

Lutz, Stefan

Working Paper

Trade policy: 'Institutional' vs. 'economic' factors

ZEI Working Paper, No. B 25-2002

Provided in Cooperation with:

ZEI - Center for European Integration Studies, University of Bonn

Suggested Citation: Lutz, Stefan (2002) : Trade policy: 'Institutional' vs. 'economic' factors, ZEI Working Paper, No. B 25-2002, Rheinische Friedrich-Wilhelms-Universität Bonn, Zentrum für Europäische Integrationsforschung (ZEI), Bonn

This Version is available at:

<https://hdl.handle.net/10419/39632>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Zentrum für Europäische Integrationsforschung
Center for European Integration Studies
Rheinische Friedrich-Wilhelms-Universität Bonn



Stefan Lutz

**Trade Policy: *Institutional*
Vs. *Economic* Factors**

Working Paper

**B 25
2002**

TRADE POLICY: "INSTITUTIONAL" VS. "ECONOMIC" FACTORS

Stefan H Lutz*

23 October 2002

ABSTRACT

The ongoing discussion of U.S.-Japanese trade relations suggests that national differences such as in the institutional environment may be relevant for assessing international trade policies. However, economic trade theory often assumes countries to be organized around common notions of complete markets. This paper compares two alternative modes of trade policy analysis by juxtaposing the “economic” view inherent in Gene Grossman’s work on “Japan’s Innovation and Trade” with the “political” view of “Japanese-American Relations” expressed by Chalmers Johnson. A synthesis is attempted with the help of some remarks on “New Trade Theory’s Implications for Policy Analysis” by John Pomery.

JEL classification: A12, B41, F10

Keywords: trade theory, policy, institutional factors

*Stefan H. Lutz, PhD, ZEW – Centre for European Economic Research, Department of Industrial Economics and International Management, L7, 1, D-68161 Mannheim, Germany, Tel.: (49)(621)1235-295, FAX: (49)(621)1235-170, E-mail: lutz@pool.uni-mannheim.de. I would like to thank Myron Hale, John Pomery and Mark Tilton for helpful comments on an earlier version of this paper.

TRADE POLICY: "INSTITUTIONAL" VS. "ECONOMIC" FACTORS

1. The Topic

The ongoing discussion of U.S.-Japanese trade relations suggests that national differences such as in the institutional environment may be relevant for assessing international trade policies. However, economic trade theory often assumes countries to be organized around common notions of complete markets. In contrast, political scientists often concentrate on national differences without taking the results of economic trade theory into account. This paper compares these two alternative modes of trade policy analysis by juxtaposing the “economic” view inherent in Gene Grossman’s work on “Japan’s Innovation and Trade” with the “political” view of “Japanese-American Relations” expressed by Chalmers Johnson. A synthesis is attempted with the help of some remarks on “New Trade Theory’s Implications for Policy Analysis” by John Pomery.

According to Joan Robinson, "there is no branch in economics in which there is a wider gap between orthodox doctrine and actual problems than in the theory of international trade."¹ Robinson made her statement in 1970, based on the trade theory then practiced. Today, as then, many of her colleagues would doubt that such a gap exists. Many contemporary economists, while admitting the validity of her complaint back then, would argue that this gap has largely been bridged by advancements in exactly that type of economics that she criticizes. As we shall see later, Gene Grossman could be characterized as such an economist. Other critics of economic trade theory come from outside the profession. Chalmers Johnson, for example, excuses his attacks on economists' analyses with being a political scientist himself, but proceeds to urge his readers to discount or ignore the opinion of mainstream economists.²

The non-academic discussion of trade relations has also been rather heated. A selective overview of the non-academic discussion of U. S. - Japanese trade relations will give

some impressions of the variety of public opinions. This also constitutes evidence typically taken more into account by political scientists than by economists.

2. An Overview

Trade imbalances between the U.S. and Japan have been repeatedly the focus of public and academic discussion in the U.S. The analyses obtained and resulting policy prescriptions range from Japan as an economic role model for the U.S. to demands to "get tough" on Japan for "not abiding by the rules". Not surprisingly, most commentators on U.S.-Japanese economic relations do not differ much in their assessment of the economic facts of trade imbalances, but on the underlying causes. These differences, in turn, lead to different assessments of the reality observed and to different policy prescriptions.

A selective sample gives some hints of the diversity in opinion. Lee Iacocca implicitly describes Japan as Neo-Mercantilists, though without using this term³, by stating:

"The Japanese game plan is simple: take in American raw materials but not finished goods, because that would cost them jobs."

He offers the following solution:

"We have to freeze our deficit with Japan in place, and tell the Japanese to take it down by a good amount, such as 20 percent per year, until we balance it."⁴

The President of the German Congress of Industry and Trade, Hans Peter Stihl⁵, however, opposes the opinion that Japan closes her markets for imports:

"Of course, there will always be specific problems but open access to Japanese markets is [already] largely achieved."⁶

The Wall Street Journal's Alan Murray differentiates between U.S. and Japanese Industry by stating:

"... Japanese multinational companies don't act like other multinational companies when they go overseas. ... they are far more likely to give most of their business to other Japanese companies."

Murray also concludes:

"Together, the evidence shows clearly that the behavior of Japanese multinationals is an exception in world commerce. And if the world's trading system is going to stay together, that behavior must change."

According to Murray's colleague Michael Granfield, even the IRS thinks along these lines and, consequently, "takes up protectionism." Granfield alleges that the IRS operates under the assumption that Japanese multinationals operating in the U. S. move an unfair share of profits to their home country to avoid U. S. taxation. Hence, regulation was proposed to establish a minimum tax, based on average revenues of U. S. firms, that all foreign multinationals will pay. Still these differences in assessing underlying causes are not the root cause of disagreements. These disagreements possibly stem from a combination of normative conceptions of what "fair trade should be" and awareness of "who gains and loses" under alternative arrangements. According to Murray, the former U.S. administration was in principle a proponent of free trade. He states:

"[P]resident [Bush] doesn't like to talk about managed trade for ideological reasons. It suggests that the government has a role in determining trade flows."

Still, he identifies the U. S. - Japanese auto parts agreement from January 1992 as a clear example of managed trade:

"Make no mistake about it: The Trade agreements that President Bush brought home from his ill-fated trip to Japan are a clear example of 'managed trade'. The President and his people don't like to admit that."

The current administration under President Clinton is also partial towards managing trade with Japan.⁷ Lee Iacocca expresses an opinion similar to Murray's about Congress when stating that legislators would rather be regarded as "perverts than as protectionists."⁸ Hans Peter Stihl also addresses free trade. However, he is strictly opposed to the U. S. - Japanese auto parts agreement. He calls it:

"... a violation of the regulations of GATT and a discrimination against other countries. This is not acceptable for German industry and [therefore] needs political clarification."

However, in comparing the positions of American and German proponents of free trade, some additional facts merit consideration. The U. S. has a chronic trade deficit with Japan⁹, roughly 4-5 times the size of the trade deficit with the European Community as a whole. A major part of this deficit is due to trade in automobiles. Germany has an overall trade surplus, but a small trade deficit in automobile trade with Japan of approximately \$1 billion¹⁰. Mr. Stihl's own business belongs to the market leaders for power saws in Japan.

Notwithstanding different direct interests in a specific trade issue, the question about whether Japanese firms (and consumers) "act differently" seems to lead to a core aspect of the problem. Powell (1992) offers the opinion that not only Japanese firms, but also Japanese private investors and consumers act inherently different from their American counterparts. However, he predicts a movement toward more "American" behavior patterns in Japan. He lists as some of the "cornerstones of the country's economic miracle" that might now be endangered:

"stable shareholding arrangements that secure 'patient' capital for companies to invest; strategic emphasis on market share and not profits; lifetime employment for employees, and complete disdain for 'shareholder rights.'"

