

ALTERNATIVE FACTUAL ASSUMPTIONS IN PUBLIC  
CHOICE THEORY: A TEST OF THEIR VALIDITY

by

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B.A. (Hons.) University of Windsor 1974

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THESIS SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY  
in the Department  
of  
Economics

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SIMON FRASER UNIVERSITY

July 1989

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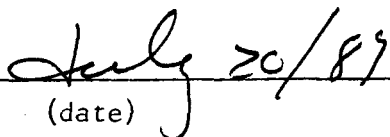
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## ABSTRACT

Public choice economists disagree about the information set possessed by the public and the extent to which the public reacts to their dissatisfaction with public policy outcomes. Consequently, they differ with respect to the predictions and the policy implications of their theories. Some scholars, notably Becker, have adopted a rational expectations approach by assuming that people have, on average, unbiased expectations of any policy that has been in existence for some time. In short, these scholars assume that people cannot be fooled forever. Recently, Becker has argued that "winners" and "losers" in the competition for political influence are not only informed of, but are, in equilibrium, sufficiently satisfied with public policy consequences so as not to change their exerted level of pressure. A number of other scholars, assuming "rational ignorance", suggest that the public is both ill-informed of and dissatisfied with public policy outcomes. These assumptions are empirical.

This dissertation represents an exploratory test of these hypotheses using a public survey as the method of investigation. It finds insufficient evidence to support the assumption that the public has, on average, unbiased expectations of policy consequences. Consequently, it fails to support the relatively consoling predictions which follow from this assumption. The findings suggest that the public has systematically biased

estimates of policy outcomes. Specifically, the public has strong protectionist sentiments. Nevertheless, it appears willing to accept a lower cost of protection than those actual costs which economists have estimated. In supporting the assumption that the public is ill-informed of and dissatisfied with public policy, the findings substantiate the following policy implication: economists need to inform the public of superior policy alternatives should society avoid what some scholars have called the defects of the prevailing form of democracy.

TO MY MOTHER AND FATHER

## ACKNOWLEDGMENTS

One does not complete a research endeavor of this magnitude without incurring sizable debts to many people along the way. I am thankful for the intermittent use of computer hardware, an extremely scarce resource within the Arts Division of Okanagan College, and to the Computer Science and Biology departments and the Division Of Applied Studies for loans of computer equipment in the often leaner times, when resources allowed.

I am grateful to Doctors D. Vaughn, E. Buckley, and especially C. Kaller of the Mathematics Department at Okanagan College for their helpful comments and suggestions with regards to the statistical analysis of the data gathered for this research.

I owe a great deal of thanks to my department supervisors, Doctors J. Chant and S. Easton, for their untiring patience and guidance, and to Dr. G. Mauser of the Faculty of Business Administration (Marketing Research), for accepting the formidable task of tutoring one who did not know quite what he was getting into when entering the area of data gathering at the micro level. I also thank the staff of the Simon Fraser University Telebook Service for their excellent and prompt service in providing me with hardcopies of the literature referred to in this research and to the staff of the Murial Folkes Library at Okanagan College.

My thanks to Doug Chepil who at the outset of this project introduced me to computer hardware and software and provided me

with invaluable moral support as did Moira Flook towards the latter stages by painstakingly proof-reading the manuscript and offering many helpful suggestions. Thank you also to David Boulding for many helpful comments on earlier drafts of several chapters.

It is one thing to gather data at the micro level, and something altogether different to analyze it. Admittedly, the latter is easier to do by one who has some experience with the former. I have had past experience with neither. With regards to the collection of data, I am grateful to the many students who persevered with an often not so cooperative public. The financing of student employment would not have been possible without several Work Study and Summer Employment grants from the British Columbia and federal governments. I strongly would like to acknowledge this form of public support.

With regards to the analysis of this data, I cannot express appropriately the gratitude that I owe to Mr. Martin Turner and Mr. Scott Horton, each a student at, and both a graduate of, either Okanagan College or U.B.C.. Each separately spent an unforgettable summer I'm sure, at the "keyboards". Martin and Scott problem-solved with assorted mainframe and micro computers and software needed to make sense of the mountainous data, ingeniously circumventing compatibility problems with assorted computer software and hardware. Martin was faced with the initial "pathbreaking" work while Scott followed with the task of rerunning the analysis, "without peeking", for the purpose of verifying that virtually every figure and finding is valid and accurate. In the process of checking that no inadvertant errors



of consequence had occurred in the initial manipulation and interpretation of the mountainous data, Scott made many insightful and valuable editorial suggestions that have made for more straightforward exposition of the findings throughout the text and appendices.

For Martin and Scott's remarkable diligence, patience, talents, moral support and loyal dedication to this cause, I will always remain grateful.

Lastly, I am thankful to the public of Kelowna who chose to participate in this research and without whose cooperation this research would not have been possible.

To all the above people, and to those of whom I've inevitably forgotten, I am grateful for having benefited by their assistance in bringing into realization these findings.

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## CHAPTER ONE

### THE MODERN COLLECTIVE CHOICE PARADIGM

Before you can apply the theory, you have to know some facts about the world in which the theory is going to be applied. These may be assumptions about what information people really have. Even when people are subjectively trying to maximize their utility, they may reach different conclusions if they think the world is one way rather than another. You have to make assumptions about the facts that people have or the information that they are acting on, how, in fact, they are going to deal with uncertainty, how they make up their minds, or what probability they're going to assign to an event. One very large area of disagreement among economists today is about these auxiliary assumptions.

Simon<sup>1</sup>

#### INTRODUCTION

The positive theory of government, or public choice theory, asserts that there may indeed be a divergence between actual policy and normative prescriptions in modern democratic societies. Positive public choice analysis, according to some scholars, predicts a public choice outcome in democratic societies in which the majority is exploited by minorities. The adverse effects of rent-seeking activity by pressure groups can be almost as unlimited as the powers of democratic governments which, these scholars argue, are prone to concede to these groups. Indeed, these consequences can be of such alarming proportions that one is inclined to refer to these scholars who

write with such ominous warnings as "The Alarmists". Perhaps "The Persuaders" would be a more appropriate name to attach to these theorists, for the common thread among most of them is the policy implication that we, the informed, must inform, persuade if need be, our fellow man of alternative public choice policies and outcomes. Moreover, "the persuaders" enjoy a membership larger than the alarmists, as not all who adhere to the belief that we need inform our fellow man write with such ominous warnings. Members of this larger group include M. Friedman, Buchanan, Schultze, Trebilcock, Lipsey, Crispo, and Laidler. There is a need, these scholars argue, to inform a public unhappy with public choice outcomes of superior public choice alternatives.

Two major external forces are thought to create incentives for policy makers: voters and interest groups. The extent of the relative influences exerted by these two forces on public policy decision making is often somewhat unclear in the public choice literature. "The Persuaders" are obviously of the thought that the voter does have, or at least is capable of having, an appreciable influence on public policy. While they are often not explicit on this, it would appear that the intent of their message: "inform the public", is to achieve, through persuasion, a better informed voter and consequently better policy outcomes. While rent-seeking may well remain a profitable activity, an informed public might, through suffrage, see to limiting the spoils of special interest groups.

Becker (1983) is one theorist who argues clearly that competition among pressure groups for political influence, not

suffrage, is the driving force behind public policy decision making. Voters, politicians, and political parties are seen as assuming the relatively minor role of transmitting the pressure of interest groups. (Becker, 1983, p.392) While Becker has in the past been of precisely the opposite view (Becker, 1976), he more recently (1983) has argued that voters are rationally ignorant. The relatively minor role accorded to voters, in Becker's model, is that of helping to raise the political influence of pressure groups by having their revealed preferences created and manipulated through the information and misinformation provided by fully informed pressure groups. (Becker, 1983, p.392) One is left with the impression that it would take some persuasion for Becker to admit that voters are, or can be, more than a non-crucial independent force in political behavior. Accordingly, persuasion of the public, it appears, is not the foremost policy implication arising from Becker's (1983) view of the world.

Becker also stands apart from other public choice theorists in that many of the propositions that follow from his model of pressure group behavior are somewhat consoling, especially when seen in the light of the more alarming predictions made by some of "The Persuaders". He models a world of pressure group behavior in which, contrary to the view of others<sup>2</sup>, the "losers" have the capacity to limit the gains of the "winners". Moreover, there is a tendency to minimize deadweight costs - a tendency to adopt efficient means to carry out policy objectives. The dimensions of the collective choice problem, according to Becker, are bounded, and not of the alarming proportions suggested by some of the

others. One is apt to feel relatively comforted by Becker's alternative public choice paradigm.

One of the disquieting elements in Becker's model of interest group behavior, however, is that the thrust of his analysis strictly depends upon the "winners" and "losers" being fully informed of the deadweight costs of rent-seeking activity. While it is clear that his analysis depends on the possession of a certain information set by the players in his model, Becker never explicitly defends the contention that pressure groups are "informed" groups, yet he does defend the proposition that voters are rationally ignorant.

The student of Becker's model is left wanting to trust in its relatively consoling predictions, but feels reluctant to do so without making further inquiries. The purpose of this research is to inquire further into the information set assumed, by public choice scholars, to be possessed by the voter, the taxpayer, the subsidy recipient - the public in general. This inquiry in turn necessitates addressing the question begged, but not confronted, by Becker's (1983) analysis regarding the mutual exclusivity of the above-mentioned groups; in particular, it necessitates questioning the somewhat curious implication by Becker (1983) that members of the voting public are distinct from the taxpaying public as "voters", he alleges, possess a distinctly different information set than do "taxpayers".

The above discussion identifies two distinct groups of theorists. On the one hand is "The Persuaders". They presume that the voting public (and presumably taxpayers) are ill-informed in



regards to policy outcomes. They are armed with theoretical evidence that voters are rationally ignorant. Inherent in the policy implication that the public needs to be informed is the presumption that voting patterns do have, or can have, an appreciable influence on public policy outcomes. The question remains: is the public ill-informed? The assertion that they are ill-informed is a testable hypothesis.

The second group of theorists includes Becker. He sees the public choice outcome as mainly the result of competition among pressure groups for political influence. The presumption of this model is that the "losers" and "winners" are fully knowledgeable of the deadweight costs associated with current public policy and they exert pressure until they are sufficiently satisfied, given the costs of exerting pressure, with public policy outcomes. Becker (1976 and 1983) is armed with the essential thrust of the argument by rational expectations scholars that one cannot fool people forever. This assertion, if true, would refute the aforementioned hypothesis that the public is ill-informed of policies that have existed for some time and thus support Becker's (1976) hypothesis that voters are fully informed (but refute his earlier (1958) contention to the contrary). Establishing evidence in support of the belief that one cannot fool people forever would, on the other hand, not be supportive of Becker's (1983) assertion that voters are rationally ignorant but would support his (1983) contention that "taxpayers" and subsidy recipients are fully informed of public policy consequences. Testing the hypothesis that the public is informed

of public policy outcomes is a necessary step to help clarify the validity of Becker's alternative assumptions (1958, 1976, 1983) of the information set presumed to be possessed by "the public". Testing this assumption is also necessary to help clarify the validity of Becker's (1983) model vis a vis other approaches to the positive theory of modern government behavior as well as the validity of these models respective predictions and policy implications.

This research contributes to public choice theory by testing the often conflicting assumption made by public choice theorists regarding the extent of knowledge possessed by the public on public policy outcomes as well as the extent to which the public's preferences for public policy is satisfied. The method of investigation used is a survey of the public employing a questionnaire. Discussed in Chapter Four is the methodology and in Chapter Five the questionnaire used in the survey. Chapter Six is devoted to addressing the findings. The summary, conclusions and policy implications are relegated to Chapter Seven. Prior to a discussion of the methodology, a fuller discussion is provided of the alternative and somewhat opposing theses outlined above on the modern theory of collective action. Chapter Two contains a discussion of "The Persuaders"; Chapter Three - Becker, and the impact of rational expectations on the theory of public choice. The remainder of this chapter outlines the cornerstones of the modern collective choice paradigm upon which all of these public choice theories are built.

## **THE CORNERSTONES OF MODERN PUBLIC CHOICE THEORY**

Two of the more salient features, or cornerstones, of modern public choice theory are the more recent application of the theory of self-interest to government behavior as well as group behavior. The application of the theory of self-interest to the behavior of governments and groups suggests positive predictions within the realm of public choice that diverge perhaps markedly from normative prescriptions. The above discussion has suggestively sketched how the dimensions of the public choice problem (the extent of the divergence between what is the outcome of policy and what should be the outcome of policy), can take on different proportions and policy implications, depending upon the information set presumed to be possessed by "the public". Reviewed briefly below is some of the more general positive predictions of the theory of public choice when applying, as all public choice theorists now do, the self-interest axiom to government and group behavior. Within this rather broad modern public choice framework, the following two chapters review the dimensions of the public choice problem and respective policy implications under alternative assumptions of the information set possessed by "the public".

### **i) THE SELF-INTEREST AXIOM: GOVERNMENT BEHAVIOR**

Until the seminal work of Anthony Downs (1957), the conception of government implicit in much of traditional economic theory was inconsistent with the axioms that explain how the private sector operates. This inconsistency was partly explained

by the tendency to treat government as an exogenous variable, following the classical tradition of considering it as a disturbing influence upon the self-regulating private economy. Few attempts were made by theorists to treat government as an endogenous variable in general equilibrium theory. Downs (1957, p.282) alleges that the typical behavioral assertion made by non-Marxist economists is that there existed a single conception of government: "government is that agency in the division of labour which has as its proper function the maximization of social welfare."<sup>9</sup> Downs points out that this conception of government was inconsistent with behavioral axioms applicable to the private economy, namely the pursuit of self-interest. Downs, and subsequently most other public choice theorists, applied the self-interest axiom to governments so as to more realistically explain their motivation. In short, Downs' model is based on the assumption that every government seeks to maximize political support:

Since none of the appurtenances of office can be obtained without being elected, the main goal of every party is the winning of elections. Thus all its actions are aimed at maximizing votes, and it treats policies merely as means towards this end. (Downs, 1957, p.35)

Defining uncertainty as any lack of sure knowledge about the course of past, present, future or hypothetical events, Downs (1957, p.83) later states a proposition central to the present concern. "In an uncertain world, it is irrational for a democratic government to treat all men as though they were politically equal".

Thus uncertainty, as will be shown, has direct impact on government decision making. When combined with the behavioral assertion of "self-interest" applied to governments as well as private decision makers, there exists grounds to accept Downs' assertion: "Uncertainty allows the unequal distributions of income, position and influence - all of which are inevitable in any economy marked by an extensive division of labour - to share sovereignty in a realm where only the equal distribution of votes is supposed to reign." (Downs, 1957, p.94)

Or as Downs (1957, p.95) summarizes:

Thus uncertainty forces rational government to regard some voters as more important than others. By doing so it modifies the equality of influence which universal suffrage was designed to insure.

In accord with this model, economists recognize a vast array of inefficient policies that benefit specific groups: agricultural support schemes, tariffs, minimum wages, regulated industries, occupational licensing, rent controls, and so on.

Downs (1957, p.93) asserts:

Since both buyers and sellers in favor-buying transactions stand to gain, we must admit that their actions are rational. Conversely, pursuit of rationality will lead them to take such actions. Hence rationality under conditions of uncertainty leads government to construct policies often aimed more at the good of a few voters than at the good of all, or even of a majority. To act otherwise would be irrational.

The discussion now focuses on which groups will most likely be the beneficiaries of government legislation as a result of pressure applied on government for discriminatory legislation and which groups' views will likely be unrepresented; in short, which

groups will likely bear the costs of rent-seeking activity.

ii) **THE SELF-INTEREST AXIOM: GROUP BEHAVIOR**

The orthodox theories of pressure group behavior "contend that the pressure groups generally counterbalance one another, thus ensuring that there will not be a result unduly favorable to one of them and unjustly harmful to the rest of the society... It cannot be emphasized too strongly that the analytical pluralists see results of pressure group activity as benign, not from any assumption that individuals always will deal altruistically with one another but rather because they think that the different groups will tend to keep each other in check because of the balance of power among them." (Olson, 1965, p.111)

Political economists like Truman (1958) and Bentley (1949) not only shared the belief that group pressures alone determined the final equilibrium position of the social system but that this group equilibrium tended to be just and desirable. These scholars can be characterized as interest-equilibrium theorists.

Should any one group over-exert itself, the interest-equilibrium theorists contend that 1) already existing and 2) potential groups would oppose them. Recent scholars, however, have seriously threatened the validity of this view. (As later demonstrated, Becker might be considered an exception as he lends considerable support to this view.)

In the first case, interest-equilibrium theorists contend that because people simultaneously belong to many groups, over exertion by one group will result in opposition by its own mem-

bers. Buchanan and Tullock (1962, p.288) respond critically to this argument in the following way: "Some such restraint cannot be overlooked, but it must also be acknowledged that few, if any, single individuals will be members of all groups simultaneously, and, even disregarding this, membership in separate groups will generate *different degrees of individual interest.*" (emphasis in original)

Secondly, Olson objects to the emphasis placed by the theory of analytical pluralism on the "potential" (i.e. unorganized and inactive) group.

The argument is that politicians know that a group, if its interest is seriously damaged or threatened, will organize and then wreak vengeance on its enemies. Therefore politicians will be almost as solicitous of the unorganized and inactive group as they are of the organized and active group. This contention is rather difficult to test empirically, because, if a group does not organize and act, the analytical pluralist can say that the damage to its interests was not serious or that there was in fact no group interest...

But even if the analytical pluralists should be correct in emphasizing the "potential" group and belittling the existing organization, their theory is still inadequate unless they can show *how* damage to a large group's interests - how an incentive for group organization and action - would necessarily provide an incentive or stimulus for the members of that large group to sacrifice their individual interests on behalf of the group goal. They must show *why* the individual member of the large, latent group will voluntarily support the group goal when his support will not in any case be decisive in seeing that the group goal is achieved, and when he would be as likely to get the benefits from the attainment of that goal whether he had worked for its attainment or not. The group theorists are on this point logically inconsistent. Their references to

"potential" groups and their lack of concern for organization may blur the contrast between their theoretical conclusions and the facts of everyday observation, but they cannot negate the fact that their theories, insofar as they relate to large economic groups at least, are logically inconsistent. (Olson, 1965, pp.128-129, emphasis in original)

Olson thus exposes the fallacy of the interest-equilibrium theorists who state that potential groups would form to oppose existing groups that are overexerting themselves. Equilibrium may indeed be an expected outcome among existing interest groups, but such an outcome would not represent all interests and consequently should not be expected to satisfy all interests. The free rider problem precludes a representative outcome. Individuals will not make voluntary contributions and consequently large groups will not arise to ensure the adjustment of interests. It should be noted that many scholars have denounced the prospect that even if all interests were fairly represented, the results would be contrary to the collective interest. See Olson (1965, p.124), Buchanan and Tullock (1962, p.288) and Hayek (1979,p.93)

While it is often taken for granted that groups of individuals with common economic interests will attempt to further those common interests, Mancur Olson has demonstrated that this need not, and often will not be the case. It is unjustified to argue that groups tend to further their interests on the grounds that groups act in self-interest because individuals do. In Olson's words:

(But) it is *not* in fact true that the idea that groups will act in their self-interest



follows logically from the premise of rational and self-interested behavior. It does not follow, because all of the individuals in a group would gain if they achieve their group objective, that they would act to achieve that objective, even if they were all rational and self-interested. Indeed, unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, *rational, self-interested individuals will not act to achieve their common or group interests* (emphasis his).

... These points hold true even when there is unanimous agreement in a group about the common good and the methods of achieving it (emphasis ours) (Olson, 1965, pp.1-2).

*A lobbying organization, or indeed a labour union or any other organization, working in the interest of a large group of firms or workers in some industry, would get no assistance from the rational, self-interested individuals in that industry* (emphasis his). This would be true even if everyone in the industry were absolutely convinced that the proposed program was in their interest ... (emphasis ours) (Olson, 1965, p.11).

Olson recognizes that students of public finance have neglected to consider that the achievement of any common goal or the satisfaction of any common interest means that a public or collective good has been provided for that group. Olson (1965, pp.15-16) then points out that any member of that group can enjoy any improvement brought about by others whether or not he has worked in support of this organization. Consequently, he will not incur any costs associated with furthering the common interest of the group, in much the same way that the state could not be supported by voluntary contributions or a perfectly competitive firm would not voluntarily reduce output so as to affect the

products price.

Moreover, Olson demonstrates that the largest member of a group consisting of members of unequal size bears a disproportionate share of the burden of providing the collective good. Once a smaller member has the amount of the collective good accountable for by the largest member, he has no incentive to obtain any of the collective good at his own expense as he has more than he would have purchased for himself. "In small groups with common interests there is accordingly a *surprising tendency for the "exploitation" of the great by the small.*" (Olson, 1965, p.35).

In conclusion,

the larger the group is, the farther it will fall short of obtaining an optimal supply of any collective good, and the less likely that it will act to obtain even a nominal amount of such a good. In short, the bigger the group, the less it will further its common interests. (Olson, 1965, p.36)

One of the cornerstones of modern collective choice theory is the theory of group behavior. Olson has applied the axiom of private interest to group behavior and has demonstrated some rather interesting results. If, by hypothesis, the collective benefits exceed the cost of collective action, collective action will be profitable. If the number of individuals is of some appreciable size, an individual will refrain from joining the collective action, on the assumption that the viability of the action does not depend on his participation. If enough individuals take this position, the collective action will not be taken. Thus, some groups will pursue collective action and

others will not. (Stigler, 1974, p.359). Olson justifies the existence of many large groups which are organized and do pursue collective action by arguing that the lobbies of large economic groups are the by-products of organizations that have the capacity to mobilize a latent group with selective "incentives". These incentives amount to having the authority and capacity to be coercive or having a source of positive inducements, such as private or noncollective products, that they can offer the individuals in a latent group. (Olson, 1965, p.133). Notwithstanding his critics<sup>3</sup>, Olson has theoretically demonstrated the unlikelihood that many larger groups will organize and pursue their collective interests. The migrant farm labourer, the white collar worker, the consumer<sup>4</sup>, and the taxpayer are representative of large groups, which Olson alleges, have no lobby to voice their needs. In Olson's words (1965, p.167), "the existence of large unorganized groups with common interests is therefore quite consistent with the basic argument of this study. But the large unorganized groups not only provide evidence for the basic argument of this study: they also suffer if it is true."

When applying the axiom of self-interest to group behavior in the private sector and also to government behavior, the implications are not so appealing. It has been shown that some very large and important groups in society, such as taxpayers and consumers, are not very likely to organize or be represented. Other, typically smaller groups, or those using coercion or other selective incentives, are organized and do exert pressure for

preferential treatment. Moreover, the political system is far from immune from such unequal representation of interests - from such unequal exertion of pressure. Politicians, in attempting to attain or retain power, must, out of necessity, maximize votes. Consequently the organized voices are most likely to be heard and heeded while the unorganized voices go unheard, and their interests go unrepresented. The implication is that there exists ample room for a collective choice problem - in the sense that collective action is unlikely to maximize social welfare.

The following two chapters contain a review of the literature on what scholars believe are the further predictions and policy implications that emanate from the above mentioned cornerstones of public choice theory. These chapters elaborate on the distinctions made in the introduction between the diverging views of "The Persuaders" and those of Becker on i) the expected performance of current public policy ii) the degree of information held by the public and iii) the consequences of a better informed public. The discussion begins with the group we have called "The Persuaders". Subsequently the focus turns to Becker's contributions, some of which follow the thrust of the recent literature on rational expectations, and the most recent of which differs markedly in its predictions and policy implications from the theories postulated by "The Persuaders". This is so, it will be demonstrated, because of the strong assumption made, in contrast to others, about the degree of information held by the major economic actors in this model.

CHAPTER TWO  
THE PERSUADERS

*What is so remarkable about the present Free Trade Debate is how much of it involves assertions by very high-level people for which any body of examiners would fail a first-year student.*

*Possibly economists cannot dent this armour of public ignorance, but they will never know if they do not try.*

Lipsey<sup>1</sup>

Recent works by Montmarquette (1986), Rowley (1986), Blomqvist (1985), and St-Hilaire and Whalley (1985) all point out in varying contexts that political behavior fits the model outlined in the previous chapter: individuals and groups seek to maximize their self-interest while politicians seek to maximize votes by catering to as many such groups as possible.

