant religion. In this model, a restricted F-test indicates that the religion variables are not statistically significant.¹⁷ Our conclusion from these two models is that, with the exception of the Asian/Eastern culture, whatever culture effects there may be on the female-to-male wage ratio, it is picked up by the regional dummy variables and by the gender development index (which is not statistically significant).

Table 5 presents an OLS regression and three GLS estimations of the average annual growth rate. The first column presents a typical OLS growth model, excluding any gender

¹⁵ Available from the authors.

¹⁶ An alternative specification of the wage regression, a semi-log form, yielded similar results. Because the semi-log specification did not improve the model's predictability, we opted to use the form presented in Table 4.

variables. The second column includes the IV estimator for the female-to-male enrollment ratio with the adjusted Solow model factors; Column (3) presents the IV estimation that includes the female-to-male wage; the final column presents the coefficients estimates of a three-step IV model of the school enrollment ratio to the wage ratio to growth.

In the OLS model (Column 1), we find the expected relationships between growth and the basic variables (Mankiw *et. al*, 1992). The base level of a country's wealth, investment and population growth are also statistically significant, as is the coefficient on black market activity. However, the model also suggests that countries with high tax rates also tend to have higher average growth rates, *ceteris paribus*, which is contrary to other research (Barro, 1990).

The regional effects are not generally statistically significant, although African and Eastern European countries have approximately a 3-percentage point lower average growth rate compared to OECD countries, once other factors are held constant. The religion variables are not important to the model in this case, as evidenced by the statistically insignificant coefficients and a restricted F-test.¹⁸

In all three GLS models, the coefficients on initial GDP and population growth are in the expected direction, but only population growth is statistically significant once we include the gender equality variables into the growth model. Capital investment, the school enrollment rate, and percent urbanization occasionally change signs, but are statistically insignificant. Countries with high levels of black market activity have lower average growth rates and the coefficient on this variable is statistically significant in two of the three GLS models. High tax rates are associated with higher growth rates in the models.

The relationship between growth, gender, region and religion indicate that once accounting for the cultural effects of gender inequality, increases in the female-to-male enrollment ratio increase the growth rate by about $\frac{1}{4}$ of a percentage point (Column (2)); this result supports the research by Klasen (1999) who finds a positive relationship between education equality and growth. Column (3) does not support any effect of wage equality on growth; however, when enrollment is entered into the wage ratio equation through the three-step recursive model, the result indicates that wage equality leads to lower growth rates (Column (4)); as the wage ratio increases by 1 percentage point, growth falls by a percentage point. Note that the enrollment ratio is positive and statistically significant in the growth model, and also enters positively into the wage equation in Column (6) of Table 4 as well. It appears as though gender equality through education

¹⁷ The F-statistic is 1.05, which is not statistically significant at the 5% level of significance.

has a strong indirect effect on growth, but that this effect is somewhat dampened by the negative effect of wage equality.

The wage ratio may be picking up an effect related to investment as noted by Seguino (2000) and Standing (1989, 1999). Both researchers find support for a substitution hypothesis regarding women and men in the labor force when globalization creates a competitive environment in which investors seek those countries with high levels of low wage female workers for cost cutting reasons. If the hypothesis is true, it follows that economic growth will decline when earnings are more equal.

Table 5 also indicates that the regional effects are larger and statistically significant in the 3-step model. Controlling for other factors and gender equality, OECD countries (the omitted category) tend to have higher average growth rates than other parts of the world. Average differences in growth rates are statistically significant for the African, Asia/Pacific, and Latin American countries.

In reviewing the religion variables, we find that they jointly affect growth,¹⁹ but the effect is primarily driven by the Eastern religion. Countries where Eastern religion predominates have an 18.854 average higher growth rate compared to the benchmark group (Protestant countries), *ceteris paribus*. Thus, even when accounting for gender friendliness through the enrollment and wage ratio (recall the Eastern religion countries had a relatively low ratio), countries with predominately Eastern religions tend to have higher growth rates, supporting the recent work by Harrison (2000) that Confucian values have a positive effect on economic growth. In this case, the religion effect is separately tested, since the regional effects are included in the model. Given the three-step recursive procedure, it appears as though the largest cultural effect on growth is through its affect in school enrollment (Column (3) of Table 4), where religion and region are strongly part of the regression model. Thus, culture appears to affect the growth rate mainly indirectly, with the exception of the strong Asian/Eastern effect on wage equality and growth.

IV. CONCLUDING REMARKS.

Using an instrumental variables approach to include gender differences in earnings in a model of economic growth, this study finds that gender equality in enrollment increases growth in the 1990s, but that gender equality in wages decreases the growth rate when cultural controls are

¹⁸ The F-statistic is 0.973, which is not statistically significant at the 5% level of significance.

included in the analysis. The strongest effect appears to be the negative impact of wage equality on growth, in that a percentage point increase in wage equality leads to a percentage point decrease in growth. Higher female-to-male enrollment rates positively affect growth, but they also positively affect the wage ratio, suggesting that gender equality in enrollment also has an indirect, negative effect on growth.

That we did not find stronger evidence for culture in the growth regression is probably due to two reasons: First, it appears as though religion and region indirectly affect growth primarily through their effect on the enrollment ratio. Second, the binary variables for the regions and religions get at average differences for the included variables compared to the benchmark variables for each category. Perhaps there is little difference in growth among the more restrictive religions compared to the Protestant religion and the more restrictive regions compared to OECD countries and therefore, although culture matters, it is more generally the restrictive nature of the culture. Other factors that may be culturally related, such as black market activity and government involvement in the economy, may also reduce the impact of a region or religion.

The negative effect of wage inequality on growth is also worrisome because it may suggest policies counter to gender equality, which is an outcome none of the authors advocates. Although this result sits well with other empirical work, (Barro, 1991; Seguino, 2000), it may also be that an aggregate measure of wages measures something different compared to the enrollment ratio. Wages are related to workplace issues that include other economic factors, including discrimination. Our model does not account for potential discrimination effects with human capital accumulation, workplace segregation, or labor force participation. Thus, the contradictory results between the enrollment and wage ratios may indicate that the measure of gender equality matters. It may also be that an efficiency story can be told by the result (relatively low women wages are incentives for investment), but that explanation should not be an avenue for restricting women in the economy.

¹⁹ The likelihood ratio test statistic is 16.812, which is statistically significant at the 1% level of significance.

Table 1. Descriptive Statistics of the Variables

	FULL SAMPLE		LESS DEVELOPED		DEVELOPED	
	Mean	Std.Dev.	Mean	Std. Dev.	Mean	Std. Dev.
<i>Basic Solow Model Variables:</i>						
Growth rate 1990-99	2.606	3.294	2.320	3.959	3.021	1.938
LNGDP80 (PPP adjusted)	8.050	1.005	7.420	0.730	8.964	0.533
Gov't Expenditures on Education % of the Pop. With College Ed.	4.185	1.849	3.649	1.840	4.963	1.583
Capital Investment	9.911	8.683	6.813	6.571	14.410	9.454
Population Growth	20.603	7.630	19.999	8.588	21.480	5.964
Percent Urban	1.946	1.355	2.234	0.920	1.526	1.740
	55.117	23.134	44.213	19.601	70.952	18.316
<i>Main Gender Variables:</i>						
Female to Male Enrollment Ratio	97.7	14.6	93.2	16.8	104.3	63.3
Female to Male Ave. Wage Ratio	70.061	16.865	69.640	18.438	70.673	14.472
<i>Other Gender Variables:</i>						
Life Expectancy Rate 1995	66.285	10.666	61.202	10.261	73.669	5.817
Female Life Expectancy	68.785	11.388	63.326	11.009	76.714	6.044
Male Life Expectancy	63.812	10.047	59.103	9.654	70.652	5.816
School Enrollment Rate 1995	64.427	19.029	55.049	17.734	78.048	10.943
Female Enrollment Rate	63.224	21.125	52.590	19.706	78.669	11.372
Male Enrollment Rate	63.403	17.404	54.938	15.435	75.697	11.977
Gender Development	75.845	49.450	105.000	38.396	33.500	28.714
<i>Religion Variables:</i>						
Muslim Religion	0.223	0.418	0.311	0.467	0.095	0.297
Catholic Religion	0.398	0.492	0.328	0.473	0.500	0.506
Orthodox Religion	0.068	0.253	0.082	0.277	0.048	0.216
Protestant Religion	0.146	0.354	0.066	0.250	0.262	0.445
Eastern Religion	0.068	0.253	0.082	0.277	0.048	0.216
Mixed Religions	0.039	0.194	0.049	0.218	0.024	0.154
Tribal or Animist Religions	0.058	0.235	0.082	0.277	0.024	0.154
<i>Region Variables:</i>						
African Region	0.252	0.437	0.377	0.489	0.071	0.261
Asia/Pacific Region	0.126	0.334	0.164	0.373	0.071	0.261
Latin America Region	0.204	0.405	0.230	0.424	0.167	0.377
Mideast Region	0.097	0.298	0.098	0.300	0.095	0.297
OECD Country	0.194	0.397	0.000	0.000	0.476	0.505
Eastern European Region	0.126	0.334	0.131	0.340	0.119	0.328
<i>Other Indicators:</i>						
Heritage Ranking	66.340	39.998	86.066	34.807	37.691	28.061
Trade Closed	0.515	0.502	0.656	0.480	0.309	0.468

Taxes High	0.524	0.502	0.443	0.501	0.643	0.485
Gov't Production High	0.117	0.322	0.098	0.300	0.143	0.354
Regulation High	0.126	0.334	0.213	0.413	0.000	0.000
Black Market High	0.427	0.497	0.672	0.473	0.071	0.261
Sample	103		61		42	

^aThe World Bank primarily uses GDP per capita in assigning countries to the categories of Low Income, Low Middle Income, High Middle Income and High Income. We grouped the lowest two and the highest two categories together to formulate our descriptive statistics. Data source: See Appendix 1.

Table 2: Key Gender Indicators by Religion^a

	Protestant	Catholic	Muslim	Orthodox	Eastern	Tribal	Mixed
Growth Rate 90-99	1.68	2.73	3.15	-2.31	5.84	3.68	3.00
Female to Male Ave. Wage Ratio	73.3	72.0	63.4	74.7	60.5	78.1	72.1
Female to Male Enrollment Ratio	104.0	103.8	85.5	103.1	95.4	84.0	96.6
Gender Development Index	39.80	62.39	112.26	50.14	74.43	125.83	112.00

^aData Sources: See Appendix 1

Table 3. Key Gender Indicators by Region^a

	OECD	Middle East	Asia/Pacific	Latin American	Africa
Growth Rate 90-99	2.45	2.88	5.10	3.37	2.88
Female to Male Ave. Wage ratio	73.1	72.9	52.9	71.7	72.2
Female to Male Enrollment Ratio	101.7	97.3	93.2	109.0	84.6
Gender Development Index	12.33	83.60	88.15	72.62	130.96

^aData Sources: See Appendix 1

Table 4. Gender Equality Regressions						
	Female to Male Enrollment Ratio			Female to Male Average Wage Ratio		
	(1) OLS1	(2) OLS2	(3) IV	(4) OLS1	(5) OLS2	(6) IV
Constant	5.128 (16.927)	4.236 (15.715)	-5.327*** (16.567)	32.257 (47.117)	26.821 (38.333)	-38.224 (61.306)
LN GDP80	4.511** (2.312)	3.974* (2.099)	4.396** (1.995)	-1.055 (4.062)	-1.036 (4.183)	-0.934 (5.170)
Educational Expend.	0.532 (0.679)	0.210 (.645)	0.511 (.559)			
Population growth	0.114 (1.259)	0.016 (1.159)	0.105 (1.022)			
Life expectancy.	0.674*** (0.241)	0.794*** (.221)	0.839** (0.200)			
Gender Dev. Index				0.071 (.087)	0.114 (.090)	0.235* (.130)
% Urban				-0.112 (.135)	-0.074 (.138)	-0.094 (.131)
Female to male enrollment ratio				0.562*** (.166)	0.576*** (.186)	1.189*** (.375)
Africa	10.634* (6.480)	22.404*** (6.355)	24.836*** (6.282)	-5.922 (8.507)	-11.390 (9.828)	-20.776* (11.580)
Asia/Pacific	7.510 (5.289)	21.569*** (6.525)	23.622*** (6.232)	-25.604*** (7.420)	-37.511*** (10.924)	-48.810*** (12.798)
Latin America	18.644*** (4.412)	19.448*** (4.045)	20.774*** (3.824)	-11.273 (7.407)	-14.130* (8.100)	-26.565** (11.049)
Mideast	3.016 (5.841)	21.225*** (6.381)	21.659*** (5.874)	-3.968 (7.570)	-5.826 (10.059)	-20.390 (13.153)
Eastern.Europe	11.331*** (3.930)	12.970*** (3.817)	13.711*** (3.594)	-3.360 (6.377)	-4.934 (6.886)	-11.626 (7.913)
Muslim		-20.869*** (4.245)	-20.340*** (3.911)		-0.293 (7.803)	10.722 (9.536)
Catholic		-2.777 (3.056)	-2.178 (2.834)		0.867 (5.107)	3.236 (5.244)
Orthodox		-4.328 (4.777)	-3.523 (4.409)		0.905 (7.874)	4.010 (7.962)
Eastern		-16.679*** (6.346)	-16.686*** (5.852)		18.875* (10.866)	27.809** (11.830)
Mixed		-4.435 (5.604)	-3.755 (5.174)		5.913 (9.449)	8.845 (9.389)
Tribal		-12.233** (5.184)	-12.289*** (4.784)		9.561 (8.876)	17.265* (9.679)
Adj. R ²	.517	.616		.188	.191	
F-Statistic	13.12***	11.89***		3.62***	2.60***	
Log-likelihood			-356.086			-415.304

Rest.log-likelihood			-421.805			-436.647
Data Source: See Appendix 1. Standard errors in parentheses. Statistical significance: 0.01=***, 0.05=**, 010=*						

Table 5: Growth Model Regressions				
	OLS-No Gender Variables (1)	IV1 – FM Enroll Only (2)	IV2- FM Wage Only (3)	IV3 –Both included (4)
Constant	13.198** (6.045)	-1.053 (9.704)	-6.124 (9.288)	95.436*** (36.772)
LN GDP80	-2.305*** (0.789)	-2.795 (1.972)	-0.488 (.993)	-9.144 (5.654)
LN Investment	1.398** (0.681)	0.994 (1.113)	1.847*** (.692)	-2.494 (1.805)
Enrollment Rate	0.027 (0.030)	0.013 (0.047)	.023 (.029)	-0.008 (.121)
Tertiary Attainment Rate	0.011 (0.051)	0.009 (0.050)	.017 (.048)	-0.056 (0.141)
Population Growth	0.857** (0.351)	0.868* (0.475)	.561* (.340)	2.827*** (0.907)
Percent urbanization	0.030 (0.025)	0.002 (0.033)	-0.001 (.027)	-0.016 (0.135)
Closed Trade	-0.144 (0.713)	-0.144 (0.636)	-0.429 (.727)	1.537 (1.607)
Tax High	1.205* (0.633)	1.448** (0.678)	1.641** (.708)	-1.188 (3.052)
Govt. Prod. High	0.028 (0.915)	0.193 (0.880)	-0.293 (.854)	1.158 (1.467)
Regulation. High	-0.374 (1.080)	-0.392 (0.961)	-0.212 (10.013)	0.330 (1.730)
Black Market High	-2.181*** (0.760)	-1.212 (1.051)	-1.468* (.774)	-2.096 (2.972)
Female to male enrollment		0.222* (0.134)		0.726** (.364)
Female to male wage			.044 (.057)	-1.006*** (.161)
Africa	-3.180* (1.881)	-4.712 (4.034)	0.303 (2.190)	-21.877** (11.368)
Asia/Pacific	-0.978 (2.011)	-4.137 (3.989)	2.922 (3.029)	-47.177*** (14.355)
Latin America	-0.388 (1.416)	-3.772 (3.744)	1.970 (1.644)	-22.461** (10.137)
Mideast	-2.284 (1.934)	-6.177* (3.806)	-0.950 (1.858)	-14.865 (10.641)
Eastern .Europe	-3.258*** (1.268)	-5.187*** (2.000)	-2.336* (1.265)	-11.044 (7.314)
Muslim	1.093 (1.291)	5.358** (2.568)	1.713 (1.398)	3.664 (9.433)
Catholic	0.589 (0.887)	1.271 (1.033)	0.985 (.845)	0.678 (4.966)
Orthodox	-1.324 (1.373)	-0.804 (1.550)	-0.888 (1.284)	-1.099 (7.608)
Eastern	2.515 (1.834)	5.380* (2.938)	1.485 (1.842)	24.992** (11.325)
Mixed	0.817 (1.720)	1.849 (1.940)	0.899 (1.593)	6.414 (9.179)
Tribal	2.299 (1.579)	4.504** (2.043)	2.459* (1.471)	11.169 (9.080)

Adjusted R ²	0.392			
Log –likelihood		-241.466	-221.767	-406.591
Rest. Log-Likelihood		-268.433	-268.433	-268.433
Data Source: See Appendix 1. Standard Errors in parentheses. Statistical significance: 0.01=***, 0.05=**,				

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Appendix 1. Data Description and Sources

Growth rate 90-99	GDP Annual Growth Rate, 1990-1999	From World Bank, 2001 World Development Indicators Table 4.1 pages 194-198.
GDP 1980 (PPP adjusted)	GDP per capita, 1980 in international prices	Penn World Tables
Life Expectancy Rates	Life Expectancy at Birth, 1995 in years Overall and by gender	1998 Human Development Report, Human Development Index; 1998 Human Development Report, Gender Development Index
Enrollment Rates	First, second and third enrollment ratio, 1995 in % Overall and by gender	1998 Human Development Report, Human Development Index; 1998 Human Development Report, Gender Development Index
Investment Rate	Investment in 1995, % of GDP *for a few African Countries in 1992	1998 Human Development Report, InterAmerican Development Bank, African Research Program, Statistical, Economic and Social Research and Training Center for Islamic Countries
Population Growth	Average Population Growth Rate, 1970-1995	1998 Human Development Report, Population Trends
Gender Development Index	1995 Gender Related Development Index Rank	1998 Human Development Report, Gender Related Development Index
Female to Male Wage Ratio	Average Female to Male Wages	Developed by authors (See Endnote 7). Uses Earnings data from the 1998 Human Development Report, Gender Related Development Index
Percent Urban	% pop. living in cities	World 95 Data, SPSS; Xist.org Data Library
Religion Dummy Variables	Predominant Religion	Roberta Gatti, Xist.org Data Library, World 95 Data, SPSS, CIA World Factbook
Geographic Location Dummy Variables	Country located in Africa, Asia and Pacific, Latin America, Middle East, OECD or East Europe	Created by Authors
Heritage Ranking	Ranking of country based on Heritage Index of Economic Freedom score	Heritage Foundation
Closed Trade	Tariff rate greater than 14% and higher non tariff barriers	Heritage Foundation
Tax Rate High	Top income tax rate higher than 35%	Heritage Foundation
Government Production High	greater than 35% of GDP from govt. production, mostly govt. owned enterprises	Heritage Foundation
Regulation High	Government set production and planning, corruption rampant	Heritage Foundation
Black Market High	Substantially high levels of black market activity	Heritage Foundation

Appendix 2. Country List			
Low Income ^a	Low Middle Income	High Middle Income	High Income
Angola	Algeria	Argentina	Australia
Azerbaijan	Belarus	Botswana	Austria
Bangladesh	Bolivia	Brazil	Belgium
Benin	Bulgaria	Chile	Canada
Burundi	China	Czech Republic	Denmark
Cameroon	Colombia	Estonia	Finland
Ethiopia	Costa Rica	Gabon	France
Ghana	Dominican Republic	Hungary	Germany
Guinea	Ecuador	Malaysia	Greece
Haiti	Egypt	Mexico	Ireland
India	El Salvador	Oman	Israel
Indonesia	Guatemala	Panama	Italy
Kenya	Honduras	Poland	Japan
Lesotho	Iran	Saudi Arabia	Netherlands
Madagascar	Jamaica	Slovakia	New Zealand
Malawi	Jordan	South Africa	Norway
Mali	Latvia	Trinidad and Tobago	Portugal
Moldova	Lithuania		Singapore
Mozambique	Morocco		Slovenia
Nepal	Namibia		Spain
Nicaragua	Paraguay		Sweden
Niger	Peru		Switzerland
Nigeria	Philippines		United Arab Emirates
Pakistan	Romania		United Kingdom
Senegal	Russian Federation		USA
Sierra Leone	Sri Lanka		
Sudan	Syrian Arab Republic		
Tanzania	Thailand		
Uganda	Tunisia		
Zambia	Turkey		
Zimbabwe			

^aClassifications developed by the World Bank.

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AN ARISTOTELIAN APPROACH TO PUBLIC ADMINISTRATION

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ABSTRACT

THIS PAPER PRESENTS AN ARISTOTELIAN APPROACH TO PUBLIC ADMINISTRATION THAT IS ELABORATED WITHIN THE CONTEXT OF THE FRAMEWORK DEVELOPED BY DWIGHT WALDO IN HIS CLASSIC THE ADMINISTRATIVE STATE. WALDO ARGUED THAT THE LITERATURE IN PUBLIC ADMINISTRATION CONSTITUTED A POLITICAL THEORY SINCE, LIKE ALL POLITICAL THEORIES, IT DEALT WITH THE FIVE “PROBLEMS OF POLITICAL PHILOSOPHY.” THESE FIVE PROBLEMS INCLUDE: THE GOOD LIFE; CRITERIA FOR ACTION; WHO SHOULD RULE; SEPARATION OF POWERS; AND CENTRALIZATION VERSUS DECENTRALIZATION. ACCORDINGLY, ARISTOTLE’S PHILOSOPHY OF POLITICS AND ETHICS IS EXAMINED FROM THE PERSPECTIVE OF THESE FIVE PROBLEMS, AND THEN COMPARED AND CONTRASTED TO THE DISCOURSE OF AMERICAN PUBLIC ADMINISTRATION.

WHAT EMERGES FROM THIS EXAMINATION IS AN APPROACH TO PUBLIC ADMINISTRATION IN WHICH HUMAN HAPPINESS CONSTITUTES THE GOOD LIFE; REASON IN ACCORDANCE WITH VIRTUE CONSTITUTES THE CRITERIA FOR ACTION; CITIZENS RULE AND ARE THEN RULED IN TURN; THE VARIOUS ELEMENTS OF GOVERNMENT ARE LOOSELY SEPARATED WITH CONSIDERABLE OVERLAP; AND A PROPER BALANCE IS STRUCK BETWEEN CENTRALIZATION AND DECENTRALIZATION.