He also argues that the Japanese work culture is presently in a state of transformation, and that Japanese shareholders have begun to change their expectations with respect to dividend payouts. Until recently, institutional, interlocking share ownerships (keiretsu) have provided for stable, inexpensive capital. For Powell, these cornerstones, and especially the ability to secure long-term capital with low dividend payments, made the basis for Japan's relative success in world markets. He states, for example:

"One result [of keiretsu] was that Japanese managers were spared the pressure to earn the high returns on invested equity required of their American counterparts."

Powell's bottom line conclusion is that changed shareholder, worker and consumer awareness will force Japanese industry to act more like their American counterparts. In a sense, the "solution" being that Japan, after all, will become more American, will be forced to "play by the rules."

What appears above as the question whether "Japanese are different or not" constitutes a question about adequate analysis for the trade theorist. The remainder of the paper will take a look at two different types of analysis, labeled as "economic" and as "political." This is concluded by an attempt to point the direction toward a possible reconciliation of these two views. The following discussion will also be exemplary with respect to the theoretical view points and the literature covered. The focus will be on Grossman (1990) and Grossman and Helpman (1990) who apply contemporary mainstream economic theory to the case of Japan, on Johnson (1991) who proposes political-historical determinants of Japanese economic development and policies, and on Pomery (1990) who considers the choice of scientific method as part of the economist's problem.

3. An "Economic" View

The notion, that there is one common set of axiomatic elements with which to describe economic activity in different countries and that eventually every region must follow the rules of a free market in which the "direction of the economy is determined by the independent actions of consumers and corporations all operating to maximize their profits and income"¹¹ is widespread among the economic profession. It is also taught to students of economics from the very beginning. For example, Ethier (1988) states in an introductory text on international economics¹²:

"The basic pattern of Japanese trade in manufactured goods seems mostly determined by economic fundamentals, not by Japanese trade policies."

In a sense, this is of course correct, since short-term trade policies do not normally exert the main influence on long-term developments. However, the so called "economic fundamentals" merit additional attention, since they may very well be the outcome of specific policies themselves. We will continue the discussion of economic fundamentals below, following a short introduction into contemporary economic theory.

Daniel Fusfeld describes contemporary economic thought as being dominated by the New Neoclassical doctrine. He characterizes New Neoclassics as the economic dimension of a newly emerged conservatism, which returned to "the conceptual framework of Adam Smith and the economic liberals of the eighteenth century: the market is self-adjusting, leads to socially desirable outcomes, and could benefit from substantial returns to laissez-faire."¹³ He continues by stating that "[o]ne underpinning of the [New Neoclassical] theory is the idea of 'rational expectations.'" The reference to Adam Smith allows for directly attributing some well-known properties to the New Neoclassical model. Its philosophy is one of a naturally occurring harmonic (good, desirable) equilibrium. Sociologically, it is characterized by independently acting, individual competitors and consumers. The driving psychological force behind economic actors is egotism, possibly softened by compassion or sympathy for others. "Rational expectations" serve to further back up the confidence in the emergence of a philosophically desirable outcome, while further defining sociological and psychological characteristics. In its political dimension, New Neoclassical theory is firmly rooted in parliamentary democracy as the guarantor of social consensus on private property rights and capitalism. Its policy prescriptions are either laissez-faire or supply-side oriented (pro-business). Put in other terms, New Neoclassical theory can also be characterized on the macroeconomic level. Felderer and Homburg state that "New Classical economists perceive the business cycle as an equilibrium phenomenon: as a process in which markets are cleared at any instant and expectations are Rational."¹⁴ Again, this definition implies the political advocacy of laissez-faire. However, a survey of current research indicates that contemporary economics cannot consist alone of the type of New Neoclassical economics described above. A substantial part of that research could be characterized as Neokeynesian in that it does not "insist on permanent market clearance" while still being "based on individual optimization behaviour."¹⁵ But this division into only two distinct schools of thought leaves the attentive student of economics in a dilemma. The question remains how to classify those authors that are New Neoclassical in the choice of their model design (including guaranteed market clearing) but produce results that are largely incompatible with a laissez-faire policy prescription. In my opinion, this kind of research provides for potential candidates for a place

at the nexus of the current economics debate. Therefore, we may choose research of this kind for exemplifying the "economic view" of U. S. - Japanese trade relations and the role of "economic fundamentals" therein.

One example of an economic analysis including the description of some Japanese "economic fundamentals" is Grossman's (1990) paper. Grossman set out to "explain Japan's innovation and trade [through] a model of quality competition and dynamic comparative advantage." From the outset, Grossman discounts other "non-economic" explanations of Japan's economic development and follows instead Saxonhouse's (1986) arguments of factor endowments as basic determinants of trade. However, he takes the argument serious that Japan's performance cannot be understood with reference to static notions of comparative advantage alone, and quotes Freeman (1987) as a proponent of an important role of a broadly defined concept of "technology."¹⁶ He then goes along to integrate technological research and development (R&D) into an analytical framework leaving the relative endowments of skilled labor as economic fundamentals that remain largely unexplained. His analytical model is basically Neoclassical, especially with respect to postulated market clearing in the markets for labor and other resources. It deviates from (or advances the) Neoclassical framework with respect to incorporating dynamically changing comparative advantages in high-technology industries. This is done by introducing an imperfectly competitive high-technology sector and the possibility to increase the quality of its products through research and development (R&D), which requires skilled labor. The policy results derived are driven by the tradeoff between labor use for R&D and labor use for the production of goods, given initial endowments. Grossman comes to conclusions including, for example, that Japan, "as the country with the greater relative endowments of skilled labor compared to natural resources[,] will develop over time a comparative advantage in the high-technology sector."¹⁷ The question arises, of course, where the historically grown relative abundance of skilled labor in Japan comes from. On first blush, it seems that an answer would require an inquiry into social dynamics of the Japanese society. I will introduce such an inquiry below when discussing Johnson's work. Given a general notion of the complexity of an economy actually situated in a real society, one might surmise that Grossman's work could not only be unraveled by

questioning assumptions about initial endowments, but also by questioning the accuracy of the model design. This line of critique is exemplified in what follows.

In another paper on dynamic comparative advantage, Grossman together with Helpman (1990) set out again to model growth within a dynamic trade model driven by endogenous technological progress resulting from entrepreneurs' profit-maximizing behavior. This model was based on a framework developed earlier by Romer (1986) and makes reference to Grossman's (1990) work introduced above. The resulting presentation included the consequences on growth and R&D into a trade model examining tariffs and subsidies on final goods and subsidies on R&D in a two-country environment. In particular, technological growth was modeled endogenously, the effects of different factor endowments have been explored, and the significance of the degree of knowledge spillovers between countries has been demonstrated. In doing this, the model continues along the lines of building a synthesis of growth and (static) trade issues. The results derived from this synthesis build an attempt to formally link (short-run) trade policies, such as tariffs and subsidies, to long-run world-growth issues. However, even when staying within the economics paradigm, this assessment would have to be qualified with regard to both the model specifications used and the results derived. As usual, the authors sought their analysis clear and tractable by exercising prudence in model design. But some of the (simplifying) assumptions may affect the results derived in a crucial way. These assumptions are: 1) identical, homothetic preferences across countries; 2) innovations are not tradable between countries; 3) markets for final goods are competitive; 4) No "overlapping research" or patent races - each country develops only new goods that are not available in the other country; 5) governments collect and redistribute tariff revenues by use of lump-sum taxes and subsidies. All of these assumptions have the potential to greatly restrict the range of possible analytical results. But one assumption that stands out in this regard is nontradability of innovation between countries. Centrally based on this assumption is the authors' conclusion that stronger relative demand for final goods in the country with the comparative advantage in R&D slows long-run growth of the world economy by lowering this country's share in the development of new products. If this assumption is abandoned, quite different results may emerge. In particular, firms will emerge producing goods that have been

developed by the other country. One country's R&D will not solely be determined by the same country's profitability of producing goods. Hence, this country's share in developing products may not decline, and world economic growth may not slow down. But this example is just one example of an assertion about a state of affairs that could be regarded as highly dependent on social and institutional factors. Consequently, I will continue with exploring the "Political view."