Within this broad public choice framework, many scholars, as earlier mentioned, are at odds with Becker and the thrust of the rational expectations literature in regards to the assumed knowledge that the public possesses. A number of scholars are of the view that the public is dissatisfied with public policy and misinformed of its consequences.

These scholars also presumably differ from Becker in their view of how voting patterns are capable of affecting the public choice outcome. If informed, they argue, the public would come to a clearer realization of the inadequacies and concerns of present public choice policies and, presumably, universal suffrage would

ensure the realization of more beneficial alternatives. Furthermore, their view of the dimensions of the current "public choice problem" is more alarming than the view taken by Becker. Becker's contributions are the subject of the next chapter. Briefly reviewed here are the dimensions of the public choice problem or predictions which emanate from the assumption that the public is ill-informed of and dissatisfied with current policy outcomes. Embedded in this discussion is the policy implication that the powers of government must be curtailed. Relegated to the next section of this chapter is a discussion of how, according to many scholars, this change must be brought about - by persuading the public of alternative public choice policies. The chapter concludes with theoretical evidence supporting the contention that the public is rationally ill-informed.

Hayek (1979: Vol. 3) perhaps paints the most alarming picture of majority opinion and contemporary democracy. Hayek (1979, p. 3) contends that unlimited government power is the fatal defect of the prevailing form of democracy. He asserts that the weakness of an elective assembly with unlimited powers is that it is susceptible to vote trading by special interests or log-rolling. Tullock (1967a) has combined the implications of his "rational ignorance" model (to be addressed in the concluding section of this chapter) with the perfect information model by Buchanan & Tullock (1962) of log-rolling, where in the latter model each individual is assumed to properly calculate the costs and benefits which he would receive from each measure. Log-rolling could be expected to be carried to extremes in the

combined model because the voters did not really understand the cost part of the cost benefit calculation. (Tullock, 1967a, p. 106) With this model in mind, Hayek asserts:

... the paradoxical result of the possession of unlimited power makes it impossible for a representative body to make the general principles prevail on which it agrees, because under such a system the majority of the representative assembly, in order to remain a majority, *must* do what it can to buy the support of the several interests by granting them special benefits (emphasis his).

It appears that we have unwittingly created a machinery which makes it possible to claim the sanction of an alleged majority for measures which are in fact not desired by a majority, and may even be disapproved by a majority of the people; and, that this machinery produces an aggregate of measures that not only is not wanted by anybody, but that could not as a whole be approved by any rational mind because it is inherently contradictory. (Hayek, 1979, p. 6)

The Friedmans agree: "On issue after issue the government of the people acts in ways that the bulk of the people oppose." (Friedman and Friedman, 1979, p. 288)

Not only is Hayek (1979, p. 11) adamant in his belief that the contemporary democratic outcome is unjust, he feels it is weak and corrupt - necessary attributes of all unlimited or omnipotent governments dependent on the support of numerous groups. Hayek likens such government to a lurching steamroller driven by one who is drunk when referring to the immense and oppressive power of government "wholly incapable of pursuing a consistent course of action". Moreover, "if no superior judiciary authority can prevent the legislature from granting privileges to particular groups there is no limit to the blackmail to which

governments will be subject." (Hayek, 1979, p.11). He is also concerned about the new set of 'democratic' pseudo-morals produced by the existing machinery of unlimited government, which he claims are "an artifact of the machinery which makes people regard as socially just what is regularly done by democracies, or can by clever use of this machinery be extorted from democratic governments." (Hayek, 1979, p.11) In short, "things come to be regarded as 'socially just' merely because they are regularly done, not because anyone except the beneficiaries regards them as just on their own merits". (Hayek, 1979, p.11) With an eye to the future, Hayek is concerned that the spreading awareness that more and more incomes are determined by government action will lead to ever new demands by groups whose position is still left to be determined by market forces for similar assurance of what they believe they deserve.

Recognizing the ability of some groups to organize and the lack of ability of others, Hayek (1979, p. 13) suggests that this

... further distorts the distribution of benefits and makes it increasingly unrelated to the requirements of efficiency or any conceivable principle of equity. The result is a distribution of income chiefly determined by political power. It is part of this tendency that in the course of this century an enormous and exceedingly wasteful apparatus of para-government has grown up, consisting of trade associations, trade unions and professional organizations designed primarily to divert as much as possible of the stream of governmental favour to their members. It has come to be regarded as obviously necessary and unavoidable, yet has arisen only in response to (or partly as defence against being disadvantaged in) the increasing necessity of an all-mighty majority government maintaining its majority by buying the support of particular small



groups.

Buchanan (1980) has argued that rent-seeking is no different than profit seeking from an individual point of view, but that there clearly is a distinction to be made from society's point of view. Profits arise, in the private sector, out of voluntary cooperation; rents sought in the political arena however, are created at the expense of others. Moreover, Usher (1986) demonstrates that the acquisition of rents requires the use of real resources at the expense of marketable output that otherwise could be produced. Thus, Laidler (1985a, p. 35) concludes: "political institutions which permit, or encourage, rent-seeking may harness the powerful forces of individual self-interest toward socially destructive ends."

Hayek (1979, p. 16) suggests, as does Friedman (1962, 1979), Buchanan (1985), and others that governments would be relatively innocuous, albeit still prone to the above mentioned pressures, if it were administering resources of a finite quantity determined by rules it cannot alter for the satisfaction of common needs. "To place those who ought to define what is right in a position in which they can maintain themselves only by giving their supporters what they want, is to place at their disposal all the resources of society for whatever purpose they think necessary to keep them in power".(Hayek, 1979, p. 16)

Buchanan (1975, p.14), states that we live in "constitutional anarchy" and that democratic industrialized countries are faced with the threat of Leviathan (p.147). He elsewhere argues that culturally evolved Victorian morals have

been destroyed by the Keynesian mind set. These abstract rules of fiscal prudence, Buchanan (1985, p. 1) argues, have evolved unconsciously and therefore cannot themselves be restored. If, in our varying capacities of public choosers, we are not constrained by moral sanctions against the accelerating destruction of our national capital stock through the deficit financing of public consumption, we must look, Buchanan (1985, p.5) argues, to the more formal rules of the political institutions within which we make public decisions. "Given the absence of moral constraints and given the open-ended rules for fiscal decisions, rational behavior on the part of the public choosers insure the regime of continuing and accelerating budget deficits." (1985, p.5)

Clearly, these scholars are arguing for a limit to the powers of government. Without such limits, Hayek (1979, p. 29) states "his whole bias will thus be towards saying 'yes' to particular demands while the chief task of a true legislator ought to be to say 'no' to all claims for special privileges and to insist that certain kinds of things simply are not done".

Hayek (1979, p.31) likens leaving the law in the hands of elective governors to leaving the cat in charge of the cream jug - "there soon won't be any, at least no law in the sense in which it limits the discretionary powers of government."

These scholars devote considerable attention to government policy and its effect on the market (see for example Hayek, 1979, p. 76). They see competition as a force providing the incentive for people to act rationally in order to maintain themselves and a force essential to a viable economy. Without government

interference, impersonal market adjustments will require certain individuals to make a change or to accept a reduction in income. Unfortunately, political determination of incomes of different groups decided arbitrarily or by power struggles, will necessarily be a burden greater to the society as a whole than it would have been if we had let the market bring about the necessary change.

Hayek suggests that what is chiefly threatening to destroy the public order is not the selfish action of the individual firms (whether oligopolistic or monopolistic) but the selfishness of organized groups. "These have gained their power largely through the assistance government has given them to suppress the manifestation of individual selfishness which would have kept their selfishness in check" (1979, p. 89).

Courchene (1980) refers to the "protected society" in Canada with reference to groups which have sought immunity, through political channels, from competition and economic change. A "protected society" is consequently relatively less efficient and economically worse off, he states, with the spoils of protection accruing most likely to more affluent members of society who possess the resources needed to pursue political favours, at the expense of the needier members of society.

A society which does not constrain itself from such protection can lead to what Mancur Olson (1982) has termed "institutional sclerosis". In Laidler's words (1985a, p.36) "Olson suggests that a society afflicted with this disease neither generates much economic change internally, nor adapts well to

economic change imposed from the outside so that over time its economic well-being falls, at least relatively, and perhaps in some dimensions absolutely as well." Blais and McCallum (1986) and Johnston (1985) present evidence that Olson's hypothesis is consistent with empirical evidence. "Usher (1981) has gone so far as to argue that a democracy that opens itself up widely to rent-seeking behavior runs a serious risk not just of inhibiting economic growth, but of destroying itself in the longer run as the political instability it thereby creates comes into play." (Laidler, 1985a, p.36)

In his well known Capitalism and Freedom, Friedman (1962, p. 6) expounds on how government activity erodes personal freedom. He speaks, in the name of liberalism, "using the word liberalism in its original sense - as the doctrines pertaining to a free man", in disdain of unlimited centralized government. To help give a sense of proportion about the role that a liberal would assign government, Friedman (1962, pp. 35-36) lists some of the activities now undertaken by federal and state governments, and their counterparts in other Western countries that cannot, Friedman suggests, validly be justified in terms of the doctrines pertaining to a free man. The list includes price support programmes in agriculture, tariffs, quotas (imposed both domestically and internationally), rent control, minimum wages, regulation of industries, licensure provisions, etc..

Friedman and Friedman (1979, p. ix) examine in some detail the role of competitive capitalism as a system of economic freedom and a necessary condition of political freedom. They

argue that the governments' role, as expressed in Jefferson's first inaugural address (1801), is to serve as an umpire to prevent individuals from coercing one another and to "leave them otherwise free to regulate their own pursuits of industry and improvement" (Friedman and Friedman, 1979, p.xviii). Since the depression however, the view is that the governments' role is to serve as a parent charged with the duty of coercing some to aid others. Friedman and Friedman (1979, p.xix) argue that:

In the government sphere, as in the market, there seems to be an invisible hand, but it operates in precisely the opposite direction from Adam Smith's: an individual who intends only to serve the public interest by fostering government intervention is "led by an invisible hand to promote" private interests, "which was no part of his intention."

This point, the authors contend, is driven home again and again as Milton and Rose Friedman examine several areas in which government power has been exercised. The Friedmans' (1979, p.xx) concern is that "sooner or later - and perhaps sooner than many of us expect - an even bigger government would destroy both the prosperity that we owe to the free market and the human freedom proclaimed so elegantly in the Declaration of Independence". The Friedmans (1979 p. xx) ask:

Will our golden age come to an end in a relapse into the tyranny and misery that has always been, and remains today, the state of most of mankind? Or shall we have the wisdom, the foresight, and the courage to change our course, to learn from experience, and to benefit from a "rebirth of freedom"?

It has been stated thus far that the contemporary

"democratic" outcome, according to some scholars, is corrupt, and unjust, one that promises continued and accelerating deficits, is susceptible to tyranny and Leviathan, erodes personal freedom and is non-conducive to a viable economy.

Rather than focus on whether regulation per se is welfare maximizing and typically condonable, the emphasis of Trebilcock, Hartle, Prichard and Dewees (1982) is on whether efficient means are used to satisfy whatever ends regulation is pursuing. The purpose of their research is to evaluate the technical efficiency thesis postulated by Becker's (1976) full information model - the thesis that whatever the policy objective may be, it is obtained at the lowest social cost. This thesis is explored in the next chapter. Briefly considered here is an alternative hypothesis to explain the choice of governing instrument in democratic capitalist societies under the assumption of imperfect information.

Rejecting the technical efficiency thesis primarily on the grounds that it is predicated by a means-end relationship as described by Lindblom (1959, p. 83), Trebilcock et al. (1982, p. 24) asserts that a dichotomy between means and ends is in most cases nonexistent. Rather the pursuit of said ends (such as reducing unemployment, inflation, poverty, and so on) are more correctly means to achieve reelection.

Thus both the determination of policy "objectives", in the conventional sense, and the determination of means by which those objectives are to be pursued will be weighted against the calculus of how they serve the end of enhancing the prospects of reelection by the political decision-makers. Technical efficiency, per se, will not be a relevant

criterion of interest choice; only if in some way it advances this end for the politicians will it enter the calculus decision. (Trebilcock et al., 1982, p. 25)

Trebilcock cites work by Simon (1976, p. 65), Lindblom (1959, pp.82-83) and Schultze (1977) to stress the logical interdependence of instruments and objectives. Schultze states that usually the choice of instrument is as normative as the choice of objective:

The suggestion that the political debate be confined to ends, while technicians and experts design the means once the ends have been decided, is facile and naive. Ends and means cannot and should not be separated. In the real world they are inextricably joined: we formulate our ends only as we debate the means of satisfying them. No electorate or politician can afford to turn over the crucial question of how social intervention is to be designed to supposedly apolitical experts. (1977, pp. 89-90)

Trebilcock offers an hypothesis of "politically rational" instrument choice which involve three key sets of variables, as an alternative to the technical efficiency argument:

First the choice of instrument may be legally constrained. Second, rational instrument choice involves, to the maximum extent possible, the development of instruments that confer benefits on marginal voters and impose costs on infra-marginal voters. Third, rational instrument choice must take account of imperfect information on the part of both voters and political parties. Political parties will respond to voter ignorance by choosing instruments that provide highly concentrated benefits on some marginal voters while imposing widely dispersed costs on other marginal voters (where costs cannot be confined to infra-marginal voters). As well, the provision of subsidized, selective information, along with symbolic reassurance, will seek to expand perceived benefits over

real costs. In short, a strategy that seeks to "magnify the gain and depreciate the pain" will be influential in instrument choice. In addition, imperfect information on the part of political parties may lead to the selection of instruments that maximize reversibility and flexibility by providing opportunities for continuous marginal adjustments in policy "objectives". (Trebilcock et al., 1982, p. 34) (emphasis added)

Trebilcock, et al. conclude that without changing the constraints under which politicians choose policies, advocating a different calculus of choice from that implied by their political self-interest is simply to preach political irrationality (of which they accuse Schultze (1977) of doing when suggesting incentive-oriented reform). They agree with others on the need for constitutional constraints on governmental activities and a host of other issues that need be examined including: "...rules on party and campaign financing (to reduce dependence on interest group "trades"); subsidization of thinly spread interest groups (to offset information and organization costs faced by such groups); ...[and] freedom of information legislation (again, to reduce voters' information costs)..." (1982, p. 102)

Paul Rubin (1975) also addresses the form of special interest legislation. He concedes with Downs (1957) and Buchanan and Tullock (1962) that strong minority interests will be represented in a democracy if costs to the majority are diffuse. Rubin questions if there exists an explanation, grounded in rational behavior, for the form government subsidies take. He suggests that such an explanation does exist and is to be found in that body of knowledge that applies rational analysis to the



political process. Rubin concludes:

the party is interested in granting benefits with long expected lives, since in this way the amount which can be appropriated by the party is increased. However, it is often true that long lived benefits have high deadweight losses; this explains the inefficient form in which subsidies are often granted. (Rubin, 1975, p. 88).

The survey thus far suggests that not only is much government intervention discriminatory and non-welfare maximizing, also discriminatory and non-welfare maximizing is the form of that legislation as a means to a particular end.

Tullock (1975) exposes an even bleaker perspective on the theory which applies rational analysis to the political process. He discusses the apparent long run unprofitability of government aid programmes to various groups of politically influential people. In short, he believes that in so doing society is getting "trapped". The transitional gains he speaks of refers to the argument that a programme meant to benefit some groups provide only transitional gains to those groups, because in time, these benefits become fully capitalized so that no more than normal returns are made in these industries. Society is now trapped, however, since large deadweight losses are ongoing while the benefits are not. Termination of such programmes, moreover, will inflict serious losses for the entrenched interests.

Tullock offers as examples Taxi medallions, blue laws restricting shopping on Sunday, union effects on wages and the consequent intermittent employment of junior members, higher than competitive wages for federal employees, agriculture subsidy

schemes and so on.

Tullock (1975, pp. 677-678) suggests:

It is certainly true that this type of institution is very widely found in our society and the social cost is great. It is also true that, in general, the benefits are now in the past. They were transitional benefits at the time the institution was first founded. As of now, there is no one who is positively benefiting from the organization and there is a large dead-weight loss. However, there is a large number of people who would suffer large transitional costs if the institution were terminated. These transitional costs in many cases are large enough so that compensation of the losers would impose upon society an excess of burden which would be of the same order of magnitude as the cost of the present institution.

Tullock concludes:

The moral of this, on the whole, depressing tale is that we should try to avoid getting into this kind of trap in the future. Our predecessors have made bad mistakes and we are stuck with them, but we can at least make efforts to prevent our descendants from having even more such dead-weight losses inflicted upon them.

Indeed, if Tullock is correct, society should try to avoid getting into these kinds of traps. The same theory that suggests that we are getting trapped, however, suggests that we will continue to do so, unless, as so many of the authors surveyed suggest, we change the constraints under which rational political decisions are now being made.

**"WE MUST PERSUADE THE PUBLIC"**

*The first and vital task that must be accomplished if the conduct of economic policy is to be improved in Canada is therefore to convince bureaucrats and politicians, but above all the electorate, to accept limits upon their individual freedom of action which will make rent-seeking through the political process prohibitively expensive.*

Laidler<sup>2</sup>

Highlighted here is the policy implication which follows from the presumption that the public is ill-informed and the prediction that this misinformation adversely affects, in a welfare maximizing sense, the choice of public policy in a significant way. These scholars argue we must "persuade the public" of alternative public choice policies.

The previous section reviewed the Friedman's concerns over big government and its policies. The Friedmans (1979, p.xxi) believe we have not reached a point of no return where "an even bigger government would destroy the human freedom proclaimed so elegantly in the Declaration of Independence; rather we are experiencing a change in public opinion. There is, they contend, growing recognition of the dangers of big government and growing dissatisfaction with the policies that have been followed (1979, p.xxi). "We have the opportunity to nudge the change of opinion toward greater reliance on individual initiative and voluntary cooperation, rather than toward the other extreme of total collectivism" (1979, p.xxi). The Friedmans' place great emphasis on the need to understand capitalism and how it functions.

If we are to make that choice wisely, we must

understand the fundamental principles of our system, both the economic principles of Adam Smith, which explain how it is that a complex, organized, smoothly running system can develop and flourish without central direction, how coordination can be achieved without coercion; and the political principles expressed by Thomas Jefferson. We must understand why it is that attempts to replace cooperation with central direction are capable of doing so much harm. We must understand also the connection between political and economic freedom. (emphasis added) (1979,p.xxi)

The Friedmans (1979, pp. 273 - 274) conclude that the tide of opinion is turning. This powerful tide has the ability once it flows strongly, to sweep away all obstacles, all contrary views.

The tide of opinion toward economic freedom and limited government flowed strongly until late in the nineteenth century, they argue. Then, the tide of opinion turned in favour of Fabian socialism and New Deal Liberalism. This tide is now cresting, they contend. "Yet there is no clear evidence whether the tide that succeeds it will be toward greater freedom and limited government in the spirit of Smith and Jefferson or toward an omnipotent monolithic government in the spirit of Marx and Mao."

The Friedmans (1979, p.279) suggest that if society is to move toward a freer society and a more limited government, rather than a totalitarian government, then the public must recognize a) the defects of the present situation, b) how it has come about, and c) what we can do about it.

Rather than addressing each issue on its own merits, the authors (Friedman and Friedman, 1979, pp. 287-288) suggest that broad outlines be laid down limiting what government may do. We

need to adopt, they assert, self-denying ordinances that limit the objectives we try to pursue through political channels. "We need, in our opinion the equivalent of the First Amendment to limit government power in the economic and social area - an economic Bill of Rights to complement and reinforce the original Bill of Rights." This would be effective, they argue, because formulating such amendments would have a great impact on the climate of opinion and would be a more direct way of converting a climate of opinion into actual policy than would be our present legislative process.

The Friedmans (1979, p. 202) believe that we shall be able to extend and preserve freedom "but we shall be able to do so only if we awake to the threat that we face, only if we persuade our fellow man that free institutions offer a surer, if perhaps at times slower, route to the ends they seek than the coercive power of the State" (emphasis added).

These authors contend that public awareness is the route that will lead to beneficial changes. Moreover, the Friedmans (1979, p. 117) believe this route can be successful:

Our great and revered teacher Frank H. Knight was fond of illustrating different forms of leadership with ducks that fly in a V with a leader in front. Every now and then, he would say, the ducks behind the leader would veer off in a different direction while the leader continued flying ahead. When the leader looked around and saw that no one was following, he would rush to get in front of the V again. That is one form of leadership - undoubtedly the most prevalent form in Washington.

James Buchanan (1975) believes that a "shift in vision" is

essential so that democratic industrialized countries can avert Leviathan which is threatening our well being.

"Americans are dissatisfied with the status quo... Dissatisfaction with the institutional structure, and most notably with the observed performance of government at all levels, remains widespread..." (Buchanan, 1975, p.91). This dissatisfaction leads to the infinite regress problem which results in governments getting larger and larger as a necessary result of fixing problems arising from earlier government intervention. "In part this is the inevitable result of public failure to understand the simple principles of laissez-faire... There has been a loss of wisdom in this respect, a loss from eighteenth-century levels, and the message of Adam Smith requires reiteration with each generation. (Modern economics must stand condemned in its failure to accomplish this simple task, the performance of which is, at base, the discipline's primary reason for claiming public support)".(Buchanan, 1975, pp.91-92)

General acceptance of a contractarian revival by working scholars, he believes, is a necessary prelude of acceptance of such ideas by a frustrated public, yet a public which has a receptive attitude. Buchanan (1975, p. 177) suggests the need for an attitudinal revolution:

The alternative that falls between anarchy on the one hand and Leviathan on the other must be articulated, analyzed and finally, made into models amenable to public comprehension...(1975, p.180)

Ten years later, concerned that "rational behavior on the part of public choosers insures the regime of continuing and

accelerating budget deficits" (1985, p.5), Buchanan reiterates his message: "Economists, in particular, need... rid themselves, once and for all of the notion that they need only proffer advice to the benevolent government which eagerly pays heed." (Buchanan, 1985, p. 5) (emphasis added)

Schultze, with reference to the market system and its functioning, states:

I am increasingly convinced, no one but economists (and not all of them) really understand what is in this black box... Because the way in which markets achieve results is both indirect and seldom understood, it is not surprising that more direct techniques of social intervention are usually chosen. (Schultze, 1977, p. 77) (emphasis added).

Schultze believes, as do Buchanan, Friedman and others

that the American people can deal intelligently with issues when they are painted in hues more subtle than black and white. Indeed, the political winds of the last few years can be read as a sign that the electorate is somewhat ahead of many of its political leaders. The voters are not disillusioned with government per se. But they are fed up with simple answers to complicated problems. Almost two centuries ago the arguments for the ratification of the Constitution were laid out in the Federalist papers - perhaps the most sophisticated effort at political pamphleteering in history. I have good reason to hope and to believe that today voters can accept the same high level of political argument as the farmers, mechanics, and politicians of the eighteenth century-colonies. (Schultze, 1977, p. 90) (emphasis added).

As for the role for political leadership, Schultze states:

Voters do form concepts of the public good that can be changed or modified, partly through widening the perception people have

of their own self - interest and partly through political persuasion that itself creates new issues and alternatives. There is a crucial role for political leadership, not only to assemble narrow coalitions based on self-interest, but also to discover more effective solutions to market failures, articulate their advantages, and persuade voters. Politics can be, in some part at least, a creative process, not simply a deterministic response of the myopic self-interest of majorities or special interest groups. (Shultze, 1977, p.67) (emphsis added).

In examining the implications of their findings for economic research, Trebilcock, et al., (1982, p.103) suggest:

the work of economists will inevitably not be viewed by politicians primarily as a source of intelligence about the world: Rather it will be construed as posing a problem if it lends support to an opponent or as part of the "solution" if it lends support to the particular politician. In short, the flow of economic research might perhaps be thought of as a flow of expert witnesses appearing in an endless adversarial proceeding sometimes helping one side, sometimes another; sometimes being suppressed, sometimes being distorted, twisted, and trivialized for the benefit of a "user".

The implications concerning the usefulness of economic research within a scenario that does not fully appreciate this thesis is somewhat disheartening. It appears that economists have been playing, to a large extent, an inward looking professional parlour game where the theoretical stakes are efficiency, high levels of output and employment, an equitable distribution of income and so on, where the extent of the mathematical elegance of the value-free scientific models is reflected in the prestige of the prizes awarded.