I. INTRODUCTION

In his classic, *The Administrative State*, Dwight Waldo (1984) argues that the literature in the field of public administration represented a political philosophy. He pointed out that, like all political philosophies, the public administration literature dealt with five central themes, or “problems of philosophy.” These themes include: 1) the good life; 2) the criteria of action; 3) who should rule; 4) the separation of powers; and 5) centralization versus decentralization (Waldo, 1984). This paper will utilize Waldo’s framework to provide a sketch of what an Aristotelian approach to public administration might look like. It is important to note that it is not my aim here to defend Waldo’s framework, nor is it my aim to develop a comprehensive theory of Aristotelian

public administration. Rather, my purpose here is to examine various aspects of Aristotle's thought within the context of Waldo's framework, and explore what implications it may have for contemporary public administration.

But what, if anything, could Aristotle possibly have to say to modern American public administration? The answer is; a great deal. The study of Aristotle's writings on politics and ethics affords considerable insight into our own systems of administration. There are both striking similarities and striking differences between the writings of Aristotle and the writings of contemporary American public administration, and his philosophy is an important foundation of Western intellectual thought. Consequently, Aristotelian philosophy, insofar as it is *similar* to the writings of contemporary public administration, can provide penetrating insight into the substantive meanings of our own intellectual paradigms. Insofar as Aristotelian philosophy *differs* from the writings of contemporary public administration, it has the potential for providing an alternative vision for American public administration.

Structurally, the main body of this paper will be comprised of five separate sections, each in two parts. The first part of each section will give a brief overview of Aristotle's thinking in relation to one of the five problems of political philosophy. The second part of each section will then compare and contrast his thinking with the discourse of American public administration. As noted above, I seek to provide a rough sketch of what an Aristotelian approach to public administration might look like. It is important to bear in mind, of course, that any one of Waldo's five problems of political philosophy, examined within the context of Aristotle's thought, would be a sizeable project in and of itself. Therefore, out of necessity, I have left unaddressed various issues that are important components of Aristotle's thought. Aristotle's teachings on justice, for example, and the role of rhetoric in the public square, are not directly addressed in this work. These omissions allow the paper to remain focused on Waldo's framework – not for the sake of defending his framework – but in the interest of coherence, and the work's ability to suggest future lines of research.

II. THE GOOD LIFE

II a. Aristotle's Conception of the Good Life

In Nicomachean Ethics Aristotle (1999) emphasizes that in order to properly conceive what is good for something we need a proper understanding of its function. In other words, the good of X depends on the function of X. The function of a sculptor, for example, is to render material into a sculpture, while the good of the sculptor would be, according to Aristotle, to render those materials well. But this is only true of his function as (qua) a sculptor. The sculptor qua sculptor achieves his good insofar as he sculpts well. The good of the sculptor qua human being may be something else entirely. Aristotle asks (rhetorically) if it is proper to speak of the function of a human being:

Then do the carpenter and the leather worker have their functions and actions, but has a human being no function? Or, just as eye, hand, foot, and, in general, every [bodily] part apparently has its function, may we likewise ascribe to a human being some function apart from all of these? (1999, pg. 8).

For Aristotle, the unique attribute of the human, that which distinguishes us from the animals, is our ability to engage in action that is directed by reason (1999, pg. 17). He finds that the “human function is activity of the soul in accord with reason or requiring reason” (pg. 9). The expression “activity of the soul,” which is used here to describe the “human function” roughly corresponds to the Greek word praxis. Praxis describes activity that is distinctly human because it involves a deliberative element that other animals are incapable of. It is essential to Aristotle's understanding of the human good because it denotes an ability to engage in rational action. Aristotle explains that if the human function is to engage in rational action; the human good is to reason well. And so it is that, through this activity of reasoning well, happiness – the ultimate end of all human activity – can be achieved both for the individual and the state.

II b. Conception of the Good Life in Public Administration Discourse

In the *Administrative State*, Dwight Waldo (1984) argues that writers in public administration have tended to equate the good life with the mastery of nature through science. He sums up this sentiment in the following manner: “There is no doubt that if the good life is achieved man will have risen above his environment and made it subservient to his dreams” (Waldo, pg. 69, 1984). Much of this concept of the good life has manifested itself in American public administration through what James Scott has called “authoritarian high modernism.” Scott argues that a tendency toward central planning has become the “ideology par excellence of the bureaucratic intelligentsia, technicians, planners, and engineers” (Scott, pg. 96, 1998).

Waldo contends that because the concept of the good life in American public administration has also tended to focus on the possession of material things, materialism has come to emerge as a guiding ethos. As a result, many public administration writers emphasize science, efficiency, economy, and industrialism. Herbert Simon (1997) stands out as perhaps the most influential figure in the call to make public administration scholarship more scientific. Recently, an emphasis on efficiency and economy has been most strongly reflected in the writings of the “reinventing government” movement. Reinventors have argued, for example, that we have “the wrong kind of government,” and that the answer is to create an “entrepreneurial” government to take its place (Osborne & Gaebler, pg. 23, 1992). Yet, while many in the field remain enamored with the ethos of science and materialism, others have argued that there is an inherent shortcoming in such an approach (*e.g.* Zanetti & Adams, 2000; Timney & Kelly, 2000).

From the Aristotelian perspective, there are two principal problems with a concept of the good life that focuses on science and materialism. The first problem is in conceiving of science and materialism as ends in themselves. Aristotle would point out that science and possessions are both means to ends, not final ends. The reason we want these things is so that we can be happy, therefore, the highest end is happiness. The second problem with this conception of the good is its inappropriate application of the scientific method to questions that do not lend themselves to it. For Aristotle, questions of the good life for human beings cannot be given a final answer by science. Because they require deliberation, they are firmly rooted in the domain of ethical/political

reflection.

III. THE CRITERIA OF ACTION

III a. Aristotle's Criteria of Action

For Aristotle, the virtues underpin the criteria of action, and he emphasizes the importance of virtue in making citizens “good and law abiding” (1999, pg. 16). In Nicomachean Ethics, he marks an important distinction between two different types of virtue: virtues of character and virtues of thought. Books II through IV of the Nicomachean Ethics present Aristotle's description of the virtues of character. He explains that none of the virtues arise in us naturally. We are by nature, however, able to acquire them through habit – that is, through the repetition of activities that promote virtue. Some things, he argues, do arise in us naturally. The senses, for example, do not come about as the result of frequent seeing or hearing. Rather, we already have them when we first exercise them. Aristotle asserts that such is not the case with the virtues:

Virtues, by contrast, we acquire, just as we acquire crafts, by having first activated them. For we learn a craft by producing the same product that we must produce when we have learned it; we become builders, for instance, by building, and we become harpists by playing the harp. Similarly, then, we become just by doing just actions, temperate by doing temperate actions, brave by brave actions (1999, pg. 19).

For Aristotle, virtue of character is a state that produces feelings that prompt human beings to be good and to perform their function well. The virtuous human being will choose the intermediate state between a vice of excess and a vice of deficiency. Courage, for example, is the intermediate condition between the vice of cowardice and the vice of rashness.

Aristotle points out that the intermediate condition for some object out in the world would be “what is equidistant from each extremity; this is one and the same for all” (1999, pg. 24). For human beings, however, the intermediate condition will be relative to the individual, that is, it will be “what is neither superfluous nor deficient” (for each individual); “this is not one, and is not the same for all” (pg. 24). Virtue will often generate different feelings depending upon the particular context or circumstances of a given situation. Aristotle notes that the key is to have the appropriate feelings “at the right time, about the right things, toward the right people, for the right end, and in the right way” (pg. 24). We may, then, view Aristotle as understanding criteria of action to be determined by a context-situated intermediate point between two vices. The examples of virtues of character provided by Aristotle include bravery, temperance, generosity, magnificence, magnanimity, mildness, friendliness, truthfulness, wit, and shame. Table 1 depicts the virtues of character with their corresponding vices of deficiency and vices of excess.

Table 1: The Virtues of Character

<u><i>Vice of Deficiency</i></u>	<u><i>Virtue</i></u>	<u><i>Vice of Excess</i></u>
<i>Cowardice</i>	<i>Bravery</i>	<i>Rashness</i>
<i>Insensitivity (lack of desire for pleasure)</i>	<i>Temperance</i>	<i>Overindulgence/ Intemperance</i>
<i>Miserliness</i>	<i>Generosity</i>	<i>Wastefulness</i>
<i>Stinginess</i>	<i>Magnificence (generosity for a large public purpose)</i>	<i>Vulgarity (Ostentatious displays)</i>
<i>Pusillanimous (timid)</i>	<i>Magnanimity (rightly)</i>	<i>Vanity</i>

	making claims of greatness)	
<i>Inirascibility (not angered by right things)</i>	<i>Mildness</i>	<i>Irascibility (bitterness, unjustified anger)</i>
<i>Rudeness (quarrelsome)</i>	<i>Friendliness (politely treating people right way)</i>	<i>Ingratiatingness (obsequiousness)</i>
<i>Self-deprecation</i>	<i>Truthfulness</i>	<i>Boastfulness</i>
<i>Boorishness</i>	<i>Wit (humor)</i>	<i>Buffoonery</i>
<i>Shamelessness</i>	<i>Shame (modesty)</i>	<i>Disgracefulness (inordinate shamefulness)</i>

In Book VI of the *Nicomachean Ethics*, Aristotle describes the virtues of thought. As discussed above, all of the virtues of character are an intermediate condition that can be arrived at through correct reasoning. Here then, he sets out to provide an account of what is meant by correct reason. Correct reasoning is attained through the five virtues of thought, which are essentially different ways of knowing. Three of these five types of knowledge, scientific knowledge, understanding, and wisdom, are related to things that must exist as they are and not be otherwise. Water, for example, can be known scientifically as H₂O. If it's not H₂O, then it's not water. Importantly, we do not deliberate about what cannot be otherwise, because deliberation involves choosing among alternative means to an end.

The remaining two virtues of thought, craft knowledge and prudence, do pertain to things that admit of being otherwise. A sculptor, for example uses craft knowledge to create a sculpture, and in the process deliberates about the height, the subject, the features, and so on that the sculpture will have. Prudence, on the other hand, involves deliberation about the things that contribute to the good life – that is, happiness. Since the content of prudence will vary depending on the circumstances of a given individual, and is directed toward action, it is rooted in the particular. Aristotle explains that because it is rooted in the particular, it can only be acquired, with difficulty, over time, and through experience. Table 2 presents the virtues of thought, along with the various modes of knowing that each is associated.

Table 2: The Virtues of Thought

<u>Virtue</u>	<u>Mode of Knowing</u>
Scientific knowledge	Knowledge of that which does not admit of being otherwise
Craft Knowledge	Deliberation about producing that which admits of being otherwise
Prudence	Deliberation about human affairs that admit of being otherwise
Understanding	Comprehension of necessary and universal principles
Wisdom	Knowledge of what does not admit of being otherwise, and comprehension of the universal principles from which that knowledge proceeds

III b. The Criteria of Action & Public Administration Discourse

Waldo notes that all political philosophies, including American public administration, have criteria for determining what should be done. Writers in the field of public administration, he argues, have been heavily influenced by utilitarianism and positivism – an influence that typically manifests itself in the application of scientific (positivist) methods for determining the most efficient and economical approach to problems of administration. Herbert Simon (1997), for example, has argued strongly for a rationalization of organizational behavior. While acknowledging the “bounded rationality” of individual human beings, Simon contends that the organization can overcome human limitations to achieve rational outcomes. He writes, “Rational behavior involves a listing of the consequences in their order of preference, and the choice of that strategy which corresponds to the highest alternative on the list” (Simon, pg. 82, 1997). Once again (from the Aristotelian perspective), such writers in American public administration make the mistake of attempting to apply scientific knowledge to a subject matter that does not admit of it. The question of what should be done is inextricably linked to what the conception of the good life is. Since it is

an ethical/political question, Aristotle would argue that the proper criteria of action would be determined through the exercise of prudent reasoning by citizens.

There are, however, some strong parallels between some aspects of the Aristotelian perspective and at least a few of the writers in public administration. Notably, there is a growing body of literature in the field that deals with the interface between government agencies and citizens (King & Stivers, 1998; Cooper, 1984; Levine, 1984). Camilla Stivers (1994), for example, has argued that administrators can be appropriately responsive to citizens by practicing good listening. Such an approach helps administrators understand complex problems and provide a more complete definition of problems. Thus, the administrator is provided with a criteria of action which is rooted in the particulars of a local context, and, therefore, more prudent. She argues that this perspective allows administrators to take into account what citizens have to say without being inappropriately influenced by public opinion (Stivers, 1994).

IV. WHO SHOULD RULE?

IV a. Aristotle on Who Should Rule

In *The Politics*, Aristotle argues that citizens should be active participants in the governance of their state. He views the state as belonging to “that class of objects which exist by nature;” and, further, that “man is by nature a political animal” (1992, pg. 59). He argues that the “state has a natural priority over the household and over any individual among us,” thereby emphasizing the importance of leading an active and participatory life in the state (pg. 60). Essentially, then, the state is an association of citizens. However, we need to bear in mind here that, for Aristotle, citizenship is not simply extended to any person living within the geographical boundaries of a state. Aristotle excludes foreigners, slaves, and some types of workers from citizenship. Children, he points out, have a qualified type of citizenship in that their age precludes them from possessing full citizenship. Women, in Aristotle’s time, were not eligible to hold political office, thus, they were not able to share fully in citizenship. In fact, Aristotle even rejects those definitions of citizenship that are based upon birth, wealth, or parentage. Instead, he adopts a functional

definition of a citizen as one who participates in “giving judgment and holding office” (pg. 169). He writes:

A citizen is in general one who has a share in ruling and in being ruled; but he will not be identical in every kind of constitution. So far as the best kind of constitution is concerned, he is a man who is able and who chooses to rule and to be ruled with a view to a life that is in accordance with virtue (1992, pg. 213).

Aristotle did envision instances in which one man or a small group of men may excel in virtue to such a degree that they effectively rise above their fellow citizens to become the ruler(s). He states that “we may reasonably regard such a one as a god among men” (1992, pg. 213). In such a case, the ruler, or king, or oligarchy (whatever the case may be), would be above the law – for, “they are themselves the law” (pg. 213). It is not, however, Aristotle’s project here to envision some sort of Platonic ideal state. In fact, he dismisses such an endeavor as substantively meaningless. Rather, he hopes to provide a description of what a well running state looks like. His description is based upon his analysis of one hundred and fifty separate constitutions in the ancient Greek world. His main point with respect to who should rule is that the state, as an association of citizens, is most rightly ruled democratically by the citizens themselves, who have a share in ruling and in being ruled. Aristotle states, “As between similar people, the fine and just thing is to take turns, which satisfies the demands of equality and similarity” (pg. 213).

IV b. The Problem of Who Should Rule & Public Administration Discourse

Waldo (1984) points out that in the early writings of public administration there was a strong sentiment that the government should be run by experts in business, or at least that government should be run like a business. This, of course, should be no surprise given Woodrow Wilson’s (1887) pronouncement that the “field of administration is a field of business” (pg. 209). Other

writers, such as W.F. Willoughby (1927) argued that administrators of government should be chosen for their technical expertise. As the field developed, however, a full-scale debate developed over how these expert administrators were to be kept under the control of a popularly elected government. This debate is most notably epitomized by the exchange between Carl Friedrich and Herman Finer. Finer (1941), taking the instrumentalist point of view, argued that administrators must not decide their own course, but, rather, they must be “responsible to the elected representatives of the public” who must determine their course of action (pg. 336). Friedrich (1940), on the other hand, taking the discretionist point of view, insisted that, “before the goddess of science all men are equal” (pg. 23). Therefore, he concluded that, “right policies are policies which seem right to the community at large and at the same time do not violate ‘objective’ scientific standards” (pg. 24).

Aristotle would be uncomfortable with the views held by Carl Friedrich, as well as those held by Herman Finer. He would have found Finer’s argument wrong headed for attempting to draw a clear distinction between politics and administration. For Aristotle, citizens rule and then are ruled in turn, moving in and out of a variety of public offices that exhibit a great deal of overlap. Aristotle, however, would have rejected Friedrich’s argument as well. While he would have agreed that “right policies” would seem right to the “community at large,” for the reasons discussed earlier, he would have rejected the notion that the right policy would “not violate ‘objective’ scientific standards” (Friedrich, pg. 24, 1940). Aristotle viewed the administration of government as a part of the political process, and would argue that all aspects of the administrative process are open to deliberation. Consequently, they are not subject to validation by scientific standards, and could only be determined in the political sphere through a deliberative process that involved citizens.

V. THE SEPARATION OF POWERS

V a. Aristotle on Separation of Powers

In Book IV of *The Politics*, Aristotle (1992) discusses the different elements that are found in the various constitutions that he has studied. He finds that there are generally three elements to be found in constitutions and that the manner in which these are arranged has a tremendous impact on the overall effectiveness of the constitution. Not surprisingly, the three elements that Aristotle discusses are the deliberative element, the executive element, and the judicial element. Aristotle finds that the sovereign powers of the deliberative element cover issues such as decisions about war and peace, alliances, legislation, penalties, confiscation of goods, the selection of officials, and the scrutiny of their conduct in office as their tenure expires. He argues that, in principle, all citizens should be involved in the deliberation of these issues. He discusses various arrangements in which this can be achieved. While he acknowledges that one arrangement may be better than another given a particular set of local circumstances, the end to which they all aspire is to allow citizens to rule and to be ruled in turn.

For Aristotle, the executive element of the constitution consists in addressing the issues of what types of officials there are, by whom they are appointed, from whom they are appointed, what is their function, and how the different officials operate in relation to one another. He argues that there would naturally be a considerable amount of overlap in personnel as well as powers. Aristotle argues that there is an important difference between an official and someone who is merely in charge of something. He states, “Roughly speaking, we may say that officials are those empowered to deliberate and make decisions on certain matters and to issue orders; and particularly the last, since this is the essence of rule” (1992, pg. 282). With respect to the questions of how many officials there are and how they should function in relation to one another, Aristotle finds that it depends entirely on how large the state is. In large states it would be necessary to assign separate tasks to separate officials, thereby increasing their number as the size of the state increased. In smaller states, however, “a number of offices have to be concentrated in a few hands” (pg. 283). In such a case, argues Aristotle, “there is really no reason why a number of different responsibilities should not be assigned together” (pg. 283).

In discussing the judicial element of the constitutions, Aristotle finds that they differ in three main issues. These issues involve the question of “*from whom* the members are drawn... and the

manner of their appointment,” as well as “the matters *about which* they have jurisdiction” (pg. 289). Aristotle finds that the various matters about which the judicial element concerns itself results in the existence of eight types of court: 1) scrutiny of officials, 2) offenses against the public, 3) constitutional matters, 4) disputes about the imposition of fines, 5) large private transactions, 6) homicide, 7) foreigners, and 8) minor private transactions.

V b. Separation of Powers & Public Administration Discourse

As noted above, Aristotle anticipates a considerable degree of overlap between the three constitutional elements that he describes. In that regard, his thinking on separation of powers roughly corresponds to the view held by a number of writers in the field of public administration (*e.g.* Rohr, 1986 & Spicer, 1995). Nonetheless, there has also existed in the field a strain of thought that holds that the administration of government (what Aristotle would call the executive element) should be kept separate from politics (the deliberative element). Writers such as Woodrow Wilson (1887) and Frank Goodnow (1900) clearly delineated the functions of politics and administration, creating a so-called ‘politics/administration dichotomy.’ W.F. Willoughby (1927) went so far as to call for a radical revision of the separation of powers doctrine that would involve the centralization and integration of the administrative functions of government. He argued that the “whole problem of government [had] largely shifted from that of the organization and operation of the electoral and legislative branches of government through which the popular will is formulated and expressed to that of the organization and operation of the administrative branch through which this will as thus determined is actually put into execution” (pg. viii).

In contrast to the writings of Wilson, Goodnow and Willoughby, Norton Long (1952) argued that the politics/administration dichotomy, as formulated, had the effect of making administration an “Aristotelian slave, properly an instrument of action for the will of another, capable of receiving the commands of reason but incapable of reasoning” (Long, pg. 808, 1952). He argued that this concept of bureaucracy came out of English constitutional history and the political philosophy of John Locke – both of which emphasize legislative supremacy as a means of articulating the will of

the people. He argued, however, that it is by no means the case that the legislature is a reliable vehicle for expressing the popular will. Long, therefore, proposed that the bureaucracy offered our best hope for achieving a representative government. Paul Van Riper (1958) argued along these same lines by noting that the concept of a 'representative bureaucracy' denotes a government "in which there is a minimal distinction between the bureaucrats as a group and their administrative behavior and practices on the one hand, and the community or societal membership and its administrative behavior, practices, and expectations of government on the other" (pg. 552). In other words, a representative bureaucracy is a body of officials that reflect the characteristics and ideals of the society that it functions in because they are drawn from the mainstream of that society. As John Rohr (1986) has put it, "The administrative state offers millions of its employees the opportunity to fulfill the aspirations of citizenship – to rule and be ruled" (pg. 53).

VI: CENTRALIZATION VERSUS DECENTRALIZATION

VI a. Aristotle on Centralization vs. Decentralization

Dwight Waldo (1984) points out that the question of centralization versus decentralization is not a question that really comes up in classical philosophy. It is, rather, a question that is raised as a response to the rise of the large modern nation-state. Nonetheless, it is possible to get a sense of what Aristotle's position might have been. The states that Aristotle considers in his analysis are best described as city-states. These city-states were, perhaps, the size of a modern county with a metropolitan area and a surrounding rural area under its control. Now the size of the state for Aristotle is not just important for reasons of control but reasons of justice as well. This is related to Aristotle's epistemology, that is, his account of the manner in which we acquire and comprehend knowledge.

Related to the virtue of prudence is the concept of practical knowledge. Prudence makes use of practical knowledge because, as opposed to scientific knowledge, it has a localized character about it, and is situated in a particular context that requires a local grounding (Nussbaum, 1986). The prudent administrator is aware of and makes use of local conditions,

practices, and customs because knowledge of these things makes her more effective within the context of the particular. Aristotle speaks of this in *The Politics* when he argues that in order for officials to rule justly, and in order for offices to be distributed on the basis of merit, “it is necessary that the citizens should know each other and what kind of people they are” (1992, pg. 405). He finds that “where this condition does not exist, both decisions and appointments to office are bound to suffer” (pg. 405). These foregoing considerations would seem to make it clear that Aristotle would see the governance of a large unwieldy state as problematic at best. We are left to speculate about what he might advocate for the modern nation-state, but it is reasonable to assume that he would argue for as much decentralization as possible. He provides us with this handy rule of thumb:

Here then we have ready to hand the best limit of a state: it must have the largest population consistent with catering for the needs of a self-sufficient life, but not so large that it cannot be easily surveyed. Let that be the way of describing the size of a state (1992, pg. 405).

