What Governments Maximize and Why: The View from Trade

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> > Abstract

What Governments Maximize and Why: The View from Trade

Abstract

Policy making power enables governments to redistribute income to powerful interests in society. However, some governments exhibit greater concern for aggregate welfare than others. This government behavior may itself be endogenously determined by a number of economic, political and institutional factors. Trade policy, being fundamentally redistributive, provides a valuable context in which the welfare mindedness of governments may be empirically evaluated. This paper investigates quantitatively the welfare mindedness of governments and attempts to understand these political and institutional determinants of the di erences in government behavior across countries.

Keywords: & , ()3(?)-373. Ω 4.9282 . -3194 3 357.41 , 357.41

1. Introduction

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2. What Governments Maximize: Theory

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3. What Governments Maximize: Comparative estimates of a

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4.1 Lobbying and Electoral Competition

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 17 The model may be extended to incorporate the two-party electoral competition model in determining the legislator chosen to represent a district. Then, the diversity across districts in the parameters α , $\$, $\$, and ϕ then underlies each legislator's parameter. This may well determine which legislators are in the winning coalition (that is, which are the cheapest for the agenda setter to buy o), but the fact still remains that competition among legislators will lead to the same policy.

¹⁸The legislative bargaining game now has two additional steps added to the front of the earlier sequence: xxx

¹⁹Persson, Roland and Tabellini (1997) give deeper meaning to what it means for the executive to wield checks and balances. Their mechanism is separation of powers. Further, separation of powers works to produce welfare-oriented

Hypothesis 5: ? Đ Đ , ? ? .f Đ Đ ? Đ .f .

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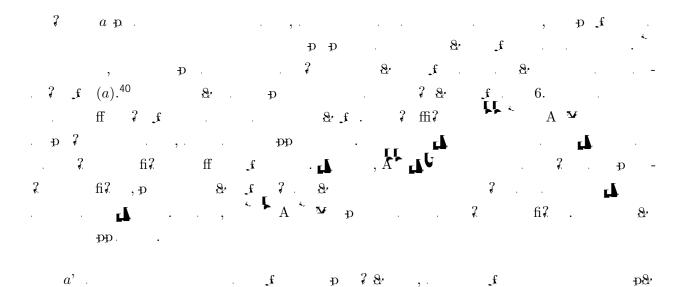
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Sensitivity Analysis

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 $^{^{40}} The standard errors of ln() were computed using the delta method. Note that the heteroskedastic regression presumes that the only source of error is the measurement error in ln().$

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A Rawlsian Extension

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World Development Indicators. & & . , :