While this appraisal of the profession's worth may be



unduly cynical, Trebilcock, et al. (1982, p. 104) state:

One perception does seem essentially puerile: the notion that government can be looked upon as ignorant, benevolent dictators who want to do the "right" thing, who are all powerful, and who are simply waiting for the economist to tell him, or it what to do. What is implied... is that, with rare exceptions, policy proposals based on the results of economic research are in competition with proposals based on other considerations.

Trebilcock, et al. remind the reader that casting a ballot is a policy decision for the voter, as is the decision to join a pressure group, and so on. Moreover, the information upon which such decisions are made is inherently limited (e.g. bounded rationality and rational ignorance).

Economic research, by providing a public good, can add to the information available and can improve these 'private' decisions - just as it can those of politicians - if it is disseminated. It is important to realize that by influencing voter knowledge and understanding, and hence voter decisions, the insights of economic research (and social science generally) can be brought to bear on the ultimate decision-making process. Indeed, these effects of new information may be much more effective than the provision of direct information to bureaucrats and politicians. When few voters are aware of it, the latter can often ignore new information when it does not suit their convenience. Politicians cannot, however, easily ignore voters armed with relevant information. One might wonder why so much research is written and "published" with little if any attention being paid to the dissemination of the results generally. So many economists write - when not writing to one another - as though their task were to advise the Prince rather than the public. (emphasis added) (1982, p. 104)

## RATIONAL IGNORANCE

In closing the discussion on "The Persuaders" and the need they feel to persuade, the theoretical argument which suggests that people are not, for rational reasons, well informed about public policy and its consequences is addressed. The reader might note that this same literature casts a shadow of doubt on the efficacy of advocating "persuasion" as a policy prescription for it is suggestive that perhaps it may be rational for people to always remain ignorant.

G. Tullock (1967b, p.101) suggests that the private decision is likely to be more important to an individual than his decision on a public problem, simply because most people are not so situated that their decision on public matters makes very much difference.

Tullock suggests that the major themes of the "Chicago School" of economics has been the desirability of relatively simple and straightforward policies which is precisely, he suggests, why they have not been implemented. The people who would be sizably injured by the change from the status quo "would take the trouble to understand the issues, while the majority, if there were any significant degree of complexity, would not. Hence the proposal would fail to attract votes." (1967b, p.104)

Pursuing further the problem to which Downs has devoted a great deal of attention, Tullock (1967b, pp. 108-110) addresses the following question...

What is the payoff to the individual from voting? The payoff could be computed from the following expression

$$B D A - C v = P$$

B = benefit expected to be derived from success of your party or candidate

D = Likelihood that your vote will make a difference

A = Your estimate of the accuracy of your judgement,  $(-1 < A < +1)$

Cv = Cost of voting

P = Payoff

Let us put a few figures into our expression. Suppose I feel that the election of the 'right' candidate for President is worth \$10,000 to me. I think I am apt to be right three times out of four, so the value of A will be .5, D will be figured as .000,000,1. Assuming that my cost of voting is \$1.00, the expression gives  $(\$10,000 \times .5 \times .000,000,1) - \$1.00 = -.9995$ . It follows from this that I should not trouble to vote. This result has shocked a lot of people since Mr. Downs first presented it.<sup>14</sup>

Returning to the problem of the effect of ignorance, Tullock complicates the model by adding an additional factor  $C_i$ , the cost of obtaining information, giving

$$B D A - C v - C_i = P$$

Using plausible figures, he arrives at  $P = -100.992$ . Tullock (1967b, p. 14) concludes "the cost of obtaining enough information to significantly improve your vote is apt to very much outweigh the effect of the improvement... Thus, it would almost never be rational to engage in very much study in order to cast a 'well informed' vote". This is the conclusion of what he labels the "rational ignorance" model. The rational man would vote against his interest, or not vote at all because he would be investing in information in a purely rational manner.

Amending this "rational ignorance" model to include the acquisition of information not just for political reasons but for

reasons of enjoyment, or as a by-product of some other activity, Tullock assumes the voter falls in one of three categories with respect to each possible political issue. The voter is either ignorant, casually informed, or well informed. Tullock (1967b, p. 116) suggests that to be casually informed involves both the receipt of information and the intellectual effort involved in remembering it - "we would not expect to find many such voters."

Tullock states that it may be argued that members of pressure groups would find it rational to be particularly well informed, but that this need not be the case. Simply put, it does not take much information for a member of a pressure group to know which side his bread is buttered on. Moreover, Tullock (1967b, p. 118) argues that it may indeed be better for a pressure group voter not to know much about the particular issue, for the more he knows the more likely will be the potential conflict between his ideas of right and wrong and his material interests. "By not thinking much about the issue, he [i]s able to follow his self-interest with a clear conscience."

Not only does his model suggest there would be few informed voters, but also that they may possess much irrelevant information on a specific political choice and potentially very little relevant information. The information they possess may likely have been collected to confirm their basic position, not to change it. Consequently, "the votes of the well-informed may not be much more accurately calculated than those of the casually informed" (Tullock, 1967b, p.119), where the latter will differ from the classical idea of a pressure group voter only in that he

may either be ignorant on any given subject or badly informed."  
(Tullock, 1967b, p. 121)

Should these theories be correct, one is apt to conclude that democratic outcomes, regardless of how undesirable they have been shown to be, are unfolding as they rationally should. In comparing, on the margin, the expected benefits and costs, it is not rational for economic actors - voters, politicians, pressure groups, the media, to alter their behavior in a welfare maximizing direction, given the prevailing set of constraints on decision making.

Herbert Stein (1984-85, p. 14), in assessing what economists don't know, quotes Mr. Jefferson as saying "If a nation expects to be ignorant and free, in a state of civilization, it expects what never was and never will be."

I used that as an argument for the need to struggle against ignorance. I now see that in a more mature way. If 168 years after Mr. Jefferson said that, we are both more free and more civilized than we were, we must not be very ignorant.

But one may question, from a societal view, if this is adequate grounds for the profession to applaud its performance (even though, as Friedman claims (1986, p.9), the advocacy of free trade by economists has probably resulted in a sufficient enough reduction in tariffs to pay the salaries of the members of the economics profession many times over).

This discussion is indicative of the fact that what economists do know is or can be largely irrelevant if such information is not made comprehensible and disseminated to the

public. Only in so doing can the political forces acting so as to diminish the pain and accentuate the gain be counterbalanced by a realistic appraisal of the true costs and benefits to society of current government policy.

According to many of the economists surveyed above, economists have a role to play that remains to a large extent unrecognized - the role of informing - persuading, if need be, the public.

This chapter has concluded with evidence perhaps suggestive of the futility of informing the rationally ill-informed public. Notwithstanding persuasive efforts by experts, which would presumably make information less costly to acquire, it may still be rational for the public to remain ignorant, should the costs of obtaining information continue to exceed the perceived benefits on the margin. In the next chapter evidence is presented, on totally contrary grounds, suggesting that such persuasion would be a futile endeavor, as the cost bearers of non-welfare maximizing government policy - the taxpayers, (and those subsidized, for that matter) are, in fact, already fully informed of the consequences of public policy.

## CHAPTER THREE

### RATIONAL EXPECTATIONS: BECKER

*...day to day decisions get muddled, but people in political contexts act as if they understand the consequences of collective choice decisions... ..socially costly policies that persist do so not from ignorance, but because there is a political payoff that exceeds the cost of undoing it. Tariffs exist and persist for reasons well-known for 200 years. They are not mistaken policies.*

Borcherding<sup>1</sup>

Becker has changed his view, on more than one occasion, on the information set presumed to be possessed by the public. His two earlier views (1958, 1976) are both plausible, yet contradictory. His most recent view is indeed a most puzzling compromise with his earlier views - for he argues that taxpayers are fully knowledgeable of the deadweight costs of policy but voters are not. Becker's work alone begs the test of which of these alternative views might be most descriptive of reality.

Explored here are Becker's sometimes contradictory views regarding the information set assumed to be possessed by "the public" for the purpose of contrasting them with the sometimes partially and other times fully opposing views of "The Persuaders". Accordingly, reviewed here are the predictions and policy implications that follow which are decidedly different, on occasion, than those reviewed in the previous chapter.

Becker's alternative views on information possession all are related to his views on technical efficiency (i.e. whatever the policy objective may be, obtaining it at the lowest social cost). Becker (1958) makes a positive argument for technical efficiency in instrument choice, arguing (p.105) that both an ideal free enterprise system and an ideal political democracy are both efficient and responsive to the preferences of the electorate. "An industry would be operated equally efficiently by the state and by the marketplace if the most efficient party had the same costs as the most efficient firm." (Becker 1958, p.107)

Becker admits that neither the free enterprise system nor the political system is free from imperfections. In the case of the political system, Becker argues (p.109) that ignorance on the part of voters and the large scale required of political organizations are the two most important forces creating imperfections.

In a note published 18 years after the previous comment, Becker (1976) assumes away voter ignorance and its impact on the political process. Accordingly, he argues, contrary to the discussion in the previous chapter, there will in fact be a tendency towards the use of the most efficient means of obtaining a given objective.

If voters are rational, and aware of the effects of policy, then votes are lost as deadweight costs rise. Why then, Becker asks, are cash transfers involving no or less deadweight loss not used to replace the numerous policies now used which involve large deadweight losses? "One common answer", the answer common to the discussion of the previous chapter, "is that voters are



fooled into underestimating the loss caused by quotas and these other policies...

I find it difficult to believe that most voters are systematically fooled about the effects of policies like quotas and tariffs that have persisted for a long time. I prefer instead to assume that voters have unbiased expectations, at least of policies that have persisted. They may overestimate the deadweight loss from some policies, and underestimate the deadweight loss from others, but on the average they have a correct perception. This assumption is consistent with the recent emphasis on "rational" expectations. In the interest of brevity and a more forceful presentation of the argument to follow, I make an even stronger assumption; namely, that voters perceive correctly the gains and losses from all policies. (emphasis added)

Consequently, if quotas are used instead of cash, the deadweight loss from cash must **exceed** that from quotas; otherwise, the number of votes would not be maximized, and could be increased by replacing the quotas by cash. Or if price supports and cash are both used, the **marginal** deadweight losses from an increase in price and in the cash transfer must be equal; otherwise, votes could be increased by greater use of the socially cheaper method. In other words, with this approach, the size of the deadweight loss, not the ignorance of voters, explains when cash transfers are used. (Becker, 1976, pp.246-247) (emphasis through underscoring added)

Becker concludes on this note regarding the predictions and policy implications which follow from his full information model:

The methods used to accomplish any given end tend to be the most efficient available, in the public as well as the market sector... Although this approval leaves little room for economists to suggest improved methods in the public sector, it gives them potentially a much enhanced role in the positive analysis of the laws of operation of this sector. (Becker, 1976, p.248).

Indeed, Becker suggests that his analysis leaves little room for economists to suggest improved methods in the public sector as the methods used, we are assured, are in fact, the most efficient. Political entrepreneurs, keenly in competition for votes, will attempt to satisfy voters that are assumed fully informed. Such a model is diametrically opposed, in its factual assumption and consequently in its predictions and policy implications, to the public choice model reviewed in the previous chapter. The two models would presumably be fully consistent however, indeed one and the same, once "The Persuaders" persuaded the public of efficient means towards desirable ends, but not before.

Becker, as shown, did an about-face since his 1958 contribution, on one issue, namely the issue of the information set assumed to be possessed by voters. In so doing, however, he reinforces the importance of voting patterns in influencing the choice of public policy (as well as reinforcing the positive prediction that technical efficiency will be realized.) In his most recent analysis, Becker (1983) does yet another about-face on not one, but both of these issues. He explicitly argues, following Downs (1957) and Becker (1958), that voters are ignorant (1983, p.392). Furthermore, he argues that pressure group lobbying, not suffrage, is the mechanism shaping public policy. Deadweight costs continue to play a crucial role in his analysis which in turn continues to imply (contrary to the aforementioned predictions of Trebilcock, et al. (1982)) the use of policies that are technically efficient. In short, the efficiency implications of his (most recent) earlier work stem from the assumed full knowl-

edge of voters and consequently the importance of voting patterns in influencing policy decisions. In his most recent contribution (1983), efficiency implications, and all other propositions for that matter - including the relative importance of pressure group competition over suffrage in determining political outcomes, follow from and critically depend upon the assumed full knowledge of "winners" and "losers" coexisting in a society with voters that are ignorant!

One is apt to conclude that the thrust of Becker's most recent view of the world is that pressure group lobbying is the more influential and dominant mechanism that influences public policy, voting patterns playing a role of significantly reduced importance. Careful consideration of his analysis however begs the reader to question this interpretation. Most curiously, Becker (1983, p.392) explicitly defends the proposition that voters are ignorant while only implying that the winners and losers in the competition for political influence possess full knowledge - yet his entire analysis rests on this assumption. He may well be able to draw on the thrust of the recent literature on the theory of rational expectations to defend the assumption of full knowledge by some, but that same theory would refute his explicit assumption of voter ignorance. With these introductory remarks, Becker's most recent analysis, perhaps the most succinct and mathematically elegant discussion within the public choice literature on pressure groups, are now given more careful consideration.

## "A THEORY OF COMPETITION AMONG PRESSURE GROUPS FOR POLITICAL INFLUENCE"

Becker (1983) models the political outcome of democracies by assigning, as mentioned, a major role to pressure groups without barely a mention of voting. "This neglect is not accidental because I believe that voter preferences are frequently not a crucial *independent* force in political behavior." (Becker, 1983, p.392). In fact voters, politicians, and political parties are assumed mainly to transmit the pressure of active groups by having their preferences manipulated and created through the information provided by interested pressure groups. "In effect the analysis in this paper assumes that pressure groups can "purchase" favourable votes with lobbying and other political activities when a majority or plurality of votes is required for political success." (Becker, 1983, p.392)

Competition among pressure groups for political influence results in pressure group equilibrium - i.e. an equilibrium level of taxes, subsidies and other political favors. "Political equilibrium has the property that all groups maximize their incomes by spending their optimal amount on political pressure, given the productivity of their expenditures, and the behavior of other groups". (Becker, 1983, p.372). The main negative welfare related prediction of the model is that such an outcome is not Pareto optimal but rather involves excessive expenditures on the production of pressure and the creation of deadweight losses. With regards to the former however, Becker provides evidence (1983, p.388) of cooperation among pressure groups to bring about abso-

lute reductions in pressure by all groups so as to maintain varying degrees of pressure on the margin which would maintain their influence and would raise their incomes by economizing on political expenditures. With regards to deadweight losses, Becker (1983, p.381) argues, in accord with his 1976 argument, "that politically successful programs are "cheap" relative to the millions of programs that are too costly to muster enough political support, where "cheap" and "expensive" refer to marginal deadweight costs, not to the size of taxes and subsidies." In contrast to "The Persuaders", even the relatively few negative predictions which emanate from his model have relatively consoling attributes. So as to constrain the system Becker assumes a rather broad but nevertheless tautologically true government budget equation.

Taxes and subsidies are related by the identity between revenue and expenditures: the total amount raised from taxes, including hidden taxes like inflation, equals the total amount available for subsidies, including hidden subsidies like restrictions on entry into an industry. This government budget equation implies that a change in the influence of any group that affects its taxes and subsidies must affect the subsidies and taxes, hence the influence of other groups. Therefore, groups do not entirely win or lose the competition for political influence because even heavily taxed groups can raise their influence and cut their taxes by expenditures on political activities. (emphasis added) (1983, p.372)

Much of the elegance of Becker's analysis is dependent upon the assumption that there exists two homogeneous pressure groups competing for political favors.

Becker retains the assumption of other scholars that "taxes, subsidies, regulations, and other political instruments are used to raise the welfare of more influential pressure groups." (Becker, 1983, p.374) He argues that the amount raised in taxes on one group is determined by an influence function that depends on the pressure exerted by both the taxed group and the subsidized group as well as other variables, and similarly so determined is the amount available for subsidies. Consequently the

equality between the amount raised in taxes and the amount spent on subsidies implies that *aggregate influence is zero*: increased influence of some groups decreases the influence of others by equal amounts. Therefore, the political game modeled in this paper is zero-sum in influence and negative-sum in taxes and subsidies because of deadweight losses." (Becker, 1983, p.376, emphasis in original)

Becker then demonstrates that the political effectiveness of a group is determined by its relative efficiency and not by its absolute efficiency. As an example he suggests that political success is determined by the relative and not the absolute degree of control over free riding.

In Becker's analysis the deadweight costs associated with the distortions in the use of resources by different taxes and subsidies have a major effect on the competition for influence. Based on the proposition that deadweight costs tend to increase as the rate of taxation increases<sup>2</sup>, Becker (1983, p.381) asserts:

An increase in the marginal deadweight cost of taxes ... raises the pressure exerted by taxpayers essentially because a reduction in taxes has a smaller (adverse) effect on the revenue from taxation. On the other hand, an increase in the marginal deadweight cost of

subsidies ...reduces the pressure exerted by recipients because a given increase in the subsidy then requires a larger increase in tax revenue.

The following proposition thus unfolds: "An increase in deadweight costs reduces the equilibrium subsidy." Becker argues (1983, p.382), contrary to "The Persuaders" (see Laidler (1985a, p.35), that this proposition implies that politicians are not "lackeys of the rich, and is even consistent with the poor being *more* effective politically." (emphasis in original)

Becker (1983, p.383) demonstrates the further importance of deadweight costs by arguing that they predict that political protection is likely to be incomplete and temporary - "Incomplete because the marginal deadweight cost of protection rises as the degree of protection increases; temporary because supply (and demand) becomes more elastic over time as specific investments depreciate" and deadweight costs consequently increase.

Becker argues that taxpayers have an "intrinsic" advantage in influencing political outcomes since deadweight costs encourage pressure by taxpayers and discourage pressure by recipients. Alternatively, for activities that raise rather than lower efficiency (activities that correct market failure) it is demonstrated that if efficiency is raised on the margin, subsidized groups have the intrinsic advantage in affecting political outcomes. The corollary to the proposition that "an increase in deadweight cost reduces the equilibrium subsidy" mentioned above is thus: "political policies that raise efficiency are more likely to be adopted than policies that lower efficiency."

This corollary indicates that the model in this paper of competition among pressure groups to enhance their own welfare does not neglect market failures. That is, the model does not emphasize political redistribution of income at the expense of political increases in efficiency, even though groups do not cooperate and side payments are not permitted. Therefore, an analysis of noncooperative competition among pressure groups can unify the view that governments correct market failures and what seems to be a contrary view that governments favour the politically powerful. (emphasis added) (Becker, 1983, p.384)

Parallel to Olson's aforementioned proposition regarding the presumption that there is a tendency for the small to exploit the large, Becker proposes "politically successful groups tend to be small relative to the groups taxed to pay their subsidies" (Becker, 1983, p.385). This proposition however, is based on somewhat different grounds than is the similar proposition made earlier. The proposition emphasizes once again the importance of deadweight losses and groups' assumed knowledge of changes in these losses. It is grounded on the assertion that marginal deadweight losses decrease and thus so does exerted pressure the larger the number of taxpayers since a lower tax rate is required to raise an equivalent level of revenue.

Yet another proposition that hinges on the importance of deadweight losses and groups' assumed knowledge of changes in these losses is the proposition, attacked by Trebilcock, et al. (1982), that competition among pressure groups favours efficient methods of taxation. On the grounds that a more efficient method of taxation would lower the marginal deadweight loss, Becker (1983, p.386) argues that pressure by taxpayers would be reduced



which in turn would raise the subsidy to others as well as the net income to taxpayers. Since both groups would benefit with the efficient method of taxation, both groups would likely lobby for it. A contrary view, using the corporate tax as an example, is reflected in the following comment:

"The fact is that... the corporate tax is ultimately borne by all of us as consumers and by many of us also as workers and not only by shareholders and managers. This is a politicians dream come true. Substantial revenues are obtained, and those who, in the long run, bear the burden are, for the most part, unaware that they do so. The persistence of the illusion is perhaps explained by rational ignorance... for the analysis of tax incidence is not simple, and understanding it is unlikely to profit the individual who invests in obtaining that understanding (emphasis added) (Trebilcock, et al. (1982, p.60)

In moving from a world of two homogeneous groups to one where many pressure groups coexist, a couple of salient differences appear in Becker's analysis. Taxing and subsidizing the same person, while an unlikely outcome in a two group scenario because of its adverse impact on deadweight costs, is a certain outcome with many pressure groups. Such "cross-hauling" of taxes and subsidies are socially inefficient because welfare could be maintained with equal reductions in both, while aggregate welfare would increase by the saving in deadweight costs from reduced taxes and subsidies. Becker again consolingly argues that "propositions to limit total taxes and philosophies that limit subsidies might be interpreted as cooperative efforts to reduce inefficient 'cross-hauling'... of taxes and subsidies." (1983, p.389) "The Persuaders", the reader is reminded, argue that such

propositions and philosophies are beneficial, not because, as Becker implies, taxpayers are informed of these inefficiencies and thus cooperate, but precisely because the taxpaying public is ill-informed and discussions of such propositions and philosophies "would disseminate a better understanding of big government and of possible cures." (Friedman and Friedman, 1979, p.288)

The existence of many heterogeneous groups, while not affecting the assumption that pressure is exerted by an active group until the additional income of the group equals the additional cost, does affect the equilibrium production of pressure by raising the cost of controlling free riding. Moreover, Becker (1983, p.390) admits that contrary to his simplifying assumption that heterogeneous groups do maximize their incomes, they in fact may not because more influential members may be better off at different levels of pressure.

Notwithstanding these modifications when introducing larger numbers and heterogeneity, the comparative statics are, Becker argues, similar to those derived for two groups: "pressure tends to be greater by more efficient groups, by subsidized groups with smaller deadweight costs ..., by taxed groups with larger deadweight costs..., by groups with intrinsically more influence, and by subsidized groups whose benefits are financed by a small tax on many persons."

The introduction of a large number of pressure groups does not alter the political budget equation, which implies that subsidies are financed by taxes on other groups and that aggregate

influence is zero. Consequently, increased pressure by one group will set in motion extensive general equilibrium reactions through the political system which may result in possibly quite different pressures and gains by many groups. (Becker, 1983, p.391). Becker also demonstrates that the ratio of marginal deadweight costs from subsidizing or taxing active groups equals their marginal political effectiveness. Such an equality is not realized however for inactive groups because their effectiveness is less than their deadweight loss.

To reiterate, while Becker repudiates his earlier claim of full voter knowledge of policy outcomes, which provided an important ground to argue that relatively efficient means are employed to redistribute income, he retains the argument of efficient means, but on very different theoretical underpinnings, namely taxpayer and subsidy recipients' assumed knowledge of the deadweight losses from income redistribution. It should be noted however, that by supporting the assumption that voters are rationally ignorant, Becker himself questions the impact this may have on some of his earlier eloquently derived propositions pertaining to efficiency.

I have assumed that influence functions depend only on the characteristics of and the pressures exerted by political groups, and not on taxes and subsidies, the number of persons in each group, the distribution of income, or other variables. The ignorance of voters not only helps determine the influence of different characteristics and pressure, but may make influence depend on other variables as well. For example, influence may depend on subsidies if voters mistakenly believe that certain subsidies (minimum wages or oil entitlements?) contribute to desired goals rather than to the incomes of par-

particular groups. If influence functions were affected by taxes, subsidies, and other policies, the analysis in this paper might have to be significantly modified, including the conclusion that efficient taxes tend to dominate inefficient taxes, or that policies raising efficiency tend to have greater political support than policies lowering efficiency. (Becker, 1983, p.394) (emphasis added)

One, it seems, can go further than Becker in questioning the theoretical underpinnings of his (1983) pressure group analysis. He explicitly acknowledges the importance of deadweight losses to his analysis yet never explicitly confronts the assumption that taxpayers and subsidy recipients must be informed of deadweight losses and changes in them if they are to react to changes in deadweight costs as his analysis asserts they will. It is somewhat perplexing that Becker does not address and defend the implicit assumption that tax bearers (especially) are informed about the consequences of policy. Individuals that bear tax burdens and share deadweight losses are presumed to be members of well informed pressure groups. Voters, on the other hand, however, are rationally ignorant. But do the two hands, one which pays taxes and the other which casts ballots, not belong, more often than not, to the same person? Most voters are taxpayers and most taxpayers have the right to vote. (The reader is reminded that Becker, in reference to taxes, includes hidden taxes like inflation, suggesting that such a broad interpretation of the meaning of taxes would indicate that taxes have impact on most, if not all, members of society by affecting the price of most if not all commodities.) It may very well be, as earlier mentioned,

that Becker's intent is to stress that pressure group behavior is the more influential and successful mechanism in which to influence legislatures, rather than suffrage. It nevertheless behooves him to defend his proposition that, on the one hand, taxpayers are fully knowledgeable while, on the other hand, voters are rationally ignorant.