4. A "Political" View

Johnson¹⁸ explicitly rejects the analytical approaches taken by economists. He frankly states:¹⁹

"In talking about economic issues in the Asia-Pacific region, one must begin by largely discounting or ignoring the opinions of economics professors in English-speaking countries."

Even though admitting that he, of course, is arguing against economists because he is a political scientist of trade, he largely continues along the stated lines of argument by noting that U. S. - Japanese trade is a managed, bilateral game where the two players are inherently different. Consequently, he challenges the validity of economic axioms and assumptions used in the U. S. for the case of Japan. This view, called "revisionism", holds that "Japan's economy and society are not organized around classical notions of free markets, in which the direction of the economy is determined by the independent actions of consumers and corporations all operating to maximize their profits and incomes."²⁰

Hence, from the point of view of an economist²¹, the first distinctive impression of Johnson's theory of state and economy is one that is defined negatively - his is not the theory of an economics professor. He clarifies this point by asserting that:

"[economists] are today concerned more with defending their arcane theories than with studying the nature and potentialities of Asian capitalism."

Directly following these statements, however, Johnson allows, if only hypothetically, for the possibility that these "arcane theories of English-speaking professors" are valid. He confirms that:

"... at the heart of the various economic disputes between Japan and the United States is what theory applies and whether the East Asian and North American capitalist economies even belong to the same species. The answer has direct implications for policy. If the two economies belong to the same species of capitalism, then there is every reason to suppose that problems might be solved ... through such measures as macroeconomic coordination, ..."

But he immediately expresses his doubts about this possibility by suggesting that economic coordination attempts since the Plaza Accord in 1985 made things worse rather than better, implying that the two forms of capitalism are indeed different. Where the economic point of view presents one, universally valid characterization of economic structures, Johnson assumes there are two, presumably equally valid. This implies differences in the philosophical foundations of the two views, since Johnson's view suggests that there can be a rightful place for two fundamentally different economic systems. It also opens up the possibility to consider a different set of behavioral assumptions about individuals (psychological) and about the interaction between individuals (sociological) that are the micro units of this economic system. Whereas the "economic" view insists on one philosophical foundation, a natural equilibrium outcome in a largely homogeneous world with similar economic, sociological and psychological underpinnings, Johnson philosophy affirms the validity of two conflicting value systems leading to awareness of two fundamentally different socio-economic systems, where a harmonic equilibrium situation does not necessarily arise. Similarly, his political theory is based on the awareness of conflict through otherness, rather than identical goals in relative harmony. From the "economic" point of view, conflict is possible about a material outcome, but it will have to be resolved by using strategies defined within the Western economic paradigm.

At the onset of his presentation, Johnson started out with a direct reference to the mode of economic analysis. However, in his paper, he first lays a historical foundation before

covering economic matters. He starts with the observation, that the end of the Cold War has enabled Japan to reevaluate her position towards the alliance with the United States. The same possibility, or rather necessity, arose for the United States. Johnson refers to Francis Fukuyama (1989) and Alan Tonelson (1991) as proponents of two conflicting views concerning the U. S. - Japanese alliance. In Johnson's opinion, Fukuyama comes close to the official American position in stressing Japan's similarities and common interests with the United States. On the other hand, Tonelson, whom Johnson calls a "neorealist", is closer to the official Japanese position that the present alliance was largely based on necessity and convenience when counteracting the "common Soviet threat." In the course of pursuing such policies, the U. S. had "smothered" Japan's foreign policy and her independence. Consequently, Tonelson hold a drift toward more regionalism likely, rather than continued U. S. - Japanese ties on old terms. Johnson sees in these differences of the official positions in Washington and Tokyo a major potential for conflict. In his words:

"... it is reasonable to conclude that during the 1990s Japan and the U. S. are on a collision course."²²

He concludes that in order to avoid a "collision", both countries will have to initiate reform. His following analysis concentrates on three key points. Namely, the New World Order, the movement from GATT toward economic regionalism, and the problem of "emotional friction" (kanjo no atsureki) between Americans and Japanese.

In short, the Japanese position on the New World Order is that a) the U. S. has lost a lot of its economic influence and strength, b) the nations of the world are becoming more dependent on each other, c) the U. S. still acts as if they were in an unchallenged leadership role. The last point has special importance with respect to U. S. attempts to claim moral leadership and exert "foreign pressure" (gaiatsu) on Japan. The rationale for a movement from GATT to economic regionalism could stem from these considerations alone²³, even without taking into account any frictions evolving from a continued clash of cultures. Animosity towards the U. S. arises from the notion that the American domestic demise does not put the U. S. into the position of a strong role model fit for moral leadership. Johnson states, that Japanese opinion tends overwhelmingly toward viewing the U. S. as a nation in gradual

decline. In light of this, American demands on Japan, such as during the Gulf Crisis, are not well taken. On the contrary, they are viewed as unwelcome and unjustified *gaiatsu*.

Japan now tries to redefine her role according to her own terms. This is especially true for the realm of economics, where many Japanese writers now begin to acknowledge major structural differences between the United States and Japan. An often discussed example of these differences is, of course, *keiretsu*, but there are also others such as administrative guidance or structural corruption. Johnson forwards the opinion that structural economic differences need not in themselves be an obstacle to economic exchange, as long as they are recognized. The acknowledgment of such differences, however, puts the Japanese - American relationship on "a new ideological footing, one that in [Johnson's] opinion is more realistic than the old one and that will have to abandon the condescending efforts of American *gaiatsu* to force the Japanese to reform their economy using the American economy as a model."²⁴

As a bottom line, it may be concluded that the "political" view explicitly acknowledges the existence of two fundamentally different socio-economic systems, whereas the "economic" mode of analysis bases a detailed economic theory on the assumption of a basically identical socio-economic system. A more detailed discussion of the relation between the two views follows in the next, and final, chapter.

5. An "Economic and Political" Mode of Analysis

The need for a reconsideration of economic theory has been repeatedly advocated over time both by economists and non-economists. The reasons given range from economists' changing perceptions of the international economy that challenge their previous assumptions about self-adjusting perfect markets over the accusation that traditional trade theory was built with a pre-conceived result in mind to the need to a radical change in paradigm. The criticisms on economic theory can be described as having two major concerns. One is the lack of elements that explain evolutionary change, and the other is the notion that the economic discipline concentrates in a myopic fashion on the economic subsystem taking the social value

system and institutional environment as given. Fritjof Capra, physicist and philosopher, has expressed both concerns very pointedly:²⁵

" An economy is a continually changing and evolving system, dependent on the changing ecological and social systems in which it is embedded. To understand it we need a conceptual framework that is also capable of change and continual adaption to new situations. Such a framework is sadly lacking in the work of most contemporary economists, who ... are increasingly out of touch with current economic reality."

And:

"The evolution of a society, including the evolution of its economic system, is closely linked to changes in the value system that underlies all its manifestations. The values a society lives by will determine its world view and religious institutions, its scientific enterprise and technology, and its political and economic arrangements. ... The study of values is thus of paramount importance for all social sciences; there can be no such thing as a 'value-free' social science. ... Any 'value-free' analysis of social phenomena is based on the tacit assumption of an existing value system that is implicit in the selection and interpretation of data. ..."

Capra hints already at another major complication introduced by considering value and belief systems as fundamentally shaping the analysis. In a different context²⁶, Catherine MacKinnon has identified this problem area as the need for questioning the way we acquire and process knowledge. If Capra would have been using her terminology, he may very well have stated that it is necessary to engage economics and economic policy on the level of epistemology. Pomery states that the way we describe the current situation in trade theory depends on the type of philosophy of science that we espouse.²⁷ Pomery continues by discussing philosophy as science in terms of "Foundationalism" versus "Non-Foundationalism:"

"In its crudest form, the problem of Foundationalism can be summarized as follows: (a) as practical beings, we need to make decisions (about beliefs, actions, values, et cetera); (b) we do not know how to make decisions without introducing 'foundational' beliefs to underpin those decisions; (c) all attempts to build a credible position to justify those foundations, whether in Mathematics, Analytical Philosophy, or Science,

appear to be seriously inadequate; (d) yet we can make no sense of a pure 'anti-foundationalist' world."