| Table 1.1: Estimates of a | | | | | | | | | |
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| • | Country | ccode | 1/a | se(1/a) | а | | | | |
| 1 | Argentina | ARG | 0.19 | 0.02 | 5.25 | | | | |
| 2 | Austria | AUS | 0.11 | 0.01 | 8.79 | | | | |
| 3 | Bangladesh | BGD | 6.34 | 2.27 | 0.16 | | | | |
| 4 | Bolivia | BOL | 1.47 | 0.20 | 0.68 | | | | |
| 5 | Brazil | BRA | 0.04 | 0.00 | 24.91 | | | | |
| 6 | Chile | CHL | 0.21 | 0.02 | 4.83 | | | | |
| 7 | China | CHN | 0.12 | 0.01 | 8.33 | | | | |
| 8 | Cameroon | CMR | 3.31 | 2.54 | 0.30 | | | | |
| 9 | Colombia | COL | 0.13 | 0.01 | 7.88 | | | | |
| 10 | Costa Rica | CRI | 0.50 | 0.07 | 1.98 | | | | |
| 11 | Germany | DEU | 0.09 | 0.01 | 11.55 | | | | |
| 12 | Denmark | DNK | 0.12 | 0.01 | 8.10 | | | | |
| 13 | Ecuador | ECU | 0.81 | 0.14 | 1.23 | | | | |
| 14 | Egypt | EGY | 0.80 | 0.18 | 1.24 | | | | |
| 15 | Spain | ESP | 0.07 | 0.00 | 15.16 | | | | |
| 16 | Ethiopia | ETH | 5.92 | 2.26 | 0.17 | | | | |
| 17 | Finland | FIN | 0.09 | 0.01 | 10.57 | | | | |
| 18 | France | FRA | 0.09 | 0.01 | 10.96 | | | | |
| 19 | U.K. | GBR | 0.08 | 0.01 | 11.86 | | | | |
| 20 | 21 | | | | | | | | |
| | Guatemala | GTM | 0.65 | 0.08 | 1.53 | | | | |
| 22 | Hongkong | HKG | 0.00 | | inf. | | | | |
| 23 | Hungary | HUN | 0.25 | 0.02 | 3.96 | | | | |
| 24 | Indonesia | IDN | 0.38 | 0.09 | 2.62 | | | | |
| 25 | India | IND | 0.37 | 0.05 | 2.72 | | | | |
| 26 | Ireland | IRL | 0.29 | 0.04 | 3.50 | | | | |
| 27 | Italy | ITA | 0.07 | 0.01 | 13.42 | | | | |
| 28 | Japan | JPN | 0.03 | 0.00 | 37.81 | | | | |
| 29 | Kenya | KEN | 1.16 | 0.33 | 0.86 | | | | |
| 30 | Korea | KOR | 0.06 | 0.00 | 16.15 | | | | |
| 31 | Sri Lanka | LKA | 1.08 | 0.18 | 0.93 | | | | |
| 32 | Latvia | LVA | 0.17 | 0.01 | 5.75 | | | | |
| 33 | Morocco | MAR | 0.87 | 0.14 | 1.14 | | | | |
| 34 | Mexico | MEX | 0.77 | 0.07 | 1.29 | | | | |
| 35 | Malawi | MWI | 3.93 | 1.17 | 0.25 | | | | |
| 36 | Malaysia | MYS | 0.32 | 0.02 | 3.13 | | | | |
| 37 | Netherlands | NLD | 0.35 | 0.05 | 2.85 | | | | |
| 38 | Norway | NOR | 0.24 | 0.05 | 4.22 | | | | |
| 39 | Nepal | NPL | 15.56 | 5.66 | 0.06 | | | | |
| 40 | Pakistan | РАК | 1.35 | 0.31 | 0.74 | | | | |

| Country | ccode | 1/a | se(1/a) | a |
|------------------------|-------|------|---------|--------|
| 41 Peru | PER | 0.21 | 0.03 | 4.85 |
| 42 Phillipines | PHL | 0.35 | 0.03 | 2.84 |
| 43 Poland | POL | 0.13 | 0.01 | 7.48 |
| 44 Romania | ROM | 0.11 | 0.01 | 9.25 |
| 45 Singapore | SGP | 0.00 | 0.00 | 404.29 |
| 46 Sweden | SWE | 0.08 | 0.03 | 12.28 |
| 47 Thailand | THA | 0.94 | 0.17 | 1.06 |
| 48 Trinidad and Tobago | TTO | 0.90 | 0.16 | 1.11 |
| 49 Turkey | TUR | 0.07 | 0.00 | 14.53 |
| 50 Taiwan | TWN | 0.12 | 0.01 | 8.53 |
| 51 Uruguay | URY | 0.28 | 0.02 | 3.62 |
| 52 United States | USA | 0.04 | 0.01 | 26.14 |
| 53 Venezuela | VEN | 0.18 | 0.01 | 5.41 |
| 54 South Africa | ZAF | 0.19 | 0.02 | 5.13 |
| Notes: | | | | |