A salient feature of Becker's model is that pressure is "bounded"; his world is zero sum in influence. "[T]he capacity of "losers" to limit the political gains of 'winners'" (1983, p.393) however can be questioned not only on the information requirements of pressure group members but on the issue of free riding. As Becker asserts:

To be sure, members of pressure groups have incentives to free ride that are similar to the incentives of voters to remain uninformed. However, some pressure groups can limit free riding because they are relatively small and homogeneous, and do not reach decisions with majority-type rules: informed or more affected members may acquire much greater influence than others. Most important, only groups that are relatively efficient at limiting free riding become politically powerful. (Becker, 1983, p.392)

Empirically, where does this leave Becker with regards to the provision of countervailing pressure which his theory asserts exists, providing the capacity of losers to limit the political gains of winners? The reader is reminded of Olson's words:

Migrant farm laborers are a significant group with urgent common interests, and they have no lobby to voice their needs. The white-collar workers are a large group with common interests, but they have no organization to care for their interests. The taxpayers are a vast group with an obvious common interest, but in an important sense they have

yet to obtain representation. The consumers are at least as numerous as any other group in the society, but they have no organization to countervail the power of organized or monopolistic producers. There are multitudes with an interest in peace, but they have no lobby to match those of the "special interests" that may on occasion have an interest in war. There are vast numbers who have a common interest in preventing inflation or depression, but they have no organization to express that interest...

The existence of large unorganized groups with common interests is therefore quite consistent with the basic argument of this study: they also suffer if it is true. (Olson, 1965, pp.392-393)

Elsewhere Olson (1965, pp.165-166) states

For most large groups with common interests such as consumers, taxpayers, the poor, the unemployed, no selective incentives are available....In no society are most of the people in these categories organized.

The reader should be reminded also that the budget equation imposed by Becker to bound his mathematical analysis is of a nature different from the budget constraint which Buchanan, Friedman, and others advocate should be built into an amended constitution. Becker's equation implies no more than what is taxed away from some minus the deadweight costs of taxes and subsidies is what remains for subsidy recipients. Such a constraint does not negate the possibilities, and indeed the fears of experts noted in the previous chapter on the impact of pressure group politics on the size of government deficits.<sup>3</sup>

In summarizing a critical review of Becker's (1983) theory of pressure groups, the following controversial issues are

recapitulated. The propositions that follow from Becker's model, while technically correct, appear to be without significant empirical substance. Becker's theoretical assertion that taxpayers can and do organize so as to limit the spoils of "winners" in the political pressure group arena depends on a) their knowledge of deadweight losses arising from redistributions of income and b) their ability to organize - to control free riding, so as to mount successfully countervailing pressure.

On the issue of the ability of interest groups to organize, Becker (1983, p.388) states "...active groups control free riding relatively easily, partly because their members are affected by the taxes or subsidies in more easily identifiable ways." On empirical and theoretical grounds the ability of many important groups to organize appears suspect. Taxpayers face perhaps insurmountable free rider problems. Given the theoretical and empirical evidence cited above by Olson one is inclined to conclude that most, if not all groups that are taxed, are simply not active. In practice there is perhaps little that "losers" can do to limit the political gains of "winners" - precisely the concern of "The Persuaders". While this empirical observation is strictly at odds with the thrust of Becker's overall analysis, he is theoretically not at odds with this conclusion as he states "Pressure is exerted until the benefits from lower taxes or higher subsidies are no larger than the cost of producing pressure." (1983, p.390). If the cost of producing pressure is excessively high for some large groups (taxpayers), relative to the benefits, then it is conceivable that little or no pressure will

be exerted.<sup>4</sup>

On theoretical grounds, the presumption regarding knowledge by taxpayers of deadweight losses seems suspect. Becker (1983) is clearly at odds with "The Persuaders", at least with regards to the amount of information that the "taxpaying" public is assumed to possess on economic policy and its consequences (although he is in agreement with the information content assumed to be possessed by the "voting" public; the author, and presumably "The Persuaders", see no justification in differentiating the "taxpaying" from the "voting" public, while Becker's model forces such a dichotomy to exist). Moreover, Becker asserts that in a cost-benefit sense, taxpayers' preferences are satisfied. If there is a change in policy that affects deadweight losses, pressure groups react by exerting pressure until their preferences are again satisfied on the margin. Other scholars argue that the public, on average, is not satisfied with public policy outcomes.

Before closing the discussion of the last chapter, theoretical evidence was noted in support of the argument by "The Persuaders" that the public is not, for rational reasons, well informed about public policy and its consequences. In closing this discussion, theoretical evidence is noted from the literature on rational expectations, sometimes supportive of Becker's contributions, at other times not, and most recently, partially so.

Borcherding (1983, p.150), in reviewing the public choice literature, states that given the institutional constraints on public choice making, gains from trade must be exhausted. "To put



it differently, the inefficiencies remaining on any margin of choice must, save for ignorance, be smaller than the transaction costs of their removal."

Now ignorance where public decisions are being made may be of a whole order of magnitude greater than for private decisions for reasons Downs, Buchanan and Tullock, Olson, and others have discussed. Gaining information and disseminating it in order to affect superior decisions involves public goods' productions, hence, it will be subject to the familiar free-ridership strategy that guarantees its underproduction. Political entrepreneurs and their firms, political parties, will, however, have great incentives to organize this activity. Nevertheless, their self-interest also leads them to dissemble, especially about future consequences, since their ownership claims on the government are incomplete, i.e., their ability to capitalize future consequences is very limited. (Borcherding, 1983, p.150).

Borcherding (1983) continues:

"I will assume, following Becker (1976), that *rational expectations* characterize the market for political influence as much as they do the private sector market for bonds, money or labour. Thus, day to day issues get muddled, but people in political contexts act *as if* they understand the consequences of collective decisions among the three public service supply alternatives: subsidies and contracting-out methods, public firm production and regulation modes. Such an analytical defense against the presence of differential ignorance should not necessarily be taken as representing the way the world is at every moment in time, but as an attempt to make an already difficult problem more manageable for long-run analysis." (Borcherding, 1983, p.151).

While this assumption may make for more elegant, less cumbersome model building, assuming part of the problem away because it is already too cumbersome is inadequate for the purpose of

this research.

Borcherding suggests that rational expectations is just now becoming a tool of public choice theorists and in no way has it yet swept the field.

The rational expectations methodology is just now becoming part of the theoretical tool kit of public choice economists and in no way has it yet swept the field. Essentially, the position of rational expectations scholars is that one cannot fool people forever....I suspect that the "final" position that will emerge will be a weak version of rational expectations where people are "fooled" only because: a) they have locked themselves into "contracts" because greater flexibility is *ex ante* costly, and b) they cannot reasonably be expected to have anticipated the action... Still, given the optimal nature of ignorance that characterizes politics, it would seem that "fooling" people ought to be easier for longer periods of time than in private markets, since the expected costs of learning will for free-rider reasons be very high, provided the deception involves non-repetitive policies. (Borcherding, 1983, p.151)

In defense of the position of rational expectations scholars that one cannot fool people forever, Borcherding's claim is reiterated:

Thus socially costly policies that persist, do so not from ignorance, but because there is a political pay off that exceeds the cost of undoing it. Tariffs exist and persist for reasons well-known for 200 years. They are not mistaken policies. (emphasis added). (1983, p.151)

As demonstrated in the previous chapter, there are many scholars that do not apparently agree with rational expectations scholars, the latter essentially asserting that one cannot fool people forever. On the subject of tariffs, Friedman states:

We do not have tariffs because they are in the self interest of the public at large. We have tariffs because most members of the public are uninformed about the effects of tariffs on them. (emphasis added) (1986, p.4)

On this government policy and many others, Friedman is among many who argue that the taxed are uninformed about the effects of policy on them. Crispo (1988) states:

There is an old adage that 'the truth shall make you free.' In the present context one might well say that 'the truth about free trade shall make you a free trader.' Certainly if Canadians knew more about the Canada-U.S. FTA many more of them, if indeed not the vast majority, would support it. (p.205, emphasis added).

In the last Innis Memorial Lecture, Lipsey (1989) implored economists to partake in The Great Free Trade Debate. Few economists, he stated, have protested in the popular domain against the continued repetition of fallacies that classical economists refuted so long ago and that modern economists fail their students for espousing in first-year examination papers. If economists fail to refute these fallacies then, questioned Lipsey, it seems that every public debate on economic policy will go on unconstrained by concerted attempts from economists to sort out sense from nonsense. Lipsey (1989, p.6) states: "...it has been over two hundred years since Adam Smith, and over 150 years since Ricardo. Yet the Mercantalist and absolute-cost fallacies are as prevalent today as they were in the nineteenth century." (emphasis added).

In summarizing the discussion thus far, it is convenient and appropriate to categorize the assumptions made by economists in

one of two groups. If the word "public" is used in a broad sense to mean that group represented by taxpayers and/or voters, then on the one hand, rational expectations theorists assume that the public is informed about the consequences of public policy and its associated deadweight costs. Becker, in the spirit of rational expectations, argued that voters are informed about the outcomes of policy that have persisted for some time. Later, he repudiated this claim and has subsequently argued implicitly, that taxpayers are, however, informed. Furthermore, they are sufficiently satisfied with policy outcomes so as to, in equilibrium, not alter their level of exerted pressure. On the other hand there are "The Persuaders" that assume the public is misinformed, yet displeased with policy outcomes. Their ignorance, and their lack of organization (perhaps in part a consequence of their ignorance), result in little or no productive response to their dissatisfaction with public policy outcomes.<sup>5</sup>

The positive predictions that emanate from these opposing views of the world - the dimensions of the collective choice problem, can potentially take on, it has been demonstrated, significantly different proportions. Furthermore, the policy implications that follow from these two distinctively different groups of theorists are in themselves, not surprisingly, distinctively different. Drawing on the thrust of the rational expectationalists literature, Becker's argument (1976, p.248) is reiterated: "...this approach leaves little room for economists to suggest improved methods in the public sector..." The Persuaders, on the other hand, argue, among other things, that

economists must persuade the public.<sup>6</sup>

Finally, the political process is believed to be influenced by two external forces; voting patterns and interest groups. Some scholars, notably Becker, express particular faith in the potency of the group pressure mechanism and its relatively innocuous outcomes while other theorists express faith in the possibility that informed voting patterns can alter the otherwise potentially fatal pressure group outcome.

There is much to be gained, it appears, in testing which view of the world is most descriptive of reality. Discussed in the next chapter is the methodology employed to carry out such a test.

## CHAPTER FOUR

### METHODOLOGY

*Auxiliary assumptions... are empirical... Since these are empirical questions, we might ask why economists don't take the next step and test these hypotheses, go out and see what the world is like.*

Simon<sup>1</sup>

The modern theory of collective action outlined above suggests that collective action is unlikely to maximize social welfare. One theory at least suggests that there is a tendency for undemocratic outcomes to prevail when the collective makes a decision in that minorities are likely to exploit the majority.

The discussion in previous chapters sketched the potential dimensions of the collective choice problem and emphasized the significance of information and preferences in the modern collective choice paradigm. Scholars differ with regards to the information set presumed to be possessed by the public. Scholars also disagree with regards to the extent to which the public's preferences for policy outcomes are being satisfied by current public policy.

This chapter contains a discussion of the methodology used to test the following two hypotheses:

The public is informed of policy consequences;

The public is satisfied with current policy meant to serve the public.

Four possible scenarios, a priori, could be descriptive of reality. These are listed below.

Scenario 1. The public is informed of public policy outcomes and is satisfied with public policy consequences.

Scenario 2. The public is informed of public policy outcomes and is not satisfied with public policy consequences.

Scenario 3. The public is ill-informed of public policy outcomes and is satisfied with public policy consequences.

Scenario 4. The public is ill-informed of public policy outcomes and is not satisfied with public policy consequences.

Becker (1983) supports scenario 1 in that he argues that taxpayers and subsidy recipients are aware of the deadweight costs of policy and they react by exerting differing degrees of pressure when there is a change in deadweight costs until they are satisfied, given the costs and benefits on the margin, with the public policy outcome. Becker (1976) also is supportive of this view in assuming that "voters perceive correctly the gains and losses from all policies." (p.247)

Becker (1983) also supports scenario 2 in the sense that he maintains that those affected by policy are not satisfied with the excessive deadweight costs associated with policy outcomes. Competitive pressure groups achieve a balance of forces however, despite some degree of dissatisfaction with policy, once the costs and benefits of exerting pressure have been equated on the margin (scenario one). Olson (1965) also is supportive of sce-

nario number 2. While Olson argues that the public is not informed, he argues that even if they were informed of the collective good and how to achieve it, the common good would not be realized, i.e. the preferences of the majority would not be satisfied.

The review of the literature finds no economist who supports the hypothesis associated with scenario 3, namely that ignorance is bliss. It is nonetheless included in the discussion so as to complete the taxonomy of the four conceptually possible states of the world.

Finally, the literature review outlined in the preceding chapters associates a number of scholars - "the persuaders", as they have been earlier referred to - with the fourth scenario. According to Friedman, Buchanan and others, the public is dissatisfied with current policy outcomes and need to be persuaded of policy choices that would realize welfare maximizing outcomes, for they are uninformed of these alternatives. Furthermore, Becker (1958) argues that voters possess imperfect information, as does Becker (1983).

Formidable disagreement exists within the literature on the nature and extent of knowledge possessed by the public. In a paper entitled "Why Economists Disagree" delivered to members of the Learned Society in the spring of 1987, Herbert Simon explained why there exists such discrepancies amongst scholars. One reason, he says, that economists disagree, is that economists make differing auxiliary assumptions about real behavior. When economists change the assumptions of the model, the predictions



of the model change. These assumptions may be about what information people really have - or about the facts or about the information that people are acting on. These assumptions, he asserts, are empirical. Yet, Simon argues, the economics profession has a very strong tradition of a priories or deductions. Simon notes that the profession has developed extremely sophisticated statistical and econometric techniques for dealing with highly aggregated data. He chastises the profession however, for not training students in their doctoral work to gather data at the micro-level, at the level of individual consumers or business firms. Simon argues that economics departments need to train their students to conduct opinion and attitude studies and to observe actual decision making processes in business organizations. In Simon's view we have only the beginnings of the evidence needed to bring about a rather massive and needed revision, based on empirical evidence, of the factual auxiliary assumptions as well as the central theoretical assumptions of classical economics.

Simon believes that a change in this situation will require a very serious revolution within the economics profession, commenting that he was glad to see A.M. Moore (1985) recently expressing a very similar opinion in The Journal of Business Administration.

Reform, according to Simon, will remove what he regards as the present scandal in economic science - the public scandal of demonstrating to the public that the profession cannot get together, and the private scandal about a science that has almost

renounced the practice of looking at the empirical evidence that is supposed to provide, and necessarily must provide, its foundations. To build the kind of empirical body of evidence that the discipline so badly requires, economists, Simon asserts, are going to have to receive new kinds of research training; they are going to have to borrow and learn from other disciplines.

To test the hypotheses set out above, a questionnaire was used to interview 450 Kelowna residents 18 years of age and over. The questionnaire (see Appendix B) consists of 57 questions designed to test respondents' knowledge of economic policy and its consequences. The questionnaire also tested the extent to which the Kelowna public's preferences for policy outcomes are satisfied. Given the nature of the questions and the length of the questionnaire, the method of administration used so as to ensure quality data was a personal interview.

About a dozen college and university students were part of the research team over the course of about fifteen months.

Each student involved in interviewing underwent training before they went out into the field. The National Opinion Research Center's manual entitled On Interviewing Technique was mandatory reading for these students before being trained and questioned on how to properly set the stage and begin an interview (with one and only one person), the general principles and specific techniques of asking questions, obtaining responses, and recording the responses. They were also made familiar with the ethical requirements of the Simon Fraser University Office of the Vice-President, Research and Information Systems.

Many, if not most students, are not "cut out" for the role of the research interviewer. This usually becomes evident on the first day in the field and the student typically admits this to be the case. Nevertheless, the policing of proper interviewing principles and techniques is of paramount concern in research of this nature. About nine percent of the targeted number of completed questionnaires were dishearteningly destroyed because their legitimacy was suspect. This percentage of discarded questionnaires was indeed higher than need be, but the assurance of only legitimate data comprising the data base justified the overriding principle: "better safe than sorry".

The data were collected over a four month period, from March to June, 1988, with about 80% of the interviews conducted in the month of May. Six students from the overall team were responsible for completing about four-fifths of the interviews.

The summer of 1987 was used to test several drafts of the questionnaire and produce a pilot analysis of the survey. It became evident at the outset of the pilot studies that the author was lacking the expertise to gather data at the micro-level, specifically to conduct opinion and attitude studies of this nature. It became evident that it would be necessary to borrow and learn from other disciplines, as Herbert Simon had suggested.

I remain grateful to Dr. G. Mauser of the Faculty of Business Administration at Simon Fraser University for agreeing to supervise the enormous task of undertaking a survey of such complexity and of the nature which requires the application of survey research skills of which I was hitherto unfamiliar with.

After numerous weeks of further guided research, extensive revisions, and conducting pilot tests, the questionnaire was ready for the field.

Respondents were selected by a two-stage randomization procedure. First, computer generated random numbers directed telephone interviewers to a page in the Kelowna telephone directory, then to a column and then to an entry within that column. The last digit of the selected number was then replaced four times by a randomly selected number generating four distinct numbers.<sup>2</sup> The objective of this randomization procedure was to ensure that all telephone numbers in Kelowna had an equal chance of being dialed<sup>3</sup> regardless of whether the telephone number was listed or either voluntarily or involuntarily unlisted.<sup>4</sup> After having dialed the randomly selected telephone number, the interviewer then employed the second stage of the randomization procedure by asking to speak to the person in the household eighteen years of age or older who is having the next birthday. This method is accepted practice in survey research in order to assure a random selection of individuals within the household.<sup>5</sup> Appendix C contains a sample monologue used on the telephone by members of the research staff in requesting an appointment with the randomly chosen individual for a face to face interview. Once arranged, the interview took, on average, about 30 minutes.

The random procedure used and described above would normally ensure a sample of individuals which is representative of the target population, assuming that people are for the most part cooperative in agreeing to be interviewed. Given the high refusal

rate encountered by the telephone interviewers and the number of "no shows" at appointment time<sup>6</sup>, one however cannot rest assured that the randomization procedure would have produced a representative sample of the Kelowna population. With about 400 of the targeted 450 interviews completed it was evident that men were more willing than women to be interviewed, as were the middle aged more willing than the young and the old. Concerned with obtaining a sample that was representative of the Kelowna population, the approach of randomly selecting individuals to be interviewed was then modified. The first stage of the randomization procedure for selecting telephone numbers was maintained. Once the number was dialed however, interviewers requested to speak with the individual in the household that was of the age and gender needed to make the sample representative of the population, at least with regards to the age and gender mix of the population as reported by Statistics Canada (no updated statistics were then available on other demographic variables such as income, education and occupation). In short, during the latter stages of the sample selection process, the sample was forced into an age/gender matrix that conformed with that matrix reported by Statistics Canada (Statistics Canada, 1986 census) until 450 residents had been interviewed. Obtaining this sample size exhausted the financial resources available yet provided sufficient numbers to obtain acceptable confidence levels for making inferences from the sample of the target population.

Subsequent to collecting the data, Statistics Canada (Profiles, British Columbia, Part 2, Statistics Canada, 1988) re-

leased other demographic statistics of the Kelowna population. In an attempt to give the reader a better sense for how representative the sample is of the adult Kelowna population, some of the demographic statistics provided by Statistics Canada are compared below with the demographic statistics obtained by the sample of that population.

It would seem intuitively plausible that individuals with more schooling would be more likely to cooperate with the research staff when requested to do so. The statistics suggest that this is indeed the case. Forty-eight percent of the sample reported having grade 13 or less education while 52% reported having more than grade 13 education. Because of the method of reporting used by Statistics Canada one cannot accurately discern the comparable figures for the population of Kelowna. Between 64% and 84% of the population 15 years of age and older could have grade 13 or less education. Twenty percent of the population are reported to have "other non-university or diploma" and "Trades certificate or diploma" where other non-university education refers to both postsecondary non-university courses requiring secondary school graduation and courses taken in other institutions such as trade school or vocational centres which may not require secondary school graduation. Conversely between 16% and 36% of the population may have more than grade 13 education. Given that the sample consists only of individuals 18 years of age and over and assuming that those individuals with more than grade 13 education are 18 years of age and over, then notwithstanding the sampling errors associated with both the Statis-

tics Canada sample and the sample of the Kelowna population used in this study, it is evident that the individuals comprising the latter sample are more schooled, on average, relative to the overall population.

One might also expect to find a greater cooperation rate with employed members of the public than with the unemployed on this type of a research project. 9.8% of the sample reported being involuntarily unemployed. Statistics Canada (labour force survey, Statistics Canada, unpublished) reports a seasonally unadjusted three month moving average (ending May 1988) unemployment rate of 13.2%.

Approximately 55% of the population surveyed by Statistics Canada reported family incomes of less than \$30,000 with the remainder reporting incomes of \$30,000 or more in 1985. This compares with 52.6% of the sample used in this study who reported family incomes of \$29,999 or less two years later, with the remainder reporting incomes in excess of that amount.

Elections Canada reports the following voter turnouts for the last four federal elections. For the years 1979, 1980, 1984, and 1988 the voter turnouts for the riding which includes the city of Kelowna were 73%(76%), 69%(69%), 76%(75%) and 79%(75.5%) respectively (the national voter turnout is reported in parenthesis). Eighty six percent of the sample report always (79.7%) or frequently (6.5%) voting in federal elections compared with an average voter turnout in the riding which includes Kelowna of 74.25% over the last four federal elections.

The registrar of voters reports that in the last four pro-

vincial elections an average of 76.8% of registered voters voted compared with 87.6% of the sample that reported always (79.8%) or frequently (7.8%) voting in provincial elections.

With regards to municipal elections, the voting percentage of total voters averaged 45.7% over the last four elections compared to 61.3% of the sample that reported always (48.4%) or frequently (12.9%) voting in municipal elections.

One can explain the sample used in this study having a higher voter turnout than the overall population on the grounds that frequently voting individuals might more likely participate in research of this nature than nonvoting individuals. On the other hand, it would also seem plausible that individuals would, when asked to recollect behavior which may reflect on their level of social responsibility, tend to recollect and report socially responsible behavior more easily than socially less responsible behavior. One can only surmise that the probability exists of some non-random measurement error in this regard.

Occupational categories used by Statistics Canada are not comparable with those categories used in the questionnaire.

A comparative review of the demographic characteristics of the Kelowna adult population as reported by Statistics Canada and those characteristics of the sample used here suggest differences in demographic characteristics that can be expected from a sample of individuals that have agreed to participate in research of this nature. The sample consists of individuals who have decidedly more schooling, more employment and allegedly a higher voting propensity, on average, than the target population.



Otherwise the evidence suggests that the sample used in this study is fairly representative of the overall adult population of Kelowna.

Chapter Six contains an analysis of the sample data. For the purpose of this analysis it is assumed that the sample is representative of the Kelowna population.<sup>7</sup> Statistical inferences are made about the extent of knowledge possessed by the population regarding the consequences of public policy and the extent to which the public of Kelowna is satisfied with these public policy outcomes. Given the evidence presented above supportive of the hypothesis that the sample is on average more schooled than the overall population, then one is apt to conclude that, if anything, the findings will overstate the extent of knowledge possessed by the population of Kelowna.

Before proceeding to the analysis of the sample data, the next chapter contains a discussion of the nature and content of the questionnaire employed in the survey of the Kelowna public.

CHAPTER FIVE  
THE QUESTIONNAIRE

*There are all sorts of skills of asking people about their beliefs, attitudes, hopes, and a lot of other things...By and large, the economics profession has been very leery about going out and posing these kinds of questions.*

Simon<sup>1</sup>

The purpose of this chapter is to discuss the nature of the questionnaire used to gather the survey data. Specifically, it contains a discussion of the types of questions asked of respondents, why they were asked, and what economists know about the answers to these questions. The chapter concludes with a synopsis of how the population of Kelowna responded to the normative and positive questions on public policy and a brief description of the nature of the evidence accumulated in support of one of the alternative competing hypotheses outlined in the previous chapter. The following chapter is reserved for an in depth analysis of the survey and subsequently a detailed summary of the evidence found and its implications.