He understands the move toward foundationalism up to the 1920s as the natural climax of Enlightenment, and observes that the past sixty years have seen a continual weakening of the foundationalist position. The positive-normative theory distinction together with strong emphasis on empirical testing is one major offshoot of the foundationalist position.

In my opinion, Pomery addresses a key point underlying the divergence of the presented "economic" and "political" views. Expressed simply, this point lies in comparing a "foundationalist" position and an "anti-foundationalist" position by describing them as subscribing to a two-step scientific procedure and a four-step scientific procedure, respectively.²⁸ The two-step procedure involves first, to describe the world in a neutral, value-free manner, followed by the second step of a value judgment or choice of "how the world should be." The four-step procedure involves the steps: a) choice of perspective, b) choice of description, c) value judgment or choice of "how the world should be," and d) policy prescription or assertion of "how the world could be."

On first impression, the two-step procedure seems to resemble the mode of analysis of the "economic" view, and the four-step procedure seems to resemble the model of analysis of the "political" view. But even though the "political" view looks broader to someone critical of the "economic" view since it complements the latter in many ways, it still is based on somewhat arbitrarily chosen foundations based on an incomplete view of the world. It also may lack the depth of technical analysis of economic mechanisms often provided by the "economic" view. Hence, the "economic" view may complement the "political." The difference in focus and methodological rigor of the two views is due to the fundamentally different nature of the respective problems addressed. The "economic" aspects of a particular trade policy issue are often much more clearly defined and well-structured than the "political" aspects. Yet all have to be considered in order to reach policy-relevant conclusions.

Does Pomery think, there is a possible reconciliation for these two views? He doesn't give a clear answer to that question, but he declares that there is certainly no obvious way to reach such a reconciliation. He states:²⁹

"It would be nice to unveil a bottom line to the discussion. However there should be enough evidence so far to suggest that the cost of achieving any bottom line is to ignore some potentially-important aspects of the situation. The view here is that there is no unambiguous trade policy, and there are good reasons to expect failure of closure in such a debate."

The debate Pomery refers to is about finding unambiguous foundations for trade theory. With respect to less fundamental goals, I would argue that there is clear reason for optimism. Integrating both views wherever practicable may greatly reduce existing ambiguity of trade policy. Pomery observes that "[e]conomists' knowledge of the international economy has increased"³⁰ and that phenomena such as intra-industry trade, scale economies, and imperfect competition are all better understood. This has led to changing perceptions of the international economy. Many of the factors now understood had been mentioned in the past by critics, such as Capra or Robinson, as elements lacking from economic analysis. Obviously, some flow of information between the proponents of different views takes place. Grossman's work shows, after all, that he has taken up the challenge to further a dynamic description of the economy. Moreover, more recent contributions such as Baldwin (1994) or Grossman and Helpman (1994) have taken up aspects of "politics" in the shaping of trade policy. Interdisciplinary work linking different cultural and institutional environments to innovation has been forwarded, for example, by Albach (1994).

References

- Albach, H. (1994). Culture and Technical Innovation. A Cross-Cultural Analysis and Policy Recommendations (W. de Gruyter, Berlin/New York).
- Baldwin, R. E. (1994). "The Eastern Enlargement of the European Union," Paper prepared for the Ninth Annual Congress of the European Economic Association (University of Limburg, Maastricht, 3-5 September 1994).
- Capra, F. (1982). The Turning Point: Science, Society, and the Rising Culture (Bantam Books, Toronto).
- Ethier, W. J. (1988). Modern International Economics, Second Edition (W. W. Norton & Co. Inc., New York).
- Felderer, B. and S. Homburg (1987). Macroeconomics and New Macroeconomics (Springer Verlag, Berlin).
- Freeman, C. (1987). Technology Policy and Economic Performance: Lessons from Japan (Pinter Publishers for the Science Policy Research Unit, University of Sussex).
- Fukuyama, F. (1989). "The End of History?," The National Interest, Vol. 16, pp. 3-18.
- Fusfeld, D. R. (1990). The Age of the Economist, Sixth Edition (Scott, Foresman and Company, Glenview, Illinois).
- German Information Center (1992). "DIHT-Präsident kritisch zu US-japanischem Kompromiß," Deutschland Nachrichten, January 24, 1992, p. 6.
- Granfield, M. E. (1992). "The IRS Takes Up Protectionism," The Wall Street Journal, April 3, 1992, p. A12.
- Grossman, G. and E. Helpman (1994). Protection for Sale," American Economic Review, Vol. 84(4), pp. 833-850.
- _____ (1990). Comparative Advantage and Long-Run Growth," American Economic Review, Vol. 80(4), pp. 796-815.
- Grossman, G. (1990). "Explaining Japan's Innovation and Trade: A Model of Quality Competition and Dynamic Comparative Advantage," BOJ Monetary and Economic Studies, Vol. 8 (2), pp. 75-100.

- Iacocca, L. (1988). Lee Iacocca's Talking Straight (Bantam Books, New York).
- Johnson, C. (1995). "History Restarted: Japanese-American Relations at the End of the Century," in: C. Johnson, Japan: Who Governs? The Rise of the Developmental State (W. W. Norton, New York).
- MacKinnon, C. A. (1989). Toward a Feminist Theory of the State (Harvard University Press, Cambridge, Massachusetts).
- Murray, A. (1992). "The Outlook: Managed Trade May Serve a Purpose," The Wall Street Journal, Vol. 73 (68), January 20, 1992, p. A1.
- Nakamoto, M. and N. Dunne (1994). "Japan and US edge towards agreement on trade," Financial Times, May 24, 1994, p. 16.
- Pomery, J. (1991). "The New Trade Theory: Implications for Policy Analysis," in: D. L. Weimer (ed.), Policy Analysis and Economics: Developments, Tensions, Prospects (Kluwer Academic Publishers, Boston).
- Powell, B. (1992). "And After the Fall?," Newsweek, April 20, 1992, pp. 53-55.
- Robinson, J. (1978). Contributions to Modern Economics (Basil Blackwell, Oxford).
- Romer, P. M. (1986). "Increasing Returns and Long-Run Growth," Journal of Political Economy, Vol. 94, pp. 1002-1037.
- Saxonhouse, G. R. (1986). "What is Wrong with the Japanese Trade Structure?," Pacific Economic Papers, No. 137.
- Tonelson, A. (1991). "What is the National Interest?," The Atlantic Monthly, July 1991, pp.35-52.

Notes

¹Robinson (1978), p. 213. Originally written in 1970.

²At least as far as economic issues in the Asia-Pacific region are concerned. See Johnson (1991), p. 17.

³Johnson (1991, p. 25) explicitly labels Japanese trade policies neo-mercantilist.

⁴Iacocca (1988), pp. 188, 202.

⁵Reported in German Information Center (1992).

⁶Author's translation from German.

⁷See, for example, Nakamoto and Dunne (1994).

⁸Iacocca (1988), pp. 191, 192.

⁹In 1988, this was approximately \$50 billion.

¹⁰Statistics for 1990. The overall trade surplus was approximately \$60 billion.

¹¹I have borrowed this formulation from Peter Ennis as quoted in Johnson (1991).

¹²In a case study: "Does Japan Play Fair?," p. 241.

¹³Fusfeld (1990), pp. 179, 180.

¹⁴Felderer and Homburg (1987), pp. 196, 197. Footnotes are omitted. From a comparison of the main characteristics described, it seems clear that "New Neoclassical" and "New Classical" theories are the same.