1. Hong Kong has zero tariffs. In the runs with 54 obs. (full sample) HKG's *a* is set to 10000.

| Nepal | 0.06 | Thailand | 1.06 | Indonesia | 2.62 | Greece | 5.11 | Finland | 10.57 |
|------------|------|---------------------|------|-------------|------|--------------|------|---------|-------|
| Bangladesh | 0.16 | Trinidad and Tobago | 1.11 | India | 2.72 | South Africa | 5.13 | France | 10.96 |
| Ethiopia | 0.17 | Morocco | 1.14 | Phillipines | 2.84 | Argentina | 5.25 | Germany | 11.55 |
| Malawi | 0.25 | Ecuador | 1.23 | Netherlands | 2.85 | Venezuela | 5.41 | U.K. | 11.86 |
| Cameroon | 0.30 | Egypt | 1.24 | Malaysia | 3.13 | Latvia | 5.75 | Sweden | 12.28 |
| Bolivia | 0.68 | Mexico | 1.29 | Ireland | 3.50 | Poland | 7.48 | Italy | 13.42 |
| Pakistan | 0.74 | Guatemala | 1.53 | Uruguay | 3.62 | Colombia | 7.88 | Turkey | 14.53 |
| Kenya | 0.86 | Costa Rica | 1.98 | Hungary | 3.96 | Denmark | 8.10 | Spain | 15.16 |
| | | | | | | | | | |

| Source | Variable | Description | Mean | sd | Min | Max |
|-----------|-------------------|--|-------|-------|-------|-------|
| Estimated | ln(a) | log of a | 1.313 | 1.515 | 2.813 | 6.002 |
| WDR | PROPORTIONAL | 1 if House seats allocated on a proportional basis; 0 if allocated on plurality (first | - | | | |
| | | past-the-post winner) basis | 0.520 | 0.505 | 0 | 1 |
| WDR | LEGCOHESION | Cohesion among parties in the legislature that form the government = Herfindahl | _ | | | |
| | | index of # parties in government. Herfindahl index of #parties in opposition | 0.232 | 0.274 | 0.554 | 0.989 |
| WDR | PROP+LEGCOHESION | PROPORTIONAL x LEGCOHESION | 0.096 | 0.218 | 0.554 | 0.572 |
| WDR | PLUR+LEGCOHESION | (1 PROPORTIONAL) x LEGCOHESION | 0.137 | 0.234 | 0.036 | 0.989 |
| WDR | ILLITERACY | % of population with no primary education with less than secondary (xx) | | | | |
| | | school education | 0.134 | 0.183 | 0 | 0.630 |
| WDR | URBANIZATION | % of population living in urban area | 0.617 | 0.225 | 0.111 | 1 |
| DPI | LRDIVIDE | 1 if largest government party in legislature is ideologically different (leftist or | | | | |
| | | rightist) from the largest opposition party. 0 otherwise. | 0.360 | 0.485 | 0 | 1 |
| WAT | TVADVERTISING_GDP | Inverse productivity of advertising spending | | | | |
| | | = \$ of Television advertising expenditures per thousand \$ of GDP | 2.106 | 1.608 | 0.003 | 6.867 |
| DPI | CHECKS | Executive checks on the legislature | 4.000 | 2.195 | 1 | 15 |
| DPI | BinaryCHECKS | Binary measure of executive checks on the legislature: 1 if CHECKS>7, | | | | |
| | | 0 otherwise. | 0.040 | 0.198 | 0 | 1 |
| DPI | EIEC | Executive index of electoral competitiveness | 6.740 | 1.006 | 2 | 7 |
| DPI | BinaryEIEC | Binary measure of executive electoral competitiveness: 1 if EIEC=7, 0 otherwise | 0.900 | 0.303 | 0 | 1 |
| DPI | ALLHOUSE | Undivided government: 1 if party of executive has majority in the legislature, | | | | |
| | | 0 otherwise | 0.460 | 0.503 | 0 | 1 |
| DPI | ESIMILARITY | Ideologically similarity of executive and largest party in government: 1 if both an | е | | | |
| | | Leftist, Rightist or Centrist, 0 otherwise | 0.800 | 0.404 | 0 | 1 |

Table 2: Variable Description and Descriptive Statistics

Notes:

1. All statistics for 50 countries. Only countires with elected legislatures up to 1996 in the sample. China, Ethiopia, Hong Kong and Taiwan are dropped.