The purpose of this research is to test the extent to which the public is knowledgeable about what are or would be the effects of certain policy measures as well as the extent to which the impact of current policy conforms to the notion of what they believe should be the impact of public policy. In this latter re-

gard, being tested is the extent to which public policy is, from the public's view, serving the public.

The evidence sought is consequently evidence that might empirically substantiate one claim more so than other competing claims made by economists regarding the validity of the public's perceptions of policy outcomes and the extent to which the public's preferences for public policy are being satisfied.

The nature of this research necessitates the use of a questionnaire that inquires about positive as well as normative aspects of public policy. This in turn requires the asking of theoretical as well as empirical questions. For instance, of interest is not only whether a given policy will have either a positive or negative impact on a certain variable but also the extent or magnitude of the impact of policy on that variable. Responses to these types of questions thus provide evidence about the types of policies that the public desires, whether these policies are in conflict with current public policy and if so to what extent, and the extent to which the public understands the effects of these policies.

It is not an easy task for a researcher to decide on what areas of policy should be investigated or within each area what type of questions should be posed to the public. One important consideration is to focus on policy that has been in existence "for some time" as one hypothesis to be tested is the hypothesis that "one cannot fool people forever". Friedman (1962, pp.35-36) is helpful in providing a list of some of the activities now undertaken by federal and state governments, and their counterparts

in other Western countries that cannot, Friedman suggests, validly be justified in terms of doctrines pertaining to a free man. The list includes policies affecting agriculture, restrictions on international trade, rent control, minimum wages, regulation of industry, licensure provisions, etc..

A wide array of topics were initially chosen and questions formulated that could be posed to the public, indeed far too many questions than resources would allow one to study. Moreover it became evident that when dealing with the layman one is severely restricted by the terminology one may use in posing a question and how complex a question one may ask without confounding the public. The constraints one face are enormous. Through extensive pilot testing of numerous versions of the questionnaire certain topics were eventually narrowed down that were amenable to the purpose at hand as well as specific areas within each topic. The final choice of questions to pose to the public from a wide host of possibilities was ultimately dictated by the need to be understood by the public. Often certain areas of policy were not investigated in the survey because the existing research on the topic expressed its findings in a form that was not easily made amenable to the format of a questionnaire. It became (unbearably, at times) clear that economists do not converse in a manner that can be made very easily amenable to popular discussion. In all fairness to economists, it also became evident in pretesting that it is no easy task to converse with the typical layman, whose thoughts on economic matters lack the structure, and whose vocabulary lacks the terminology, that economists tend to take

for granted.

Ultimately it was decided to explore the public's perceptions of the impact of economic policy in essentially three areas; international trade, agriculture, and rental accommodations. Furthermore, the desirability of public policy outcomes in these three areas from the view of the taxpayer and voter was explored. Most extensive coverage was given in the questionnaire (contained in Appendix A) to the topic of trade, followed by agriculture, with few questions pertaining to rent controls. In addition, an extensive inquiry was made about the demographic characteristics of the population, as discussed in the previous chapter.

The positive predictions in these areas of policy, in particular, what economists know about the impact of policy in the areas of trade, agriculture, and the market for rental accommodation, will now be discussed. A comparison of what economists believe is so with what the public believes is so, as well as a comparison of what the public believes should be relative to what is, will provide needed empirical evidence for testing the hypotheses outlined above.

The analysis of the survey to follow necessitates that a stand be taken on the professional view that economists share on a particular policy issue so as to be able to discern whether the public is "correct" or "incorrect" in their views of policy consequences. Below, the stand taken on the answers to the positive questions of policy addressed in the questionnaire is clarified and the claim that the answers are in accord with the learned

opinion of economic experts in these areas of policy is substantiated. The discussion begins with the topic of international trade.

#### FREE TRADE VERSUS PROTECTIONISM

Seventeen questions are asked related generally to international trade. Of these, 3 are normative questions, seeking to ascertain, in the respondents personal opinion, what should be the policy stance of the government regarding international trade. Ten questions pertain to positive questions so as to discover the respondents' degree of knowledge on what is the impact of certain international trade policies or what would be the impact of a change in policy. Two questions are self-evaluation questions in that they ask the respondent to what degree they feel informed about a certain aspect of government trade policy.

These 17 general questions regarding trade policy are followed by 9 questions on the garment industry. This industry was chosen because of its relevance to all respondents and because of the massive deadweight losses known by economists to be associated with protecting it. Of these 8 questions, 5 were of a positive nature, meant to test knowledge, and 4 were of a normative nature, meant to ascertain in the respondents opinion what should be the role of policy in this industry.

The stance taken here is that most economists are in favour of adopting free trade with the United States. As Grubel (Grubel et al., 1988, p.1) states: "The issues are clear, and the empirical and analytical evidence supporting free trade is

overwhelming." There appears to be no lack of consensus on the issue of whether or not Canada will gain from the adoption of free trade, simply a lack of consensus on the issue of by how much Canada will gain.

In a paper entitled "Unsettled Issues In The Great Free Trade Debate: The Innis Memorial Lecture", Lipsey (1989), gives a brief account of the trade liberalization movement and the key players who have contributed important studies advocating trade liberalization with the United States. Yet, he argues, the majority of economists are not compelled, for reasons Lipsey seeks to understand, to contribute to national debates at the popular level. This lack of involvement by economists makes it difficult to ascertain conclusively the degree of support within the Canadian profession of economists for free trade generally or specifically for the Free Trade Agreement with the United States. Lipsey believes that the bulk of the largely silent community of academic economists support the Free Trade Agreement. He bases this hunch on the fact that nearly 200 economists signed a free trade petition circulated by Professor Tremblay, and Lipsey is not aware of an equivalent number that have made a public stand opposing it. The author concurs with Lipsey that it would be good to have a more systematic expression of economists opinion. Attempts have been made to ascertain the degree of consensus and dissension among economists in several different countries and on several different issues<sup>2</sup>. In Block and Walker (1988), it is reported that 96 percent of a randomly chosen sample of Canadian economists generally agreed (or agreed with provisions) with the

statement "Tariffs and import quotas reduce general economic welfare."

It may very well be true, however, that economists would answer differently to a question of whether they would favour adoption of free trade on economic grounds alone as distinct from favouring free trade on all grounds. An attempt was made to distinguish between the public's (and economists') support for free trade on economic grounds and their support on all grounds in the questionnaire during pilot studies and found that the public was only confused and irritated by the distinction. Dropping this distinction, the public was asked to agree or disagree with the statement: "Most economic experts are in favour of Canada adopting free trade with the United States." It is argued here that the correct answer to that question is to the affirmative. In so doing the need for further research in this area is recognized.

Accordingly, the stand is taken here that most economic experts are not in favour of charging a tariff on goods imported into Canada nor are they in favour of imposing quotas on imported goods. These are two issues addressed separately in the questionnaire.

As stated earlier, there appears to be little controversy regarding the findings that free trade is expected to realize efficiency gains - the controversy exists over the estimated magnitude of these gains. The empirical literature on estimates that have been made regarding the magnitude of the gains from pursuing free trade with the United States will not be reviewed here in



detail.<sup>3</sup> R.J. Wonnacott (1985, p.69) reports: "Estimates of these and other income gains resulting from bilateral removal of Canada - U.S. tariffs are very large - in the range of 5 to 10 percent of Canadian GNP." In need of an economically "correct" estimate for the analysis of the survey data to follow, this estimate is assumed to be accurate.

For the purpose of the survey analysis to follow, it is claimed, in accordance with traditional textbook doctrine, that tariffs and quotas protect jobs in Canada, they raise prices of imported goods and cause consumers to pay more for similar goods produced in Canada.

With regards to the garment industry, Jenkins (1980) reports that trade restrictions have had the impact of raising the price of imported dress shirts by about 30 percent<sup>4</sup>. While trade restrictions undoubtedly "save" jobs, Jenkins reports that the weighted average of the consumer cost per man - year of increased employment annually as a result of quotas and tariffs to be about \$35,000 in 1979. Statistics Canada reports annual wages of about \$10,000 in this industry for the same year. Jenkins states:

In summary, the argument that there are economic or social reasons for preserving employment in the Canadian garment manufacturing sector through the use of bilateral quotas is very difficult, if not impossible to support. The magnitudes of the cost to the consumer and the economic waste from inducing employment in these sectors are so large that compensation of displaced workers for their private income losses would be preferable. (Jenkins, 1985, p.40)

For the purpose of the analysis to follow, it is claimed, in accordance with Jenkins' findings, that the benefits derived from

saving a job in the garment industry fall short of the cost of doing so.

## AGRICULTURE

Five questions were asked about agriculture in general, 4 of these being of a positive nature. Seven questions were asked pertaining specifically to the dairy industry in B.C.. It was a somewhat arbitrary decision to choose this industry from the three others mentioned below which are all documented to be significantly affected by quota regulation. Five of the questions asked are of a positive nature, intended to shed light on respondents' knowledge of regulation of the industry as distinct from their preferences for or against such regulation.

Respondents were asked their views on whether the income levels of farmers are, on average, higher, lower, or about the same as those of the average non-farm family in Canada. In retrospect, the author concurs with the advice given personally by Forbes that the question response should be used only to gain an impression as to what respondents feel on the subject of farm incomes (and not used to grade their response as correct or incorrect), as the answer to the question is far too complex for reasons cited in Forbes (1985, pp.8-9) and Forbes et al (1982, pp.24-25).

It is well documented that chicken, turkey, dairy, and egg farmers (among others) are presently receiving financial assistance and that the benefits of programmes meant to financially aid farmers in Canada do not go mostly to the farmers in greatest

need<sup>5</sup>.

In accordance with economic principles, it is claimed that financial assistance to farmers is not necessary in order to ensure Canadians of adequate supplies of food. Admittedly, the industry is subject to short run fluctuations and long run relative declines in income, yet it is contended that the removal of financial assistance would not jeopardize Canadian food supplies. The industry would undoubtedly decline in size without the current levels of financial support, but market forces would see to it that farm incomes would be sufficient to ensure a supply of food adequate to satisfy the domestic need.

With regards to the dairy industry in B.C., the claim is made here, in accordance with the findings of Grubel and Schwindt (1977), that considering the gains and losses, current regulation of the B.C. Milk Board is undesirable.

We have suggested that attempts to raise income of poor dairy farmers through the support of milk prices *does not achieve its goal of helping those in greatest need*. The stream of the excess of the price over production cost is capitalized in the value of quotas and leaves every newly-entering farmer where he would have been financially *without* the support programme. Only continuous raising of prices relative to costs helps new and poor farmers, but it benefits more the large and efficient farmers. Furthermore, price support programmes and output restrictions lower the welfare of producers and consumers. (Of significance to our analysis to follow is their claim that regulation has had the impact of raising the consumers' dairy bill by 15%.) For this reason it would be more efficient and equitable to replace the support of dairy farmers now supposedly taking place through high product prices by direct welfare support payments to needy farmers qualifying for them, like urban recipients of such support. (Grubel and Schwindt, 1977, pp.39)

These findings are indeed in accord with most of the literature on marketing boards. Loyns (1980), in a paper entitled "Marketing Boards: The Irrelevance And Irreverence Of Economic Analysis" reports the following finding from the Food Prices Review Board:

As a consequence of all these factors, including the availability of reasonable alternatives, the Board has concluded that the Marketing Board approach to monopolistic supply management has become an inappropriate instrument for dealing with legitimate producer concerns. Its costs exceed its benefits, and it is possible to achieve those true benefits through other means. (Food Prices Review Board 1976, p.45).

Also noted by Loyns was the closing statement by Martin and Warley (1978):

The trade-off between stabilization benefits that seem "spotty" and uncertain at best, and the demonstrable worsening of competitive efficiency and impairment of equity that are attributable to the supply management boards does not strike one as being immediately favourable to Canadian society at large, or ultimately, to Canadian farmers themselves. (Martin and Warley 1978, p.883).

## RENT CONTROLS

Four questions were asked pertaining to rent controls, one which asked if respondents were in favour of their use, the other three questions being of a positive nature. In Block and Walker (1988) it is reported that 95 percent of a randomly chosen sample of Canadian economists generally agreed (or agreed with provisions) with the statement "A ceiling on rents reduces the quantity and quality of housing available." On these grounds the

claim is made here that economic experts generally are not in favour of the use of rent controls. For the purpose of the analysis to follow the standard textbook claim is made here that rent controls are a contributing cause of, rather than a solution to, a housing shortage as they contribute to the deterioration in the quality (and quantity) of rental accommodation over time.

## GOVERNMENT EXPENDITURES

Three questions were asked concerning the relative magnitude of government expenditures at each of the federal, provincial and municipal levels. This was done so as to gather evidence to test the hypothesis that the public is better informed on policy over which they, as voters, have a proportionately greater say.

At the federal level, the question was asked: "What percentage of the federal government's total expenditures would you say goes towards national defense?" Statistics Canada (1987) puts the percentage at 7.5 for 1985. The question was asked: "What percentage of the B.C. government expenditures would you say goes towards highways?" Statistics Canada (1988) reports the percentage of 6.3 for 1984. Lastly, the inquiry was made: "What percentage of Kelowna's residential property taxes goes towards education (i.e. to local School District #23)? School Board officials put the figure at 26%.

In the next chapter an analysis of the survey is provided, followed by a detailed summary of these findings. Provided here, for the impatient reader, is a brief and cursory overview of

these findings.

Generally speaking, the population of Kelowna is found to be supportive of the notion that public policy should be protectionist in nature. Normatively speaking, the public is inclined to favour policies that economists disfavour on positive grounds. The public is informed that protectionism is not without its costs. It will be demonstrated that the findings suggest, however, that the public overestimates the benefits and underestimates the costs of the protectionist policies addressed in the questionnaire. Given the bias in knowledge demonstrated by the public with regards to the costs and benefits of certain policy measures, the public is found to be, for the most part, rational in advocating protectionist policies. Nonetheless, on normative grounds, the public presumably would not approve of the extent and the cost of protection, if they were knowledgeable of the actual costs incurred relative to the realized benefits. In short, evidence is found that makes it difficult to substantiate either the assumption that the public is knowledgeable of the impact of public policy or the assumption that the public's preferences for policy are currently being satisfied.

CHAPTER SIX  
THE SURVEY ANALYSIS

*It's not a bad rule, by and large, to do the things you know how to do. Economists are very well trained today not only in the economic theory I have been talking about, but also in econometric methods for examining data. What economists are not trained to do today in most graduate schools that I know of is to gather data at the micro-level, at the level of individual consumers and individual business firms. They are not trained in their doctoral work to conduct opinion and attitude studies... Some such observations have been made, but they have largely been made by people in fields like organization theory and in other parts of the business school; not in the economics department. I think a change in this situation will require a very serious revolution within economics departments and within the profession. It will require a change in methodological viewpoints and a change in the whole Ph.D. program.*

Simon<sup>1</sup>

The questionnaire consists of five topics. International trade, agriculture, rent controls, government expenditures, and demographic questions. In some cases theoretical questions were asked as well as questions involving the empirical magnitudes of policy outcomes. The first section to follow contains a discussion of the "macro" analysis of the survey results which involves a test, in the aggregate, of the hypotheses outlined above. In the course of this analysis the reader will be introduced to the specific questions addressed by the questionnaire. The second section contains a discussion of the "micro" analysis which involves a disaggregated test of how

knowledgeable individual respondents are and to what degree a respondent's preferences are satisfied with regards to economic policy outcomes.

The nature of the data is such that it does not lend itself to more refined statistical techniques but rather to more global analysis of tests of significance and estimation of parameters. In the analysis that follows use is made of the "t" test to compare the mean responses to questions involving magnitudes (excluding, out of necessity, "don't know" responses). The Chi-squared analysis was used for a variety of crosstabulations, including the crosstabulation of question responses by demographic groups. (For a breakdown of demographic groups, see Appendix A.) "Don't know" responses to questions meant to test the respondents knowledge of policy consequences were deemed "incorrect" when responses were individually graded and excluded, for obvious reasons, in the analysis of "preference" question responses. Reported here are all of, and only, the findings that are "significant". The reader is forewarned that with the use of a 95% confidence level throughout the analysis, one would expect 1 out of 20 of all possible findings to be spurious. For example, Appendix E tabulates macro analysis findings where sufficient evidence was found to reject the null hypothesis that the question response is independent of demographic subgroups. There are 780 dependencies possible in the table. If there were no actual dependencies in the population, one should expect 5% of 780 or 39 spurious dependencies to arise. In fact, reported here are 215 dependencies, evidence that most of the dependencies that



have been reported actually exist.

## **MACRO ANALYSIS**

This section contains a discussion of the findings with regards to how the individuals in the sample responded to the questions asked and inferences are made regarding the adult population of Kelowna. On a question by question basis the hypothesis on whether or not the majority of the population is informed on the subject matter or whether their preferences are satisfied/unsatisfied regarding certain policy outcomes is tested. The questionnaire used is contained in Appendix B (which also identifies questions as "knowledge" or "preference" or "self evaluation" questions). For the macro analysis, responses to all questions are contained in Appendix A. For a tabulation of the macro analysis findings where sufficient evidence was found to reject the null hypothesis that the question response is independent of demographic subgroups, see Appendix E.

## **FREE TRADE VERSUS PROTECTIONISM**

Using a 95% confidence interval on all parameter estimates throughout the analysis<sup>2</sup>, at least 52% and possibly as many as 62% of the population were found to be in favour of Canada adopting free trade with the United States (see table 1, Appendix A). Since trade between these countries is currently restricted, the majority of Kelowna residents are concluded to not have their preferences satisfied with regards to this issue.

The Chi-squared analysis was used to test the hypothesis

that the population's preference for free trade was independent of various demographic subgroups of the population. The null hypothesis was found to be rejected at a level of significance of .05 for a number of these groups. (A level of significance of .05 is used for all Chi-squared tests and t tests throughout the analysis and will hereafter not necessarily be explicitly stated.)

Seventy percent of those that oppose unions express a preference for free trade while 45% of union supporters share the same view. These averages, weighted by the proportion of the population that oppose and support unions (the feelings of the population are evenly split on this issue) give us 57% of the overall population supporting free trade. Insufficient evidence exists to reject the hypothesis that a decisive majority of union supporters in the population do not feel one way or another regarding their preference for free trade. Approximately forty-five percent ( $\pm 7\%$ ) of those expressing their support for unions report that they favour free trade. Evidently union leaders who adamantly oppose giving up protective measures should not be confident of decisive majority support by those who otherwise generally support unions.

Forty-eight percent of female respondents express a preference for unrestricted trade as opposed to 67% of the male respondents. The dependency of the degree of support for free trade on gender was also found in a study by Block and Walker (1988) of the views of economists on a multitude of issues. They found that the sharpest difference in views between males and females was

registered on the issue of free trade. Specifically, they found 72% of males agreed without reservations that tariffs and quotas reduced economic welfare, whereas 39% of women held this view (p.143). Block and Walker also found (p.143), as found in this study, that this difference in view could not be attributed to differences in education between males and females. Respondents with more schooling were found however to express greater support for free trade than did those without post-secondary education. Furthermore, those respondents who have taken at least one economics course and those who make \$30,000 or more annually have a stronger preference for free trade than their demographic counterpart.

Sixty-six percent of the population (with 95% confidence bounds of  $\pm 5\%$ ) feel that most economic experts are in favour of free trade (see table 2). The majority are consequently found to be informed on this issue, or alternatively, have "passed" this question meant to test their knowledge of what the experts believe on the subject.

Correct perceptions about economists favouring free trade were found to be statistically dependent on the frequency of voting in provincial and municipal elections, the degree of support for labour unions, gender and age. Specifically, frequent voters are more knowledgeable than infrequent voters, as are males, those that oppose unions, and those 45 years of age and older (relative to those younger than 45) and non-renters.

Notwithstanding the degree of support expressed for free trade, respondents feel that pursuing it would eventually de-

crease the average personal income of Canadians from anywhere between 0.22% and 3.7% (see tables 3 and 4). R.J. Wonnacott (1985, p.69) eclectically reports that estimates of Canadian income gains resulting from bilateral removal of Canadian - U.S. trade barriers are very large - in the range of 5 to 10% of G.N.P.. This range is used as a proxy for the estimated average personal income gain to Canadians resulting from free trade with the United States.<sup>3</sup> Furthermore, on all magnitude questions an error range of  $\pm 25\%$  is allowed, or an overall error of  $50\%$ <sup>4</sup> Regarding both the direction of change in the average personal income of Canadians and the estimated magnitude of this change resulting from free trade with the United States, it is concluded that the majority failed to answer knowledgeably these questions.<sup>5</sup>

A separate variance estimate was used to obtain a t value with a two tailed probability of .05 to test if there existed a statistically significant difference between the mean response of different demographic groups. There existed a significant difference between the mean response of demographic groups in two cases. Union supporters felt that free trade would decrease the average personal incomes of Canadians by 5% while those expressing their opposition to unions felt that average incomes would rise by .5%. Females expressed the view that free trade would result in a decrease in average incomes by 4% as opposed to males who felt our incomes would rise by .7%.

It is concluded that the average response of the population reflect their ill-informedness on the impact on incomes expected to eventually result from a move to unrestricted trade with the

United states. This average estimate of the impact on incomes is a biased estimate of the extent to which the public is misinformed on this subject as it in no way reflects the admitted ignorance of those respondents whom simply answered "I don't know" to the question. One can grade individual responses as "correct" or "incorrect", depending on whether the individual responds in the range deemed acceptable by the author. In doing so, a "don't know" response is admittedly an ill-informed response and is graded as incorrect. In grading respondents individually and counting "rights" and "wrongs", one is of course not analyzing in the spirit of the macro analysis, one that averages the response of individuals before grading the majority of the population as either "informed" or "misinformed". Nevertheless, one does glean from doing so a greater insight as to how respondents feel on the subject of the expected impact of free trade on incomes.

Reported first is the percentage of individual responses which are correct, excluding the "don't know" responses from the calculation so as to provide a basis for comparing the "macro" analysis involving the averaging of responses as done above, with the summation of individual responses that are either "right" or "wrong".

Seventeen percent of the population answered within the acceptable range of 3.75% to 12.5% to the question regarding the eventual impact on incomes of a move to free trade. Ten percent of females answered correctly as distinct from 25% of males who responded correctly.

When those admitting that they "don't know" are included in

the count, 15% of the population responded correctly to the question inquiring about the expected impact of free trade on our incomes. The only statistically significant difference in the proportion of various subgroups of the population that answered correctly was found between males and females. Nine percent of females responded correctly as opposed to 22% of males.

The Chi-squared test of the hypothesis that the expected impact on incomes (i.e. whether incomes would eventually rise, fall or remain the same) resulting from free trade was independent of various demographic subgroups found rejection of the null hypothesis at a .05 level of significance for several of those groups. Seventy-seven percent of the population that support unions wrongly felt that free trade would either decrease or leave unaffected the average personal incomes of Canadians, or they admitted to not knowing what the impact might be. Sixty-three percent of those who oppose unions felt similarly. These weighted averages account for the 70% of the population that feel that lifting our trade barriers will either harm, leave unaffected our personal incomes, or the respondent admits to not knowing the answer.

Also contributing to a high level of ill-informedness on the issue of the impact on incomes resulting from free trade were females and those without economic courses. Interestingly, the general level of education of respondents was found to be independent of performance on this question.

Breaking down further the response to the expected impact on incomes of free trade, it was found that 30% of the population

felt that unrestricted trade would increase the average personal incomes of Canadians. Forty-one percent felt that free trade with the United States would eventually result in a decrease of our incomes; 25% expressed the view that it would leave unaffected our incomes while 3% responded that they did not know (see table 3).

Fifty-four percent ( $\pm 14\%$ ) of union members felt that unrestricted trade would lower our average incomes compared to 31% ( $\pm 14\%$ ) of the population that are members of professional associations. Fifty-three percent ( $\pm 7\%$ ) of union supporters felt that free trade would have the impact of decreasing our income compared with 30% ( $\pm 6\%$ ) of those that oppose unions. Forty-nine percent of the female population expressed the view that free trade would be harmful to our incomes while 32% of the male population felt similarly.