It is vital to bear in mind here, of course, that Aristotle is describing the best *size* of a state as a whole, and that he is not explicitly dealing with the question of centralization versus decentralization. If we have learned anything from Aristotle, however, it could be that it is reasonable to extrapolate from one object of study to another. Therefore, given the existence of the large modern nation-state, it is reasonable to assume that Aristotle would have argued for a proper balance – that is, an intermediate point between the vice of complete decentralization (anarchy) and the vice of complete centralization (totalitarianism). Any such balance would need to provide for the exercise of practical localized knowledge. Arguably, Aristotle might approve of a scheme in which international affairs such as treaties and national defense were centralized, while local affairs such as community policing and education were decentralized.

VI b. Centralization vs. Decentralization in Public Administration Discourse

In contrast to the position suggested above, many writers in public administration have argued for an increase in the centralization of administrative functions. Willoughby (1927), for example, argued for changes that would have had the effect of making the President a type of “general manager” of the administrative services. He recommended that, rather than having the line of authority run from Congress to the administrative services, it should run directly from the chief executive to the administrative services. Willoughby also suggested that these changes in the structure of American government should be accompanied by the establishment of what he called a “Bureau of General Administration.” The establishment of such a bureau would facilitate the ability of the President to act as head of the administrative services of government. Additionally, it would foster the organization of the administrative branch of government into a single integrated piece of administrative machinery.

Despite the existence of this line of thought in public administration discourse, there is also a strong current of thinking that parallels the thought of Aristotle. In his famous case study of the Tennessee Valley Authority (TVA), Philip Selznick (1949) argued that the TVA, which began as a means of dealing with fertilizer, electrical power, and flood control problems in the rural south, emerged as an organization with far broader meaning. Of particular significance was the conception of the TVA as an “administrative instrument created to fulfill necessary planning functions within the framework of democratic values” (pg. 12). He explains that it is from this conception that the doctrine of ‘grass roots administration’ emerges as TVA’s organizational ideology. Selznick finds that this ideology expressed itself through a decentralized organizational structure that extended considerable autonomy to local managers, fostered partnerships between TVA and local authorities, and created unified administration at the regional level.

Finally, O.C. McSwite (1997) has pointed out that public administration discourse has tended to emphasize the writings of the Federalists, and that this has yielded a distorted view of our constitutional heritage. In contrast to the Federalists who sought a more centralized form of government that would promote the existence of a “commercial republic,” the Antifederalists advocated a decentralized “peaceable kingdom” (McSwite, 1997). The author writes, “What was debated during the founding of the United States was really two images of collective social life,

each sustaining a distinctive political and administrative arrangement” (McSwite, pg. 79, 1997). McSwite contends that the Anti-Federalists had a vision of government that would have placed it “close to the people,” and that the “true origins of public administration in the United States lie in the spirit of Anti-Federalism” (pg. 16). Such a perspective seems to parallel the thinking of Aristotle to the extent that it emphasizes the importance of local customs and practices. Thus, we might imagine Aristotle to be a sort of ancient forefather of the Anti-Federalist position.

VII. CONCLUSION

What emerges from a reflection on an Aristotelian approach to public administration is a conception of the good life as a life of virtue in accord with correct reason. To reason correctly is to reason prudently, and it is this that provides the administrator with criteria for action. Also, by reasoning prudently the virtuous administrator achieves an intermediate state between a vice of deficiency and a vice of excess. We find that an Aristotelian approach is very citizen oriented in that it calls for citizens to rule and to be ruled in turn. Further, a constitutional framework only roughly divides power along deliberative, executive, and judicial lines, thereby allowing considerable overlap between the various functions. Finally, the tension between centralization and decentralization is resolved by striking a proper balance between the two that takes into account the importance of localized practical knowledge.

As stated from the outset, however, the purpose of this work is to present only a rough sketch of what an Aristotelian approach to public administration would look like. Any one of Waldo’s five problems of political philosophy in the context of Aristotle’s thought would be a sizeable project. Furthermore, in order to focus on Waldo’s framework, I have intentionally left out various issues that are important components of Aristotle’s thought as well as the discourse of public administration. The justification for doing so is not to defend Waldo’s framework, but to suggest future lines of research vis-à-vis Aristotle’s philosophy of politics and ethics and its implications for American public administration. I contend that such an endeavor is clearly worthwhile because in so far as Aristotle’s thought is similar to discourse in contemporary public administration it deepens our understanding of the field. In so far as his thought differs, it provides potential alternatives for

how we practice, teach, and write about public administration.

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THE IMPACT OF PRIVATE SCHOOLS ON PUBLIC SCHOOL PERFORMANCE: EVIDENCE FROM OHIO

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Abstract

THE DEBATE OVER AMERICAN EDUCATION REFORM HAS INVOLVED A GREAT DEAL OF DISCUSSION REGARDING THE ROLE OF PRIVATE EDUCATION. RESEARCH SUGGESTING THAT PRIVATE SCHOOLS IMPROVE EDUCATIONAL OUTCOMES HAS LEAD TO ADVOCACY FOR VOUCHERS AND EDUCATION TAX CREDITS. OPPONENTS OF POLICIES DESIGNED TO INCREASE PRIVATE SCHOOL ENROLLMENT ARGUE THAT VOUCHERS AND TAX CREDITS WILL REDUCE THE AGGREGATE PERFORMANCE OF PUBLIC SCHOOL STUDENTS AS THE BEST AND BRIGHTEST TRANSFER TO PRIVATE SCHOOLS. VOUCHER AND TAX CREDIT SUPPORTERS REJECT THIS PROPOSITION AND ARGUE THAT GREATER PRIVATE SCHOOL COMPETITION WILL IMPROVE THE PUBLIC SCHOOLS. IN THIS ARTICLE, WE USE AN EXTENSIVE DATABASE ON OHIO SCHOOL DISTRICTS TO EVALUATE BETWEEN THESE TWO HYPOTHESES. OUR FINDINGS REJECT THE PROPOSITION THAT INCREASED PRIVATE SCHOOL COMPETITION LOWERS THE AGGREGATE PERFORMANCE LEVEL OF PUBLIC SCHOOL STUDENTS. THE OPPOSITE HYPOTHESIS, THAT AN INCREASED PRIVATE SCHOOL PRESENCE ENHANCES PUBLIC SCHOOL ACADEMIC ACHIEVEMENT, IS FOUND TO HAVE VALIDITY.

INTRODUCTION

The debate over American education reform has involved a great deal of discussion regarding the role of private education. A growing line of literature, starting with Coleman, Hoffer, and Kilgore (1982) has suggested that, other things equal, private schools are more effective learning institutions. Evans and Schwab (1995), for example, estimate that attending a Catholic high school increases the probability of graduation from high school by 13 percentage points. Figlio and Stone (1999) find that religious private schools improve education outcomes for minority students in urban areas, while non-religious private

schools improve education outcomes for all student populations. This research has provided support for those wanting publicly financed alternatives to public schools through school vouchers and education tax credits.

At the same time, some researchers argue that much of the observed public-private learning differential reflects a selection bias, namely that students attending private school come from families with a greater motivation and means to promote quality education (Golberger and Cain 1982). Moreover, they argue that vouchers or policies that increase the market share of private schools in the education marketplace will reduce the performance of children in public schools, as the best and brightest of public school children are lured to their private counterparts. Put colloquially, the private schools “skim off the cream.” As two writers (Berliner and Biddle 1995: 123) have put it:

Private schools are able to select students whom they will enroll and expel; and this control should give them more opportunity to choose talented students, to enforce disciplinary standards, and to create a sense of “community.” By contrast, public schools must cope with all comers. In addition, private schools enroll mainly students who can afford to pay tuition, whereas public schools must enroll students from impoverished families that cannot afford to provide home support for education.

This suggests a testable proposition.

PROPOSITION 1: Other things equal, the higher the percentage of a district’s students attending private school, the lower the performance of students attending that district’s public schools.

Figlio and Stone (2001) have found evidence of private school “cream skimming.” Their research shows that private school students tend to be high income, high ability, low poverty, and disproportionately white. In a static world, the existence of “cream skimming” would, by definition, lower the aggregate level of student achievement in the public schools. Vouchers and tax credit proponents argue, however, that the expansion of private school options will have dynamic effects. They posit that the increased presence of private school alternatives will increase competition for the public schools, leading them to take steps to improve student performance in order to avoid losing market share and resources (Couch, Shughart, and Williams 1993; Hoxby 1994).

This too suggests an alternative, testable, proposition.

PROPOSITION 2: Other things equal, the greater the percentage of a school district's students attending private schools, the higher the level of student performance in that district's public schools.

This study utilizes an unusually rich and comprehensive database for Ohio to evaluate the competing hypotheses above.

THE DATA

In the late 1980s, in response to growing popular concern about low levels of student performance in public schools, the Ohio General Assembly passed several school reform bills. One established a series of mandatory statewide tests. The most important of these tests was a proficiency test administered in the ninth grade (sometimes first given in the eighth grade), passage of all parts being required for high school graduation. The test included five parts covering reading, writing, mathematics and citizenship and has been administered since 1990. Summary test results by school district are widely reported in the popular press. The State of Ohio also created an Educational Management Information System (EMIS) that required all 612 school districts to report vast amounts of data to the Ohio Department of Education. Five extremely small school districts have been excluded from the sample (all districts with fewer than 150 students, mostly located on islands in Lake Erie) that may test few, if any, students at a particular grade level in a particular year. In addition, the EMIS data has been supplemented by 1990 Census data, providing additional information on private school enrollments and socioeconomic data by school district.

THE MODEL

To examine the two hypotheses relating to private education, we defined four alternative measures of student performance. 9THGRADE is a four-year average of the percentage of students in each school district who passed all sections of the required ninth grade proficiency tests administered from 1993-96. The use of four years of data sharply reduces anomalies

arising from chance variations in the academic quality of particular cohorts. This is the most widely used indicator in Ohio of school district competence as passage of the test is required before a high school diploma can be given. A second dependent variable is 4THGRADE, the average percent of students passing a similar test administered at the fourth grade level (data are available for only two years). The third performance indicator is 12THGRADE, the average percentage of students passing a similar test administered in the senior year of high school. Finally, we used DROPOUTS, the school district’s dropout rate, as a fourth dependent variable.

The difference in interdistrict student performance was substantial across the state, no matter the indicator used (Table 1). For example, on the ninth grade proficiency test, the proportion of students passing all tests varied between 13.75 percent and 95.5 percent, with the median being 60 percent. Measured by the coefficient of variation, however, that was the indicator with the lowest variance. The variation was particularly high on the dropout rate, which ranged from zero to nearly one-third of the students.

Table 1. Descriptive Statistics (N=607)

Variables	Mean	Median	Minimum	Maximum	Std. Dev.
9THGRADE	60.4%	60.0%	13.8%	95.5%	13.9
4THGRADE	57.6%	58.0%	12.5%	91.5%	14.1
12THGRADE	46.4%	46.0%	0.0%	86.5%	13.9
DROPOUTS	3.9%	3.5%	0.0%	32.5%	2.6
PRIVATE	10.4%	8.6%	0.0%	42.5%	7.8
EXPPUPIL	\$5,299	\$5,066	\$3,776	\$13,076	970.2
MINORITY	6.9%	2.3%	0.0%	100.0%	13.2
INCOME	\$24,222	\$23,516	\$14,702	\$48,286	4490.5
ADC	10.0%	7.0%	0.0%	66.2%	9.4
ATTENDANCE	94.5%	94.7%	83.4%	97.5%	1.5
SPORTS	36.3%	35.9%	0.0%	80.0%	13.9
BA	13.3%	9.8%	2.3%	67.1%	10.2

Source: Ohio Department of Education.

The critical independent variable is PRIVATE, the percentage of students residing within the school district boundaries attending private school. Statewide, the range on PRIVATE was from zero to 42.5 percent with the mean being 10.4 percent. In our initial regressions, we included seven other independent variables. To measure resource usage, we used current expenditures per pupil

(EXPPUPIL). We introduced one demographic variable, the percentage of district enrollment that was non-white (MINORITY). To measure the affluence of the area we included median family income (INCOME). Another socioeconomic variable that measures both poverty and non-two parent homes is the proportion of the district student population receiving welfare, ADC. A final non-school variable introduced was BA, the percent of persons in the district over the age of 25 who were college graduates, a proxy for parental educational attainment. Two measures of the intensity of student educational involvement were introduced, ATTENDENCE, the average percentage of enrolled students attending school, and SPORTS, the proportion of the student body involved in interscholastic sports.

We decided to follow the methodology of Couch, Shughart and Tollison (1993) in testing these hypotheses using ordinary least squares (OLS). Like Couch, Shughart and Tollison (1993) we used Kmenta's (1985: 719-720) methodology to reject the possibility that simultaneous equation bias was influencing the OLS regression coefficients, leading to inconsistent and asymptotically inefficient estimates.

Table 2 gives the partial regression coefficients and t-statistics from the OLS. In three of four cases, the second proposition above is not rejected (at the five percent level), namely that public student performance is higher the greater the proportion of students attending private school. In the fourth case, using DROPOUTS, the coefficient is positive (higher private school enrollment, higher dropouts) but not significant at the 5 percent level. Clearly, we reject the first hypothesis that increased private school participation lowers performance in the public schools.

Table 2. OLS Regression Results

Independent Variable or Statistic	Dependent Variables			
	9THGRADE	4THGRADE	12THGRADE	DROPOUTS
CONSTANT	-254.0958 ** (7.417)	-130.2941 ** (3.118)	-164.5452 ** (3.868)	76.3451 ** (8.262)
PRIVATE	0.1105 * (2.239)	0.2312 ** (3.841)	0.2216 ** (3.615)	0.0185 (1.388)
EXPPUPIL	-0.0003 (0.747)	-0.0003 (0.622)	-0.0012 ** (2.404)	0.0001 (1.277)
MINORITY	-0.0922 ** (2.974)	-0.1058 ** (2.801)	0.0185 (0.481)	0.0101 (1.213)
INCOME	0.0001 (0.781)	0.0004 ** (2.043)	0.0000 (0.160)	-0.0000 (0.129)
ADC	-0.3475 ** (5.343)	-0.3469 ** (4.372)	-0.2739 ** (3.391)	0.0316 * (1.797)
BA	0.3689 ** (6.204)	0.3444 ** (4.749)	0.6110 ** (8.273)	-0.0457 ** (2.848)
ATTENDANCE	3.2212 ** (9.114)	1.8309 ** (4.247)	2.1727 ** (4.950)	-0.7689 ** (8.066)
SPORTS	0.1925 ** (7.453)	0.1344 ** (4.266)	0.0927 ** (3.032)	-0.0095 (1.363)
R ²	0.7036	0.5717	0.5443	0.3979
F-STATISTIC	177.44	99.77	89.28	49.41

Note: t-statistics in parentheses; asterisks denote significance at the 1 percent (**) and 5 percent (*) levels.

At the same time, even if the alternative hypothesis is accepted, the importance of private school competition in explaining student performance in the public schools should not be overstated. Taking the model with the largest coefficient and t-value, 4THGRADE, a district where private school enrollment increased from zero to 20 percent could expect to see the percentage of students passing all parts of the test increase by 4.62 percentage points, or 1/3 of a standard deviation. We interpret the results as suggesting that private school competition can have some very noticeable but limited positive effects on the performance of public school students. If students migrating to private schools also improve as shown by Evans and Schwab (1995) and others, then the aggregate positive effects of increased private school competition could be fairly substantial. Moreover, on average per pupil costs of private education are lower than that of public schools. Thus, a shift to greater private school competition could have

strong positive effects with students learning more at a *negative* or zero cost in terms of resource usage (Hoxby 2000).

Turning to the other independent variables, the results echo the findings of many other studies (Hanushek 1986, 1997) showing no relationship between spending and student performance. Indeed, the one statistically significant exception has a *negative* sign. Similarly, INCOME is a weak variable, being statistically significant in only one regression. Unreported specifications of the model were run where variables, such as ADC, that are correlated with INCOME were removed in order to test whether multicollinearity could explain the insignificance. While the importance of INCOME in explaining variations in the dependent variables did improve, INCOME was still statistically insignificant in most cases. The MINORITY variable is significant in but two regressions, and additionally, the coefficients suggest that race, *ceteris paribus*, plays a minor role in explaining interdistrict variations in performance.

The variables that are statistically significant in at least three regressions are ATTENDANCE, SPORTS, ADC, and BA. The first two of these variables speak to student motivation, drive, and need for achievement, while the latter two relate to circumstances in the home, whether there are two parents present, or whether parents are highly educated. The last two factors are quite strong. Compare two districts, the first one being one standard deviation below average with respect to the percentage of district residents being college graduates, but one standard deviation above average on the percentage of students from welfare families; the second district is one standard deviation above average on BA, and one standard deviation below average on ADC. Assuming all other variables are equal at the state average for both districts, the district with proportionately more students in an adverse family environment (as measured by BA and ADC) is predicted to have about a 53 percent passage rate on the ninth grade test, compared with 67 percent in the district with more students with a relatively favorable family environment. Put differently, over 30 percent of the students who flunked the proficiency test in the adverse family environment would have been predicted to pass the test in the district with more favorable family attributes. Since student attendance and participation in sports are related to family and community influences, the total impact of home and community life on student performance is quite strong.

The large sample allows for some disaggregation. In Table 3, six subsamples are examined using 9THGRADE as the dependent variable. In the first two regressions, the sample was confined to school districts that were either moderately affluent, that is ones with spending per pupil above the median (\$5,066), or relatively poor, with spending below the median. The private schooling variable is positive in both cases, but significant only with the lower spending school districts, consistent with a view that school competition is particularly effective in poorer or less affluent settings. The expenditure per pupil variable is insignificant in both regressions, and in fact is negative in the sample including the low spending districts. Since the Ohio Supreme Court's ruling in *Derolph v. Ohio* decision in 1997, Ohio has been under judicial pressure to equalize spending between school districts in order to improve opportunities in the districts with fewer resources. These results seem to question the effectiveness of that strategy.

Table 3: OLS Regression Results for Subsample Analysis of 9THGRADE

Independent Variable or Statistic	Subsamples*					
	High Spending Districts	Low Spending Districts	Small Districts	Large Districts	Low SES	High SES
N	303	302	303	303	171	173
CONSTANT	-188.40 ** (4.14)	-337.54 ** (6.59)	-351.08 ** (6.11)	-204.28 ** (4.77)	-121.19 * (1.85)	-312.45 (5.21)
PRIVATE	0.0365 (0.59)	0.1620 * (2.02)	0.0559 (0.77)	0.1670 ** (2.42)	-0.1711 (1.49)	0.0517 (0.73)
EXPPUPIL	0.0040 (0.86)	-0.0024 (1.41)	0.0000 (0.08)	-0.0005 (0.93)	0.0039 ** (3.18)	0.0000 (0.1)
MINORITY	0.1718 ** (4.86)	-0.1764 * (1.89)	-0.0673 (1.02)	-0.1624 ** (4.39)	-0.1461 ** (2.47)	-0.1941 (2.37)
INCOME	0.0004 (1.91)	-0.0002 (1.06)	0.0001 (0.51)	0.0000 (0.53)	-0.0000 (0.22)	-0.0004 (2.37)
ADC	-0.2695 ** (3.29)	-0.5000 ** (4.88)	-0.4040 ** (4.06)	-0.2546 ** (3.00)	-0.4283 ** (3.65)	-1.8612 (5.32)
BA	0.3302 ** (4.66)	0.5374 ** (4.54)	0.3293 ** (3.38)	0.4288 ** (5.51)	0.9052 ** (2.52)	0.4414 (5.81)
ATTENDANCE	2.4537 ** (5.18)	4.2796 ** (8.22)	4.2394 ** (7.14)	2.6931 ** (6.10)	1.6073 ** (2.49)	-1.8612 (6.61)
SPORTS	0.1332 ** (3.65)	0.2180 ** (6.09)	0.1764 ** (4.80)	0.1823 ** (4.36)	0.2084 ** (3.82)	0.0471 (1.37)
R2	0.7713	0.6516	0.6091	0.782	0.5629	0.6788
F-STATISTIC	123.95	68.51	57.27	131.86	26.08	43.33

Note: See text for subsample definitions; t-statistics in parentheses; asterisks denote significance at the 1 percent (**) and 5 percent (*) levels..

In the second set of regressions, we split the sample at the median according to district size. While PRIVATE is again positive in both cases, it is statistically significant only in the case of the larger school district sample. We might speculate that small public school districts are more likely to have a desirable sense of community that some writers talk about (Coleman, Hoffer, and Kilgore 1982; Langdon, 2000), and also that administrative accountability may be greater, thus giving those districts some of the attributes of private schools.

In the final pair of regressions, districts are divided according to the socioeconomic characteristics of the students. The sample of “low SES” districts includes the 173 districts where ADC participation was above the state median, but INCOME and BA were below the median. The high SES districts deviated from the median of these three variables in the opposite direction. Classified in this fashion, PRIVATE is not statistically significant in either case, and is even negative (although not significantly so) with the low SES districts. The most interesting finding, however, relates to EXPPUPIL. As usual, the relationship between test performance and EXPPUPIL is not significant with the high SES districts, but is significantly positive (at the one percent level) for the low SES districts.

This finding at least hints that equalizing educational opportunity may be better achieved by basing assistance on characteristics of children rather than characteristics of school districts. At the same time, however, the role of spending in learning is still moderately weak. Increasing funding by a large amount, \$1000 per pupil, is estimated to raise the passage rate in the low SES districts by a relatively modest 3.87 percentage points. The estimated elasticity of performance with respect to expenditure, calculated at the means, is a fairly low 0.35. Even so, a \$1000 per pupil expenditure is estimated to close over 38 percent of the gap between the mean passage rate in the low SES school districts and the mean rate for all districts. Since fewer than 25 percent of public school students are in the low SES districts, a \$1000 per pupil increase in funding to just the low SES districts would raise total public funding for schools in Ohio by less than five percent.

EXPANDING THE MODEL

It might be argued that the analysis to this point ignores some variables of interest and that omitted variable bias may generate spurious conclusions, particularly regarding private school competition. Accordingly, we added 14 additional independent variables to the model. The brief definitions of variables in the expanded model are included in Table 4 and the results are reported in Table 5.

The relationship between PRIVATE and the dependent variables remained consistently positive, and two of the four regressions were significant at the one-percent level. This strengthens our conviction

that the first hypothesis of a negative relationship between private school enrollment and public school performance must be rejected, and also enhances our earlier observation that there seems to be some positive effects of an increased presence of private schools on public school performance. A second variable that may proxy for public school competition, DENSITY, measured the number of public school districts in each country. Some researchers (Zanzig 1997; Hoxby 2000) have investigated and observed a positive relationship between “traditional school choice,” i.e., choosing between public school districts, and learning. While the coefficients in each of our regressions had the expected sign, the results were statistically significant only in the case of the DROPOUT measure of performance.