2. DPI refers to Database on Political Institutions (Keefer et al 2001), WDR to various issues of the World Development Report, and WAT to World Advertising Trends (1998).

3. See Section 5.1 for detailed definitions and original sources.

| Theory | Variable | OLS1 | OLS2 |
|----------------------------------|------------------|------|------|
| EC: Proportonal versus plurality | PROPORTIONAL | 0.01 | 0.03 |
| EC: Proportonal versus plurality | PROP+LEGCOHESION | 0.21 | 0.14 |
| EC: Proportonal versus plurality | PLUR+LEGCOHESION | 0.21 | 0.05 |

| | M1 | M2 |
|-------------------|---------------------|-----------|
| PROPORTIONAL | 0.052 | 0.172 |
| | [0.14] | [0.48] |
| PROP+LEGCOHESION | 1.314 | 0.968 |
| | [1.83]* | [1.41] |
| PLUR+LEGCOHESION | 1.299 | 0.375 |
| | [1.63] | [0.49] |
| ILLITERACY | 3.299 | 4.045 |
| | [2.75]*** | [3.36]*** |
| URBANIZATION | 3.257 | 3.182 |
| | [3.15]*** | [3.28]*** |
| LRDIVIDE | 0.656 | 0.689 |
| | [1.81]* | [1.98]* |
| TVADVERTISING_GDP | 0.17 | 0.19 |
| | [1.38] | [1.61] |
| CHECKS | 0.152 | |
| | [1.96]* | |
| BinaryCHECKS | | 1.927 |
| , , | | [2.43]** |
| EIEC | 0.328 | |
| | [2.17]** | |
| BinaryEIEC | | 1.534 |
| | | [3.30]*** |
| ALLHOUSE | 0.276 | 0.28 |
| | [0.76] | [0.87] |
| ESIMILARITY | 0.228 | 0.503 |
| | [0.64] | [1.45] |
| Constant | 0.788 | 0.706 |
| | [0.59] | [0.77] |
| N | <u>[0.00]</u> 50 | 50 |
| Adjusted R2 | 0.69 | 0.75 |
| -, | 0.00 | 0.10 |

 Table 5: Robust (to Outliers) regressions

 Dependent variable: In(a)

Note:

1. Absolute *t*-statistics in parentheses:

* denotes staticial significance at 10%; ** at 5%, and *** at 1%.