Cross tabulating respondents' preference for free trade with its expected impact on incomes indicated that of the (57% of the) respondents who support free trade, only 49% ( $\pm 6\%$ ) express that they expect it to result in an increase in our average personal incomes. Only two demographic groups were found to diverge significantly from their demographic counterpart. A greater proportion of male supporters of free trade felt it would have the impact of raising our incomes than female supporters. More supporters of free trade with economic courses felt it would have the impact of increasing our income than those unexposed to economic courses.

Seventeen percent ( $\pm 5\%$ ) of free trade supporters felt that

opening our borders would result in a decrease in the average income of Canadians. Thirty percent of those in favour of unrestricted trade felt Canadian incomes would be left unchanged as a result. Of those in the population that expressed support for free trade, 47% feel that it will either decrease or leave unaffected our personal incomes. Four percent pleaded ignorant to the expected economic impact of free trade. Evidently, if the population is found to be informed of what constitutes a free trade agreement, and if it can be accurately assumed that the population's response to the question regarding the impact on incomes of free trade was encouched in real, not nominal terms, approximately one half of those in favour of such prefer unrestricted trade for non-economic reasons.

Of the (66% of the) respondents that feel that lifting our trade barriers will not augment our income and may in fact decrease it, 41% support free trade.

Puzzled by the economic irrationality of supporting something that is potentially harmful, further investigation found that roughly one quarter of (the 41%) of the population that feel our average incomes will be harmed if we open our southern borders express support for doing so. In search of the characteristics of those potentially economically irrational beings, only one demographic group was found to be more irrational in this respect than their counterpart - those expressing opposition to labour unions. Perhaps people consider free trade a vogue slogan and are hesitant to speak in disfavour of it as doing so might, in their eyes, be politically less acceptable as of re-



cently. Pamphleteering against free trade by the union movement however may have been successful in convincing union supporters not to express such a glib reaction to a topic now considered in vogue.

Attempting to discover more about what constitutes restricted trade in the eyes of the respondents, several questions were asked regarding tariffs and quotas. Thirty-eight percent ( $\pm 5\%$ ) of Kelowna residents admitted to feeling informed on the subject of tariffs (see table 5). It was found that a larger proportion of the population admitting feeling ill-informed on the subject of tariffs was union members and a lower proportion applicable to members of professional associations. Those opposing labour unions, frequent voters, the more educated, the occupational group including managerial, professional and self-employed occupations, and those having taken economic courses felt that they were better informed on the subject of tariffs than did their demographic counterparts.

Notwithstanding the admitted level of ignorance on the subject of tariffs, at least 49% and possibly as many as 58% of the population support their use (see table 6). There consequently exists insufficient evidence to reject the null hypothesis that there is no difference between the number of residents that have their preferences satisfied by the current use of tariffs and the number that do not.

Sufficient evidence does however exist for one subgroup of the population. It can accurately be reported that females are more inclined to support the use of tariffs than are males

inclined to do so.

Between 32% and 41% of the population correctly disagree with the statement: "most economic experts are in favour of charging a tariff on goods imported into Canada." The majority, it is concluded, fail to be knowledgeable in answering this question (see table 7). Females and those without economic courses were found to contribute more so to this level of ill-informedness than their demographic counterparts.

At least 89% of the target population correctly responded that tariffs cause consumers to pay more for imported goods (see table 9). Statistically less informed groups include the involuntarily unemployed and those 45 years of age and older relative to their counterparts.

A majority of the population was correct in their assessment that tariffs do not cause consumers to pay less for similar goods produced in Canada (see table 10). Females were again found to be less informed of the correct response as were respondents with lower levels of education, those making less than \$30,000 annually in income, and non-renters.

Fifty-six percent of the population, barely a decisive majority, given an error bound of  $\pm 5\%$ , correctly disagreed with the statement "tariffs on imported goods cost jobs in Canadian industries producing similar goods" (see table 8). Frequent municipal voters, males, those having taken economic courses, and those with higher incomes were found to be more knowledgeable in this respect than their demographic counterparts.

On the subject of quotas, at least 65% of Kelowna residents

admit that they are not informed (see table 11). Infrequent municipal voters, union members, females, certain occupations, those without economic courses and non-members of professional associations felt less confident about their level of informedness than did their counterparts.

At least 59% and perhaps as many as 69% of the population currently have their preferences satisfied regarding the use of quotas. They indicate that they favour, on balance, the imposition of them on imported goods (see table 12). While little statistical dependency was found to exist between the population's preference for the use of tariffs and various subgroups of the population, this was found not to be the case with regards to quotas. Having greater preference for the use of quotas than their demographic counterparts were labour union members and supporters of labour unions, non-professional association members, females, those involved in skilled trades and those with lesser skills, and those with less education.

A minority of respondents were found to be correct, in the author's opinion, in agreeing that "most economic experts are not in favour of imposing quotas on imported goods". Twenty-five percent of Kelowna residents admit to not knowing what stance economists take on the issue (see table 13). A chi-squared analysis showed sufficient evidence to reject the hypothesis of independency between the level of informedness of this issue and a number of demographic groups. Less informed than their counterparts are infrequent federal and provincial voters, labour union members, females, upper income earners, the

unemployed, non-renters, and those without economic courses.

A narrow majority (correctly) disagree with the statement that import quotas on goods cost jobs in Canadian industries producing similar goods (see table 14). Knowledge of the correct answer to this question was found to be dependent, in a now predictable way, on occupation, level of education, exposure to economics courses, the level of income of respondents, and professional association membership.

Respondents who incorrectly agreed with the statement that quotas cause consumers to pay less for imported goods than they would otherwise pay were found to be in the minority (see table 15). Members of professional associations and unions performed statistically better than non-members as did those with economic courses and those with higher incomes.

A majority of respondents (correctly) agree that quotas cause consumers to pay more for domestically produced import competing goods (see table 16). The chi-squared test of the hypothesis that the level of knowledge was independent of demographic status found insufficient evidence for rejection with the exception of homeowners who were found to be more knowledgeable than renters.

## **THE GARMENT INDUSTRY**

The survey then asks respondents about a particular industry affected by tariffs and quotas, namely the garment industry. Table 17 and 18 strongly suggest that the public is knowledgeable of these trade restrictions and the theoretical effect they have

had on the price of the commodity in question. Knowledge of the existence of protection of the industry was found to be only statistically dependent on the level of education and whether that education included economic courses. Knowledge of the impact of protectionism on the price of imported dress shirts was found also to be dependent on the above mentioned factors. Moreover, the employed and the younger age bracket respondents fared better than their counterparts in correctly answering this question.

Respondents were split on whether they would increase the selling price of say, an imported dress shirt, if the decision was theirs to make, so as to help clothing producers face competition from foreign producers (see table 20). Insufficient evidence consequently exists to make an assertion as to whether or not the majority of the population's preferences are satisfied on this issue. Such evidence was found to exist however, with regards to two subgroups of the population. A majority of both union supporters and females expressed a preference for increasing the price of imported dress shirts as a protectionist measure.

When asked about the magnitude of the impact on the price of imported dress shirts as a result of trade restrictions, residents of Kelowna responded in the range of 16% to 22%. Twenty percent of respondents simply admitted that they did not know or refused to answer (see table 19). Jenkins (1980) reports an estimated increase of 30%.<sup>6</sup> Allowing for an error of  $\pm 25\%$  of the estimated correct answer puts the upper limit of the population estimate just outside the lower limit deemed acceptable by the

author.

Members of professional associations felt that protectionism has had the impact of raising the price of dress shirts by 29% compared to an estimated increase of 17% and 18% by union members and non-members of either groups, respectively. The employed, the more educated, those younger than 45 years of age and those with some economic courses felt that protectionism has had a statistically larger impact on raising the price of imported dress shirts than did their demographic counterparts. Grading respondents individually on this question, it was found that 14% of the population responded within the range deemed acceptable by the author, i.e. within 25% of the estimated impact of 30% on the price of dress shirts as a result of protection. Of all demographic groups, only those with more education fared statistically better than did those with high school education or less.

When asked about personal preferences, residents of Kelowna reported that they would like to see an increase in the price of dress shirts of between 7 and 11% as a protectionist measure (see table 20), which is less of an increase than Canadians are now estimated by Jenkins to be faced with (30%), and less than the increase that residents of Kelowna estimate that consumers are faced with (16% to 22%). It is concluded that the target population that expressed a response other than don't know or refuse to answer<sup>7</sup> report (marginally) ill-informed estimates of the impact of protectionism on the price of dress shirts and fail to have their preference for this policy outcome satisfied.

Union supporters, females and those members of the population that are less than 45 years of age preferred a statistically larger increase in the price of imported dress shirts as a protectionist measure than did their statistical counterparts.

Nine percent of the population reported preferred increases in the price of dress shirts as a protectionist measure that were within  $\pm 25\%$  of the estimated actual increase. Thirteen percent of female respondents were found to have satisfied preferences on this issue versus 5% of the male respondents.

Sixty-eight percent of respondents (with an error bound with 95% confidence of  $\pm 5\%$ ) either wrongly<sup>8</sup> feel that the benefits derived from protecting a job in the garment industry exceeds the cost or plead ignorance of the correct answer (see table 22). A chi-squared test of the hypothesis that the level of knowledge on this issue was independent of characteristics of subgroups of the population was rejected for some groups. Females and those older than 45 years of age are more confident about the economic feasibility of protecting this industry than are their counterparts.

Respondents were then asked "how much would you say it costs Canadian consumers each year to protect a job in the garment industry which pays about \$16,000 per year?" Jenkins revised (1985) study would put the figure at about \$37,000<sup>9</sup> while Kelowna residents responded by stating that the cost to consumers in 1988 would be at least \$7,300 and as much as \$9,900 (199 respondents simply admitted: "I don't know" - see table 23). Those respondents 45 years of age and younger were relatively less naive, but

still significantly so, than older members of the population.

Grading each respondent individually it was found that 2.4% of the population was "correct" in their estimate of the consumer cost per man year of employment in the garment industry. Independence was found between the level of knowledge and all demographic subgroups of the population.

While respondents estimated that the current annual consumer cost of protecting a job in this industry was about \$9,000, residents express that it would be their personal preference that the total cost to consumers not exceed \$3,100 (see table 24).

Union opposers, males, landlords, the more affluent members of the population, non-union/association members, and those with economics courses preferred that the consumer cost to protect a job in the garment industry be statistically lower than did their demographic counterpart.

Less than one percent of the population were deemed by the author to have satisfied preferences regarding this policy outcome.

In summary, the population fail to report knowledgeable estimates of the cost to consumers of protecting this industry and fail to have their revealed preferences for this policy satisfied.

Notably, 73% of respondents do not agree with saving a job if it doesn't pay for itself (see table 25). Thirty-four percent of union supporters agree to saving a job if it doesn't support itself compared with 20% of those expressing opposition to labour unions.



Since current public policy affecting the garment industry involve costs that exceed the benefits of protecting jobs, once again the preferences of the public are deemed unsatisfied.

## AGRICULTURE

The questionnaire then addresses the public's views and preferences on the agricultural industry. Sixty-two percent of the population express the belief that the income levels of farmers are, on average, lower than those of the average non-farm family in Canada, while 17% and 18% feel that they are higher or the same, respectively (see table 26). Forbes, et al. (1982) and Forbes (1985) report that the income levels of farmers are about the same or greater than other non-farm families since about 1973. While controversial evidence is available concerning farm incomes in the more recent leaner years, this question is not included in the pass/fail analysis. The author concurs with the advice given personally by Forbes that the question response should be used only to gain an impression as to what respondents feel on the subject of farm incomes as the answer is far too complex for the reasons cited in Forbes (1985, pp.8-9) and Forbes et al (1982, pp.24-25).

At least 57% and as many as 66% of the population feel that farmers should receive financial assistance from taxpayers and consumers. Possibly as many as 43% are opposed to this current practice (see table 27). Dependence was found between the degree of support that farmers should receive and various demographic characteristics. Specifically, infrequent federal voters, union

supporters, females, those 45 years of age and younger and the skilled and lesser skilled occupations all express a preference to financially assist farmers more so than do their demographic counterparts.

A minority of the population feel (correctly, in the author's opinion) that financial assistance to farmers is not necessary so as to ensure Canadians of adequate supplies of food (see table 28). Frequent federal and provincial voters and the occupational groups other than the trades fared better than their demographic counterparts as did homeowners and those having taken economics in their curriculum.

The population surveyed is split on whether or not many farming occupations actually are currently receiving financial assistance (see table 29). Those groups that were found to be statistically more informed than their counterparts were members of unions and professional associations, the employed, those with greater levels of education and the more affluent members of the population.

There is a strong consensus that the benefits of programmes meant to financially aid farmers do not go mostly to the farmers in greatest need (see table 30). Forbes (1985) provides evidence that respondents are quite correct in their perceptions. The chi-squared test of the null hypothesis that the degree of knowledge on this issue was independent of demographic characteristics found insufficient evidence for rejection.

## THE DAIRY INDUSTRY

When asked specifically about the dairy industry in B.C., a majority feel that our dairy farmers should not be receiving financial assistance, given their perception of these farmers' incomes (see table 31). The preference of the majority are deemed unsatisfied in this regard as dairy farmers are financially being assisted as a result of milk board regulation.<sup>10</sup> Many demographic groups express stronger preferences than their counterparts in wanting to support dairy farmers. These groups are infrequent voters, union supporters, females, renters, and those 45 years of age and younger.

Forty percent of the population, with an error bound of  $\pm 5\%$ , correctly agree that B.C. dairy farmers are receiving financial assistance<sup>11</sup> (see table 32). Members of unions and professional associations were more knowledgeable than those who did not belong to either group. Also more knowledgeable than their demographic counterpart were males, the more educated, those with exposure to economic courses and the more affluent members of the population.

While a majority were found to be ill-informed regarding financial assistance being awarded to dairy farmers, possibly as many as 89% of Kelowna residents express the belief that the B.C. milk board is regulating the price of fresh dairy products in this province (see table 33). The majority of the population is technically wrong in their belief, as the marketing board is not directly regulating the price of fresh dairy products. More accurately, it is indirectly influencing the price of dairy prod-

ucts through direct regulation of the market for raw milk. R. Schwindt is thanked for bringing this point to the attention of the author (following the completion of the survey.) Nevertheless, this is considered to be a technical point that should be overlooked for the purpose of "grading" these responses. In other words, it is felt that the public's response would have been quite similar if the question had been reworded to read something to the effect that "The B.C. Milk Board, through regulation of the dairy industry, is indirectly influencing the price of fresh dairy products in this province." Therefore, in tallying the "rights" and "wrongs" in this analysis, the majority of the population will be considered to be "correct" (albeit technically incorrect) in agreeing to the statement: "The B.C. milk board currently is regulating the price of fresh dairy products in this province."

When told that the industry is in fact regulated and asked about the impact on the price of milk if there were no regulation, 51% of the respondents felt the price of milk would decrease, 35% felt it would increase and 12% felt it would stay the same (see table 34). For the population as a whole, no statistically significant statement can be made distinguishing those that correctly feel that the price of milk would fall and those that feel otherwise. Frequent federal and provincial voters and males were found to be more knowledgeable regarding the impact of regulation on the price of milk.

When asked, however, by how much would the price of milk change if there were no regulation (question 35), respondents

felt in the aggregate that the price of milk would fall by at least 1% and possibly as much as 7% (see table 35). Grubel and Schwindt (1977) report that regulation has had the impact of raising the average dairy bill by about 15%.<sup>12</sup> Less informed than their demographic counterpart were infrequent federal and provincial voters, non-members of either unions or professional associations, females, renters and home owners.

Grading each respondent individually, less than 5% of the population was found to be correct in their estimate of the impact on the price of milk as a result of regulation. Independence between the degree of knowledge expressed on this issue and varying demographic characteristics was found in all cases.

If the decision were entirely up to the residents of Kelowna, they would elect to increase the consumers dairy bill by between 7.3% and 10.2% above what it would be if B.C. dairy farmers were not assisted, so as to help financially support them<sup>13</sup> (see table 36) (The reader is reminded that earlier in the questionnaire a majority of respondents disagreed that B.C. dairy farmers should receive financial assistance from taxpayers and consumers (question 31). Six percent of the population was found to have their preferences satisfied by the extent to which they would prefer the consumers' dairy bill to be increased and the extent to which it is, so as to help financially assist dairy farmers. Grading respondents individually, only with regards to gender was there found a dependence between the level of satisfaction on this policy issue and varying demographic

characteristics of the population. Females prefer to have the consumers' dairy bill increased by more than do males.

On the basis of the average response of demographic subgroups, infrequent municipal voters, non-union members, the lesser skilled occupational groups, and those younger than 44 years of age are more satisfied than their demographic counterparts with the financial benefits currently being awarded dairy farmers through regulation.

In summary, Kelowna residents feel that regulation has had the impact of increasing dairy bills by less than they would prefer to have them increased by which is in turn a value less than the actual increase in dairy bills as a consequence of regulation (as estimated by Grubel and Schwindt). Once again the consumer cost of regulation is found to be significantly underestimated by the target population.

Nothing statistically significant can be said to distinguish a difference between the proportion of the population that feel (incorrectly - see Grubel and Schwindt (1977, p.39)) that current regulation by the B.C. milk board is desirable on economic grounds and those that feel that it is not desirable (see table 37). This result is not surprising given the respondents' lack of knowledge regarding the actual cost to the consumer of regulation. On the other hand, some people may be willing to bear these costs out of a sense of fairness. For a further discussion of how "fairness" affects peoples attitudes towards public policy, see Knetsch, Kahneman, and McNeill (1985).

A majority of males and a minority of females were found to

be knowledgeable about the economic feasibility of regulating the dairy industry as were a majority of those with economics in their curriculum.

## RENT CONTROLS

Respondents were also questioned briefly on the subject of rent controls. Between 71% and 80% of the population express a preference for rent controls and consequently are deemed to have their preferences unsatisfied in this regard (see table 38).<sup>14</sup> Dependence was found to exist between the degree of preference for rent controls and a number of population subgroups. Union supporters, females, non-executive type occupations, those with no economic courses, and renters were found to prefer rent controls more so than their demographic counterparts. Eighty-five percent of those that rent expressed a preference for rent controls compared to 66% of landlords. Seventy-three percent of respondents who lived in owner occupied homes expressed a preference for rent controls.

Respondents were split in their view on whether or not economic experts are in favour of rent controls (see table 39). Eighteen percent of the respondents admitted that they did not know the view of experts on the subject. Frequent federal voters and males were found to be more knowledgeable than infrequent voters and females on how economists generally oppose rent controls.

When questioned further on the costs and benefits of controls on rental accommodation, there was insufficient evidence to

ascertain whether there existed a majority of the populace either way regarding their opinion to the statement: "Rent controls contribute to the deterioration in the quality of rental accommodation over time" (see table 40). Males, union opposers, the non-involuntarily unemployed, landlords, and those with some exposure to economics in their curriculum did better than their counterparts in (correctly) responding in the affirmative.

The population was indecisive in (correctly) disagreeing to the following statement "rent controls are a solution to, rather than a contributing cause of, a housing shortage." (See table 41.) Frequent voters, males, those with exposure to economics in their curriculum indicated possessing greater knowledge than their counterparts in responding to this question.

Given the majority support for the use of rent controls, one can surmise that respondents, if rational, feel, perhaps myopically, that the benefits outweigh the costs of controlling rents.

## GOVERNMENT EXPENDITURES

Three questions were asked concerning the relative magnitude of one component of government expenditures at each of the federal, provincial and municipal levels (questions 42, 43, 44). The population on average, expressed that they felt between 16.2% and 19.4% of the federal government's total expenditure goes towards national defense. Statistics Canada puts the percentage at 7.5 for 1985. Lower estimates than their demographic counterparts of expenditures on national defense came from



frequent federal and provincial voters as well as males and those with at least one economics course, members of unions and professional associations, and the more educated.

There were no significantly differing views among demographic subgroups on the answer to this question when respondents were individually graded. In all, only 6% of the population were deemed correct in their answer to this question.

Residents, on average, reported that between 20% and 23% of the B.C. government expenditures goes towards highways. Statistics Canada reports the percentage of 6.3 for 1984.

Only 6% of the population were correct in answering this question, with no significant difference found among demographic groups when respondents were graded individually. Higher in their estimate of the percent of B.C. government expenditures which goes towards highways were the employed relative to those voluntarily unemployed, males and those with some exposure to economics in their curriculum.

Respondents, on average, felt that 24% ( $\pm 1.7\%$ ) of Kelowna's residential property taxes goes towards education (question 44). School board officials put the figure at 26%.

Higher and closer to the mark on their estimate of expenditures on education relative to their counterparts were frequent voters, males, and occupations other than the lesser skilled occupations. Labour union members fared worse than did members of professional associations as did renters as distinct from landlords and home owners. While the average response of the population was on target, only 26% of the sample population were

individually deemed to be correct in their answer to this question (with no significant difference in "pass/fail" rates found among demographic subgroups).

The hypothesis that the level of knowledge of the above mentioned expenditures at each level of government was independent of the frequency of voting was tested. Insufficient evidence was found to reject that hypothesis.

#### MICRO ANALYSIS

The micro analysis involved grading the responses within each completed questionnaire as well as determining whether the respondent's preferences were satisfied, employing the criteria on each question that was used in the macro analysis above.

Cross tabulating the data on knowledge and preferences, the chi-squared statistic was used to test the null hypothesis that the level of satisfaction with policy outcomes was independent of the level of knowledge of policy consequences for the population, as well as controlling for the demographic subgroups of the population. The findings are reported in the tables below.

Each two-by-two contingency table consists of four cells, each cell in turn containing the best estimates of the true percent of the population that support the four competing hypothesis laid out at the outset of Chapter Five. Starting with the upper left cell and moving clockwise around the table, these estimates refer to the true percent of the population that is:

1. "Ill-informed" (I) of public policy consequences and

have revealed their preference for policy to be "unsatisfied" (P.U.)

2. "Ill-informed" with preferences "satisfied" (P.S.).
3. "Knowledgeable" (K) with preferences "satisfied".
4. "Knowledgeable" with "unsatisfied" preferences.

The findings are reported for the overall population and for only those subgroups for which the content of at least one cell differs in a statistically significant way (as indicated by an asterisk beside the estimate) from the corresponding cell referring to the population as a whole (95% confidence bounds were used to determine results that differed statistically from the overall population).

As reported in table one below, only 42% ( $\pm 5\%$ ) of the respondents "passed" the test of informedness on policy outcomes, i.e. received a grade of 50% or better. Employing a similar criterion, 30% ( $\pm 4\%$ ) of the population were found to be "satisfied" with current public policy outcomes.

**TABLE 1**

All respondents. Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.		
I	36.4	22.0		Significance probability = 0.0001
K	33.1	8.4		Pass (%) = 41.6
				Preferences Satisfied (%) = 30.4
	n = 450			% of sample = 100.0

A chi-squared test of the independence of the level of

knowledge and the level of informedness was rejected with a significance probability of .0001. Moreover, in testing the four competing hypotheses discussed above, it was found that:

1. Eight percent ( $\pm 3\%$ ) of the population is informed of public policy outcomes and satisfied with public policy consequences.

2. Thirty-three percent ( $\pm 5\%$ ) of the population is informed of public policy outcomes and is not satisfied with public policy consequences.

3. Twenty-two percent ( $\pm 4\%$ ) of the population is ill-informed of public policy outcomes and is satisfied with the consequences of public policy.

4. Thirty-six percent of the population ( $\pm 5\%$ ) is ill-informed of public policy outcomes and is not satisfied with public policy consequences.

These estimates of the true population values were found to be very sensitive to the somewhat arbitrary pass/fail - preference satisfied/unsatisfied criteria of fifty percent. Sensitivity tests were run on the results using nine different scenarios in which both the pass/fail criteria and the preference satisfied/unsatisfied criteria were changed. As the "pass" rate criterion was increased from one requiring that at least 40% of the questions be answered correctly by respondents so as to be deemed "knowledgeable" to 50% and again to 60%, the "pass" rate dropped from 70% to 42% and to 18%, respectively. Accordingly, the significance level probability on the chi-squared test of independence between the level of satisfaction and the level of

knowledge changed from .0722 to .0001 and then to .0000 as the pass rate criterion was increased from 40 to 50 to 60%, respectively (using the "50%" preference criteria).