¹⁵Felderer and Homburg (1987), p. 209.

¹⁶Grossman (1990) notes that frequent criticism on previous economic analyses centered around the static nature of the (Heckscher-Ohlin) theory of trade which was by design not capable of explaining the growth performance of a country like Japan. Japan's growth would be more adequately described by a Schumpeterian process.

¹⁷Grossman (1990), p. 98.

¹⁸In a speech delivered on November 5, 1991 at Purdue University.

¹⁹Johnson (1991), pp. 17, 18.

²⁰Johnson took this definition from Peter Ennis.

²¹Naturally, my analysis starts from an economist's view point.

²²Johnson (1991), Footnote omitted.

²³A corollary to this is Japan's concern to become disadvantaged through provisions of future bilateral trade agreements such as that between U. S. and Mexico. It is understood, that the weaker U. S. position makes the emergence of such agreements more likely.

²⁴Johnson (1991), p. 22.

²⁵Capra (1982), p. 190. Footnote omitted.

²⁶MacKinnon (1989), pp. ix and 106, in an attempt to lay the foundations of a feminist theory of the state.

²⁷Pomery (1990), pp. 20, 21. Footnotes omitted.

²⁸Pomery (1990), pp. 22-25.

²⁹Pomery (1990), p. 40.

³⁰Pomery (1990), p. 16.

2008		
B01-08	Euro-Diplomatie durch gemeinsame „Wirtschaftsregierung“	<i>Martin Seidel</i>
2007		
B03-07	Löhne und Steuern im Systemwettbewerb der Mitgliedstaaten der Europäischen Union	<i>Martin Seidel</i>
B02-07	Konsolidierung und Reform der Europäischen Union	<i>Martin Seidel</i>
B01-07	The Ratification of European Treaties - Legal and Constitutional Basis of a European Referendum.	<i>Martin Seidel</i>
2006		
B03-06	Financial Frictions, Capital Reallocation, and Aggregate Fluctuations	<i>Jürgen von Hagen, Haiping Zhang</i>
B02-06	Financial Openness and Macroeconomic Volatility	<i>Jürgen von Hagen, Haiping Zhang</i>
B01-06	A Welfare Analysis of Capital Account Liberalization	<i>Jürgen von Hagen, Haiping Zhang</i>
2005		
B11-05	Das Kompetenz- und Entscheidungssystem des Vertrages von Rom im Wandel seiner Funktion und Verfassung	<i>Martin Seidel</i>
B10-05	Die Schutzklauseln der Beitrittsverträge	<i>Martin Seidel</i>
B09-05	Measuring Tax Burdens in Europe	<i>Guntram B. Wolff</i>
B08-05	Remittances as Investment in the Absence of Altruism	<i>Gabriel González-König</i>
B07-05	Economic Integration in a Multicore World?	<i>Christian Volpe Martinicus, Jennifer Pédussel Wu</i>
B06-05	Banking Sector (Under?)Development in Central and Eastern Europe	<i>Jürgen von Hagen, Valeriya Dinger</i>
B05-05	Regulatory Standards Can Lead to Predation	<i>Stefan Lutz</i>
B04-05	Währungspolitik als Sozialpolitik	<i>Martin Seidel</i>
B03-05	Public Education in an Integrated Europe: Studying to Migrate and Teaching to Stay?	<i>Panu Poutvaara</i>
B02-05	Voice of the Diaspora: An Analysis of Migrant Voting Behavior	<i>Jan Fidrmuc, Orla Doyle</i>
B01-05	Macroeconomic Adjustment in the New EU Member States	<i>Jürgen von Hagen, Iulia Traistaru</i>
2004		
B33-04	The Effects of Transition and Political Instability On Foreign Direct Investment Inflows: Central Europe and the Balkans	<i>Josef C. Brada, Ali M. Kutan, Tanner M. Yigit</i>
B32-04	The Choice of Exchange Rate Regimes in Developing Countries: A Multinomial Panel Analysis	<i>Jürgen von Hagen, Jizhong Zhou</i>
B31-04	Fear of Floating and Fear of Pegging: An Empirical Analysis of De Facto Exchange Rate Regimes in Developing Countries	<i>Jürgen von Hagen, Jizhong Zhou</i>
B30-04	Der Vollzug von Gemeinschaftsrecht über die Mitgliedstaaten und seine Rolle für die EU und den Beitrittsprozess	<i>Martin Seidel</i>
B29-04	Deutschlands Wirtschaft, seine Schulden und die Unzulänglichkeiten der einheitlichen Geldpolitik im Eurosystem	<i>Dieter Spethmann, Otto Steiger</i>
B28-04	Fiscal Crises in U.S. Cities: Structural and Non-structural Causes	<i>Guntram B. Wolff</i>
B27-04	Firm Performance and Privatization in Ukraine	<i>Galyna Grygorenko, Stefan Lutz</i>
B26-04	Analyzing Trade Opening in Ukraine: Effects of a Customs Union with the EU	<i>Oksana Harbuzyuk, Stefan Lutz</i>
B25-04	Exchange Rate Risk and Convergence to the Euro	<i>Lucjan T. Orlowski</i>
B24-04	The Endogeneity of Money and the Eurosystem	<i>Otto Steiger</i>
B23-04	Which Lender of Last Resort for the Eurosystem?	<i>Otto Steiger</i>
B22-04	Non-Discretionary Monetary Policy: The Answer for Transition Economies?	<i>Elham-Mafi Kreft, Steven F. Kreft</i>
B21-04	The Effectiveness of Subsidies Revisited: Accounting for Wage and Employment Effects in Business R+D	<i>Volker Reinthaler, Guntram B. Wolff</i>
B20-04	Money Market Pressure and the Determinants of Banking Crises	<i>Jürgen von Hagen, Tai-kuang Ho</i>
B19-04	Die Stellung der Europäischen Zentralbank nach dem Verfassungsvertrag	<i>Martin Seidel</i>