Table 4. Definitions of Additional Variables in Expanded Model

Variable Name	Description
BIG8	Dummy variable equaling 1 if the district is one of Ohio's 8 large urban centers; 0 otherwise
RURAL	Dummy variable equaling 1 if the district is rural in nature; 0 otherwise
SIZE	District Size
ACTIVITIES	% of Student Body engaged in non-sport extracurricular activities
INSTRUCTION	Per-pupil spending on instruction
SPECIALLED	Per-pupil spending on special education
VOCED	Per-pupil spending on vocational education
OTHERCOSTS	Per-pupil spending not included in INSTRUCTION, SPECIALLED, or VOCED
CLASSSIZE	Students per teacher, K-12
LOCAL	Percentage of district's funding from local sources
SALARY	Average annual salary of district teachers
MA	Percentage of teachers with a master's degree or higher
EXPERIENCE	Average number of years of teaching experience, instructors
POVERTY	Poverty Rate of school district population, 1990 Census
DENSITY	Number of public school districts in county

We disaggregated EXPPUPIL into four parts. In general we observed no statistically significant relationship between any form of spending and student performance, with the important exception of OTHERCOST, which includes most non-instructional related expenditures (bus transportation, administrative salaries, non-teaching professional staff, maintenance, etc.). In two of four cases, increased spending per pupil for these items was associated with a statistically significant (at the 5

percent level) *reduction* in student performance. This finding is not novel (Anderson, Shughart, and Tollison 1991; Brewer, 1996). Having a larger part of expenditures financed locally seemed to make no meaningful difference, contrary to the findings of some researchers, including Jimenez and Paqueo (1996).

Table 5. OLS Regression Results for Expanded Model

Independent Variable or	Dependent Variables			
	9THGRADE	4THGRADE	12THGRADE	DROPOUTS
CONSTANT	-282.88 **	-177.42 **	-220.74 **	68.25 **
PRIVATE	0.0693	0.1874 **	0.1782 **	0.0120
MINORITY	-0.1511 **	-0.1642 **	-0.0380	0.0144
INCOME	-0.0001	0.0003	-0.0002	-0.0000
ADC	-0.2219 *	-0.1531	-0.1673	0.0541 *
BA	0.3625 **	0.3100 **	0.6143 **	-0.0722 **
ATTENDANCE	3.5919 **	2.2149 **	2.7271 **	-0.6982 **
SPORTS	0.1253 **	0.1119 **	0.0647	-0.0002
BIG8	17.7147 **	7.2431	21.1839 **	-8.1734 **
RURAL	1.2786	1.6809	1.4937	-0.0144
SIZE	-0.0001	0.0000	-0.0001	0.0002 **
ACTIVITIES	0.0814 **	-0.0005	0.0260	-0.0015
INSTRUCTION	0.0009	0.0014	-0.0029	0.0009 *
SPECIAL	-0.0050	-0.0018	-0.0052	0.0009
VOCED	-0.0040	-0.0035	-0.0094	-0.0009
OTHERCOSTS	-0.0019 **	-0.0021 *	-0.0018	0.0000
CLASSSIZE	-0.1923	-0.1943	-0.1134	0.0669
LOCAL	-0.0099	-0.0098	-0.0217	0.0087
SALARY	0.0003	0.0002	0.0006 **	-0.00000
MA	0.0317	0.0151	0.0537	-0.0011
EXPERIENCE	0.1765	0.8030 **	0.0049	-0.0583
POVERTY	-0.0976	-0.1460	-0.0823	-0.0218
DENSITY	0.0858	0.0555	0.0450	-0.0449 **
R ²	0.7306	0.6021	0.5785	0.4649
F-STATISTIC	71.98	40.16	36.43	23.06

** Significant at the 1 percent level; * significant at the 5 percent level.

In general, variables involving school district use of resources remained weak, while variables relating to family characteristics or student motivation and behavior were relatively strong. Private school competition clearly seems worthwhile to encourage, but by itself, it appears to be no panacea for low overall levels of student performance.

CONCLUSIONS

Our findings clearly reject the initial proposition that increased private school competition lowers the aggregate performance levels of public school students. The Ohio evidence does not support suggestions that increased competition “will destroy our public schools.” Moreover, the opposing proposition that an increased private school presence enhances public school academic achievement seems to have validity.

Like all education data, the indicators of performance used here are not perfect (e.g., there is no measure of physical or fine arts development), although they cover a large core of basic knowledge. On balance, however, this evidence appears to reject the proposition that, other things equal, the higher the percentage of students attending private school the lower the performance of students attending public school.

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**Congressional Perspectives on the Influence of Businesses through
Government Relations: Congressional Staff Members from the Ohio
Delegation Comment on Effective Strategies**

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ABSTRACT

BUSINESS GROUPS MAKE UP A POWERFUL SECTOR OF INFLUENCE WITHIN THE INTEREST GROUPS THEORY OF POLITICS. THIS WORK EXAMINES TOP STRATEGIES BUSINESSES AND ALLIANCES USE IN ORDER TO INFLUENCE GOVERNMENT. USING QUALITATIVE INTERVIEWS, THE EFFECTIVENESS OF THESE STRATEGIES IS EVALUATED THROUGH THE PERSPECTIVE OF CONGRESSIONAL STAFF MEMBERS FROM THE OHIO DELEGATION OF THE 107TH CONGRESS.

Introduction

IN 1998, THE U.S. JUSTICE DEPARTMENT LEAD BY JANET RENO, FILED A SUIT IN FEDERAL COURT AGAINST THE MICROSOFT CORPORATION. THE ANTITRUST SUIT SOUGHT TO ELIMINATE MICROSOFT'S FISCAL COERCION OF PC MANUFACTURES BY HEAVY FINES AND THE REMOVAL OF SUBSIDIES TO THE MANUFACTURES WHEN THEY AGREED TO USE ONLY THE MICROSOFT INTERNET BROWSER, INTERNET EXPLORER.¹ UNTIL THIS TIME MICROSOFT HAD NO GOVERNMENT RELATIONS FIRM IN THE NATION'S CAPITOL. MICROSOFT DECLARED THE CHARGES UNFOUNDED AND BEGAN TO NEGOTIATE WITH THE JUSTICE DEPARTMENT. IN ADDITION, MICROSOFT'S APPROACH APPEARED TO BE ONE BASED ON THE PREMISE THAT THE GOVERNMENT HAD OVERSTEPPED ITS BOUNDS AND SOUGHT ACTIONS OUTSIDE THE GOVERNMENT ARENA TO FORCE THE JUSTICE DEPARTMENT TO BACK DOWN. THIS APPROACH FAILED MISERABLY AND AT GREAT COSTS TO MICROSOFT THE ISSUE WAS NOT CONCLUDED UNTIL A RELATIONSHIP WITH A NEW ADMINISTRATION HAD BEEN FOSTERED.

During the same time period the Federal Trade Commission (FTC) filed suit against Intel Corporation. The FTC claimed that Intel omitted critical data concerning its sale of microprocessors to its customers. The lawsuit went on to claim that Intel had done this to gain leverage in a patent dispute thus limiting the amount of technological information that potential competitors may copy. Intel had long had an effective government relation's staff in Washington. Using its inside track, Intel was able to negotiate with the FTC and settle the suit in 1999. Unlike the Microsoft case the Intel suit went virtually unnoticed with little damage to the company.

As seen from the above examples a firm's ability to deal with government decision-making is crucial to that firm's successes or failures. In addition to dealing with market threats from competitors, businesses must also be aware of non-market or political risks. It is not simply commonsensical to believe that a business's ability to deal with the government matters to its profit margin. This theoretical idea is backed by empirical research, which shows that shows a positive relationship between a firm's effective political behavior and its increase in value (Hillman, Zardkoohi and Bierman 1999; Shaffer, Quasney and Grimm 2000).

Is the study of the business-government relationship a political issue or an economic/business issue? From an economic or business standpoint a firm would certainly like to know the exact cost-

¹ For more detail of this account see "U.S. vs. Microsoft: The Overview" *New York Times* (19 May 1998).

benefit analysis of its dealings with the government. Additionally firm's are concerned with the "right course" in pursuing effective governmental relations in order to decrease costs and maximize profit. However, a political science perspective would ultimately be concerned with how such a relationship influences the political sphere. Although this issue teeters on the economic and political divide this work will singularly focus on the political perspective of the relationship. More precisely, this study will explore the business-government relationship from the eyes of very influential legislative aides from the Ohio Delegation of the 107th Congress.

METHODOLOGY

From the eyes of these Congressional aides what is the right course of action a firm should pursue when approaching Congress? To get at these results, I asked legislative aides from 17 Ohio Congressional offices including the Senate offices, five open-ended questions concerning effective tactics and methods employed by interest groups in their quest to receive a positive action from the offices.² Although the questions will be outlined below, they will encompass several themes: 1) The effectiveness of alliances and the reasons firm's and other groups join together in their political pursuits. 2) The political strategies of contract or outside (Washington based lobbies) versus the tactics of employee or government relation specialist within the firm's organization. 3) The effectiveness of grassroots communication and whether or not a line is drawn between legitimate and illegitimate pleas to Congressional offices. 4) The differences between the outside the district "CEO" approach versus the managerial approach from within a member's Congressional district. 5) Finally, specific examples of the steps or strategies that an effective interest group takes in pursuing its political goals.

Before narrowing down to the key issues and themes surmised by this work it is necessary to review the broad outlay of the pluralistic and interest group theories in which the research will preside. This work is based in the political theory of interest group pluralism. This theory defines politics as a process group struggle. These diversified groups represent many interests and often create equilibrium in the power struggle by opposing each other. However, there are times one group may dominate only to succumb to the power of new group in time. Thus the review of literature examines first the seeds of pluralist thought within the confines of the "American experiment". The review is then broadened by

² Of the 19 U.S. Representatives from Ohio, four were not interviewed. The offices of Representatives Portman (R- 2nd district) and Kucinich (D- 10th district) refused to participate while the offices of Representatives Chabot (R- 1st district) and Traficant (D- 17th district) had reoccurring scheduling problems.

more recent observation of the pluralistic theory and some objections to it, which leads to the more tightly focused interest group theory. Next, the study will explore the direct effects of interest group lobbying. The interview questions will be based from the contradictory themes of this literature. Since most political science studies have sought simply to define the effects of contributions by interests groups, this topic will also be briefly explored. Finally, the interviews, Congressional viewpoints and conclusions will be presented.³

³ The interviews were given on two conditions. First the Congressional office in which the interview took place will not be revealed in the paper. Secondly the quotes and any other information recorded, was given under the condition of anonymity.

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Literature Review

Governments have had an impact on organized profit seeking groups as long as the two institutions have existed. However, this relationship is far from one sided. Such groups or businesses have always been able to influence and direct governmental rule making and protocol for the market place. This relationship has shaped the direction of industries, the regulatory structure of imports and exports, the tax structure and even the nature of government itself. This relationship has occurred in one sense or another in every type of governmental institution the world has ever known.

In the American political system this age-old relationship has taken on a unique and particular shape. To some this relationship has presented a dilemma (Olson, 1982; Berry, 1989). On the one hand, the American governmental system is characterized by its constitutional dictates where individuals and groups have the freedom to organize, petition and redress governmental decisions. On the other hand, the American system has been seen as far less than democratic as particular groups organize and lobby government to pursue their self-interests. Such interest groups, if effective, are able to thwart the interest of others or the public interest (however it may be defined in a particular situation) and control at least a portion of government to continually favor their selfish goals.

This discussion is not new and the nation's founders have addressed the issue of group pressure on the governmental process. In *Federalist* No. 10, James Madison gave a clear and succinct view of the situation that has materialized since mankind has begun to organize themselves. Groups, factions or parties as he called them, were inevitably "sown in the nature of man". This groups

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were pursued self-interests by joining together through “some common impulse of passion or of interest”. Furthermore Madison states,

A zeal for different opinions...an attachment to different leaders ambitiously contending for pre-eminence and power... have, in turn, divided mankind into parties, inflamed them with mutual animosity, and rendered them much more disposed to vex and oppress each other than to co-operate for their common good... But the most common and durable source of factions has been the various and unequal distribution of property. Those who hold and those who arte without property have ever formed distinct interests in society... A landed interest, a manufacturing interest, a mercantile interest, a moneyed interest, with many lesser interests, grow up of the necessity in civilized nations and divide them into different classes, actuated by different sentiments and views (p.79).

Although Madison worried that a powerful faction may eventually be able to control society he rejected any solution that would restrict the freedoms that permitted people to pursue their self-interest. Such a solution would be “worse than the disease”. The right solution would entail a government structure bound by the Constitution. Only this form of government would be able to deliver the necessary checks on the impulses of factions. This representative government whose authority would extend over such a large and country would dilute the power of competing factions and produce policies that would in the public’s interest.

Madison’s thoughts and concerns about the factions of man and the way to counteract such tendencies was revived, in grand scale, by David Truman’s *The Governmental Process* (1951). Truman painted a vivid picture of how to best observe the politics. Blending theories from social psychology, anthropology and even philosophy Truman defines politics as the interactive struggle between groups. “In all societies of any degree of complexity...” Truman declares, “...the individual is less affected directly by the society as a whole than differentially through various of its subdivisions, or groups.” (p.15). Truman continues by examining a particular type of group: the interest group. This group is denoted by its basis of shared attitudes and the fact that this type of group “...makes certain claims upon other groups in society for the establishment, maintenance or enhancement of forms of behavior that implied by the shared attitudes.” (p.33). Such a political system of competing interests,

according to Truman, approximately results in policies the public wants while no single interest dominates. This present work will rely on this definition when exploring interest group behaviors. In addition all groups that lobby the government are found within the interest group definition.

E.E. Schattschneider further developed the interest group theory in his work *The Semi-Sovereign People* (1960), by showing how groups link the public with a set of choices in the political realm. To him the organization of groups mobilized biases in the realm of governmental decision-making. In this realm, Schattschneider was most concerned with the interchange of economic interests versus social interests wherein the government and businesses groups kept each other in check. Yet even within the interest group framework Schattschneider alluded to the fact that ultimately the current socio-political system does not encourage the acceptance or political inclusion of those who comprise the lower socio-economic tier. The solution to this disenfranchisement is not "get out the vote drives" but for government to become concerned with exciting topic matter.

A decade after Truman's work Robert Dahl published *Who Governs?* (1961), which brought group theory to a heightened status of pluralism. Dahl studied local politics in New Haven, Connecticut to see who or what influenced major policy outcomes. He found that different groups of people were influential in three areas of politics: political party nominations, urban development and public education. Certain groups in society were interested and became mobilized in certain issues that came before local government. Since these groups were active on certain issues the decision makers sought their views and support. Thus instead of defining democracy as 50 percent plus one, the many or plural interest groups influenced the decision making process. The compromise between affected groups produced a stable political system by developing a complex and continuing consensus based on democratic ideals.

Dahl's systematic treatise on American politics acknowledged the earlier theory of elites best presented by C. Wright Mills in his work *The Power Elite* (1956), which defined the political process as completely dominated by a small group of wealthy and powerful individuals. However, Dahl countered that the working of interest group politics offset the disproportionate amount of resources held by such elites. Thus group politics forced the elites to respond to a broad range of interests rather than the interests of a small group of powerful individuals. At this point the pluralistic theory became the dominant influence in American political thought.

However, the outright acceptance of pluralism at face value was effectively challenged. In his book *The End of Liberalism* (1969), Theodore Lowi leveled criticisms against the pluralist theory by

stressing its consequences: the justification of the status quo. He explains that when lobbying groups arise to protect a certain segment of society the government begins to build policies that favor such groups. However, this favoritism comes at the expense of other groups rather than compromise between the competing groups. Therefore not all relevant interests are equally represented as pluralism suggests. A better or more accurate definition for the political process is simply the interest group theory where some groups through better organization and resources may for a long while dominate the process.

If Lowi's critique holds true in the fact that pluralistic tendencies produce a conservative regime resistant to change then why is there periods of time where the political realm experiences major and dramatic changes in the balance of power? Frank Baumgartner and Bryan Jones develop a theory of how a stable system can be turned on its end in a very short time. Their book *Agendas and Instability in American Politics* (1993) effectively demonstrates how this done. They show that "punctuated equilibrium" may occur when policy images (the way a policy is viewed) undergo changes through empirical information and emotive appeals by an interest group to the larger population. For an example the authors examine the power of the governmental subsystem that controlled the civilian nuclear industry. An industry that was once defined by stability and hope for the future quickly succumbed to anti-nuclear groups who were able to change the image of nuclear power after the Three Mile Island incident. Baumgartner and Jones successfully showed how a seemingly impenetrable governmental agenda could be dismantled by outside interest groups through such "waves of criticisms".

THEORY

The purpose thus far of this broad review is to provide the setting in which we may attach the effects of interest group lobbying and more specifically lobbying from business groups. As we have witnessed the governmental process can be described by competing interest groups that have influence through different governmental spheres. Although not every affected interest is equally represented, those interests that are organized, motivated and can generate resources do in fact influence and at times control the agenda. Even when the policy venue is tightly controlled by a governmental subsystem, interest groups may find the window through which they may dismantle a once stable system in order to create a new system where their issues and policy images dominate the process. At this point we must turn to the literature and research that describes the techniques and strategies that effective interest groups use in order to gain access and ultimately influence governmental process.

More specifically, this work will explore the dynamics that take place within the largest and arguably the most influential body of the federal government: the U.S. Congress.

The focus of this study is on the business-government relationship within the sphere of the U.S. Congress. Many researchers agree that business interest groups are the most influential of all groups (Schattschneider, 1960; Lowi, 1969; Mack 1997). This fact becomes quite apparent when one considers that the political establishment depends upon the will of their constituency; the constituency in turn largely depends upon the goods, services and financial security from the private sector market place. Therefore it is always beneficial for a politician to claim responsibility for an increase of jobs and an upturn in the economy. However, business interest groups are quite diversified and often compete against each other in the political sphere. Both Microsoft and Intel's lawsuits brought on by the complaints of competitors to government agencies. In addition business groups are often at odds with the lobbying effects of social and environmental interest groups. For example, in 1993 Disney Corporation had purchased 3,000 acres of land in Virginia to build a history-oriented theme park. As soon as the plan was announced a coalition of several interest groups sought to derail the project. Local landowners opposed for the effects the project would have on traffic. Historian groups opposed because they saw it as a vulgarization of history. Sierra Club and the National Resources Defense Council opposed it because of environmental concerns. The Black History Action Coalition opposed because they believed the park would misrepresent the slavery issue. Over 60 groups in all opposed Disney's project and despite Disney's best lobbying and public relations campaigns it eventually had to give up the project.

The political activity of business interest groups will differ depending on the type of political threat that it faces. Such political risks produce political activities employed by the firm or alliance to reduce, remove or reconfigure the threat (Keillor, Wilkinson and Owens, 2002). Businesses must keep alert to government changes in policy that produce political or nonmarket risks that will affect their market outcomes. Much of the business lobbying literature outlines the strategies and steps taken by affected groups. Different strategies, which are deemed effective, are employed in various situations. Yet how do the congressional offices that ultimately decide in favor or against such groups perceive these strategies? Below I will identify some top strategies as presented by business lobbying and interest group scholars and then examine congressional responses to those strategies. Will the responses support or deny the assertions of these scholars? Are there themes underlining the views presented by

the congressional offices that will add to our knowledge of the business-government relationship? These will be some of the objects pursued below.

THE CONTRIBUTION DEBATE

One of the most empirically studied aspects of the group-government relationship is the effect of money from groups being used to finance the campaigns of candidates for government positions. Asserting that the contribution is an undemocratic way of influencing government decisions, progressive tendencies continue to readjust and redefine this sphere of political participation. One scholar states,

Maintaining the integrity of government means that we most somehow balance the need to fund campaigns, the desire to have people actively involved in elections, and the obligation to keep government from being unduly influenced by those with the most money to contribute (Berry, 1989, p.117).

Discussing the merit of such normative views is beyond the scope of this study, however, the question of the impact of money remains to be at the forefront of group pressure thought.

Although much controversy continues to shroud this issue, John Fren dreis and Richard Waterman (1983) present the most decisive insights of the contribution effect. Their research suggests a slight correlation between PAC contributions and the vote of a Senator. However, this finding holds true only when several other factors are non-existent. These factors include the party and constituency influence and personnel ideology. Thus the slight correlation reveals that when the issue is of no salience to the Senator's constituency, there is no pressure from the party, the issue does not counter the Senator's personal ideology and a re-election bid is near the Senator maybe influenced through the access a particular group gains through the contribution. The issue now becomes one of access within the contemporary confines of campaign finance laws.

THE POWER OF THE ALLIANCE

One of the most formidable weapons in the arsenal of interest groups is the ability to unite. Most businesses are already united in some form of an industry alliance. When a firm comes to a political obstacle or it is dealing with new laws which significantly effect the operation of the firm it will most likely pursue direct lobbying, while the focus of the alliance is to manage the overall environment between government and industry desires (Baysinger and Woodman, 1982). Alliances (sometimes referred to as associations) are built out a firm's need to keep in communication with the governmental

sphere and deal effectively with it. In joining together particular firms are able to produce a greater level of influence at lower cost than approaching government alone (Mack, 1997). Coalitions on the other hand, are of a more temporary nature, specifically united to take on a specific cause. Within a coalition there will be many diversified interests, which usual dissolve ties after the goal has been obtained. The interest here is the alliance for this association has the ability to present a united front of an entire industry. However, when this is the approach taken by a firm it steps on to a level playing field, that is, the goals it pursues will be the same as other firms who maybe in direct competition with it. Why would a firm give up its ability to seek special incentives or regulations from the government? Under what conditions will a firm take the “go-it-alone” approach? In order to explore these dynamics I asked aides in the Congressional office the following question:

Q: Are firms more effective in communicating with Congress when they approach Congress within the membership of an industry alliance or when they approach congress as an individual firm? In which cases would one approach be more effective than another?

When asked about the effectiveness of alliances vs. individual firms the congressional opinion was split with three aides declaring, “it depends”. What accounts for the division in perception between the two approaches? One Democratic aide stated, “Individuals from the district are always more influential with their Representative members. The Senate offices will take a closer look at the broad appeal from Alliances.” The aide continued with an example, “If PolyOne [a company within the district] went against NAM (National Association of Manufactures), PolyOne would win – the is especially the case if PolyOne demonstrates that it will lose jobs in our district in the process.” One Senate aide seemed to verify this assertion by noting, “An alliance brings a broad and cohesive view to the table.” Another Senate aide said, “Industry alliances... give industry wide trends and show us the bigger picture. If two firm’s oppose each other [within the State] the alliance will show us a more neutral picture on which we may make a fair decision.”