Changing the "preference satisfied" criteria from one requiring that at least 40% of the preferences regarding policy outcomes addressed in the questionnaire be satisfied for a respondent to be considered "satisfied" with policy to 50% and 60% resulted in the percentage of respondents deemed "satisfied" with policy changing from 44% to 30% and to 14% respectively. Having forewarned the reader of the sensitivity of these findings to the pass/fail, preference satisfied/unsatisfied criteria, the analysis proceeds below using the 50% criterion.

In eight cases differences between subgroups and the population from which they come were found. Reported below is the significance probability of the chi-squared test of the following null hypothesis: the level of satisfaction with public policy is independent of the level of informedness of the public. Also reported is the pass rate for these population subgroups, the percentage of questions in which the respondent was found to be satisfied, and the sample size of that subgroup, also expressed as a percentage of the overall population.

For all of the subgroups of the population tabled below, the level of informedness differs by a statistically significant degree from the level of knowledge possessed by their demographic counterpart. In two cases only (i.e. in the four tables pertaining to the two demographic groups - gender and union supporters/opposers) the level of satisfaction with government

policy differed significantly from that of a group's demographic counterpart. An asterisk in the tables below indicate findings that differ significantly from the overall population.

Tables 2 and 3 reveal that infrequent voters are significantly less informed than are voters who claim they vote always or frequently. Consequently a significantly smaller proportion of the population who vote infrequently were found to be both informed and unsatisfied with policy, relative to the population from which they came. Infrequent voters and those that never vote were found to have preferences that are independent of the level of knowledge which they possess.

**TABLE 2**

Respondents who infrequently or never vote in federal elections. Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 1.000
I	48.4	25.8	Pass (%)	= *25.8
K	*17.7	8.1	Preferences Satisfied (%)	= 33.9
n = 62			% of sample	= 13.8

**TABLE 3**

Respondents who infrequently or never vote in provincial elections. Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 0.6456
I	50.0	26.8	Pass (%)	= *23.2
K	*17.9	5.4	Preferences Satisfied (%)	= 32.1
n = 56			% of sample	= 12.4

The population which expresses support for labour unions also has preferences that are independent of the level of informedness (with a .05 significance probability). Moreover, union supporters are poorly informed relative to those that oppose unions. Union supporters have also been found to be more satisfied with current public policy than those that oppose unions (see table 4).

**TABLE 4.**

Respondents who generally support labour unions.  
Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 0.0630
I	35.6	*29.2	Pass (%)	= 35.2
K	*24.2	11.0	Preferences Satisfied (%)	= *40.2
n = 219			% of sample	= 48.7

**TABLE 5.**

Respondents who generally oppose labour unions.  
Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 0.0062
I	37.3	*14.5	Pass (%)	= 48.2
K	*42.3	5.9	Preferences Satisfied (%)	= *20.5
n = 220			% of sample	= 48.9

Those of the population that generally express an opposition to labour unions have a greater percentage of people that are "informed" and "unsatisfied" with public policy relative to the overall population and fewer people that are "ill-informed"

and "satisfied" with policy outcomes (the opposite is true for union supporters). Moreover, a lower percentage of labour union opposers are "ill-informed" and "satisfied" relative to the overall population (the opposite is true for union supporters). The level of satisfaction was found to be dependent on the level of knowledge for this subgroup of the population (see table 5).

**TABLE 6.**

Respondents that are female.

Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 0.0157
I	38.2	*30.7	Pass (%)	= 31.1
K	*22.7	8.4	Preferences Satisfied (%)	= *39.1
n = 238			% of sample	= 52.9

**TABLE 7.**

Respondents that are male.

Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 0.0927
I	34.4	*12.3	Pass (%)	= *53.3
K	*44.8	8.5	Preferences Satisfied (%)	= *20.8
n = 212			% of sample	= 47.1

Table 6 reveals that the two-by-two matrix for females contains estimates that are most similar to the estimates of the true population values for labour union supporters (see table 4). Moreover, table 7 reveals estimates applicable to the male population that are most similar to the estimates applicable to



those that generally oppose unions (see table 5). The comments above distinguishing union supporters and opposers are for the most part applicable to females and males respectively. The level of satisfaction is dependent on knowledge at a greater level of significance for females than males. Males were found to be appreciably more knowledgeable relative to females and females were found to be relatively more satisfied regarding the consequences of current public policy outcomes.

Those members of the population that have encountered economics in their curriculum and/or are members of professional associations surpassed all other subgroups of the population in demonstrating their knowledge of policy consequences. Relative to the overall population, there exists evidence of a greater proportion of them that are "informed" and "unsatisfied" and a significantly smaller proportion that are "ill-informed" and "unsatisfied" with current public policy outcomes (see tables 8 and 9).

**TABLE 8**

Respondents that have taken economic courses.  
Chi-squared test of the hypothesis: the level of satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 0.2103
I	*22.9	*13.5	Pass (%)	= *63.5
K	*49.0	14.6	Preferences Satisfied (%)	= 28.1
	n = 96		% of sample	= 21.3

**TABLE 9**

Respondents who belong to a professional association.  
 Chi-squared test of the hypothesis: the level of  
 satisfaction is independent of the level of knowledge.

	P.U.	P.S.	Significance probability	= 0.5464
I	*22.2	13.3	Pass (%)	= *64.4
K	*48.9	15.6	Preferences Satisfied (%)	= 28.9
	n = 45		% of sample	= 10.0

Two demographic subgroups were found more knowledgeable than their demographic counterparts notwithstanding the fact that the estimates of the proportions of them in the cells of the two-by-two matrix did not differ significantly from the overall population. The more educated respondents and those with higher incomes revealed greater knowledge of policy consequences than did their demographic counterparts.

The following chapter contains a summary of these analytical findings, conclusions, policy implications, and suggested areas for further research.

CHAPTER SEVEN  
SUMMARY, CONCLUSIONS AND  
POLICY IMPLICATIONS

I think we have a real problem in our society. Economics is important to that society and to the effective operation of our institutions. It's the means by which we satisfy our material and some of our immaterial wants and needs; and if we are to have wise public policies in society, we need to have a deeper and better understanding of how the economy actually operates. I have already suggested what my remedy would be for the present situation. Most of that remedy is going to have to be implemented by the economics profession itself. Maybe a little bit of encouragement from the outside, maybe a little bit of nudging will help. First of all, the auxiliary assumptions of economics, which are factual assumptions, as well as the central theoretical assumptions of classical economics, will have to undergo rather massive revision on the basis of empirical evidence. And we have only the beginnings of the evidence that we need in order to do that job...

Simon<sup>1</sup>

What is so remarkable about the present Free Trade Debate is how much of it involves assertions by very high-level people for which any body of examiners would fail a first year student.

...[I]t has been over 200 years since Adam Smith, and over 150 years since Ricardo. Yet the Mercantilist and absolute cost fallacies are as prevalent today as they were in the nineteenth century. It is because these fallacies appear as obvious truths to so many laypersons that each generation needs to be tutored actively in these fallacies.

Lipsey<sup>2</sup>

This chapter begins with a summary discussion of the main

sections of the survey macro analysis which deals with the issues of international protectionism and agriculture before undertaking an overall summary of the macro analysis. A summary of the micro analysis follows. Subsequently, the reader is provided with an overall summary, conclusions, policy implications, and an agenda for future research.

## **MACRO ANALYSIS**

### **FREE TRADE VERSUS PROTECTIONISM**

The results for the section on international trade show the majority of the respondents to pass 56% of the (16) questions asked regarding their knowledge on the subject. Their preferences for policy outcomes were found to be satisfied in 20% of the (5) questions (in which there was decisive evidence) that sought to reveal respondents preferences.<sup>3</sup>

A closer look at the results reveals that no clear consensus exists within the population of Kelowna on the controversial subject of protectionism; indeed the results are quite puzzling. The population acts irrationally in that they express marginal majority support for free trade, yet express the view that free trade will decrease, albeit marginally, the average personal income of Canadians (only 30% of the respondents felt that free trade would increase the average personal income of Canadians).

The findings indicate insufficient evidence to accept the hypothesis that the degree of support for free trade was independent of the expected impact of free trade on income levels

for all demographic subgroups. Forty-seven percent ( $\pm 6\%$ ) of the population that support free trade feel that it will not augment our income and in fact may decrease it.

The population appears to be confused on the meaning of free trade and in fact admit to not being informed on the subject of tariffs and quotas; they are split on expressing support for the use of tariffs but the majority express support for the use of quotas.

Cross-tabulations were done on the populations preference for free trade and their preference for tariffs as well as their preference for quotas (see Appendix D, Table 1). The largest percentage of the population (27%) was found to simultaneously oppose free trade, support tariffs and support quotas, i.e. are logically consistent in their preference for protectionism. (Of those that oppose free trade, 63% also support tariffs and quotas). The next most popular preference revealed was by those individuals that were logically consistent in their preference for free trade; 22% of the population support free trade as well as oppose the use of tariffs and quotas. (Of those that support free trade, 38% also oppose tariffs and quotas.) Trailing free trade supporters in popularity were 15% of the population that expressed support for free trade as well as simultaneously expressing support for the imposition of both tariffs and quotas. (Of those that support free trade, 27% also support tariffs and quotas.) The remainder of the population (36%) support and/or oppose varying combinations of free trade, tariffs and quotas, i.e. are logically inconsistent in their support for either

protectionism or international competition. Contradictions abound.

A majority of respondents feel that economists support free trade, yet a majority of those who responded other than "I don't know" also feel that economists support the use of tariffs. Respondents however are split on their view of how economists feel about the imposition of quotas. If the one quarter of the respondents whom admit their ignorance of the stance that economists take are included in the sample size, only 35% of respondents feel that economic experts oppose the use of quotas.

Cross-tabulations were done of respondents' views on what economists felt about free trade, tariffs and quotas (see Appendix D, Table 2). The largest percentage of the population was shared by respondents that felt that economists support free trade as well as tariffs and quotas (23% of all respondents) and by respondents who believe that economists support free trade as well as oppose the use of both tariffs and quotas (23% of all respondents).

Respondents are aware that protectionism is not without its costs, but they significantly underestimate the collective cost to consumers associated with protecting jobs in the garment industry. Respondents, if they had their way, would be willing to incur lower costs than they themselves estimate to be presently incurred and substantially lower costs than the actual costs that are incurred, as estimated by Jenkins (1985).

One picture which emerges from the data is that the population is confused about what constitutes free trade; they may be

rational to voice the degree of support which they have expressed for protection in the sense that their perceptions of the cost of protection are biased in the downward direction. This scenario fits with their perception that giving up protection will, on average, reduce Canadian incomes. The piece of the puzzle that doesn't fit the picture is that respondents nonetheless express majority support for free trade. Since the question regarding preferences for free trade was addressed at the outset of the interview, it may well be that respondents became educated by the questionnaire as to what free trade involves giving up and may have responded differently if the question were asked later. Also, as discussed above, respondents may be hesitant to speak against an issue which is politically in vogue, especially at the outset of an interview, although, as found, they may be later willing to (comfortably or uncomfortably) contradict themselves.

Johnston (1985) reports evidence consistent with ours. He probes the issue of whether the public demands that governments use mercantalist policies to attempt to increase or stabilize employment in certain sectors even if such policies reduce on average the Canadian income. Johnston (1985, p.145) states that "although free-trade orientated response can be induced by survey questions, Canadians seem, on balance, highly protectionist." His study concludes:

Canadians are preeminently concerned with job creation and protection. This preoccupation is not focussed simply on the size of the income the job yields. Rather, the underlying concern is with security: perhaps of income but arguably of the occupational culture as well...(Johnston, 1985, p.183)

In conclusion, the mere adding up of responses deemed to be correct, as reflected in a 56% pass rate for adult Kelowna residents may indeed be a very biased indicator of the relevant knowledge that the public possesses. Respondents did well in recognizing correctly the rudimentary nature and existence of costs and benefits associated with the current public policy involving trade restriction. They remain naive however on the magnitude of these variables and the consequent direction in which the cost/benefit imbalance lies. The response to three questions shed light on this naivety. The majority of the population do not support the notion of saving a job if it does not pay for itself (question 25). They are misinformed however, expressing the view that protecting our garment industry is, on balance, economically beneficial (question 22). Jenkins states:

In summary, the argument that there are economic or social reasons for preserving employment in the Canadian garment manufacturing sector through the use of bilateral quotas is very difficult, if not impossible, to support. The magnitudes of the cost to the consumer and the economic waste from inducing employment in these sectors are so large that compensation of displaced workers for their private income losses would be preferable. (Jenkins, 1985, p.40)

The majority also feel that, on balance, free trade will cause a decline in average incomes (see responses to questions 3 and 4). These key questions relating to the direction of the cost/benefit imbalance deserve greatest weight, the author submits, in the pass/fail calculus. The correct answer to them is indeed the most relevant information that the public need possess to make "informed" assessments of public policy decision-making.



## AGRICULTURE

In tabulating the results of the agricultural sector of the analysis, the majority of the population was found to be knowledgeable on 40% of the questions asked where there existed decisive evidence. In 3 of the 8 questions asked, there was insufficient evidence to determine what the majority view actually was. Furthermore, a majority of the populations preferences were found to be satisfied in one of the 3 questions asked. Specifically, residents of Kelowna prefer to offer financial assistance to farmers (question 27) but not to dairy farmers (question 31). The majority, when the population was allowed to express the intensity of their preferences, preferred to see the consumers' dairy bill increased on average by a positive amount (between 7.3 and 10.2%)<sup>4</sup> so as to financially support them. This magnitude is less than the increase in prices of 15% that consumers are currently estimated to be faced with. On the crucial cost/benefit question, there existed insufficient evidence to conclude whether the majority was informed on the economic non-feasibility of the current regulation of the B.C. Milk Board. A chi-squared test showed that the level of knowledge on the economic desirability of regulating our dairy industry was independent of all subgroups of the population with the exception of gender and whether or not respondents were exposed to economics in their curriculum - females and those without some exposure to economics courses being found to be relatively less informed on the subject.

## RENT CONTROLS AND GOVERNMENT EXPENDITURES

Two brief sections of the survey are concerned with government expenditures and rent controls. The population was found to be more informed of the level of a component of local government expenditures than the level of a component of federal and provincial expenditures.

A strong majority was found to express a preference for rent controls - yet the public was indecisive in their view of what economists feel on the subject. Respondents also failed to muster statistically decisive majority support for the correct answer to the two questions poised to them pertaining to the costs associated with controlling rents.

### MACRO ANALYSIS: Summary and Conclusions

Fifty percent of the questions (in which there existed decisive evidence) were answered "correctly" by a majority of the population. On 6 out of 30 questions (20%), there was insufficient evidence to draw a statistically valid conclusion. The majority's preferences were deemed satisfied in 22% of the decisive cases.<sup>5</sup>

It would be an entirely subjective statement, for a variety of reasons, to assert that a given percentage of "correct" answers given by respondents is indicative of an informed public. On questions involving magnitudes for instance, one can rightly argue that a acceptance range of  $\pm 25\%$  is a rather arbitrarily determined range. Enlarging this acceptability range to  $\pm 50\%$  of the estimated correct answer changes the result on only two of the

ten questions asked involving magnitudes. Under this more liberal acceptable range criterion, the percent of questions in which the population is deemed satisfied with public policy outcomes changes from 22% to 33%; the correct percentage response to knowledge questions by the majority changes from 50% to 54%.

It appears that subjectiveness on the part of the researcher does not play too serious a role in this instance. One can legitimately question on other grounds the level of ease or difficulty of the test given to the public.

One may have grounds to liken the questionnaire to that of a driver's test in which some questions are relevant to safe driving and others not so relevant. For instance, questions concerning knowledge of safe steering, signaling and braking techniques might be deemed relevant to safe driving, while questions involving the number of bearings in a wheel housing or the type of transmission fluid may not be so relevant. Analogously, one might question the relevance of such questions as "How much would you say it costs consumers each year to protect a job in our garment industry which pays about \$16,000 a year?" Would most, or many economists know this answer? What does it matter, one may wonder, as long as the response is less than or greater than \$16,000 - the annualized income of a protected worker? It is important to ascertain the mean response of the population and the extent of bias in their estimate on questions like these so as to help reveal a more detailed picture of the degree of public informedness. This question however, serves as one of many examples of questions used in the survey which lead to the perplex-

ing question for researchers of how to determine the appropriate weight that individual questions should receive towards an overall indication of informedness.

Having expressed the desire by the majority not to save a job if it does not pay for itself, and having the majority express the feeling that the benefits of protecting a job in the garment industry exceed the cost, it is then explicable why the population estimate of the cost falls short of the benefit of protecting a job paying \$16,000. But certainly, given the subjectiveness of any test of this nature on economic knowledge, the most relevant questions - those that seek the public's perception of the "bottom line" - void of hues more subtle than black and white - pertain to the perceived direction of the cost/benefit imbalance - not specifics concerning costs on the one hand and benefits on the other and/or questions pertaining to fundamental theoretical principles concerning the impact of various policy instruments. In reviewing these relevant questions on policy outcomes - questions pertaining to the "bottom line", so to speak, of policy feasibility, a rather different and clearer picture of the public's level of informedness emerges.

The majority, as noted above, embrace the normative cost/benefit criterion in expressing their value judgement that a job should not be saved if it does not pay for itself (question 25). A majority of the population also express the positive prediction that free trade will decrease or leave unaffected the average personal income of Canadians. Only 30% feel that on balance Canadians may realize income gains as a result of free trade

adoption (question 3). Fifty three percent of the population wrongly feel that the benefits of job protection in the garment industry exceed the costs - while an additional 15% admit ignorance of the correct answer. Only 32% are correct in their assessment that this protection is economically, on balance, costly (question 22). The majority of the population support rent controls (question 38), admitting their indecisiveness on what the experts say (question 39). The majority is also indecisive on whether regulation of the dairy industry is, on balance, beneficial (question 37).

In summary, out of the four key questions which test respondents knowledge of the overall economic feasibility of a public policy choice (questions 3, 22, 37, and 39), insufficient evidence existed on two of these questions to be able to determine whether or not the majority is informed - questions pertaining to rent controls and regulation of the dairy industry. On the remaining two questions - the feasibility of free trade generally (regarding its expected impact on incomes) and specifically of protection of our garment industry, the majority failed to report knowledgeable responses<sup>6</sup>. This exact outcome repeated itself for all subgroups in the population with the exception of three. The different outcomes of these subgroups of the population are addressed below.

Those members of the population that have been exposed to economics in their curriculum (21% of the population) fared better than the majority. Where the population failed to report correctly the impact on incomes of removing trade barriers, this

group had an indecisive majority feeling one way or the other. On one of the questions in which the overall population were split on the reporting the correct answer, this group had a majority which passed. Summarizing, in one of the two questions in which decisive evidence was available, the majority of those having taken economics courses reported the correct response.

Decisive evidence was found to exist for all four questions amongst males and females. The majority of males report correct responses to two of the four questions - failing the question on the economic feasibility of adopting free trade and the feasibility of protecting the garment industry. The majority of females reported incorrect responses to all four questions meant to unveil the level of informedness of the public on the feasibility of the aforementioned public policy choices.

Well documented are the welfare losses associated with our current restrictive trade practices in general (see Wonnacott (1985) and the O.E.C.D. (1986)), the enormous welfare losses associated with the current practice of protecting our garment industry (see Jenkins (1985)), the welfare losses of dairy industry regulation (see Grubel and Schwindt (1977)), and the undesirable realities associated with the imposition of rent controls (see Block and Olson (1981)). Also documented is the undesirable method of regulating not only the dairy industry but also chicken, turkey and egg farmers (see Barichello (1981), Arcus (1981), Borcharding and Dorosh (1981), and Forbes et al. (1982)).

The reader may recall that the population was split in their response to the following statement: "Many farming occupations

(including chicken, turkey, dairy, and egg farmers) are presently not receiving financial assistance." (See table 29 in Appendix A). Evidently about half of the population cannot be aware of the undesirable inefficiencies of regulating these industries and in so doing, providing them with financial assistance.

In conclusion, evidence has been found of a great deal of ignorance expressed about these policy issues by the population which is admittedly quite naive regarding the degree to which these policies are taxing their level of well-being.

In reviewing the findings presented above, sufficient evidence cannot be found to reject the hypothesis that the population is ill-informed of current economic policy and its consequences, nor does there exist sufficient evidence to refute the hypothesis that the population is unsatisfied with public policy outcomes.

#### **MICRO ANALYSIS: Summary and Conclusions**

Forty-two percent of respondents, when individually graded, "passed" the test of informedness on policy outcomes. Furthermore, 30% of the population was found to be "satisfied" with current public policy outcomes. Insufficient evidence was found to accept the chi-squared test of the hypothesis that the level of satisfaction was independent of the level of knowledge.

Several demographic groups have subgroups that performed significantly better than their counterparts on the overall test of knowledge. Only with two demographic groups were there found significant differences amongst members of that group with re-

gards to their expressed preferences. Labour union supporters and females were significantly more satisfied (but not very satisfied) with public policy outcomes than were males and those generally opposed to unions. The evidence discussed above is also indicative that females and union supporters are also less informed of public policy consequences.

The eleven normative questions addressed in the survey questionnaire sought to reveal what should be, in the respondents eyes, the direction of public policy on the issue, generally speaking, of protection versus laissez faire competition. Three of these questions (questions 21, 24, and 36) sought to explore respondents' views on what should be the extent of the cost incurred by the consumer of certain protectionist policies. The macro analysis above suggested that respondents feel that the cost should be less than the actual estimated costs of protection. Removing these three questions regarding what should be the extent of the costs of protection borne by the consumer from the list of normative questions, as well as the question regarding the public's preferences for the use of rent controls, leaves us with the following 7 normative questions, all dealing with some form of protectionist policy:

Question 1. On balance, would you support or oppose Canada adopting free trade with the United States?

Question 6. On balance, would you say that you oppose or support charging a tariff on imported goods?

Question 12. On balance, would you say that you oppose or support imposing quotas on imported goods?

Question 20. Now, if the decision were entirely yours to make, would you increase the selling price of, say, imported dress shirts, above what the price would otherwise be if no trade



restrictions were imposed, so as to help our clothing industry face competition from foreign producers?

Question 25. Do you agree or disagree with saving a job if it doesn't pay for itself?

Question 27. Agree or disagree? "Farmers generally should receive financial assistance from taxpayers and consumers."

Question 31. Agree or disagree? "B.C. dairy farmers, given your perception of their incomes, should receive financial assistance from taxpayers and consumers."

The reader is reminded that 30% of respondents were found to have their preferences satisfied on 50% or more of all eleven normative questions. The above list of 7 questions gives us a clearer view of whether respondents feel that there should be protectionist policies in place or not, in the above mentioned areas. Forty-nine percent of respondents were found to support at least one half of these protectionist measures.

Earlier, peculiar contradictions regarding respondents' preference for free trade versus protectionism was discussed. Removing the response to the question on preferences for free trade from the above list of normative questions, 58% of respondents were found to agree to at least one half of the six protectionist policies mentioned above.

When the null hypothesis that the level of preference for protectionism was independent of the level of knowledge was tested, it was found, not surprisingly, that the hypothesis was rejected (at a significance probability of .0000). The lower the percentage of respondents who answered correctly one half or more of the questions asked of them, the higher was the percentage who preferred protectionism on one half or more of the issues addressed in the questionnaire.

The following examples are illustrative of the above finding. Fifty-three percent of males "passed" the test of economic knowledge versus 31% of females. Forty-five percent of males expressed support for at least one half or more of the six protectionist policies addressed in the survey (excluding their preference for free trade<sup>7</sup>) versus 69% of females who supported one half or more of the 6 protectionist measures referred to. Thirty-five percent of union supporters "passed" the test while 48% of non-supporters did likewise. Sixty-eight percent of the respondents who support labour unions expressed support for at least one half of the protectionist policies while 49% of those who express opposition to labour unions did likewise. Furthermore, it is interesting to note that while the younger and older (i.e. older than 44 years of age) age groups performed statistically no differently on the test of economic policy and its consequences, 64% of those younger than 44 years of age supported at least 50% of the protectionist policies addressed in the questionnaire while only 52% of the older population expressed similar preferences.