B18-04	Transmission Channels of Business Cycles Synchronization in an Enlarged EMU	<i>Iulia Traistaru</i>
B17-04	Foreign Exchange Regime, the Real Exchange Rate and Current Account Sustainability: The Case of Turkey	<i>Sübüdey Togan, Hasan Ersel</i>
B16-04	Does It Matter Where Immigrants Work? Traded Goods, Non-traded Goods, and Sector Specific Employment	<i>Harry P. Bowen, Jennifer Pédussel Wu</i>
B15-04	Do Economic Integration and Fiscal Competition Help to Explain Local Patterns?	<i>Christian Volpe Martincus</i>
B14-04	Euro Adoption and Maastricht Criteria: Rules or Discretion?	<i>Jiri Jonas</i>
B13-04	The Role of Electoral and Party Systems in the Development of Fiscal Institutions in the Central and Eastern European Countries	<i>Sami Yläoutinen</i>
B12-04	Measuring and Explaining Levels of Regional Economic Integration	<i>Jennifer Pédussel Wu</i>
B11-04	Economic Integration and Location of Manufacturing Activities: Evidence from MERCOSUR	<i>Pablo Sanguinetti, Iulia Traistaru, Christian Volpe Martincus</i>
B10-04	Economic Integration and Industry Location in Transition Countries	<i>Laura Resmini</i>
B09-04	Testing Creditor Moral Hazard in Sovereign Bond Markets: A Unified Theoretical Approach and Empirical Evidence	<i>Ayse Y. Evrensel, Ali M. Kutan</i>
B08-04	European Integration, Productivity Growth and Real Convergence	<i>Taner M. Yigit, Ali M. Kutan</i>
B07-04	The Contribution of Income, Social Capital, and Institutions to Human Well-being in Africa	<i>Mina Balamoune-Lutz, Stefan H. Lutz</i>
B06-04	Rural Urban Inequality in Africa: A Panel Study of the Effects of Trade Liberalization and Financial Deepening	<i>Mina Balamoune-Lutz, Stefan H. Lutz</i>
B05-04	Money Rules for the Eurozone Candidate Countries	<i>Lucjan T. Orłowski</i>
B04-04	Who is in Favor of Enlargement? Determinants of Support for EU Membership in the Candidate Countries' Referenda	<i>Orla Doyle, Jan Fidrmuc</i>
B03-04	Over- and Underbidding in Central Bank Open Market Operations Conducted as Fixed Rate Tender	<i>Ulrich Bindseil</i>
B02-04	Total Factor Productivity and Economic Freedom Implications for EU Enlargement	<i>Ronald L. Moomaw, Euy Seok Yang</i>
B01-04	Die neuen Schutzklauseln der Artikel 38 und 39 des Beitrittsvertrages: Schutz der alten Mitgliedstaaten vor Störungen durch die neuen Mitgliedstaaten	<i>Martin Seidel</i>
2003		
B29-03	Macroeconomic Implications of Low Inflation in the Euro Area	<i>Jürgen von Hagen, Boris Hofmann</i>
B28-03	The Effects of Transition and Political Instability on Foreign Direct Investment: Central Europe and the Balkans	<i>Josef C. Brada, Ali M. Kutan, Taner M. Yigit</i>
B27-03	The Performance of the Euribor Futures Market: Efficiency and the Impact of ECB Policy Announcements (Electronic Version of International Finance)	<i>Kerstin Bernoth, Juergen von Hagen</i>
B26-03	Sovereign Risk Premia in the European Government Bond Market (überarbeitete Version zum Herunterladen)	<i>Kerstin Bernoth, Juergen von Hagen, Ludger Schulknecht</i>
B25-03	How Flexible are Wages in EU Accession Countries?	<i>Anna Iara, Iulia Traistaru</i>
B24-03	Monetary Policy Reaction Functions: ECB versus Bundesbank	<i>Bernd Hayo, Boris Hofmann</i>
B23-03	Economic Integration and Manufacturing Concentration Patterns: Evidence from Mercosur	<i>Iulia Traistaru, Christian Volpe Martincus</i>
B22-03	Reformzwänge innerhalb der EU angesichts der Osterweiterung	<i>Martin Seidel</i>
B21-03	Reputation Flows: Contractual Disputes and the Channels for Inter-Firm Communication	<i>William Pyle</i>
B20-03	Urban Primacy, Gigantism, and International Trade: Evidence from Asia and the Americas	<i>Ronald L. Moomaw, Mohammed A. Alwosabi</i>
B19-03	An Empirical Analysis of Competing Explanations of Urban Primacy Evidence from Asia and the Americas	<i>Ronald L. Moomaw, Mohammed A. Alwosabi</i>

B18-03	The Effects of Regional and Industry-Wide FDI Spillovers on Export of Ukrainian Firms	<i>Stefan H. Lutz, Oleksandr Talavera, Sang-Min Park</i>
B17-03	Determinants of Inter-Regional Migration in the Baltic States	<i>Mihails Hazans</i>
B16-03	South-East Europe: Economic Performance, Perspectives, and Policy Challenges	<i>Iulia Traistaru, Jürgen von Hagen</i>
B15-03	Employed and Unemployed Search: The Marginal Willingness to Pay for Attributes in Lithuania, the US and the Netherlands	<i>Jos van Ommeren, Mihails Hazans</i>
B14-03	FCIs and Economic Activity: Some International Evidence	<i>Charles Goodhart, Boris Hofmann</i>
B13-03	The IS Curve and the Transmission of Monetary Policy: Is there a Puzzle?	<i>Charles Goodhart, Boris Hofmann</i>
B12-03	What Makes Regions in Eastern Europe Catching Up? The Role of Foreign Investment, Human Resources, and Geography	<i>Gabriele Tondl, Goran Vuksic</i>
B11-03	Die Weisungs- und Herrschaftsmacht der Europäischen Zentralbank im europäischen System der Zentralbanken - eine rechtliche Analyse	<i>Martin Seidel</i>
B10-03	Foreign Direct Investment and Perceptions of Vulnerability to Foreign Exchange Crises: Evidence from Transition Economies	<i>Josef C. Brada, Vladimír Tomsík</i>
B09-03	The European Central Bank and the Eurosystem: An Analysis of the Missing Central Monetary Institution in European Monetary Union	<i>Gunnar Heinsohn, Otto Steiger</i>
B08-03	The Determination of Capital Controls: Which Role Do Exchange Rate Regimes Play?	<i>Jürgen von Hagen, Jizhong Zhou</i>
B07-03	Nach Nizza und Stockholm: Stand des Binnenmarktes und Prioritäten für die Zukunft	<i>Martin Seidel</i>
B06-03	Fiscal Discipline and Growth in Euroland. Experiences with the Stability and Growth Pact	<i>Jürgen von Hagen</i>
B05-03	Reconsidering the Evidence: Are Eurozone Business Cycles Converging?	<i>Michael Massmann, James Mitchell</i>
B04-03	Do Ukrainian Firms Benefit from FDI?	<i>Stefan H. Lutz, Oleksandr Talavera</i>
B03-03	Europäische Steuerkoordination und die Schweiz	<i>Stefan H. Lutz</i>
B02-03	Commuting in the Baltic States: Patterns, Determinants, and Gains	<i>Mihails Hazans</i>
B01-03	Die Wirtschafts- und Währungsunion im rechtlichen und politischen Gefüge der Europäischen Union	<i>Martin Seidel</i>
2002		
B30-02	An Adverse Selection Model of Optimal Unemployment Assurance	<i>Marcus Hagedorn, Ashok Kaul, Tim Mennel</i>
B29B-02	Trade Agreements as Self-protection	<i>Jennifer Pédussel Wu</i>
B29A-02	Growth and Business Cycles with Imperfect Credit Markets	<i>Debajyoti Chakrabarty</i>
B28-02	Inequality, Politics and Economic Growth	<i>Debajyoti Chakrabarty</i>
B27-02	Poverty Traps and Growth in a Model of Endogenous Time Preference	<i>Debajyoti Chakrabarty</i>
B26-02	Monetary Convergence and Risk Premiums in the EU Candidate Countries	<i>Lucjan T. Orlowski</i>
B25-02	Trade Policy: Institutional Vs. Economic Factors	<i>Stefan Lutz</i>
B24-02	The Effects of Quotas on Vertical Intra-industry Trade	<i>Stefan Lutz</i>
B23-02	Legal Aspects of European Economic and Monetary Union	<i>Martin Seidel</i>
B22-02	Der Staat als Lender of Last Resort - oder: Die Achillesverse des Eurosystems	<i>Otto Steiger</i>
B21-02	Nominal and Real Stochastic Convergence Within the Transition Economies and to the European Union: Evidence from Panel Data	<i>Ali M. Kutan, Taner M. Yigit</i>
B20-02	The Impact of News, Oil Prices, and International Spillovers on Russian Financial Markets	<i>Bernd Hayo, Ali M. Kutan</i>