2. Weighted regressions, with weights inversely related to residuals.

| | M1 | M2 | M1 | M2 |
|-------------------|-----------|-----------|-----------|-----------|
| PROPORTIONAL | 0.037 | 0.102 | 0.01 | 0.032 |
| | [0.11] | [0.31] | [0.03] | [0.11] |
| PROP+LEGCOHESION | 1.46 | 0.99 | 0.941 | 0.522 |
| | [2.16]** | [1.60] | [1.47] | [1.01] |
| PLUR+LEGCOHESION | 1.376 | 0.338 | 1.448 | 1.039 |
| | [1.84]* | [0.49] | [1.39] | [1.21] |
| ILLITERACY | 2.759 | 3.665 | 1.903 | 1.824 |
| | [2.44]** | [3.37]*** | [1.24] | [1.39] |
| URBANIZATION | 3.821 | 3.175 | 2.961 | 1.619 |
| | [3.93]*** | [3.62]*** | [2.45]** | [1.57] |
| LRDIVIDE | 0.746 | 0.688 | 0.418 | 0.38 |
| | [2.18]** | [2.19]** | [1.57] | [1.89]* |
| TVADVERTISING_GDP | 0.214 | 0.211 | 0.183 | 0.229 |
| | [1.84]* | [1.98]* | [1.93]* | [3.00]*** |
| CHECKS | 0.153 | | 0.015 | |
| | [2.10]** | | [0.17] | |
| BinaryCHECKS | | 1.809 | | 1.457 |
| | | [2.52]** | | [0.98] |
| EIEC | 0.368 | | 0.86 | |
| | [2.58]** | | [2.66]** | |
| BinaryEIEC | | 1.576 | | 2.128 |
| | | [3.75]*** | | [5.38]*** |
| ALLHOUSE | 0.296 | 0.369 | 0.651 | 0.708 |
| | [0.86] | [1.27] | [2.58]** | [3.52]*** |
| ESIMILARITY | 0.326 | 0.496 | 0.928 | 1.072 |
| | [0.97] | [1.58] | [2.75]*** | [3.92]*** |
| Constant | 0.537 | 0.68 | 5.04 | 1.887 |
| | [0.43] | [0.82] | [1.99]* | [2.14]** |
| N | 50 | 50 | 50 | 50 |
| Adjusted R2 | 0.67 | 0.72 | 0.53 | 0.69 |
| Note: | | | | |

Note:

1. Absolute *t*-statistics in parentheses:

* denotes staticial significance at 10%; ** at 5%, and *** at 1%.
2. First two columns are OLS estimates from Table 3.

| | TYPE A Robustness | | | | | |
|-------------------|---------------------------|------|-------|-------|------------------------|-------------|
| Variable | Robust bounds exist? | | | | Influential regressors | ROBUST? |
| PROPORTIONAL | NO | high | 0.173 | | ILLITERACY | No |
| | | base | 0.037 | 0.110 | | |
| | | low | 0.634 | 1.068 | | |
| ILLITERACY | YES | high | 1.963 | 1.647 | none | Robust |
| | All combinations | base | 2.759 | 2.440 | | |
| | | low | 6.962 | 6.296 | | |
| URBANIZATION | YES | high | 6.311 | 8.555 | none | Robust |
| | All combinations | base | 3.821 | 3.930 | | |
| | | low | 2.692 | 2.899 | | |
| LRDIVIDE | YES | high | 0.435 | 0.811 | ILLITERACY, | Robust |
| | 3 or 4 variable combos | base | 0.746 | 2.180 | URBANIZATION | |
| | | low | 0.818 | 2.155 | | |
| TVADVERTISING_GDP | YES | high | 0.685 | 6.164 | none | Robust |
| | All combinations | base | 0.214 | 1.840 | | |
| | | low | 0.204 | 1.646 | | |
| CHECKS | YES | high | 0.176 | 2.696 | ILLITERACY, | No |
| | 3 or 4 variable combos | base | 0.153 | 2.100 | URBANIZATION | |
| | | low | 0.092 | 0.763 | | |
| BinaryCHECKS | YES | high | 2.152 | 2.468 | | No |
| | 2, 3 or 4 variable combos | base | 1.809 | 2.520 | TVADVERTISING_GDP | |
| | | low | 0.971 | 0.766 | | |
| EIEC | YES | high | 0.037 | 0.153 | ILLITERACY, | No |
| | 2, 3 or 4 variable combos | base | 0.368 | 2.580 | URBANIZATION, | |
| | | low | 0.374 | 2.335 | TVADVERTISING_GDP | |
| BinaryEIEC | YES | high | 0.856 | 1.098 | | Robust, but |
| | All combinations | base | 1.576 | 3.750 | | weakly |
| | | low | 1.767 | 3.287 | | |
| ALLHOUSE | NO | high | 0.074 | 0.195 | ILLITERACY, | No |
| | | base | 0.296 | 0.860 | URBANIZATION | |
| | | low | 0.650 | 1.162 | | |
| ESIMILARITY | NO | high | 0.537 | 1.496 | ILLITERACY, | No |
| | | base | 0.326 | 0.970 | TVADVERTISING_GDP | |
| | | low | 0.176 | 0.462 | | |
| | | | | | | |