Although there seems to be a division between Representative offices the theme of constituency will becomes clearer. One democratic aide responded, “We need to hear from a member in our district – If NAM wants to present an issue to our office they should do it through Goodyear, a company in our district.” Another Democratic aide continues, “If an alliance meets with me on a particular issue, I want to know how it will affect our constituents and then I want our constituents to verify the alliance’s issue.” Even a Republican aide who stressed the importance of an alliance admitted to the influence

within the district by stating, “We have very good relationships with a number of alliances – they supply us with the information we need. Although they legitimize actions that need to be taken they will have to show us how their desires concern our district.”

Three conclusions can be drawn from the investigation of this question. First, although Republican offices emphasized alliances and Democratic offices put particular stress upon the importance of an individual firm, their end concern was unified around the effects of issue on their district or constituency. As one aide states, “An alliance is only as powerful as the members in our district allow them to be... if a firm that belongs to an alliance comes to us requesting something contrary to what the alliance wanted – our perception of that alliance is weakened.” Secondly, even though belonging to an alliance is a preferred way to control the cost of government-relations there are strategies firms must pursue when their particular interest is not represented by an alliance. A Republican aide declared, “A firm must rely on the alliance to pass industry wide laws which it sees as favorable... Yet at the same time when a law is passed that hurts a particular firm it will approach us independently for a waiver to the law.” Thus when an entire industry might not be affected by a new law a singular firm must take the “go-it-alone” approach. This approach is most effective when that firm shows that it will either lose jobs or go out of business because of the new law. The third conclusion seeks to address the possible effectiveness of an alliance when the alliance has no representation within a Congress member’s district. From the interviews there are two things an alliance may do to develop influence. The first strategy is to seek party pressure. Several aides noted the relation a particular alliance has with the opposite party. A Democratic aide commented, “The Chamber of Commerce has become an arm of the Republican Party and it uses this power to build a consensus amongst its members.” Secondly, some senior members (within the same party) have influence over other members. A Republican aide stated that although his office did not feel strongly about a certain issue the Representative’s mentor highly favored it and “...we went along with it”.

THE WASHINGTON, CONTRACT LOBBYIST VS. THE IN-HOUSE LOBBYIST

One survey of Fortune 100 companies reported that 73 percent of respondents had government-relations staff in Washington while 97 percent of respondents reported that they had routinely hired professional or contract lobbyists (Watkins, Edwards and Thakrar, 2001, p. 68). Although many more businesses rely on the alliances they belong to in order to gain information on the activities of Congress,

having a government-relations unit is still deemed the best way to continually monitor and access Congress (Watkins et al., 2001, Mack, 1997). The reasons why an interest group may hire “outsiders” vary from cost reductions to the inability to carry out very specialized tasks (Berry, 1989). A Democratic aide stated, “I think most firms in our district (like the Mead Corporation) hire D.C. firms – they farm out the Federal stuff and let their in-house lobbyist take on state issues.”

The skills, talents, contacts and credentials a lobbyist has usually takes a long time to build. In this case a contract lobbyist might be a firm’s best bet to obtain their lobbying goals. However, these credentials once obtained remain with the contracted professional and not with the firm. If a firm or alliance is willing to invest the time and money it will be able to generate such credentials for itself as an organization (Mack, 1997). While contract lobbyist may know the best strategy to use in influencing Congress, such outsiders may not understand the nuances of how a given issue impacts the client (Watkins et al., 2001). How important are the various nuances brought about by contract or in-house lobbyist to the congressional offices who deal with them? Furthermore in what conditions would the Congressional aides prefer one to the other? These issues will be examined through the second question of the interview.

Q: How would you compare the effectiveness of a Washington based contract lobbyist with an in-house (employee) lobbyist? Do contract lobbyists know the political system better and do you think employee lobbyists know the business they represent better?

Of the 17 congressional offices interviewed none stressed the importance of the in-house lobbyist. Eleven aides responded that they would rather deal with the more politically savvy contract lobbyist and the remaining six stated that they found a combination of the two to be the most effective way a firm or group could communicate with them.

The reason for the preference of Washington lobbyists appears to center around the aides’ perceptions of the lobbyist communication and efficiency skills. One aide states, “Contract lobbyists are more effective for proposing legislation... they can draw our office into negotiations with other offices – they have those types of connections.” Another Republican aide said, “D.C. lobbyists are easier to work with – they are direct and to the point- they know what matters to [our Representative]. A Senate aide continues in this same vein, “Professional lobbyists don’t come to us unless they are very prepared. They outline their proposal such as a change in legislation or support for a favorable bill – they make their case and finally come to an “action item”, which is their actual request.”

Some of the unfavorable views toward in-house lobbying include the inability to follow through on an issue, the lack of knowledge about Congressional procedure and making irrational requests. “In-house lobbyist maybe able to give more detailed information particular to their firm, but their view on how to achieve [their goals] are very narrow”, said a Democratic aide. Another aide noted, “Some business [in-house] lobbyists are not briefed well on our Representative’s opinions.” In frustration a Republican aide exclaimed,

The teachers unions send out teachers from our district – they practically bitch at us and then wonder why we don’t want to sign on to their legislation... Sometimes they sit there waiting, as if we are supposed to sign it in their presence. A contract lobbyist knows how not to alienate the staff. The Federal Government Employees Union – we don’t support their stuff – one time some of their members actually got into a [verbal] fight with [the Representative] over the balanced budget. [Our Representative] will not meet with them anymore – why should we, they have never voted for [our Representative] and they always give money to whoever will oppose [our Representative]. Lobbyists need to find something to agree on and even when we may disagree we can still be pleasant – there is no compromising with someone you have to kick out of the office.

The most interesting theme from this interview question was the aspect of combining the two types of lobbyists. If a large firm or an alliance is dealing with a very important issue combining the connections and strategies of contract lobbyist with the technical knowledge and constituency concern of an in-house lobbyist appears to be the most effective way of communicating to congressional offices. “Together, bring them in together,” says a Republican aide, “...the contract lobbyist will lead them along and the inside lobbyists will give me the details.” Another aide states,

In my experience, the most effect means an organization can use is to have them work together. The in-house [lobbyist] is the expert of the business and the contract lobbyist aids us in writing the legal verbiage and moves the issue along to other offices – often the contract lobbyist will set up the appointments and they will make sure the issue is addressed before mark-ups.

This combination strategy appears to be a rather new approach in the in influence game. It also seems to be the most effective form of communicating to congressional offices.

GENUINE GRASSROOTS OR ASTROTURF

Interests groups primarily have three ways of gaining access and influence with elected officials. The first two are contributions and valuable information. The third leverage point is the mobilization of the members of the group to establish grassroots communication with congressional offices. Typically the communication is delivered in three formats: direct mail, phone calls and E-mail. When a business group sees a political threat to their organization they will often mobilize their employees to communicate their “fears” to their Representatives (Watkins et al., 2001). However, there are several factors to consider when using mobilization tactics. First, will the communication appear to be spontaneous or scripted? Secondly, will the tactic be viewed by the congressional office as positive or negative and with what results? Finally, such a strategy should not seek to demean the Senator or Representative (Hrebнар, 1997).

One observer defined obviously manufactured communication as “astroturf”, which brings little or even negative outcomes to the desired goal of the group (Mack, 1997). Charles Mack continues in this vein by stating,

Several thousand letters from their members are not likely to have a greater effect on a legislator than several hundred; a vast number of telephone calls overwhelms legislative offices; and if they recur frequently from a particular interest group, they can generate anger (1997, p.189).

One former press secretary to a Senator “...argued that letters and ... telephone calls had little, if any, effect” on the stance of the Senator (Hrebнар, 1997). Most likely the Congressperson decides on an issue based on how it will affect his or her constituents. Only when an election is eminent and the constituency outcry is great will a change of mind be considered (1997).

Q: Is there a line drawn between legitimate grassroots communication from constituents and non-effective, manufactured communication (“astroturf”)? If so, where would that line be located?

Of the 17 congressional offices queried, 12 offices supported the literature marking a salient line between effective communication and overkill. The remaining five offices, including the two Senate offices did not draw such a distinctive line.

What are the reasons for the difference between effective and ineffective communication? A Democratic aide stated, “Many times they don’t know what they are saying (in form letters).” The aide

continued, “We have a log for form letters and E-mails but it doesn’t receive much attention. The only time it is used is when [the Representative] wants to state the number of letters that support an issue [the Representative] is for.” A second Democratic aide with several years of experience stated, “Yes, a line is drawn... in the 80’s ATT made it’s grassroots communication look real, now its easy to see astroturf. My line: is there effort because their canned letter gets our canned response.” A Republican aide responded, “Too much [letters and E-mails] can be ineffective. Liberal groups will jam our fax with the same line... its not effective and it is a pain in the butt. Post cards are completely ineffective; they need to make phone calls instead.” A veteran, Republican gave one of the most informative responses,

There is a definite hierarchy in communication. At the top is the personal meeting with the Representative. Next is the meeting with staff members. Telephone calls with an original message are third and hand written or hand typed letters that are originally composed come next. The least effective [form of communication] is form E-mails and high-tech postcards –these are always answered last. I remember responding to some of these types of postcards and the people whose name was on the card said that they had not written about that subject [in question]. This ticked me off.

Of the five aides who made no distinction between legitimate and illegitimate communication cited two factors for their reasoning: volume gives an issue saliency and large numbers keeps the office abreast to the stances of particular interest groups. A Republican aide said, “Form letters are effective... 3000 post cards gives an issue saliency. Ten original letters simply are not as effective.” A Democratic aide responded, “Post cards from NRA [National Rifle Association] keep us abreast of how large groups are educating their members. Mass mailings are effective because we know that this is how people are getting their information.” The response of the Senate office aides differed in the sense that although mail was not a general concern for them they counted volume as more important. One senate aide described this by stating, “The volume of letters, even if they are astroturf - are louder than a relatively few original letters. Shear numbers are important.”

By and large the best communication strategy should include personal contact from the interest group coupled with a small but effective letter campaign from the Congressperson’s district. However, to influence a larger, Senate office it maybe effective to inundate the office with correspondence on a particular issue. An underlining motif to the proposed question is the correspondence in whatever amount is deemed favorable if the issue is already supported by the Congressperson.

THE OUT-OF-DISTRICT CEO VS. THE DISTRICT MANAGER

A common business strategy in political communication is the use of management to convey the concerns of the company. Many plant and district managers visit members of Congress on a regular basis (Watkins et al., 2001). By doing this companies establish a rapport with the congressional office and keep representatives mindful of their concerns in case proposed legislation counters their goals. However, there is a significant amount of information supporting the use of a CEO (who may not be located in the district or state) in order to gain critical leverage with congressional members (Mack, 1997). Which level of management is more effective? And in what conditions are they effective?

Q: When approached by a firm or an association, do you find it more effective for someone like a plant manager within your district to address particular concerns of the firm or is the CEO of that same company, who does not reside within your district, but may have a wider vision of the firm's concerns?

Of the 17 aides, 13 responded that the district plant manager would be a more effective approach a firm could make in communicating its desires. Two aides replied in favor of the out-of-district CEO while two more aides placed an emphasis on both district manager and CEO communication.

The themes revolving around the efficacy of a district manager point to locality. One aide stated, "We want to here from our constituent first... if a company feels the need to send in a CEO to address an issue it should be a card that is played sparingly." Another noted that, "A manager from [the district] is ten times more important than a CEO. They will be able to talk about the specific nuts and bolts of the business." A Democratic aide giving an example said, "During the LTV (steel manufacturer) crisis it was the plant managers who we were in direct contact with."

The two aides in favor of the CEO approach stressed the importance that was understood by a visit from a CEO. However as noted above this strategy should be used with caution as not to lose its effectiveness. The first aide stated, "A CEO is going to bring a higher profile to the issue –regardless of where they are based- it needs to be a major issue though or they will lose their effectiveness." The second aide added, "For gaining our attention a CEO would be more effective... relationship building between our office and the firm should be done at a staff level though." Two aides stressed that the appearance of both CEO and plant manager make the most effective approach. One aide said, "We like to hear from both... a CEO will give us a broad picture while the manager will tell us how the company

within the district is functioning.” Another stated, “We would always be curious about what a CEO has to say – but hearing from our district is very important... we would like to see them both on an important issue.”

EXAMPLES AND STEPS TOWARDS EFFECTIVE COMMUNICATION

Business lobbying books outline many steps and approaches firms should take when communicating with Congress. One outlines the “Commandments” of lobbying while another draws diagrams and speaks of “paradigms” for gaining influence (Wolpe, 1990; Watkins et al., 2001). However, which steps or strategies make an impression on the congressional aide? What are examples of impressive and effective lobbying? This portion of the work will examine these themes through the eyes of the influential aide.

Q: Would you give a specific example of effective communication from a business or association? Did you perceive a type of format they followed or steps they took in presenting their message?

A Republican aide gave an example of ineffective lobbying in order to make a point about what is effective:

The Ohio chapter of the National Emu Society once came to our office to ask for poultry regulations that would help emu farmers. I asked them if there were any emus in our district and they didn’t know. I let them know that we needed to have a reason to be interested in their issue. Later they came back and said that was an emu farmer in the next district over – this reply just didn’t cut it for me. Not only was this group unprepared to talk to us they could give us no reason to get involved. The most important thing a firm could do is to show us how an issue will impact our district. They also need to learn how to link their issue with the philosophical beliefs of [the Representative].

This aide continued to diagram an effective approach, “Keep the meeting under 15 minutes... state what you want, how it will help our district, who is for it and who is against it. Leave a one page executive summary that I can keep in a file. I most likely will not go over a stack of papers a group gives me – be concise.” The aide then gave another example of influence within the congressional arena:

KERA, a certain parks department, undercut Regula (R-OH, 16th dist.), who was

[the Representative's] mentor in Congress, on a bill they were putting together. Instead of working with him they decided to circumvent him. When they came to us to back the bill I asked who was for it – they gave names like Arme y, Delay and Boehner – guys we usually side with... but when they stated that Regula was against it they lost our backing.

A Democratic aide outlined five effective steps:

The best approach is to first send an E-mail stating a desire for a meeting. Then make a phone call to set the meeting up. Before you come, send a formal letter stating the background of the issue and the request. Be concise during the meeting and leave a one-page summary. And always follow-up on the issue – tell us what you are doing with it.

Several other aides presented variations of these effective steps. In doing so the leaving behind of a one-page summary always appeared important.

One Republican aide talked about the importance of not simply presenting the problems that a group is facing but also present possible solutions:

We have had farmers come in saying that they were going out of business despite federal subsidies and ask us to fix it. Effective groups will pinpoint the problem and suggest viable solution. Honda is good at this. They saw a problem with the upcoming steel tariffs and drew up a letter stating that they used special steel that was not manufactured in the U.S. and therefore requested an exemption. We re-wrote their letter with the facts and research they presented and then they walked it through Congress – they made it easy.

Many staffers noted aspects of communication that were effective. These points are summarized by adjectives such as “straight-forward”, “to the point” and a listing of three main concerns. Nearly all respondents stressed the necessity of the lobbyist to be truthful or they would not be listened to again. Some were also interested in the weak points of a lobbyist's presentation. One aide stated, “They need to be able to show be both sides of the issue and then show how their response is the best.” Finally, one Senate aide made it clear that a firm's threat of lost jobs in the state only works once “...so they better pick the most important issue for it.” The underlying argument of a group's approach should always outline how their desires are in line for what is best for the district or the state.

CONCLUSIONS

This paper began with the discussion of the theory of interest-group pluralism, which best defines the relationship between government officials and the particular interests that seek to influence these officials. Likely the most influence and least partisan of interest groups is the business interest group. Within this sector the nation's wealth is generated, producing a comparatively high level economic well being for the average citizen. However because of market by-products such as pollution and perceived market failures like unemployment and corporate scandals, many other groups counter or seek to reconfigure the power of business interests. This work focused on congressional perceptions of the strategies pursued by business to influence Congress. Business groups do not solely use such strategies, therefore social and environmental groups may benefit from the above findings. Future research should investigate the independent strategies used by non-business groups in influencing Congress.

Based on previous literature, there are a number of techniques employed by businesses to deal with their non-market realities. This work takes a closer look at four of those strategies and defines their effectiveness through the eyes of congressional staffers. Based on such perceptions this work reveals several salient findings:

- 1) Although alliances and associations are powerful instruments, their influence is greatly reduced if they do not have business representation within a Congressperson's district. All the while alliances must be sure to know where their constituent businesses stand in order to promote a unified front. Any diversion of independent businesses within the alliance also reduces the alliance's influence.
- 2) The use of a contract lobbyist is perceived to be a better course for businesses to take when important legislation is on the table. However, a combination of contract and employee lobbyists ensures that the firm will continue its ongoing relationship with the congressional office while providing detailed information on the potential effects of proposed legislation.
- 3) When considering a grassroots campaign, a business should be aware not to overstep certain boundaries and keep such communication on a personal level as much as possible.
- 4) Firms should encourage district managers to keep in keep communication channels open with congressional offices while the use of a CEO in mediation should be used sparingly and

for major legislative concerns.

- 5) There are certain definitive steps and techniques that lobbyists may employ to garner the most positive reactions and outcomes from a congressional staff. In addition, firms and alliances must not simply lay out the “problem” that they are experiencing to congressional staffers, they must also present the best possible solution and have other alternatives ready.

Business groups have been able to effectively communicate and influence the political realm. This work establishes a basis for viewing some of these effective strategies from a congressional perspective. Although these perspectives cannot necessarily reflect the attitudes of the entire Congress, they do build a springboard from which to launch further studies.

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DOLLAR APPRECIATION AND LAYOFFS IN OHIO MANUFACTURING: TIME SERIES EVIDENCE

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ABSTRACT

IT SEEMS OBVIOUS THAT APPRECIATION OF THE DOLLAR MUST DAMAGE THE COMPETITIVENESS OF OHIO MANUFACTURERS, BUT ECONOMETRIC EVIDENCE SUGGESTS A SMALLER EFFECT THAN ONE MIGHT EXPECT. EVIDENCE FOR THE PERIOD 1973 TO 2002 INDICATES THAT A FOURTEEN PERCENT APPRECIATION OF THE DOLLAR LEADS TO A ONE PERCENT (I.E., TEN THOUSAND JOB) REDUCTION IN OHIO'S MANUFACTURING EMPLOYMENT BASE. THIS BY ITSELF CANNOT EXPLAIN THE STATE'S NET LOSS OF NEARLY 400 THOUSAND MANUFACTURING JOBS SINCE 1978; IN FACT IT WOULD TAKE A 38 PERCENT DEPRECIATION OF THE DOLLAR TO COUNTERACT JUST ONE YEAR'S SECULAR DECLINE IN THE STATE'S MANUFACTURING EMPLOYMENT. MANUFACTURING SECTORS THAT SELL STANDARDIZED COMMODITIES (SUCH AS LUMBER, GLASS, AND PRIMARY METALS) ARE SOMEWHAT MORE SENSITIVE TO THE EXCHANGE RATE THAN SECTORS THAT PRODUCE MORE HEAVILY PROCESSED COMMODITIES. THE LATTER SERVE SPECIALIZED NICHE LOCAL MARKETS AND ARE PARTIALLY HEDGED AGAINST DOLLAR FLUCTUATIONS BY THEIR PURCHASES OF TRADABLE INPUTS.

I. Introduction

The big run-up of the dollar in the early 1980s coincided with a big run-down of Ohio's manufacturing employment. In the late 1990s the dollar was again on the rise (indeed, by 2002 the dollar was nearly a third stronger than it had been seven years earlier) and Ohio's manufacturing employment was falling again; so in the late '90s as in the early '80s there appeared to be good reasons for blaming Ohio's manufacturing woes on the strong dollar²⁰. The objective of this paper is to test that possibility more formally.

²⁰For recent studies of the Ohio employment picture, see Cassell and Hanauer (2000). At the national level, there is a continuing debate on this issue. See for example Sachs and Shatz (1994), Brenner (2002), and Goldberg and Knetter (1997).

As in so much of macroeconomics, the effect of a dollar appreciation upon employment depends upon whether wages are sticky or flexible. For example, a rise in the nominal Yen/\$ exchange rate tends to increase the Yen price of the Jeeps made in Toledo. Jeep will reduce its dollar price to dampen the rise in the yen price and thereby prevent a loss of sales volume overseas; but the lower dollar price effectively reduces the marginal revenue product of labor. That fall in Jeep's derived demand for labor will reduce *wages* in the classical case where wages are flexible, but it will reduce *employment* in the Keynesian case where wages are rigid. The proposition to be tested here is that Ohio's manufacturers face sticky wages, so that a dollar appreciation causes layoffs.

II. Econometric evidence for Ohio manufacturing

Using data for the period 1973 to 2002, regressions were run to estimate the following equation, representing the derived demand for Ohio's manufacturing workers:

$$OHManufEmp = A * (realXR^b)(WorldConditions^g) \quad (eq. 1)$$

where "realXR" is the real exchange rate (with a rise indicating a real appreciation of the dollar) and "WorldConditions" is a control variable indicating the industrial output of the world's industrial countries. Our main interest is in the elasticity of employment with respect to the real exchange rate; we expect this elasticity to be negative and significant if there are layoffs after dollar appreciation.²¹

Monthly data on Ohio manufacturing employment since 1973 (when the dollar began floating after the collapse of Bretton Woods) was obtained from the Bureau of Labor Statistics. Data on the real exchange rate was obtained from the Federal Reserve (FREDII). For data on world manufacturing conditions, a time series from the International Monetary Fund (industrial production by industrial countries) was used.

Initially a regression in terms of the *levels* of the logs of the variables was used (controlling for

²¹In practice it is difficult to tell whether a change in the dollar's real exchange value represents a short-run overvaluation (which would cause layoffs) or an equilibrium change in the real exchange rate (which might not). At the IMF, Bartolini (1995, p.47) noted that "while it is useful to think of 'competitiveness' as the relative position of a country's exchange rate with respect to its long-run equilibrium value, it is not always easy to distinguish empirically between a change in the real exchange rate that reflects a change in competitiveness or a structural change that leads to a persistent change in the equilibrium real exchange rate." Equilibrium changes would not typically be reversed in a few years, however, so the 49 percent run-up AND then run-down of the real exchange rate during the 1980's remains hard to explain with real factors. The past twenty-five years have produced two big spikes (bubbles?) in the *real* exchange rate, suggesting that short-run overvaluation does occur.

indicates that Ohio has been losing 2.7 percent of its manufacturing jobs per year, as a long term secular trend. The estimated exchange rate elasticity is minus .07, or roughly one-fourteenth. (Note that this is smaller than the one-sixth that was estimated from the regression in terms of levels). This suggests that it would take a fourteen percent appreciation of the dollar (in real terms) to cause a loss of one percent of Ohio's manufacturing jobs. Another way to think of this is that it would take a 38 percent depreciation of the dollar to counteract just one year's secular decline in manufacturing employment.