B19-02	East Germany: Transition with Unification, Experiments and Experiences	<i>Jürgen von Hagen, Rolf R. Strauch, Guntram B. Wolff</i>
B18-02	Regional Specialization and Employment Dynamics in Transition Countries	<i>Iulia Traistaru, Guntram B. Wolff</i>
B17-02	Specialization and Growth Patterns in Border Regions of Accession Countries	<i>Laura Resmini</i>
B16-02	Regional Specialization and Concentration of Industrial Activity in Accession Countries	<i>Iulia Traistaru, Peter Nijkamp, Simonetta Longhi</i>
B15-02	Does Broad Money Matter for Interest Rate Policy?	<i>Matthias Brückner, Andreas Schaber</i>
B14-02	The Long and Short of It: Global Liberalization, Poverty and Inequality	<i>Christian E. Weller, Adam Hersch</i>
B13-02	De Facto and Official Exchange Rate Regimes in Transition Economies	<i>Jürgen von Hagen, Jizhong Zhou</i>
B12-02	Argentina: The Anatomy of A Crisis	<i>Jiri Jonas</i>
B11-02	The Eurosystem and the Art of Central Banking	<i>Gunnar Heinsohn, Otto Steiger</i>
B10-02	National Origins of European Law: Towards an Autonomous System of European Law?	<i>Martin Seidel</i>
B09-02	Monetary Policy in the Euro Area - Lessons from the First Years	<i>Volker Clausen, Bernd Hayo</i>
B08-02	Has the Link Between the Spot and Forward Exchange Rates Broken Down? Evidence From Rolling Cointegration Tests	<i>Ali M. Kutan, Su Zhou</i>
B07-02	Perspektiven der Erweiterung der Europäischen Union	<i>Martin Seidel</i>
B06-02	Is There Asymmetry in Forward Exchange Rate Bias? Multi-Country Evidence	<i>Su Zhou, Ali M. Kutan</i>
B05-02	Real and Monetary Convergence Within the European Union and Between the European Union and Candidate Countries: A Rolling Cointegration Approach	<i>Josef C. Brada, Ali M. Kutan, Su Zhou</i>
B04-02	Asymmetric Monetary Policy Effects in EMU	<i>Volker Clausen, Bernd Hayo</i>
B03-02	The Choice of Exchange Rate Regimes: An Empirical Analysis for Transition Economies	<i>Jürgen von Hagen, Jizhong Zhou</i>
B02-02	The Euro System and the Federal Reserve System Compared: Facts and Challenges	<i>Karlheinz Ruckriegel, Franz Seitz</i>
B01-02	Does Inflation Targeting Matter?	<i>Manfred J. M. Neumann, Jürgen von Hagen</i>
2001		
B29-01	Is Kazakhstan Vulnerable to the Dutch Disease?	<i>Karlygash Kuralbayeva, Ali M. Kutan, Michael L. Wyzan</i>
B28-01	Political Economy of the Nice Treaty: Rebalancing the EU Council. The Future of European Agricultural Policies	<i>Deutsch-Französisches Wirtschaftspolitisches Forum</i>
B27-01	Investor Panic, IMF Actions, and Emerging Stock Market Returns and Volatility: A Panel Investigation	<i>Bernd Hayo, Ali M. Kutan</i>
B26-01	Regional Effects of Terrorism on Tourism: Evidence from Three Mediterranean Countries	<i>Konstantinos Drakos, Ali M. Kutan</i>
B25-01	Monetary Convergence of the EU Candidates to the Euro: A Theoretical Framework and Policy Implications	<i>Lucjan T. Orłowski</i>
B24-01	Disintegration and Trade	<i>Jarko and Jan Fidrmuc</i>
B23-01	Migration and Adjustment to Shocks in Transition Economies	<i>Jan Fidrmuc</i>
B22-01	Strategic Delegation and International Capital Taxation	<i>Matthias Brückner</i>
B21-01	Balkan and Mediterranean Candidates for European Union Membership: The Convergence of Their Monetary Policy With That of the European Central Bank	<i>Josef C. Brada, Ali M. Kutan</i>
B20-01	An Empirical Inquiry of the Efficiency of Intergovernmental Transfers for Water Projects Based on the WRDA Data	<i>Anna Rubinchik-Pessach</i>
B19-01	Detrending and the Money-Output Link: International Evidence	<i>R.W. Hafer, Ali M. Kutan</i>

B18-01	Monetary Policy in Unknown Territory. The European Central Bank in the Early Years	<i>Jürgen von Hagen, Matthias Brückner</i>
B17-01	Executive Authority, the Personal Vote, and Budget Discipline in Latin American and Caribbean Countries	<i>Mark Hallerberg, Patrick Marier</i>
B16-01	Sources of Inflation and Output Fluctuations in Poland and Hungary: Implications for Full Membership in the European Union	<i>Selahattin Dibooglu, Ali M. Kutan</i>
B15-01	Programs Without Alternative: Public Pensions in the OECD	<i>Christian E. Weller</i>
B14-01	Formal Fiscal Restraints and Budget Processes As Solutions to a Deficit and Spending Bias in Public Finances - U.S. Experience and Possible Lessons for EMU	<i>Rolf R. Strauch, Jürgen von Hagen</i>
B13-01	German Public Finances: Recent Experiences and Future Challenges	<i>Jürgen von Hagen, Rolf R. Strauch</i>
B12-01	The Impact of Eastern Enlargement On EU-Labour Markets. Pensions Reform Between Economic and Political Problems	<i>Deutsch-Französisches Wirtschaftspolitisches Forum</i>
B11-01	Inflationary Performance in a Monetary Union With Large Wage Setters	<i>Lilia Cavallar</i>
B10-01	Integration of the Baltic States into the EU and Institutions of Fiscal Convergence: A Critical Evaluation of Key Issues and Empirical Evidence	<i>Ali M. Kutan, Niina Pautola-Mol</i>
B09-01	Democracy in Transition Economies: Grease or Sand in the Wheels of Growth?	<i>Jan Fidrmuc</i>
B08-01	The Functioning of Economic Policy Coordination	<i>Jürgen von Hagen, Susanne Mundschenk</i>
B07-01	The Convergence of Monetary Policy Between Candidate Countries and the European Union	<i>Josef C. Brada, Ali M. Kutan</i>
B06-01	Opposites Attract: The Case of Greek and Turkish Financial Markets	<i>Konstantinos Drakos, Ali M. Kutan</i>
B05-01	Trade Rules and Global Governance: A Long Term Agenda. The Future of Banking.	<i>Deutsch-Französisches Wirtschaftspolitisches Forum</i>
B04-01	The Determination of Unemployment Benefits	<i>Rafael di Tella, Robert J. McCulloch</i>
B03-01	Preferences Over Inflation and Unemployment: Evidence from Surveys of Happiness	<i>Rafael di Tella, Robert J. McCulloch, Andrew J. Oswald</i>
B02-01	The Konstanz Seminar on Monetary Theory and Policy at Thirty	<i>Michele Fratianni, Jürgen von Hagen</i>
B01-01	Divided Boards: Partisanship Through Delegated Monetary Policy	<i>Etienne Farvaque, Gael Lagadec</i>
2000		
B20-00	Breakin-up a Nation, From the Inside	<i>Etienne Farvaque</i>
B19-00	Income Dynamics and Stability in the Transition Process, general Reflections applied to the Czech Republic	<i>Jens Hölscher</i>
B18-00	Budget Processes: Theory and Experimental Evidence	<i>Karl-Martin Ehrhart, Roy Gardner, Jürgen von Hagen, Claudia Keser</i>
B17-00	Rückführung der Landwirtschaftspolitik in die Verantwortung der Mitgliedsstaaten? - Rechts- und Verfassungsfragen des Gemeinschaftsrechts	<i>Martin Seidel</i>
B16-00	The European Central Bank: Independence and Accountability	<i>Christa Randzio-Plath, Tomasso Padoa-Schioppa</i>
B15-00	Regional Risk Sharing and Redistribution in the German Federation	<i>Jürgen von Hagen, Ralf Hepp</i>
B14-00	Sources of Real Exchange Rate Fluctuations in Transition Economies: The Case of Poland and Hungary	<i>Selahattin Dibooglu, Ali M. Kutan</i>
B13-00	Back to the Future: The Growth Prospects of Transition Economies Reconsidered	<i>Nauro F. Campos</i>