Note:

1. The base estimates are from the first column of OLS estimates (BEIEC and BCHECKS from the second) of Table 3.

2. The "high" and "low" values are estimated as the max and min of the set of estimates using all possible combinations

country ccode a a^{R1}

| Hypothesis | Variable | | | | | | |
|-------------------------------------|-------------------|----------|-----------|-----------|-----------|----------|---------------------|
| EC: Proportonal versus plurality | PROPORTIONAL | 0.037 | 0.102 | 1.156 | 0.44 | 0.253 | 0.276 |
| | | [0.11] | [0.31] | [0.45] | [0.18] | [0.76] | [0.88] |
| EC: Proportonal versus plurality | PROP+LEGCOHESION | 1.46 | 0.99 | 1.188 | -0.718 | -0.374 | -0.306 |
| | | [2.16]** | [1.60] | [0.24] | [0.15] | [0.59] | [0.51] |
| EC: Proportonal versus plurality | PLUR+LEGCOHESION | 1.376 | 0.338 | 2.167 | -1.635 | -0.316 | -0.134 |
| | | [1.84]* | [0.49] | [0.40] | [0.31] | [0.45] | [0.20] |
| EC: Uninformed voting | ILLITERACY | 2.759 | 3.665 | 34.012 | 26.531 | 1.352 | 1.387 |
| | | [2.44]** | [3.37]*** | | [3.23]*** | [1.28] | [1.33] |
| EC: Uninformed voting | URBANIZATION | 3.821 | 3.175 | -5.015 | -8.993 | -1.689 | <mark>-1.649</mark> |
| | | | [3.62]*** | [0.72] | [1.36] | [1.86]* | [1.96]* |
| EC: Ideological attachment to party | LRDIVIDE | 0.746 | 0.688 | 0.292 | 1.315 | 0.215 | 0.268 |
| | | [2.18]** | [2.19]** | [0.12] | [0.55] | [0.67] | [0.89] |
| EC: Productivity of media spending | TVADVERTISING_GDP | 0.214 | 0.211 | 0.025 | -0.004 | -0.053 | -0.056 |
| | | [1.84]* | [1.98]* | [0.03] | [0.01] | [0.49] | [0.55] |
| LB: Executive checks on legislators | CHECKS | 0.153 | | 1.599 | | 0.052 | |
| | | [2.10]** | | [3.04]*** | | [0.76] | |
| LB: Executive checks on legislators | BinaryCHECKS | | 1.809 | | 19.12 | | 0.514 |
| | | | [2.52]** | | [3.54]*** | | [0.75] |
| LB: Executive electoral competition | EIEC | 0.368 | | -0.696 | | 0.069 | |
| | | [2.58]** | | [0.68] | | [0.52] | |
| LB: Executive electoral competition | BinaryEIEC | | 1.576 | | -0.032 | | 0.83 |
| | | | [3.75]*** | 0.00- | [0.01] | | [2.05]** |
| LB: Undivided government | ALLHOUSE | 0.296 | 0.369 | 3.865 | 3.214 | 0.318 | 0.325 |
| | | [0.86] | [1.27] | [1.56] | [1.46] | [0.99] | [1.16] |
| LB: Undivided government | ESIMILARITY | 0.326 | 0.496 | -2.732 | -2.07 | -0.345 | -0.407 |
| | Ormateur | [0.97] | [1.58] | [1.13] | [0.88] | [1.11] | [1.35] |
| | Constant | 0.537 | 0.68 | 9.089 | 14.057 | 2.568 | 2.434 |
| | N7 | [0.43] | [0.82] | [1.00] | [2.24]** | [2.18]** | [3.05]*** |
| | Ν | | | | | | |