III. RESULTS FOR DETAILED MANUFACTURING SECTORS

Equation 2 was also estimated for more detailed sectors within manufacturing. Table 1 shows, for each sector, the secular trend and the estimated exchange rate elasticity. Values of the t-statistic that are insignificant at the 10% level are shown in parentheses. [Also shown for each sector is the probability associated with the Dickey-Fuller tau-statistic testing for stationarity of the residuals; for sectors where this probability is less than 0.10, the null hypothesis of a unit root in the residuals can be rejected; this rejection indicates that the residuals are stationary as desired.]

Table 1
Elasticity of Ohio employment with respect to the real exchange rate (XR)

OH Manuf. Sector	Secular Trend	XR elasticity on XR	t-statistic in residuals	Pr(unit root)
Lumber and Wood			.002 -.17 -3.1	
Stone Clay & Glass			.003 -.03 -.11 -3.8	
Primary Metals			.0001 -.05 -.18 -3.9	
Fabricated Metals			.004 -.03 -.05	
Industrial Machinery			(-1.5) -.03 -.07 -1.7	.004
Electronic and electrical			.09	.00
				(-0.0)
				.005

Instruments			-01	-01
		(-0.2)	.001	
Transportation equipment	-03		-03	(-0.6)
		.000		
Food			-07	-4.1
		.000	-07	
Textiles			-04	.02
			(0.5)	.001
Paper			-02	-02
				(-0.7)
				.000
Publishing				-12
				-12
				-7.3
				.001
Chemicals				.00
				-14
				-7.4
				.006
Rubber				-
				.02
				.00
				(0.1)
				.000
<i>All OH Manufacturing</i>	-027			-07
				-2.8
				.006

For example, in the stone clay and glass sector there is a long-run tendency to lose 3 percent of the jobs per year, and a 9 percent depreciation of the dollar would save 1% of that sector’s jobs. The table shows that sensitivity to the exchange rate varies widely by sector. As a general rule, it appears that the extractive and primary sectors (such as lumber, glass, and primary metals) are more sensitive to the exchange rate than the more “downstream” sectors (such as fabricated metals, transportation equipment, electronics & electrical, instruments, paper, textiles & apparel, or rubber).²⁴ This may be in part because the more advanced stages of processing often involve buying importable inputs: a strong dollar lowers the cost of these items, *improving* competitiveness. In effect, downstream processes that

²⁴See Rennie (1997) for a discussion of the regional implications.

buy imported inputs (such as instruments and electronics) are to some extent *hedged* against a strong dollar.

Another explanation for reduced sensitivity downstream may involve product differentiation. For example, employment in primary metals is significantly affected by the exchange rate, yet employment in fabricated metals is not significantly affected. This may reflect the fact that primary metals are often more standardized (and hence more tradable) commodities than are fabricated metals; the latter may gain some protection from foreign competitors (and hence from exchange rate fluctuations) by serving specialized domestic “niche” markets.

However, exceptions do occur to the pattern of reduced exchange rate vulnerability downstream. For example, employment in publishing is apparently *more* sensitive to the exchange rate than employment in the paper industry; perhaps publishing is more “footloose” internationally.

IV. Conclusion

This paper looks at Ohio manufacturing employment since 1973, when the dollar began to float on foreign exchange markets. Certainly more research is needed because the effect of a change in the dollar’s foreign exchange value varies depending on a variety of factors, including price flexibility and unemployment (Bartolini, 1995). The tentative conclusion reached here, however, is that “common sense” (which is perhaps based upon intuitive experience with the *levels* of the variables) probably overstates the strength of the connection between the dollar and Ohio’s manufacturing employment. Spurious correlation can give the impression of a stronger connection than actually exists. A more realistic picture is obtained by a regression based on the percentage *changes* in the variables; this indicates only a weaker (although still statistically significant) association.

The sensitivity of employment to exchange rate fluctuations varies widely across manufacturing sectors. In general, sectors that sell standardized commodities (such as lumber, glass, and primary metals) are more sensitive to the exchange rate than sectors that produce more heavily processed commodities. The latter sometimes serve specialized niche local markets and are partially hedged against dollar fluctuations by their purchases of imported inputs.

Our overall conclusion about the effect of a strong dollar on Ohio manufacturing employment must be treated as quite approximate, because further research is needed.²⁵ Our research so far

²⁵As usual, a number of caveats apply. Ideally one would hope to control better for equilibrium versus

indicates that it takes a fourteen percent appreciation of the dollar to induce a one percent reduction in Ohio's manufacturing employment. For example, if the dollar's value *doubled* (rising fully 100 percent, which is unlikely), then we would lose about 7 percent of our manufacturing employment, or 70,000 jobs. (With about a million manufacturing jobs in the state, each percent lost represents 10,000 jobs.) This would certainly be a problem, but it cannot be the main problem, for Ohio has lost 400,000 manufacturing jobs in the last 25 years. Evidently the foreign exchange value of the dollar is only one factor among many that have contributed to the secular decline in manufacturing employment.

disequilibrium changes in the time series, obtain better stationarity, include more explanatory variables, and use a multi-equation model.

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DO INSTITUTIONS MATTER? AN INSTITUTIONAL ANALYSIS OF THE EVOLUTION OF THE CENTRAL-LOCAL FISCAL INTEREST CONFLICT IN CHINA

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ABSTRACT

THE THEME OF THIS PAPER IS AN INSTITUTIONAL ANALYSIS OF THE EVOLUTION OF THE CENTRAL-LOCAL FISCAL INTEREST CONFLICT IN CHINA (INTEGRATION, GENESIS, EXPANSION, AND REGULATION) OVER FOUR-PERIOD TIME BY FOCUSING ON INTERGOVERNMENTAL WITHIN BUDGET FISCAL FLOWS. THE EVOLUTION OF THE CENTRAL-LOCAL FISCAL INTEREST CONFLICT IN CHINA, AS A COMPLEX OUTCOME, IS EXPLAINED THROUGH THE INSTITUTIONAL “PUNCTUATED EQUILIBRIUM” MODEL (STEPHEN KRASNER 1984, BAUMGARTNER & JONES 1993) IN MY ANALYSIS. TO EFFECTIVELY OPERATE THIS MODEL, I ESTABLISH A THREE-LEVEL ANALYTIC FRAMEWORK OF INSTITUTIONAL CONTEXT TO REPRESENT CHINA’S OVERALL INSTITUTIONAL ARRANGEMENT. THIS OVERALL INSTITUTIONAL ARRANGEMENT IS PUNCTUATED BECAUSE IT POSSIBLY IS PERIODICALLY SHAKEN UP AT BREAKING POINTS BY “INSTITUTIONAL BREAKOUTS”. AN INSTITUTIONAL BREAKOUT APPEARS IN EACH OF THE THREE POST-REFORM PERIODS. AND THE INSTITUTIONAL BREAKOUT HAS EXPERIENCED A SHIFT FROM THE BOTTOM LEVEL TO THE MIDDLE LEVEL, AND TO THE TOP LEVEL OF THE ANALYTIC FRAMEWORK OF INSTITUTIONAL CONTEXT. WITHIN THE PERMANENT INSTITUTIONAL STRUCTURE, THE FRAGMENTED CHANGES CREATE A SERIES OF “INSTITUTIONAL LEAKS” CAUSED BY THE INHERENT INCONSISTENCY OF MARKET DEMAND WITH PERMANENT INSTITUTIONAL STRUCTURE. THE INSTITUTIONAL ARRANGEMENT IS IN TEMPORARY EQUILIBRIUM BECAUSE THE INSTITUTIONAL LEGACY LEFT OVER FROM INSTITUTIONAL BREAKOUTS RESTRICTS THE SIDE EFFECTS OF THE “INSTITUTIONAL LEAKS” THAT ARE BY-PRODUCED BY THE INSTITUTIONAL BREAKOUTS. WHEN THE SIDE EFFECTS OF THE INSTITUTIONAL LEAKS EXPAND UNTIL TO OVERTHROW THE LOGICS OF THE INSTITUTIONAL LEGACY, THE EQUILIBRIUM OF THE INSTITUTIONAL ARRANGEMENT IS READY TO BE BROKEN UP. IN THIS CASE THE EMPIRICAL APPLICATION OF THE INSTITUTIONAL PUNCTUATED EQUILIBRIUM THEORETICAL MODEL CONVINCINGLY BELIES THE OTHER POSSIBLE EXPLANATIONS OF INSTITUTIONAL CHANGE MODELS SUCH AS THE STATUS QUO INCREMENTALISM, ZIGZAG-UP INCREMENTALISM, AND PROGRESSIVE RADICALISM IN TERMS OF THE EVOLUTION OF THE CENTRAL-LOCAL FISCAL INTEREST CONFLICT IN CHINA.

IN MY PAPER, CENTRAL AND LOCAL GOVERNMENTS ARE REGARDED AS AGENTS IN THE ESTABLISHED FRAMEWORK OF INSTITUTIONAL CONTEXT. THE CENTRAL THEORY IS THAT INSTITUTIONAL BREAKOUTS AND INSTITUTIONAL ARRANGEMENTS WITH INSTITUTIONAL LEAKS EXPLAIN THE EVOLUTION OF THE CENTRAL-LOCAL FISCAL INTEREST CONFLICT IN CHINA. THIS THEORY WILL BE REFLECTED FROM TWO-FOLD: FIRST, ALTHOUGH THESE AGENTS HAVE THEIR OWN PREFERENCES AS ASSUMED, INSTITUTIONAL ARRANGEMENTS DETERMINE HOW THE LOCAL GOVERNMENTS AS WELL AS THE CENTRAL GOVERNMENT DEFINE WHAT THEIR OWN PREFERENCES WILL BE. SECOND, THROUGH THE EVOLUTION OF THE CENTRAL-LOCAL FISCAL INTEREST CONFLICT, RATHER THAN THINKING OF INSTITUTIONS PRIMARILY AS CONSTRAINTS, SOME KINDS OF INSTITUTIONAL CONFIGURATIONS MIGHT BE SYSTEMATICALLY BIASED IN FAVOR OF CHANGE. IN THIS CASE, THE FRAGMENTED INSTITUTIONAL CHANGES PRODUCE THE INSTITUTIONAL LEAKS INHERENT IN THE FRAMEWORK OF INSTITUTIONAL CONTEXT IN TRANSITION. IT IS JUST THIS KIND OF INSTITUTIONAL ARRANGEMENT WITH INSTITUTIONAL LEAKS THAT IS SYSTEMATICALLY BIASED IN FAVOR OF POLITICAL CHANGE—THE EVOLUTION OF THE CENTRAL-LOCAL FISCAL INTEREST CONFLICT.

I. THEORETICAL PART

As it pertains to the institutional perspective, central-local fiscal interest conflict implies the conflict between central fiscal control and provincial fiscal autonomy. The term provincial fiscal autonomy means the authority, independence, and influence that the provincial government has in the operation of the tax system and the utilization of financial resources. The term central fiscal control means the authority and influence that the central government has in the operation of the tax system and the monitoring of the provincial fiscal utilization. The fiscal interest conflict experiences two levels of development. At the first level, central-local fiscal interest conflict means the central desires to improve provincial tax collection efforts and the provincial desires to retain as much revenues as possible for

themselves and pay as little as possible to the center. At the second level, central-local fiscal interest conflict means the conflict between macroeconomic stability and local expansion. As it pertains to the four periods of evolution of fiscal interest conflict under consideration in China, this evolutionary process can justify the increased levels (degrees) of fiscal interest conflict. In my four-period study, I found in the first period, there is no fiscal interest conflict; in the second period, the first level fiscal interest conflict is dominant; in the third period, the second level fiscal interest conflict is dominant; and in the last period, the fiscal interest conflict is re-regulated and re-organized.

The central concern of this paper is the role that the institutional context of policy-making plays in the evolution of central-local fiscal interest conflict. The concept of institutions that is used in China's case refers to the formal rules, informal rules, constructions and processes (procedures) that structure the relationships among various systems in political economy (Hall, 1992). Institutions may be formal or informal but invariably regulate the behaviors of the agents who operate within them. With regard to the evolution of central-provincial fiscal interest conflict, it will be useful to think in terms of a three level analytic framework of institution contexts, each with an impact on these outcomes.

A. At the top level lies of the context of political economy. It refers to a market economy combined with an administrative decentralized polity, or a central planned economy combined with an administrative centralized polity as imposing broad institutional constraints on the policy direction that could be taken and adopted in China.

B. At the middle level lies of the context of inter-relationships among organizations with respective organizational characteristics in that political economy. It refers to the rules (formal or informal), and operational processes intrinsic to the organizations of that political economy in China, including intergovernmental relationship, administrative-enterprise relationship, and administrative-bank relationships.

C. At the bottom level lies of the context of the details of these inter-organizational relationships. It refers to different tax regimes, rules (formal or informal) and operational processes under tax regimes.

The three-level of institutions are highly explanatory with regard to the evolution of the central-local fiscal interest conflict. Institutions at the top level impose a broad institutional constraint not only on the policy direction that could be taken and adopted in China, but also on the institutions at the middle and bottom levels. Institutions at the middle level, on the one hand, are constrained by the confines from the upper level; on the other hand, are reflected by the changes from the lower level. Moreover, it provides the institutional feasibilities for the changes at the bottom level. Institutions at the bottom level have a relatively direct effect on the result. Although it is within the confines restricted by the institutions at the

upper two levels, the institutional change at this level can also penetrate into the upper two levels. The evolution of central-local fiscal interest conflict is the final result of the combined role of institutions at all three levels in the institutional framework.

In the above three-level analytic framework of institution contexts, each institutional level is an imagined space within which the variety of processes are constructed and structured. Institutional breakout is based on the assumption that “breakout” is closely associated with institutional level change. Institutional breakout typically characterizes and distinguishes the four marked periods in long reform epochs that register the passage of regimes through progressive and fundamental change. Relative to institutional levels, institutional breakout refers to the stimulating force that can break out the original operation of processes with a result that the original relationships are restructured. Institutional breakout is very essential to institutional change because it is not the force that leads to incremental adjustment and/or adaptation, but the force that leads to fundamental change.

There is strong correlation between the shift of institutional breakout within analytic framework and the upgrading of the central-local fiscal interest conflict in China. Namely, when there is no institutional breakout, there is no fiscal interest conflict between the central and the local; when institutional breakout appears at the bottom level, first-level fiscal interest conflict appears; when institutional breakout appears at the middle level, second-level fiscal interest conflict appears and replaces the first-level fiscal interest conflict; and when institutional breakout appears at the top level, the fiscal interest conflict is regulated.

More important, implied underneath this strong correlation exists a causal mechanism, in which institutional punctuated equilibrium model is taken as an explanatory tool to explain the evolution of the central-provincial fiscal interest conflict in China. Since the shift of institutional breakout and the evolution of fiscal interest conflict are highly correlated, it is critical to make a clear argument that it is the occurring of institutional breakouts, as part of explanatory mechanism, which leads to the evolution of fiscal interest conflict. It is absolutely not the reverse case, namely fiscal interest conflict evolution leads to institutional breakouts. Otherwise, the logics of this analysis will be a meaningless circular argument. Moreover, the latter understanding obviously violates the truth. Next, I will explain what this causal mechanism is in detail.

Fiscal interest conflict between the central and local governments will appear if and only if institutional breakouts occur as well as institutional leaks by-produced by institutional breakouts develop. Institutional breakout only creates the institutional possibilities for the central-provincial fiscal interest conflict because institutional breakout determines how and what both the central and local governments define their perspective fiscal interest with the assumption that both of them have own fiscal interests. In this case, for example, before institutional breakout appears, the central and local governments have the

same fiscal interests. But after institutional breakout occurs, local governments define their own fiscal interests that are different from the fiscal interests defined by the central government under the new institutional arrangement.

Institutional breakout is only part of causal mechanism since it only creates the different central and local fiscal interests. Institutional leaks create the institutional necessity for actual fiscal interest conflict because the side effects of institutional leaks are always the stimulating mechanism to enlarge the different central and local fiscal interests, which finally leads to fiscal interest conflict especially under the situation of fixed amount of the total revenues. In this case, for example, the fragmented changes produce a series of institutional leaks. Local governments behave strategically and opportunistically to take advantage of these institutional leaks to gradually increase their fiscal interest pursuit, which engenders hidden imbalance in fiscal interest pursuit between the central and local governments. The institutional leaks can be lasting expanded because of the combination of the conscious hide of the side-effects of institutional leaks by the local governments and the information disadvantages of the central government relative to local governments in terms of the latter's tax collection and fiscal activities.

The expansion of institutional leaks necessitates the appearing of the new institutional breakout to the new level as a solution. Since the institutional breakout is a fragmented change, it is born with the inconsistency between the demands of market mechanism and the supply of institutional arrangements still under planned economy. Institutional leaks reflect this inconsistency of the logics of institutional breakout itself. Therefore, it is impossible to cure institutional leaks without changing the fundamental logics of institutional breakouts. In my case study, during the third period when a series of institutional leaks, created under the revenue-sharing tax regime, almost overturn the logics of original institutional breakout, the new round institutional arrangement does not choose to change the original institutional breakout to meet the demands of market mechanism because it is too radical to breakthrough the planned economy stereotype at that time. What the institutional arrangement chooses in the third period is to restrict the further expansion of institutional leaks caused by revenue sharing regime by triggering a new institutional breakout. In this case, the state-owned enterprise reform carried out from the middle of 1980s is supposed to increase greatly the overall fiscal resources for both the central government and local governments, since most of administrative fiscal resources come from state-owned enterprises. The adequacy of fiscal resources for both the central and local governments will effectively limit the expansion of institutional leaks by diminishing the local motivation to take advantage of institutional leaks to snatch some fiscal resources. However, rather than restricting the further expansion of institutional leaks, state-owned enterprises reform, as another fragmented change, expands the institutional leaks from the intergovernmental tax relations to administrative-bank-state-owned enterprise relations, which push the central-local fiscal interest conflict to a new level. The accumulation of all of these institutional leaks is waiting for a new institutional breakout that fundamentally eliminates the internal inconsistency

between the market mechanism and the political institutional arrangements by breakthrough the restriction of planned economy.

In different periods, the styles (ways) in which the three institutional factors exert their impacts on the evolution of central-local interest conflict are quite different, which leads to different influencing schematics (See the Figures & Table on Attachments).

The first period makes a top-down influencing schematic to exert the influence on the final results. In terms of the established institutional framework, the top-down influencing schematic means that the institutional factor at the top level influences the institutional factor at the middle level, and the institutional factor at the middle level also influences the institutional factor at the bottom level. And the accumulated and combined institutional effects of all three different levels lead to the final result.

The second period makes a bottom-up influencing schematic that describes how the three institutional factors in the framework follow as influencing the result, as opposed to the top-down influencing schematic in the first period. The tax regime reform carried out under the CPE creates a great and important “institutional breakout” to the original institutional framework. A bottom-up influencing schematic means the “institutional breakout” first appears to the institutional factor at the bottom level of the established institutional framework. The effect of this “institutional breakout” reflects upwards to the institutional factor at the middle level, which yields the new institutional change in intergovernmental relationship. The institutional changes at the middle level further attack the traditional planning economy and put forward to a further demand to the deepness and speed of the market-oriented reform.

The influencing schematic in the third period can be termed as “middle-up with middle-down” schematic. This means that the enterprise reform carried out in this stage creates another “institutional breakout” to the institutional framework. This institutional breakout first appears to the institutional factor at the middle level. Then the great institutional changes at the middle level reflect up to the institutional factors at the top level, and reflect down to the institutional factors at the bottom level.

In the last period, the influencing schematic to describe the style (way) of the influences of these three institutional factors on the final result can be called as “top down to middle with top down to bottom” schematic. The most important “institutional breakout” point appears to the institutional factor at the top level. The general institutional feature imposes its imprints on the institutional factors at the middle and bottom levels respectively. Different from the other periods, the influences in this period consists of both positive incentives, which means the incentives to promote market reform and negative incentives, which means the incentives to hold market reform back.

II. PHASE STUDY PART

Pre-reform Period: Integration (Unification) of Central-Local Fiscal Interests

In this section, I will focus on the question of why local governments have the common fiscal interests with the central government in this period. The central government has two fiscal interests: one is to centralize fiscal control over the local. The second one is to guarantee the revenue resources for the administrative by guaranteeing the achievement of central planning. Although local governments are assumed to have their own fiscal interests, during this period their fiscal interests are perfectly convergent with the fiscal interests of the center, namely guarantee the central planning achievements to guarantee the revenue resources for themselves. Moreover, they have no internal incentive to possess fiscal autonomy in this period. I use my three-level framework of institutional context established in the theoretical part to explain why the central and local governments have the same fiscal interests, especially why the institutional arrangement at that time provides no institutional possibilities at all for local governments to have internal incentives to possess fiscal autonomy in this period. The fiscal self-interest maximizing preferences of local governments are taken for granted, but how they define what their fiscal self-interests can only be explained by an analysis of the institutional arrangement. This period allows a top-down influencing schematic to exert influences on final result.

At the top level, the dominant institutional feature was a centrally planned economy (CPE) with a centralized administrative structure. This institutional feature was rooted in the common sense of socialist ideology about ownership. Under the planned economy system, China's national economy was organized according to two principles: on the horizontal dimension, national economy was organized according to administrative departments and administrative regions, at the vertical dimension, national economy was organized according to administratively subordinate relationship. Moreover, at the same time, based on the established organizing principles of national economy, when the central government enacted plans, it also established the system to manage central planning—namely departmental planning system and regional planning system—in order to promise the fulfillment and coordination of central planning.

The organizational principles of national economy and the central planning system are almost the established paradigm in all CPE countries. I mention them here is not to describe them as theoretically and empirically “old fashioned”, but to emphasize an institutional constraint (boundary) placed by this institution at the top level on the institutional arrangements (the intergovernmental relationship and the administrative-enterprise relationship) at the middle level. The organizational principles as well as the planning system in China's CPE not only unifies the national economy, but also leads to the “administrative-enterprise integration” as institutional features at the middle level. Here, “administrative-

enterprise integration” means the integration of the central government, lower-levels of governments and all production units (enterprises) into one “unified body”, in which they share the common objectives and carry out the same functions.