B12-00	Rechtsetzung und Rechtsangleichung als Folge der Einheitlichen Europäischen Wahrung	<i>Martin Seidel</i>
B11-00	A Dynamic Approach to Inflation Targeting in Transition Economies	<i>Lucjan T. Orłowski</i>
B10-00	The Importance of Domestic Political Institutions: Why and How Belgium Qualified for EMU	<i>Marc Hallerberg</i>
B09-00	Rational Institutions Yield Hysteresis	<i>Rafael Di Tella, Robert MacCulloch</i>
B08-00	The Effectiveness of Self-Protection Policies for Safeguarding Emerging Market Economies from Crises	<i>Kenneth Kletzer</i>
B07-00	Financial Supervision and Policy Coordination in The EMU	<i>Deutsch-Franzosisches Wirtschaftspolitisches Forum</i>
B06-00	The Demand for Money in Austria	<i>Bernd Hayo</i>
B05-00	Liberalization, Democracy and Economic Performance during Transition	<i>Jan Fidrmuc</i>
B04-00	A New Political Culture in The EU - Democratic Accountability of the ECB	<i>Christa Randzio-Plath</i>
B03-00	Integration, Disintegration and Trade in Europe: Evolution of Trade Relations during the 1990's	<i>Jarko Fidrmuc, Jan Fidrmuc</i>
B02-00	Inflation Bias and Productivity Shocks in Transition Economies: The Case of the Czech Republic	<i>Josef C. Brada, Arthur E. King, Ali M. Kutan</i>
B01-00	Monetary Union and Fiscal Federalism	<i>Kenneth Kletzer, Jurgen von Hagen</i>
1999		
B26-99	Skills, Labour Costs, and Vertically Differentiated Industries: A General Equilibrium Analysis	<i>Stefan Lutz, Alessandro Turrini</i>
B25-99	Micro and Macro Determinants of Public Support for Market Reforms in Eastern Europe	<i>Bernd Hayo</i>
B24-99	What Makes a Revolution?	<i>Robert MacCulloch</i>
B23-99	Informal Family Insurance and the Design of the Welfare State	<i>Rafael Di Tella, Robert MacCulloch</i>
B22-99	Partisan Social Happiness	<i>Rafael Di Tella, Robert MacCulloch</i>
B21-99	The End of Moderate Inflation in Three Transition Economies?	<i>Josef C. Brada, Ali M. Kutan</i>
B20-99	Subnational Government Bailouts in Germany	<i>Helmut Seitz</i>
B19-99	The Evolution of Monetary Policy in Transition Economies	<i>Ali M. Kutan, Josef C. Brada</i>
B18-99	Why are Eastern Europe's Banks not failing when everybody else's are?	<i>Christian E. Weller, Bernard Morzuch</i>
B17-99	Stability of Monetary Unions: Lessons from the Break-Up of Czechoslovakia	<i>Jan Fidrmuc, Julius Horvath and Jarko Fidrmuc</i>
B16-99	Multinational Banks and Development Finance	<i>Christian E. Weller and Mark J. Scher</i>
B15-99	Financial Crises after Financial Liberalization: Exceptional Circumstances or Structural Weakness?	<i>Christian E. Weller</i>
B14-99	Industry Effects of Monetary Policy in Germany	<i>Bernd Hayo and Birgit Uhlenbrock</i>
B13-99	Financial Fragility or What Went Right and What Could Go Wrong in Central European Banking?	<i>Christian E. Weller and Jurgen von Hagen</i>
B12-99	Size Distortions of Tests of the Null Hypothesis of Stationarity: Evidence and Implications for Applied Work	<i>Mehmet Caner and Lutz Kilian</i>
B11-99	Financial Supervision and Policy Coordination in the EMU	<i>Deutsch-Franzosisches Wirtschaftspolitisches Forum</i>
B10-99	Financial Liberalization, Multinational Banks and Credit Supply: The Case of Poland	<i>Christian Weller</i>
B09-99	Monetary Policy, Parameter Uncertainty and Optimal Learning	<i>Volker Wieland</i>
B08-99	The Connection between more Multinational Banks and less Real Credit in Transition Economies	<i>Christian Weller</i>

- B07-99 **Comovement and Catch-up in Productivity across Sectors: Evidence from the OECD** *Christopher M. Cornwell and Jens-Uwe Wächter*
- B06-99 **Productivity Convergence and Economic Growth: A Frontier Production Function Approach** *Christopher M. Cornwell and Jens-Uwe Wächter*
- B05-99 **Tumbling Giant: Germany's Experience with the Maastricht Fiscal Criteria** *Jürgen von Hagen and Rolf Strauch*
- B04-99 **The Finance-Investment Link in a Transition Economy: Evidence for Poland from Panel Data** *Christian Weller*
- B03-99 **The Macroeconomics of Happiness** *Rafael Di Tella, Robert McCulloch and Andrew J. Oswald*
- B02-99 **The Consequences of Labour Market Flexibility: Panel Evidence Based on Survey Data** *Rafael Di Tella and Robert McCulloch*
- B01-99 **The Excess Volatility of Foreign Exchange Rates: Statistical Puzzle or Theoretical Artifact?** *Robert B.H. Hauswald*
- 1998**
- B16-98 **Labour Market + Tax Policy in the EMU** *Deutsch-Französisches Wirtschaftspolitisches Forum*
- B15-98 **Can Taxing Foreign Competition Harm the Domestic Industry?** *Stefan Lutz*
- B14-98 **Free Trade and Arms Races: Some Thoughts Regarding EU-Russian Trade** *Rafael Reuveny and John Maxwell*
- B13-98 **Fiscal Policy and Intranational Risk-Sharing** *Jürgen von Hagen*
- B12-98 **Price Stability and Monetary Policy Effectiveness when Nominal Interest Rates are Bounded at Zero** *Athanasios Orphanides and Volker Wieland*
- B11A-98 **Die Bewertung der "dauerhaft tragbaren öffentlichen Finanzlage" der EU Mitgliedstaaten beim Übergang zur dritten Stufe der EWWU** *Rolf Strauch*
- B11-98 **Exchange Rate Regimes in the Transition Economies: Case Study of the Czech Republic: 1990-1997** *Julius Horvath and Jiri Jonas*
- B10-98 **Der Wettbewerb der Rechts- und politischen Systeme in der Europäischen Union** *Martin Seidel*
- B09-98 **U.S. Monetary Policy and Monetary Policy and the ESCB** *Robert L. Hetzel*
- B08-98 **Money-Output Granger Causality Revisited: An Empirical Analysis of EU Countries (überarbeitete Version zum Herunterladen)** *Bernd Hayo*
- B07-98 **Designing Voluntary Environmental Agreements in Europe: Some Lessons from the U.S. EPA's 33/50 Program** *John W. Maxwell*
- B06-98 **Monetary Union, Asymmetric Productivity Shocks and Fiscal Insurance: an Analytical Discussion of Welfare Issues** *Kenneth Kletzer*
- B05-98 **Estimating a European Demand for Money (überarbeitete Version zum Herunterladen)** *Bernd Hayo*
- B04-98 **The EMU's Exchange Rate Policy** *Deutsch-Französisches Wirtschaftspolitisches Forum*
- B03-98 **Central Bank Policy in a More Perfect Financial System** *Jürgen von Hagen / Ingo Fender*
- B02-98 **Trade with Low-Wage Countries and Wage Inequality** *Jaleel Ahmad*
- B01-98 **Budgeting Institutions for Aggregate Fiscal Discipline** *Jürgen von Hagen*
- 1997**
- B04-97 **Macroeconomic Stabilization with a Common Currency: Does European Monetary Unification Create a Need for Fiscal Insurance or Federalism?** *Kenneth Kletzer*
- B-03-97 **Liberalising European Markets for Energy and Telecommunications: Some Lessons from the US Electric Utility Industry** *Tom Lyon / John Mayo*
- B02-97 **Employment and EMU** *Deutsch-Französisches Wirtschaftspolitisches Forum*
- B01-97 **A Stability Pact for Europe** *(a Forum organized by ZEI)*

ISSN 1436 - 6053

Zentrum für Europäische Integrationsforschung
Center for European Integration Studies
Rheinische Friedrich-Wilhelms-Universität Bonn

Walter-Flex-Strasse 3
D-53113 Bonn
Germany

Tel.: +49-228-73-1732
Fax: +49-228-73-1809
www.zei.de