At the bottom level, the distorted intergovernmental relationship at the middle level shaped China’s tax regimes. “The pre-reform tax system in the PRC was directly modeled on that of the former Soviet Union and adopted as an integral part of the system of centralized planning and allocation of resources (Wong, 1992:205).” The PRC adopted “consolidated” tax regime and included the budgets of all administrative levels. “The Ministry of Finance approved not only the consolidated budget, but also annual revenue and expenditure plans at the provincial level, and the Ministry set the amount of revenue transfers. Provinces in turn supervised formulation of budget plans at the municipal and county levels (Wong, 1992: 205).”

The combination of the institutions at the middle (administrative-enterprise relations) and the bottom (“consolidated” tax regime) levels can explain why local governments have no incentives to possess the fiscal autonomy. In terms of sources of revenues for pre-reform fiscal system, two features were apparent: one was that fiscal revenues of all-levels of governments mainly depended on profits and taxes of industry generation; the other one was that revenue of all levels of administrations was largely based on state-owned enterprises, and revenue was reapportioned among levels of administrative units based on their enterprise ownership.

Corresponding to these features, the overwhelming outcome of this fiscal system was high revenue gaining for all-levels of administrative units since industry was highly profitable. This was not because of the really good performances of state-owned enterprises, but because of the following administrative measures: First, the accomplishments of “three transformations” at the late 1950s (*Sandagaizao*: This means the respective ownership transformations from national capitalist ownership to state ownership carried out in Agriculture, Industry, and Commerce and finished around 1956.) necessitated the growth of state ownership in industry and commerce and provided growing revenue under the heading of “enterprise incomes”. Second, rapid industrialization was financed by the saving extracted from the agriculture sector by “price scissors” (*Jiandaocha*: This means that a price enacted artificially by administrative measures that systematically discriminate against agriculture in favor of industry.) in order to transfer agricultural surplus to industry profits. Third, by administrative restraint on non-state enterprises, state-owned enterprises reaped monopoly profits due to avoidance of market forces and competition so that they could generate huge revenues for the administration.

Although the central government laid claim to virtually the entire surplus generated by industry and local governments were able to retain only a portion of the profits of selected local enterprises, both local and

central governments had adequate revenues because of the general adequacy of industry profits. Due to that local governments were not self-financing for their expenditures that were also prescribed by the central government at their levels, but financed by the central budget, local governments had no fiscal pressure and incentive to possess fiscal autonomy in order to promote local industrial development to build new and profitable industries to offset declining revenues and financing growing expenditures. Therefore, although local governments rather than the central government were owners of many state-owned enterprises corresponding to phases of centralization and decentralization over enterprise ownership from 1950s through 1970s, they had no incentive to have fiscal autonomy for expanding and building industry.

The combination of the institutions at the top (Centrally planned economy), middle (administrative-enterprise relations) and the bottom (“consolidated” tax regime) levels can explain why local governments have the common fiscal interests with the central government—namely guarantee the central planning achievement. Under the institutional constraints fixed by the institutional arrangements at the top level, the functions of the central government and local governments had no choice but necessarily to be achieved to be unitary. “Traditional centrally planned economy takes the form of the planning system in which the central plans are resolved from the top to the bottom and the plans fulfillments are collected from the bottom to the top. This planning system constrains the governmental economic functions to the narrow scope, including the resolution, collection and balance. The working style and functions of all levels of governments are similar, collecting data for the higher level or assigning and supervising central plan fulfillment over the lower level. The government agency at each level in the administrative structure also keeps some balance for the economic activities that it is responsible for in some degree (Zhou, Xiaochuan, 1992:214-215).”

Due to the unification of central-local governmental functions, the power allocation between the central and local governments was often changed by the political commitment of the central policy makers (Zhu, Guanghua, 1995; Huang, 1996). This kind of power allocation had two obvious features: one was administrative decentralization, opposed to economic decentralization. Administrative decentralization meant the “devolution of decision-making powers from the central government to various levels of local governments... (Gang Fan and Wing Thyee Woo, 1993:6).” Economic decentralization meant the devolution of decision powers from governments to enterprises and giving enterprises real management and production autonomy. The other one was quantitative decentralization, contrary to qualitative decentralization. Quantitative decentralization meant that power allocation was based on quantity of power of governments at different levels to manage national economy. Qualitative decentralization meant that power allocation was based on division of functions of governments at different levels. The centralization or decentralization in pre-reform period was achieved by the change of ownership of enterprises between the central and provincial governments based on the power assignments, which

reflected the two features mentioned above. The provincial government power completely depended on the achievements of the central planning. Under the CPE, the most important standard to evaluate the provincial government achievements was the degree of fulfillment to which the central planning had been achieved. Therefore, this led to the provincial government fiscal interest was to achieve central planning and manage the national economy. There are no real interest differences among the various levels of governments. The goals and objectives of governments at all levels are consistent and same.

In all, the institutional features determine the preferences of lower-level governments. Under this kind institutional framework, the preference of lower-level governments is to achieve the central planning fulfillments rather than to seek for fiscal autonomy for the self-building that are not recognized at all by the lower-level governments.

1978—1984 Period: Genesis of the Central-Local Fiscal Interest Conflict

In this section, the main question to be solved is how with all of these multi-level constraints, one could obtain a dramatic change in local governments' interest pursuit, which leads to the genesis of fiscal interest conflict between the central and local governments? "The rational-choice model, with its emphasis on individual agents who maximize an objective function subject to constraints, is central to the Neoinstitutional Economics (Thrainn Eggertsson, 1990:7)." My analysis here is, at two points, different from rational-choice model in NIE, which assumes that local governments are naturally interest maximizer subject to institutional constraints. First, here although the fiscal interest maximizing preference of provincial governments is assumed, however how provincial governments define their fiscal interests is instead explained by the institutional changes as what I am analyzing now in this period.

Second, through the evolution of interest conflict, rather than thinking of institutions primarily as constraints, I emphasize that some kinds of institutional configurations might be systematically biased in favor of change (Hall, 1992). If we go further into the analysis of China's institutional framework established in the theoretical part, we will find that this situation has specific meanings in China. The formation of this kind of institutions that support change is only partly due to the willingness and control of the power core of institutions, however, mainly due to the imperfectness and unreasonableness of the existing institutions that create a series of "institutional leaks". Local governments behave strategically and opportunistically to take advantage of these "institutional leaks" to gradually increase their interest pursuit, which engenders hidden imbalance in interest pursuit between the central and local governments. Within the permissible scope, it creates the genesis of the interest pursuit of local governments. Once beyond the thread of power allocation, it will be subject to the constraints imposed by the central government, which causes the expansion of interest conflict between the central and local governments, obvious in the next period of analysis.

During this period, the influencing schematic that the three institutional factors in the framework follow to influence result is a bottom-up direction, opposed to the top-down influencing schematic in the first period. Due to the maintenance of planning economy framework, the institutional factor at the highest level in my institutional analysis framework has not much role in the result. The tax regime reform carried out under the CPE creates an important “institutional breakout” to the original institutional framework. The effect of it reflects upward to the institutional factor at the middle level, which yields the new institutional change in intergovernmental relationship. The institutional changes at the middle level further attack the traditional planning economy and put forward to a further demand to the deepness and speed of the market-oriented reform. Here, this “institutional breakout” does not touch the deeper structure of ownership in this period. So, the institutional factor at the bottom level in the institutional analytic framework plays a significant role in the result.

As the institution at the bottom level, tax regime was reformed under the CPE and created an institutional breakout to the original institutional framework. Institutional breakout is the reflection of an explicit reform. But the appearance of the institutional breakout, in this case the tax reform, is not the result of the political commitment of central policy makers, but the result of internally institutional dynamics of the original three-level institutional framework. It is the accumulation of institutional leaks inherent in the original institutional arrangements that necessitate the occurring of the institutional breakout as a solution, whoever is on the center of the political stage. The repeated balance and struggle among political actors should result in the hesitation of fiscal reform and its lagged pace compared with the whole economic reform. In other words, an actor-centered approach is more convincing to explain the incrementalist changes of fiscal policy, and less convincing to explain the punctuated changes of fiscal policy in this case. Therefore, the appearance of tax reform as an institutional breakout has its deep institutional origins.

The important motive is concerned with the overcome of the existence of the asymmetrical distribution of information under the CPE, which is a classic problem in socialist planning (Hayek, 1974; Huang Yasheng, 1996: 132-133; Assar Lindbeck, 1971:51-52; Berliner, 1957; Gorlin, 1985). Tax reform (from consolidated tax system to central-provincial revenue sharing system) was created to overcome information asymmetry problem in the CPE. Under the original “consolidated” tax system, it is the one that emphasizes the consistency of the whole country and can’t accommodate differing local conditions and financial status. The central government is plagued by an asymmetrical distribution of information; since planners have less information than provincial agents (bureaucrats, managers) about the latter’s capabilities of planning fulfillment. “There must be something hidden, [the planners] reason, and pressure will compel it to emerge (Nove, 1986: 97; Huang Yasheng, 1996: 133).” Tight tax policy requires that the revenue-sharing agreement (contract) be ratcheted up periodically, that is, that planners adjust the

revenue-sharing agreement for the year t , closely according to the achieved performance in the year $t-1$ (Berliner, 1957: 77-78; Huang Yasheng, 1996). The tight tax policy (deliberately intensively controlling the revenue-sharing rate in agreements or contracts) “amounted to an administratively convenient way to uncover hidden and potentially new reserves that would otherwise remain untapped, since it forces local governments to improvise and utilize their own resources (Gregory, 1990:107; Huang Yasheng, 1996: 133).”

The carrying out of tax reform allows the lower-level governments to possess the fiscal resources that they have autonomy to control—namely it creates the institutional possibility and premise for lower-level governments to seek for self-interests. Revenue-sharing reform began in 1980. An unusual feature of the Chinese fiscal system is the decentralized system of tax administration (Wong, 1992). During the upward sharing process, “revenues are actually divided between the central and local governments in a two-stage process. In the first stage, the central government sets the rules on the portion of collected revenues that are set aside as central revenues (Wong, Heady and Woo, 1995: 10)”. In the second stage, the rest goes into the pool that is shared with provinces according to revenue-sharing formulas (Wong, Heady and Woo, 1995). Beginning with fiscal reform in 1980, this division among central, local and shared revenues has been by ownership of enterprises.

That the local governments own some fiscal resources based on the revenue-sharing tax system does not mean that local governments necessarily have adequate chance to gradually self-build, expand and maximize their own interests. Their “empire building” (Zhang Hongliang, 1992; Huang Yasheng, 1996) actions have to be subject to constraints imposed by institutional arrangements. But under China’s CPE, China’s institutional arrangements lacked the necessary constraints to restrict provincial fiscal interest accumulation, but created the institutional stimulating mechanism to make the accumulation and pursuit of provincial fiscal interests possible. The new tax regime produced a series of “institutional leaks” that provincial governments were able to take advantage of to achieving the self-building. Institutional leaks are the by products of the institutional breakout. They are unintentionally created resulting from the self-contradiction inherence of the institutional breakout as a fragmented/incomplete solution to the leaks of the original institutional arrangement.

The institutional leak inherent in the formal rule design that provincial governments employed, in revenue-sharing tax regime, lied in the “Decentralized tax administration”. The term of “decentralized tax administration” meant that “tax laws and tax policies were set by the central government; taxes were collected by agents at the local levels and shared upward with higher levels of governments according to revenue sharing rules (Wong, Heady and Woo, 1995: 81)”. In the pre-reform period provincial governments’ expenditure was not supported by provincial governments’ self-decisions based on their controlled fiscal resources, but by the central budget for provincial governments. Thus, although

provincial governments were responsible for taxes collection, they were only the transfers of revenues from enterprises to the center. It was no use for them to take some revenue away to support their expenditure since their expenditure had to be approved by the central budget. But in this new tax regime, provincial governments were the self-financing entities for their expenditure. Therefore, they took advantage of their tax administration to get as much as possible for themselves and pay as little as possible to the center. Provincial revenue autonomy was by law extremely limited. But in practice, provincial governments had a good capacity to control over effective tax rates and tax bases on profits for local enterprises through their administration of tax policy (Wong, Heady and Woo, 1995). Even provincial governments were allowed to grant temporary exemptions of taxes for local enterprises in financial difficulty (Wong, Heady and Woo, 1995). By offering tax relief to enterprises, provincial governments deliberately stored wealth and resources as local enterprises' profits in the local by effectively diverting funds from the budgetary sector, where funds had to be shared with higher levels, to the extra-budgetary sector where enterprises' retained profits were not shared upward (Wong, 1991).

The institutional leak inherent in the informal rule design that provincial governments used, in revenue-sharing tax regime, lied in the practice of tax negotiation. I argue that provincial governments will always be the final winners of the tax negotiations, because the central government has a “soft incentive drive” which comes from the political commitment to motivate provincial governments' initiatives to local development and the ignorance of this institutional leak because of the variety of revenue availabilities. If the central government treats one province generously, it may treat another strictly a bit, or it may get balance from the fiscal flows outside of revenue sharing agreement (contract). But provincial governments have a “hard incentive drive” which comes from the political tasks to support local expenditures by their own budget especially when facing budget constraints and intentional exploration of this institutional leak because of the availability of fewer fiscal resources resulting from their subordinate positions to the center.

Secondly, this is a kind of abnormal and unreasonable phenomenon that the initiator of rules is also the carrier of rules at the same time. So, I think there is some institutional space for some politicians to play “micro-techniques of power” (Yang, Mayfair, 1989:30) in order to get his/her own benefit from this imperfect procedure. “Micro-techniques of power” is one form of corruption. This involves the informal aspect of institutions—a system of *Guanxi*, rooted in Confucian kinship ethics (Yang, 1989). Unlike the formal aspect of institutions, the *guanxi* network represents a unique style of the tactics and strategies of domination (Yang, 1989:32), in which the dominance of rules is overthrown by the dominance of the interpersonal relationship instead. The formal and informal aspects coexist in the negotiation institutions. Individuals outside of the formal aspect of institutions can use the techniques of power allowed from the informal aspect of institutions to gain advantages and even subvert the logic of the formal aspect of institutions. Here, contrary to the typical role of informal rules that are the extension, elaborations, and

modifications of formal rules (North, 1990), the informal rule is regarded as culturally enforced norms of behaviors.

Provincial governments also took advantage of the “institutional leak” inherent in the ratcheted tax policy process. The tricky point was that provincial governments strived to maximize the ease with which the central tax quota could be fulfilled by deliberately understating one’s revenue collection performance to influence quota setting (Huang, Yasheng, 1996). During the process of finishing the central tax quota, provincial governments had double-level goals: the first one was “dominant objective” to achieve the central tax quota; the second one was “recessive objective” to expand the reserved revenues in relation to the assigned targets. Therefore, provincial governments tried to hide or confuse the central about their actual revenues reserved. One way to do this was to transfer within-budgetary revenues to extra-budgetary, and increase of extraction of non-tax revenues. Most of the other revenues that a locality collected were “extra-budgetary revenues”, which were not shared up with the center, and were used only by provincial governments. The category included: (1) all those taxes that had been designated “local taxes”, including tax on private enterprises, and (2) non-tax revenues, such as fees and surcharges collected by provincial governments (Jean OI, 1992). Before reform, the upper level unit controlled this part of revenue whose size was marginal. But now the size was increasing.

Due to information advantage, provincial governments can strategically increase “information cost” (North, 1990) that the central government must burden to grasp the actual revenue collection capacity of provincial governments. Because if the central government can adjust to the increased revenue collection capacity by increasing taxes targets especially when provincial governments intentionally hide and understate their actual revenue collection performance, information costs of the central government must be greatly increased because of the information disadvantage of the central government in terms of the tax collection administration. The establishment of tax targets is incrementalist: The establishment of this year’s tax quota is contingent upon previous year’s tax quota. Thus China’s tax collection process lacks the necessary institutional constraints to reduce this kind of information costs potentially increased by the performance understate behaviors of provincial governments. The Chinese tax collection process has become more “slack” since the onset of the reforms with no ability to extract information value (Huang, Yasheng, 1996).

During this period, the influencing schematic that the three institutional factors follow to impact the result is a bottom-up path. The tax regime reform creates the “institutional breakout” in the originally thorough and tight central planning institutional framework. Moreover, this institutional breakout extends to the middle level of this framework, which leads to the new changes of the general relationship between the central and lower-level governments. In my opinion, the institutional change is reflected from the changes of institutional boundary that can be composed of functional changes, identity changes and

structural changes. In terms of the functional changes, the local governments began to possess the independent economic interests and behavior objectives. In terms of the identity changes, the relationship between the central and local governments is no longer administratively subordinate, but initially similar to the contracting character. In terms of the structural changes, the new interest structure that tends to the coexistence of multi-interests has been initially formed under the original institutional framework of central planning economy. Under the accumulated effects of the institutional factors at the middle and bottom levels, the original institutional arrangements of central planning economy that is the institutional feature at the top level has gradually broken down.

1985—1994 Period: Expansion of the Central-Local Fiscal Interest Conflict

In this section, my main question is that why did the fiscal interest conflict between the central and provincial governments expand? The further market-directed economic reform at the highest level imposes its influences on the institutions at the middle and bottom levels. At the bottom level, the nature of tax regime is almost the same as that in the last period, only replacing intergovernmental tax agreements with intergovernmental tax contracts. And the gradually obvious inherent flaw in the revenue sharing tax system stimulates the irresistible industrial expansion drive of provincial governments. At the middle level, the influence of the market-directed economic reform prompts me to consider much broader institutions, including administrative-enterprise relationship, and administrative-bank relationship, rather than limit me to the scope of relationship between the central and provincial governments. I find that the deep institutional contradiction inherent between the demands of real market economy and the originally established planning economy institutions produces another series of institutional leaks at the middle level of institutions for provincial governments to make their industrial expansion drive into reality.

The influencing schematic (Attachments) in this period can be called “middle-out”. This means that the enterprise reform carried out in this stage creates another “institutional breakout” to the institutional framework that happens to the institutions at the middle level. The great institutional changes at the middle level reflect up to the institutions at the top level, and reflect down to the institutions at the bottom level. The upward reflection lies in the revelation of the institutional incapacity of existing institutional arrangements at the middle level against the demand of market economy and a call for the deepening of market-oriented reform. The downward reflection is that the institutional leaks in the institutional arrangements at the middle level by produced by the institutional breakout realize provincial governments’ desires of their industrial expansion that is caused by the institutional leaks inherent in the revenue sharing tax regime at the bottom level of the institutional framework.

The fundamental central-provincial fiscal interest conflict was the central fiscal control and the provincial fiscal autonomy. The last period made the formation and realization of the central-provincial first-level fiscal interest conflict. In this period, the “*Baogaidai*” (literally “grants changed to loans”) reform as an institutional breakout occurring to the middle level of institutions determined that provincial governments redefined their fiscal interest as a local industrial expansion, and the central government redefined its fiscal interest as a macroeconomic stability control based on the improvement of enterprises performance.

According to the “*Baogaidai*” reform carried out in 1985, the government transferred the financing of working capital of enterprises from budgetary grants to bank loans. By changing previous administrative-bank-enterprise relations, this fragmented reform provided the institutional possibility for provincial governments to realize their industrial expansion drive that although existed in the previous tax regime, however was not realized due to the administrative-enterprise relations as the middle level institution in the last period. Due to the feasibility of local industrial expansion caused by the new institutional breakout at the middle level of institution, provincial governments switched their fiscal interests from squeezing revenues within revenue sharing fiscal flows to expanding local-owned industrial enterprises.

The general features of the revenue sharing system were kept intact in this period. These institutional features determined that the most effective way for provincial governments to collect adequate revenue was to grasp the more industrial enterprises and expand their size and efficiency. In the revenue sharing tax regime, although provincial governments also had a local industrial expansion strategy, it was only potential not practical therefore this local industrial expansion strategy cannot be turned to an industrial expansion drive. In the last period the financing of working capital of provincial enterprises came from provincial budget. Although in that period, provincial governments had fiscal autonomy of revenue allocation, the drafts of their annual budget had to be supervised and approved by the central government. Thus it greatly constrained the possibilities of local industrial expansion. In this period, by transferring the financing of working capital of provincial enterprises from provincial budget to provincial bank loans, the previous institutional constraint of the central supervision of local budgets on local industrial expansion was actually eliminated. On the one hand, provincial governments were free from the central budget control over their industrial expansion; on the other hand, although provincial banks were under control by the central bank though center-assigned quota, provincial governments were still able to force provincial banks to over loan to provincial enterprises by taking advantages of their administrative ties with provincial banks. Thus the “*Baogaidai*” reform that addressed the administrative-bank-enterprises relations therefore occurring at the middle level of institutions created an institutional possibility for provincial governments of industrial expansion, therefore, turning the industrial expansion strategy of provincial governments in the last period to a real industrial expansion drive in this period as the most effective way for local to collect adequate revenue.

Since the consequences of this reform would be increasing competition of enterprises to struggle for bank loans, and going toward hardening enterprise budget constraints by weakening the financial dependency of enterprises to the state, the “*Baogaidai*” reform as an institutional breakout at the middle level also determined the shift of the fiscal interest of the central government from stimulating provincial tax collection efforts to stimulating enterprises performances in order to produce adequate revenues for the government.

The appearance of the “*Baogaidai*” reform as an institutional breakout at the middle level determined that provincial governments redefined their fiscal interest as a local industrial expansion, and the central government redefined its fiscal interest as an improvement of enterprises performance. They were different fiscal interests at another level compared with the central-provincial different fiscal interests in the last period. They were different but would be convergent when a combination of industrial expansion and performance improvement would be reached. However, they would be in an intensive conflict when provincial governments dove to industrial expansion regardless of enterprises performances, whose behaviors were guaranteed by the institutional stimulating mechanisms created by a series of institutional leaks inherent in the administrative-bank-enterprise relationship by produced by the “*Baogaidai*” reform.

The institutional breakout at the middle level determines the provincial drive reality of the local industrial expansion. The institutional leaks in the administrative-bank-enterprise relationship provide the institutional stimulating mechanism for the local industrial expansion. The institutional leaks in the administrative-bank relationship comprise of three series. The first series of institutional leaks are inherent in the administratively subordinate relationship of local banks to local governments. The second series of institutional leaks are inherent in the administrative structure of internal bank system. The third series of institutional leaks are inherent in the intension between banks and fiscal authorities.

The local banks played an important role in this period by “*Baogaidai*” reform. However, in fact, bank system was never independent from the administrative control at all (Gang Fan and Wing Thyee Woo, 1993). The fact that the local governments can urge banks to fund local industrial enterprises to expand their industry was due to a number of institutional leaks inherent in the administratively subordinate relationship of local banks to local governments, such as the very low administratively setting interest rates (Huang Yasheng, 1996; Dittus, 1989; De Wulf and Goldsbrough, 1986), un-stringent loan obligations (Zhang Xunlai, 1992), and administrative invention on Bank’s credit decisions (Zhang Xunlai, 1992; Huang Yasheng, 1996).

The external pressure from local governments was really a reason for local banks to expand their credit. But the self-interests of local banks themselves further motivated the credit expansion of local banks.

The incentives followed from the two facts: “that the personal incomes of the local banks became dependent on the volume of their lending, and the overall prosperity of the local economy (Gang Fan and Wing Thye Woo, 1993:9)”; and the combination of weak financial discipline within internal banking system with positive inducements from the central bank (Zhou Mubin, 1988).

It seemed that local banks had been the final bearers of costs of this ritual “*Baogaidai*” because of their over-expanded credit beyond their quotas set by the central financial authority and the high level of “bad debts”. But, this conclusion was too simplistic. As subordinate branches of the central bank, local banks took advantage of the institutional leaks in the internal administrative structure of banking system to transfer part of the costs to the central bank by squeezing more reserves from the central bank by lending to local enterprises the funds designated for projects in the central plan and presenting the central bank with the fail accompli that the local bank had extended credits beyond its reserve base (Gang Fan and Wing Thye Woo, 1993: 8-9).

Also, as co-investors and co-supervisors with local governments over the local enterprises, local banks also took advantage of the institutional leaks in the intension between banks and the fiscal authorities to reduce “bad debts” in the form of reduced tax by transferring part of the cost to the governmental tax department. “Thus, if enterprise performance was poor, then profits were reduced and the taxes paid to the Ministry of Finance were correspondingly reduced, but bank payments were already covered (Walder, 1992; Byrd and Tidrick, 1992; White and Bowles, 1993:117).” The Chinese had described this vividly: “the bank hosts the banquet but the financial authorities pay the bill (quoted from Bowles and White, 1993:117).”

Thus, the institutional leaks inherent in the administrative structure of bank system and administratively setting relations between government and bank had made the original constraining mechanism changed into real stimulating mechanism to enterprise investment. The direct result was that enterprises had got the more external financial resources from bank lending and had got less prudent in their investment behaviors (Bowles and White, 1989). However, the adequateness of external financial resources did not necessary mean the successfully economic performance. So, it should be very natural for enterprises to make cautioned investment decision because of the threat of bankrupt, which would be a powerful constraint for the over-expansion drive of local enterprises. But, in fact, there was no real threat of bankruptcy to enterprises. The institutional leak in the administrative-enterprise relationship to stimulate local industrial expansion drive was the persistence of “soft-budget constraints” (Kornai, 1980, 1984) in the Chinese economy. The major reason for the existence of soft-budget constraints in socialist economy lied in the nature of China’s administrative decentralization reform, which was, in essence, the change of managerial system absolutely not of the ownership structure. As real owner of enterprises, it was natural for governments to prevent their own property from bankruptcy by supporting and saving,

rather than allow or force them into bankruptcy. “The Bankruptcy Law, although passed by the National People’s Congress, has only been implemented in a handful of cases and poses no serious threat to enterprise managers (Bowles and White, 1993:115-116).” The Chinese have summed up the above cause very aptly with “The losses of SOEs are socialized but the profits of SOEs are privatized (Gang Fan and Wing Thye Woo, 1993:18).”

The “*Baogaidai*” reform as an institutional breakout to the middle level turned a local industrial expansion strategy of provincial governments into a real local industrial expansion drive. And several series of institutional leaks in the administrative-bank-enterprise relations at the middle level by produced by the “*Baogaidai*” reform provided an institutional stimulating mechanism for the realization of the local industrial expansion drive. The expansion of the institutional leaks from the tax regime at the bottom level to the administrative-bank-enterprise relations at the middle level, in turn, also influenced the central-provincial fiscal resources flow within the fiscal sharing system with a deflection of more revenues flowed to local governments.

Under the “Enterprise Profit Contracts and Fiscal Contracting” tax regime all provinces had been placed on contractual agreements that stipulated lump sum payments (or subsidies) and were fixed for a number of years, sometimes with annual increment (Lou Jiwei 1991). Although there were still sharing-up and negotiation procedures compared with the revenue-sharing regime, the difference was that under the revenue-sharing regime, provinces remitted a fixed rate of all revenues collected, but under the fiscal contracting regime, provinces remitted a fixed amount of payments. This tax regime totally changed the incentive mechanism of provincial tax collection by replacing the rates of profits with the amounts of profits that provincial governments would pay. Under mechanism of rates, it was a dis-incentive or negative motive for provincial governments since it meant the more you collected, the more you would regularly pay because of the constancy of regulated rates. But under mechanism of amount, it was actually an incentive or positive motive for provincial governments since it meant the more you collected, the more you would retain because of the constancy of regulated amount. Based on the mechanism of fixed amount sharing, provincial governments were able to retain more revenues within the fiscal sharing system (agreements or contracts).

The combination of the institutional leaks at the bottom level with those at the middle level determines that provincial governments retain much more collected revenues compared with what the central government obtains within the fiscal sharing system (agreements or contracts) in this sum-zero fiscal resources distribution between the central and provincial governments. Since the central government was unable to get more revenues from the fiscal sharing system, the central government “squeezed” more revenues from provincial governments through the central government’s actions “outside the revenue-sharing system” (Wong, Heady and Woo, 1995). Wong, Heady and Woo (1995) figured out three ways for the center to squeezes resources from the provincial: “claiming a growing share of the

total revenue collection through the introduction of the new tax and reclaim the ownership of the important local enterprises (Wong, Heady and Woo, 1995:96); re-centralizing profitable enterprises without adequate compensation (Wong, Heady and Woo, 1995:96); and the central “borrowing” from provincial governments without giving provincial governments adequate compensate subsidies (Wong, Heady and Woo, 1995). All these institutional flaws led to the serious distrust between the central and provincial governments and explained the expansion of the central-provincial fiscal interest conflict.

The “*Baogaidai*” reform at the middle level also reflected up to the institutions at the top level. The upward reflection lied in the revelation of the institutional incapacity of existing institutional arrangements at the middle level against the demand of market economy and a call for the deepening of market-oriented reform. The accumulation of the institutional leaks at both the bottom and the middle levels necessitated the appearance of a new institutional breakout in the next period.

Post-1994 Period: Reorganization of the Central-Local Fiscal Interest Conflict

In this section, the main question is that how the reforms of the institutions at the three levels lead to the reorganization of fiscal interest conflict between the central and local governments. In this period, the influencing schematic (Attachments) to describe the style of the influences of these three-level institutions on the final result can be called as “top down to middle with top down to bottom” model. The most important “institutional breakout” point appears at the institution at the top level. This is the carrying out of economic decentralization as well as the coexistence of economic decentralization with political centralization. This general institutional feature imposes its imprints on the institutions at the middle and bottom levels respectively. Different from the other periods, the influences in this period consist of both positive incentives, those to promote market reform and negative incentives, those to hold market reform back. The direct result is the double institutional identity appearing at institutions at each of these three levels.

The institutional incapacity at the middle level fully reflected the flaws inherent in the gradually proceeding reform hold at the top level. First, the success of reform needed the well coordination of all kinds of reform measures. However, it was very common for gradually proceeding reform to focus on one field to reform first, holding the other fields constant. This would lead to the institutional intermediation between demands of reformed institutions and supplies of unchanged institutions due to deep institutional correlation inherent in their interactions. Second, most of reforms were at most changes in the degree of centralization in terms of managerial system, rather than the changes in the nature of political relationship and ownership structure. Even worse, some reforms were only rituals to change the names for being like more market-oriented. Without the strict following with the demands of a market economy, these reforms were incomplete and had dangerous potentials to destroy the reform

achievements that had been gotten. The dangerous potentials of these incomplete reforms were reflected in a creation of the institutional leaks caused by their accumulated effects. Both the tax reform at the bottom level and the “*Baogaidai*” reform at the middle level were apt examples for this point.

In China the gradually proceeding reform had entered into a crux stage called as a “*Gongjianzhan*” (A hard battle). The market reform had touched the hardcore of the original planned economy and had touched the deepest institutional contradictions. This stage of reform was hard and crux not because it can not be powerfully carried out but because it was struggled in the paradox of further economic reform. China’s economic reform must benefit part of persons at the cost of the other part of persons. This tradeoff was far away from the concerns of reformers themselves when this reform was just proceeding at the periphery stage. Along as the deepening of the reform, the reform paradox was gradually obvious. Reformers were the directors and advocates of the reform, but reformers also had their own interests. Even more, their present interests such as power holding were partly the results of their path-dependency from the original institutional framework of planned economy. The market reform must demand the power reallocation and resources redistributions. The problem was that when the gradually deepened reform touched or even hurt the benefits of these reformers themselves, would they still be the strong advocates of this reform or would they change to the opponents of this reform?

The new institutional breakout at the top level was necessitated as a solution to this reform paradox.

The new institutional breakout in this period was the combination of economic decentralization and political centralization of the institutional reform at the top level. The formation of this specific institutional reform was the result of the fact that the creation of the market was only a means for revitalizing the socialist economy but not an end in itself. So, it was expected that the public sector would still maintain its predominance and the state would have tight control over the market. Almost there was an obvious decentralized trend in China in the 90s in which state (the central) disarticulated its authority against the power growth of the local, based on my observation of China’s central-provincial fiscal interest conflict evolution, I argued that the process of power transferring to the local from the central, in fact, was a strategic re-articulation process, not so called “Decentralization”. China was still highly centralized in political control, at the same time, was fairly decentralized in economic control.²⁶

All institutional changes at all the three institutional levels are no more than strategic responses of the state to this deep “reform paradox” at the top level. The institutional leak at the top level by produced by that breakout is that when facing the unavoidable “reform paradox”, the state assumes as the “dual actor”. It means that on the one hand, the state needs to take advantage of this “means” of market reform to activate the Socialist economy. So, as long as the market reform will not really threaten its retained benefits, the state will not only permit its existence, but also promote its development. In this

²⁶ My conclusion that the nature of China’s market reform is the combination of economic decentralization and political centralization is shared with that of Huang Yasheng (1996). He also argues that China now has a de facto federalist system in which the central government specializes in political responsibilities and local governments specialize in economic responsibilities.

situation, the state is an absolute “promoter” of the market reform. But on the other hand, if the economic reform really threatens its retained benefits that it holds a great concern, in this situation, the state is an absolute “holder” of the market reform.

The administrative-enterprise relationship at the middle level also reflects the image of the “dual actor” of the state. On the one hand, enterprise ownership reform was a great step forward to a market economy. But on the other hand, the marketization process had been artificially hampered in the state-protected industries. In order to grasp the central revenue resources, the central government protected the state-owned enterprises in the selected disciplines such as electricity, telecommunication, raw material industry, etc., which led to the formation of “monopoly industries”. In these “monopoly industries”, the price was a kind of “monopoly price” set by the state, and it excluded competition of the qualified enterprises from the outside through rules and the non-affordable costs. However, these products belonged to ones that must be consumed in daily life and daily production, though the price was a monopoly price. So, when people or product factories purchased them, it was equal to paying tax to the central government. This was a kind of “recessive tax” that was not easy to be identified by the citizens. This action in fact was opposite to the spirit of market-directed reform, but it guaranteed the revenues for the state. Therefore, the market inefficiency was the result of the state intervention.

Promoted by economic reform, the state-owned enterprise also had a “double identity”. The state-owned enterprise was trying to extricate itself from only serving for state and from the administrative relationship with state. For being independent in management, the economic organization can make mutual exchange and intercourse without the direct intervention of political power. In the meanwhile, these enterprises belonged to the state-owned economy and their ownership belonged to state, so being subject to the state macroeconomic regulation they can only have the management power under the control and must be responsible for the increment of state assets. They reflected the mixture of two factors including the effecting of state guiding policy and the function of seeking profits according to the guidance of market. They are affected by both of the state control and market stimulation.

At the bottom level, the tax sharing system replaced the original revenue sharing system in 1994. The new changes in the tax regime included the following: a. to make revenue sharing more uniform across provinces; b. to split the State Tax Bureau into two with separate agencies for collecting central and local taxes (Wei Liqun, 1994); and c. to offer equal tax treatment of domestic enterprises by unifying the profit rate at 33 percent (Wong, Heady and Woo, 1995). These tax reform measures themselves reflected the mixture of both the positive and negative incentives. On the one hand, we can't deny that tax-sharing system was a big step forward to the demands of a market economy and international standards by instilling clear rules into the sharing system. Moreover, this reform program introduced a higher transparency into the sharing system, which made tax sharing out of the so-called “black box” operations. But on the other hand, it also implied a strategic effort to hold back the trend of fiscal over-

decentralization. First, under the tax-sharing system, only three taxes would be shared: VAT, the resource tax, and the stock market trading tax. It would raise the central share of total revenues by claiming a larger share of VAT, the most buoyant tax type (Wong, Heady and Woo, 1995). Second, this reform program can also help to assess local tax capacity and tax efforts by overcoming information asymmetry, and improving the tax monitoring and tax administration.

Comparing this tax-sharing regime with previous tax regimes, the similarity is that some goals of both the central and the provincial governments are in conflict or, are zero-sum under all the tax regimes. This implies that in very few common jurisdictional fields between the central and provincial (such as three shared taxes: VAT, the resource tax, and the stock market trading tax), there will still be an enduring tendency to incrementalist fiscal flows due to negotiations between the central and provincial. The difference of this tax regime from previous ones is that provincial governments have gradually become equal entity as the central in the real term, and they have accumulated enough fiscal capacities especially in the 1990s'. Under tax-sharing regime they can enact local taxation policy only if under the general guidance of the central. This implies that provincial governments can influence even shape fiscal policies enacted by the central by bargaining or disagreement as the opposed forces.

III. CONCLUSION

It is not enough to understand the evolution of China's central-provincial fiscal interest conflict by only focusing on institutional changes within the tax regime. It is required to locate this issue in a broader analytic framework of the three-level institutional contexts as an explanatory mechanism. This paper is an attempt of it in both theoretical and empirical perspectives.

The framework of the three-level institutional contexts provides a general institutional arrangement in each of the four periods. China's gradual socialist market reform displays an institutional punctuated equilibrium movement model. The Institutional breakout appears in each of the three post reform periods and punctuates the previous institutional arrangement. Also the institutional breakout experiences an upward shift from the bottom to the middle to the top levels of institutions. Institutional leaks at each level of institution are by produced by the institutional breakout as a fragmented reform occurring at that level. When the enlargement of institutional leaks overrides the logic of that institutional arrangement, the temporary equilibrium resulting from the institutional legacy brought by the institutional breakout is necessitated to be broken. The appearance of the new institutional breakout does not come from the interest intension, but comes from the accumulation of the exiting institutional leaks by produced by the last institutional breakout as a solution to those previous leaks.

The evolution of China's central-provincial fiscal interest conflict is the result of this institutional punctuated equilibrium movement. The institutional breakout determines how both the central and provincial governments define their own fiscal interests that are different from each other by providing the institutional possibility for them to turn the potential strategy into a dominant drive. The institutional leaks that are by produced by the institutional breakout unintentionally provide the institutional stimulating mechanisms for both of them to turn their fiscal interest drive into a reality, which finally led to the actual fiscal conflict between the central and provincial governments.



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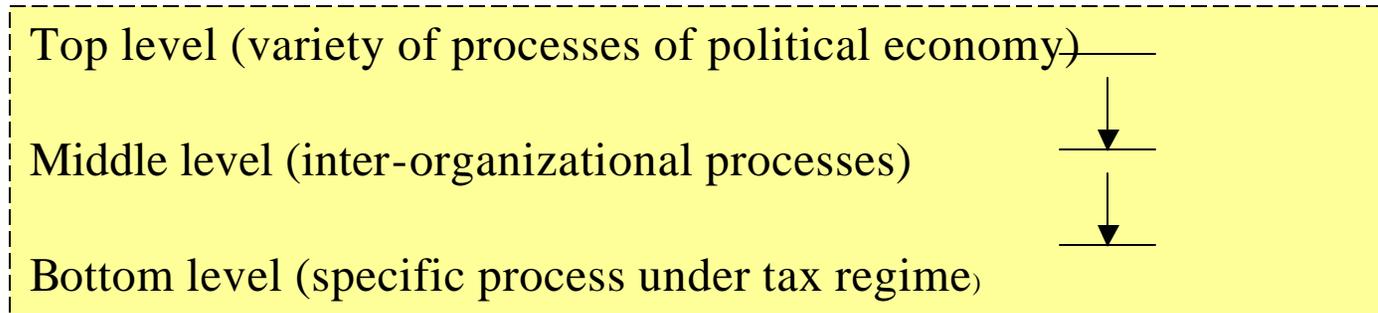
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V. ATTACHMENTS (TABLE)

	Institutional Factors at Top Level	Institutional Factors at Middle Level	Institutional Factors at Bottom Level
Pre-reform	Planning Economy Administrative Centralization Political Centralization	Administrative-Enterprise Integration Unitary Intergovernmental Functions Distorted Intergovernmental Relations ---Production Relationship	Consolidated Tax Regime
1978-1984	Planning Economy Administrative Decentralization Political Centralization	Intergovernmental Relationship ----Tendency to Contract Character	Fiscal Responsibility System (Revenue-sharing Agreement)
1985-1994	Commercial Economy Administrative Decentralization Political Centralization	Administrative-Bank Relationship--- Administrative Structure of Financial System And Administrative Control of Banking Operation Administrative-Enterprise Relationship ----“Soft-budget Constraints”	Fiscal Responsibility System (Revenue-sharing Contract)
Post-1994	Quai-Market Economy (Economic Decentralization) Administrative Decentralization Political Centralization	Double Identity of Local Governments Administrative-Enterprise Relationship ----“The Third Field” (Overlap of Private/ Public Dichotomy)	Tax Sharing System

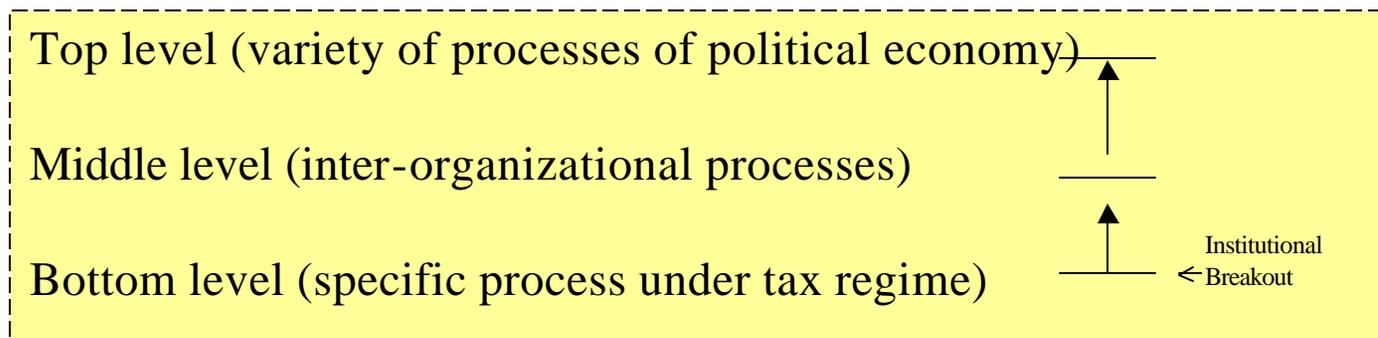
The Institutional Influencing Schematics



No central-local interest conflict

Integration (unification) of Central-local Interest Conflict

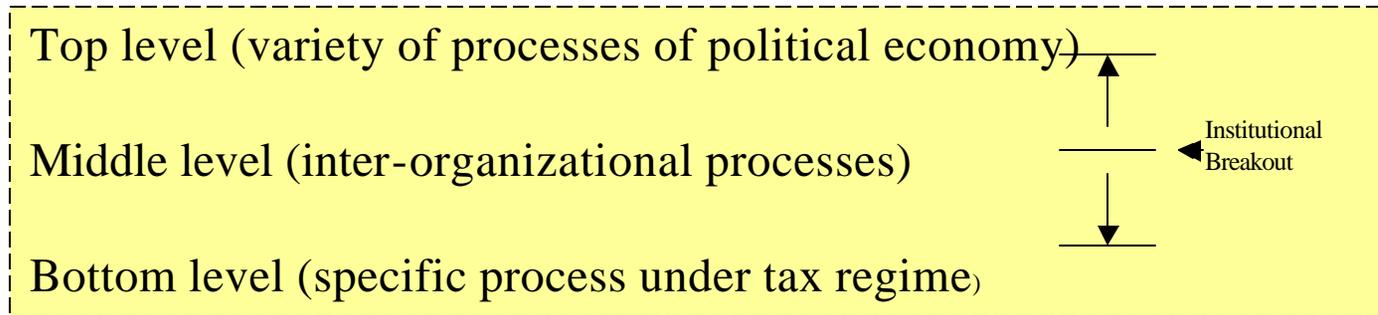
Pre-reform Period



Conflict between central fiscal control and local fiscal autonomy

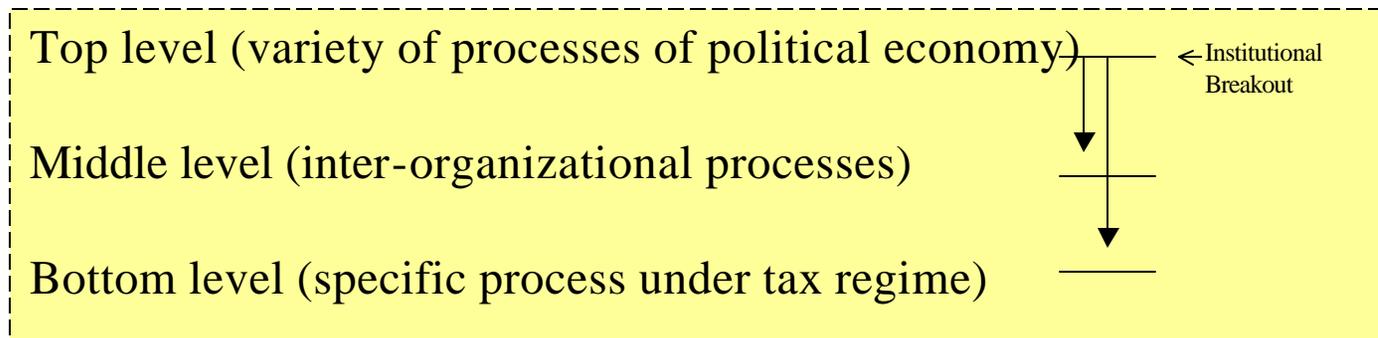
Genesis of Central-local Interest Conflict

1979-1984 Period



Conflict between macro-economic stability and local expansion

Expansion of Central-local Interest Conflict
1985-1994 Period



Conflict reorganization

Reorganization of Central-local Interest Conflict
After 1994 Period



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