This research indicates that there were a number of important demographic groups whose counterparts were found to not have statistically different levels of education. For instance, this was found to be true regardless of one's expressed support or opposition to labour unions as well as one's gender. Nevertheless, these demographic groups were found to have performed significantly differently on the test of economic policy and its consequences (as well as preferences for a host of

protectionist policy measures). Further, the analysis reveals that the younger segment of the population have more education than do the older members. (Sixty-two percent of those 44 years of age and younger have at least some post secondary education as compared with 43% of the population that are older than 44 years of age.) As noted above however, the younger and older groups reported nonsignificant differences in their performance on the test of economic knowledge, although the younger, who are more educated than the older, reported a statistically significant stronger preference for protectionism (but only when their response to their preference for free trade was excluded from the calculation). While this rather cursory breakdown of the level of education of respondents could be more revealing if further disaggregated, the above findings do lend some support to the hypothesis that the general level of education is independent of one's knowledge of economic policy and its consequences and perhaps of one's preferences for or against protectionism. The performance on the test of economic knowledge was found in fact to be independent of the level of education of the population with reference to the key knowledge questions of economic policy but dependent on education with reference to all knowledge questions of economic policy. Furthermore, the level of education was found to be independent of the degree of preference for protectionism.

#### **OVERALL SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS:**

Based on some unavoidably subjective but reasonable

criteria, the numbers that emerge from this analysis suggest that the public of Kelowna is "dissatisfied" with current public policy and received a grade of "50%" on the test of economic knowledge when the average or majority response to each question was graded. When respondents were individually graded, 42% of respondents "passed" the test on the impact of public policy.

More than a cursory interpretation of these results reveals however, a fundamental level of ignorance on the part of the public regarding the outcomes of current public policy. These biased estimates provided in response to positive questions of economic policy, in turn flavour, evidence has been found to suggest, the public's persuasions regarding normative issues. Normatively speaking, the public overwhelmingly embraces the notion that a job should not be saved if it does not pay for itself. Accordingly, the public supports the notion of free trade, although marginally, glibly, and most reluctantly - quickly revealing their protectionist sentiments when the opportunity arises. With the information set that they have revealed to us, however, the public is revealing somewhat rational sentiments. While they recognize that protection is not without its costs, they grossly underestimate the extent of these costs. In so doing, they are inclined to believe that protection, on balance, is beneficial. In this regard, the public normatively expresses a desire for incurring extremely low levels of protectionist costs relative to the levels they believe to be incurred (with the exception of dairy costs), and especially relative to what scholars estimate to be the actual costs of protection. While the above comments

refer to specific protectionist measures, the public believes that the overall net costs of protection in Canada are negative - that is to say, the public is of the belief that our average personal incomes will decrease should we adopt unrestricted trade with the United States. The findings also demonstrate that the public is indeed confused about the basic ingredients of a "free" versus "restricted" trade arrangement.

In previous chapters alternative opposing assumptions made by economists on the information set possessed by the public were discussed. Here, the reader is reminded of Becker's words:

I find it difficult to believe that most voters are systematically fooled about the effects of policies like quotas and tariffs that have persisted for a long time. I prefer instead to assume that voters have unbiased expectations, at least of policies that have persisted. They may overestimate the deadweight loss from some policies, and underestimate the deadweight loss from others, but on average they have a correct perception. This assumption is consistent with the recent emphasis on "rational" expectations. In the interest of brevity and a more forceful presentation of the argument to follow, I make an even stronger assumption: namely, voters perceive correctly the gains and losses from all policies. (Becker, 1976, p.246-247)

Representing an opposing view is Friedman, who states:

We do not have tariffs because they are in the self interest at large. We have tariffs because most members of the public are uninformed of the effects of tariffs on them. (1986, p.4)

In conclusion, this research provides insufficient evidence to support the assumption made by Becker (1976) concerning the information set possessed by members of the public (regardless of

whether Becker is referring to voters (1976) or taxpayers (1983)). This research provides evidence which alternatively is supportive of Becker's earlier (1958) view, in accord with Friedman and others, that the public generally possesses imperfect and systematically biased information on the costs and benefits of public policy. Specifically, evidence has been found in support of the hypothesis that the public systematically underestimates the costs of protectionist policies that have existed for some time.<sup>8</sup> Furthermore, evidence has been found in support of the hypothesis that the public is not satisfied with current public policy outcomes.

Accordingly, these findings suggest that one should perhaps take a more serious view of the dimensions of the collective choice problem as outlined by "the persuaders" and not feel so comforted by the "bounded" dimensions of the problem as presented in Becker's more recent (1983) view of the world.

Evidence found suggesting that voters are typically misinformed has implications on the potency of voting as a current mechanism of influencing public policy. Becker (1985) is perhaps quite right in arguing that successful pressure groups raise their political pressure partly by manipulating and creating, through information and misinformation, the revealed preferences of enough ignorant voters. Further research will hopefully clarify the potential role of voting versus group pressure as a mechanism for influencing public policy towards the greater achievement of normative goals should voters learn of greater incentives to be armed with information that is relevant to making

public policy choices.

Perhaps economists do have a role to play that has been to a large extent unrecognized, or ignored - the role of persuading the public of alternative public policy choices - for the evidence found here suggests that the public is not aware that such alternatives are in the best interest of the public at large. Olson and Hayek<sup>9</sup> provide some reason to doubt the efficacy of this policy prescription, as does Tullock whose contributions were discussed at the conclusion of Chapter Three. Tullock, and others, argue that voters are rationally ignorant. Olson argues that the incentive to free ride results in pressure exerted that is disproportionate to numbers. But surely there are ways in which to affect the cost benefit calculus of the rationally ignorant majority. Stigler (1974), clarifies that, like lunches, rides may be cheap, but cannot be entirely free. Efficient dissemination of relevant information would presumably increase the perceived cost to riders otherwise thought to be receiving a "cheap" ride. Political entrepreneurs, when faced with voters armed with relevant information, would have the incentive to offer more welfare maximizing platforms. The system of suffrage provides a cheap route for "expensive" riders to pursue their common interests, by way of exercising their voting rights, so as to eliminate socially costly policies. Further research, one can hope, will serve to clarify these brief and inadequate remarks on the potentially expanded role for economists in disseminating information.

This research is clearly of an exploratory nature, the find-

ings clearly tentative. Much work remains to be done. Replication of parts of this test on a national level is necessary in order to ascertain the extent to which some of these findings may be biased. In particular, findings meant to reflect respondents perception of the expected impact of free trade on Canadians may indeed be biased by respondents' perceptions of the expected impact of free trade on the population of Kelowna. Replication of other parts of this test provincially may reveal findings in this study related to provincial and local issues that are peculiar to the population of Kelowna. Furthermore, modified tests inquiring predominately about the net benefits of a great variety of issues would provide much needed evidence to support or refute these tentative findings.

Acquiring data at the micro level is no easy task. While the author is quite comfortable with the high standards set and met by the amateur student interviewing team, it would be good to know the extent to which the use of professional interviewers would affect the responses to questionnaires such as ours. The author believes that the implications of this research have associated externalities of the order that warrant the adequate funding of further needed research in this area.

The author concurs strongly with Simon whom was cited at the outset of both this and other chapters. Factual assumptions need to undergo empirical testing. This study has broken some ground in this field but much more remains to be done. Changes in graduate school programmes, the author agrees, would be most helpful in equipping young economists with the necessary tools to



do testing at the micro level.

Research discovering how a random selection of Canadian economists would respond to the questionnaire would indeed be a welcome contribution to the existing body of knowledge as would the development of some systematic way of discovering the views of economists generally on a variety of issues.

In the process of testing some very general hypotheses regarding the information set of the public, differences in the information set of various demographic groups have been discovered. These differences suggest tentative hypotheses that should be tested with formally designed experiments. For instance, are the younger generations generally of a more protectionist mood despite their higher levels of schooling? If so, why so? Could it be that the media has had that strong an influence in misinforming the less wary? Do older generations, with age, discover the sense of competition and in so doing reject the "pseudo morals" referred to earlier by Hayek?<sup>10</sup> If the difference in the level of support for protection between males and females cannot be attributed to different levels of education, then what can this difference be attributed to?

Related questions arise. How would information relating the "main line" views of experts on public issues of economic significance be most effectively transmitted? What would be the net benefit per capita of doing so? Why has it yet not been done?

Lipsev (1989), in his Innis Memorial lecture, suggested several research topics related to "The Great Free Trade Debate" that relate to this research as well. One area involves investi-

gating the extent to which the media biased their news reporting of the free trade debate. Another area involves measuring the contributions of economists to the public debate on free trade so as to discover the extent to which economists attempted to clarify sense from nonsense. If economists have not contributed in proportion to their numbers, why have they not? Lipsey (1989) inquires:

Do economists perceive the issue of low importance, relying for this judgement on static welfare measures? Is the incentive structure different for economists than for political scientists? (For example, does the weight given by promotion and tenure committees to involvement in such issues differ across disciplines?) Are economists less political, or less concerned with the 'real world' than other social scientists? Do economists have a lower sense of public duty to act in the absence of monetary incentives than do political scientists? ...These are fascinating issues crying out for documentation and explanation by students of human behavior and incentive structures. (pp. 7-8)

Has the debate been ill-informed, and if so, why? Why did those that voted against the agreement do so? How much myth and how much reality was involved in their decision?

This research perhaps raises more questions than it has answered. Trebilcock et al. state:

One might wonder why so much research is written and "published" with little if any attention being paid to the dissemination of the results generally. So many economists write - when not writing to one another - as though their task were to advise the Prince rather than the public."

These findings hopefully give other researchers that much more reason to wonder.

## ENDNOTES

### CHAPTER ONE

1. Simon (1987). From a transcription of a lecture entitled "Why Economists Disagree", delivered at McMaster University, June 1987.
2. See for example Olson (1965) and Hayek (1979) whose concerns we later address.
3. See for example Wagner (1966) and Stigler (1971).
4. Schattschneider (1960, p.31) cites evidence suggestive of how poorly organized most groups are. For example, "only one sixteen hundreds of 1 percent of the consumers" have joined the National Consumers' League.

### CHAPTER TWO

1. Lipsey, R. G. (1989, p.39)
2. Laidler, D. (1985a, p.39)

### CHAPTER THREE

1. Borcharding (1983, p.151)
2. Harberger (1971) offers a good discussion of this proposition.
3. Buchanan (1985, p.5), in discussing the moral dimension of debt, adds the following caveat:

There are, of course, limits to deficit financing. Continued increase in debt service charges cannot be characteristic of economic or political equilibrium. Explicit default, or default through inflation, will, of course, impose such limits. Even fear of such default may, however, be sufficient to generate the requisite political support for *temporary* reductions in deficit size. But there is nothing in modern democracies to generate permanent changes in the pattern of results.

4. This is not to say, however, that the "winners" face no limits to their spoils. Trebilcock (1986, pp.27-28), in discussing the political economy of economic adjustment states:

Politicians, typically faced with political constituencies demanding protection or subsidy in geographically concentrated declining industries and widely dispersed or infra-marginal cost bearers (labour and capital in other industries, consumers, taxpayers, Western Canada), will engage in a political calculus that does not necessarily involve succumbing completely to the demands, but, rather, involves rational trade-offs in choosing policies that equate, at the margin, the political gains from the chosen policies with the political costs. The cost bearers are, of course not totally without political influence, and moreover, the risk of international retaliation against protectionism implies potential negative domestic repercussions from affected export sectors. These political costs are real; otherwise, in import-affected sectors, we should expect to observe tariffs set infinitely high or import quotas set at zero, which means that imports would be banned. In fact, we rarely observe application of such policies.

Buchanan (1985, p.5), in discussing the moral dimension of debt, (foot)notes that limits to the size of the public debt effectively limit the spoils of "winners" which are financed by imposing a mortgage on future generations. See endnote 3 above.

5. One can think of a number of unproductive responses by a public unsatisfied with public policy. Hayek (1979, p.11) refers generally to the development of a new set of 'democratic' pseudo-morals - see page 20 of this text for a fuller discussion of this concern.

6. Not all those who argue that the public is ill-informed argue that "persuasion" would be effective in enhancing public welfare. Hayek stands alone amongst the authors surveyed here on his view of how positive change will occur. Hayek (1979,p.166) argues that change will evolve.

Tradition is not something constant but the product of a process of selection guided not by reason but by success. It changes but can rarely be deliberately changed. Cultural selection is not a rational process; it is not guided by but it creates reason.

On the role of knowledge and information in an evolving universe, Hayek (1979,p.206) relegates the following comments to a footnote:

If today the preservation of the present

order of the market depends, ..., that the people rationally understand that certain rules are indispensable to preserve the social division of labour, it may well be doomed. It will always be only a small part of the population who will take the trouble to do so, and the only persons who teach the people, the intellectuals who write and teach for the general public, certainly rarely make attempts to do so.

Hayek (1979, p.176) concludes "Man is never and never will be the master of his fate: his very reason always progresses by leading him into the unknown and unforeseen where he learns new things." (emphasis in original)

Olson's theory of group behavior was a cornerstone in our discussion in the first chapter. He argued that non-welfare maximizing discriminatory legislation will result from the selling of legislation to pressure groups in return for political support. "Discriminatory" legislation in the sense that all groups will not be represented. Yet Olson contends that his findings are not affected "even if there is unanimous agreement in a group about the common good and the methods of achieving it" (Olson, 1965, p.2). Unanimous consent implies possession of a certain amount of knowledge on the part of the individuals involved. Each individual must possess, at the least, knowledge about what the common good is and the methods of achieving it. Thus, Olson is a second author who contends that while the public is ill-informed, "persuasion" is a futile policy prescription since, he argues, his findings would not be affected even if the public were well informed.

#### CHAPTER FOUR

1. Simon (1987). From a transcription of a lecture entitled "Why Economists Disagree", delivered at McMaster University, June 1987.

2. The decision to replace the last digit four times was rather arbitrary. Replacing the last digit more than once economized on the time required to randomly search out telephone numbers from the telephone directory. See Frankel and Frankel (1977) for a review of directory sampling methods.

3. This is not to say that all residents had an equal chance of being called as the telephone usage rate is unequal across households - some households have no telephones (B.C. Tel authorities suggest a telephone usage rate in Kelowna of about 99%) while some have more than one telephone number.

4. B.C.Tel. authorities report a voluntarily unlisted rate in Kelowna in 1988 of 5.5%. Involuntarily unlisted numbers run as high as 18% by the twelfth month of the telephone directory. See

Cooper (1964) and Rich (1977).

5. See Salmon and Nichols (1983).

6. On average about 20% of the total number of calls that contacted eligible people resulted in appointments booked; cancellations of these appointments varied from day to day and week to week from 5% to (rarely) as high as 50%, depending on whether the telephone solicitor used a "hard" sell approach (which resulted in much higher "no show" rate), the weather, television programming for that evening, etc..

7. Given the high refusal rate (see above footnote) encountered by our interviewers, the subset of the population that agreed to be interviewed may be a population with characteristics that deviate from the intended target population in ways other than those noted above. While the evidence we do have is supportive of our sample being fairly representative of the target population, the evidence is not conclusive. However, we can, strictly speaking, safely make inferences only about a population defined as that population that would have agreed to be interviewed had they been contacted. We proceed making references to "the population" and "residents" of Kelowna without explicitly qualifying the meaning of these terms as we have done above. I thank Dr. E. Buckley for bringing this to my attention.

## CHAPTER FIVE

1. Simon (1987). From a transcription of a lecture entitled "Why Economists Disagree", delivered at McMaster University, June 1987.

2. See Frey, et al. (1984) and Block and Walker (1988) for references to these studies and a discussion of their findings.

3. See R. Hill and J. Whalley (1985) for a review of the current empirical literature on the long run gains from trade liberalization involving Canada and the United States.

4. This calculation was based on a compensated own-price elasticity of demand for garments (imports plus those domestically produced) of  $-.5$  and an import elasticity of demand of  $-3.5$ . Given an estimated 11.4% expected change in the consumption of dress shirts as a result of the elimination of tariffs and quotas suggests that prices would fall by 29.5% and 30.5% using elasticity estimates of  $-.5$  and  $-3.5$  respectively. We used the average of these two percentages.

5. See Forbes (1985)

## CHAPTER SIX

1. Simon (1987). From a transcription of a lecture entitled "Why Economists Disagree", delivered at McMaster University, June 1987.
2. When error intervals are not stated in the comparison of two or more estimators throughout the analysis of this chapter, the reader can be 95% confident that there exists a statistically significant difference in the percentages or proportions noted.
3. Harris (1984) reports that the gain from multilateral free trade would be in the order of 8 to 10 percent of GNP with a Canadian real wage rise of 20 to 25%. Using, as we have, the estimated income gain of 5 to 10% of GNP as a proxy for the estimated average personal income gain to Canadians would indeed appear to be a conservatively low estimate of the actual expected income gain resulting from the adoption of bilateral free trade.
4. In this case the acceptable error range is 5% minus 25% of 5% to 10% plus 25% of 10% or 3.75% to 12.5%.
5. We regret that there is some ambiguity in the meaning of the response to questions 3 and 4 as the questions asked of the population inadvertently did not clarify whether "income" refers to real or nominal income. While many respondents may indeed not understand this distinction, the question could perhaps have been asked more precisely so as to lend more credibility to the exact meaning of the response. We proceed in the analysis assuming the response intended to convey the impact of free trade on real incomes but admit uncertainty concerning the correctness of this assumption.
6. see footnote 4, Chapter Five.
7. We remind the reader that these individuals are not included in our pass/fail calculations (although the "don't know" responses admittedly indicate a lack of knowledge), thus biasing upwards, significantly in some cases, the degree of knowledge exhibited by respondents on questions involving magnitudes.
8. See Jenkins, 1980.
9. Jenkins (1980) reports that the weighted average of the consumer cost per man-year of increased employment annually as a result of quotas and tariffs to be about \$35,000 in 1979. He revised this figure in 1985. We use the 1985 revised estimate of the current annual consumer cost per man-year of increased employment of \$37,000 as the acceptable answer (with an acceptable error range of  $\pm 25\%$ ).  
For 1979 Statistics Canada (1987) reports annual wages of about \$10,000 in this industry. For 1987 (the latest year statistics were available at the time of writing the questionnaire), Statis-

tics Canada reports weekly wages for all employees of about \$300 per week in the garment industry. This figure was used to estimate the current average annual earnings referred to in the questionnaire of about \$16,000. Furthermore, "hourly employees" are reported, we later learned, to earn \$265 per week or approximately \$13,000 in an equivalent man-year. Consequently, "benefits" were inadvertently overstated in the question asked, likely resulting, if anything, in an upward bias in the estimated costs of protection as reported by respondents.

10. We admit some ambiguity in the wording of this question as "financial assistance" may suggest the receiving of a direct subsidy rather than the implicit subsidy received under a system of quotas. Furthermore, as reported by Grubel and Schwindt (1977), new farmers receive no assistance as the stream of the excess of price over production cost is capitalized in the value of the quota.

11. The same caveat applies as that noted in endnote 10 above.

12. R. Schwindt, in personal correspondence, reports that he has monitored the price of quotas - the activities of the milk board - and the price of fluid milk, and estimates that the price lift resulting from current regulation is not smaller but greater, if anything, than in 1977. H. Grubel, in personal correspondence, concurs.

13. This response could be biased upwards by the wording of question 36.

14. See sections 18, 19, 20 and 21 of the Residential Tenancy Act.

## CHAPTER SEVEN

1. Simon (1987). From a transcription of a lecture entitled "Why Economists Disagree", delivered at McMaster University, June 1987.

2. Lipsey (1989, p.20)

3. Insufficient evidence existed in 2 out of a total 7 questions.

4. See endnote 13, Chapter Six.

5. In 2 out of 11 cases there was insufficient evidence to draw a conclusion.

6. The reader is reminded that the question posed to the public inadvertently did not qualify "income" as referring to nominal or real income and that we (questionably) assume that respondents



presumed the question was encouched in real terms. Wonnacott (1985, p.83) reports: "The specific way in which the real income gain would manifest itself (i.e. the specific combination of price reductions and wage increases) depends on the degree to which the Canadian dollar is allowed to float."

7. When we include preferences for free versus restricted trade (i.e. the response to question 1) in the calculation, 36% of males support one half or more of the protectionist measures addressed in the questionnaire versus 61% of females.

8. The data used in our analysis pertaining to the dairy industry came from the Grubel and Schwindt (1977) study applicable, it appears, to changes in milk board regulation brought into effect in 1973. The date of inception of the support programme in the dairy industry was 1956. The data used in our analysis of the garment industry came from the Jenkins (1980) study following the abolishment of the global quota system set up in 1977 in favour of a system of bilateral quotas which followed two years later. A long history of protectionism dating back to the National Policy of 1879 anteceded the above mentioned protectionist policies in this industry.

9. See endnote 6, Chapter Three above.

10. See Chapter Two, page 20.

**APPENDIX A**

**SURVEY RESPONSE**

**TABLE 1** On balance, would you support or oppose Canada adopting free trade with the United States?

PREFERENCES	Frequency	Percent	% Satisfied/ Unsatisfied
UNSATISFIED			
Support	250	55.6	57.2
Don't Know	13	2.9	----
Oppose	187	41.6	42.8
	-----	-----	-----
	450	100.0	100.0

**TABLE 2** ...Agree..or..Disagree...? "Most economic experts are in favour of Canada adopting free trade with the United States."

PASS	Frequency	Percent	% Pass/Fail
Agree	294	65.5	65.5
Don't Know	45	10.0	----
Disagree	110	24.5	34.5
	-----	-----	-----
	449	100.0	100.0

**TABLE 3** Would you say that free trade between Canada and the U.S. would eventually increase, decrease, or leave unaffected the average personal income of Canadians?

FAIL	Frequency	Percent	% Pass/Fail
Increase	136	30.2	30.2
Leave Unaffected	114	25.3	----
Don't Know	16	3.6	----
Decrease	184	40.9	69.8
	-----	-----	-----
	450	100.0	100.0

TABLE 4 By what percentage might you expect free trade between Canada and the U.S. to " " (increase/decrease) the average personal income of Canadians?

FAIL (Don't Know: 57 , Refuse to Answer: 7)

Mean Answer	Error Bound	Lower Limit	Upper Limit
-1.956%	±1.739%	-3.695%	-0.217%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
5 - 10%	-1.25/+2.50%	3.750%	12.500%

TABLE 5 Now, on the subject of "tariffs", or as they are sometimes called, custom duties. Overall, would you say that you are informed..or..not informed about the economic consequences of charging a tariff on imported goods?

ILL-INFORMED	Frequency	Percent	% Informed/ Ill-Informed
Informed	172	38.3	38.5
Don't Know	2	0.4	----
Ill-Informed	275	61.2	61.5
	-----	-----	-----
	449	100.0	100.0

TABLE 6 On balance, would you say that you oppose..or..support charging a tariff on imported goods?

INSUFFICIENT EVIDENCE	Frequency	Percent	% Satisfied/ Unsatisfied
Support	236	52.4	53.4
Don't Know	8	1.8	----
Oppose	206	45.8	46.6
	-----	-----	-----
	450	100.0	100.0

TABLE 7 ...Agree..or..Disagree...? "Most economic experts are in favour of charging a tariff on goods imported into Canada."

FAIL	Frequency	Percent	% Pass/Fail
Agree	217	48.2	63.6
Don't Know	69	15.3	----
Disagree	164	36.4	36.4
	-----	-----	-----
	450	100.0	100.0

TABLE 8 "Tariffs on imported goods cost jobs in Canadian industries producing similar goods."...Agree..or..Disagree...?

PASS	Frequency	Percent	% Pass/Fail
Agree	183	40.7	43.8
Don't Know	14	3.1	----
Disagree	253	56.2	56.2
	-----	-----	-----
	450	100.0	100.0

TABLE 9 ...Agree..or..Disagree...? "Tariffs on imported goods cause Canadian consumers to pay more for imported goods than they would otherwise pay."

PASS	Frequency	Percent	% Pass/Fail
Agree	413	91.8	91.8
Don't Know	5	1.1	----
Disagree	32	7.1	8.2
	-----	-----	-----
	450	100.0	100.0

TABLE 10 ...Agree..or..Disagree...? "Tariffs on imported goods cause Canadian consumers to pay less for similar goods produced here in Canada."

PASS	Frequency	Percent	% Pass/Fail
Agree	157	34.9	36.9
Don't Know	9	2.0	----
Disagree	284	63.1	63.1
	-----	-----	-----
	450	100.0	100.0

TABLE 11 Now, on the subject of "import quotas". Overall, would you say that you are informed..or..not informed about the economic consequences of imposing quotas on imported goods?

ILL-INFORMED	Frequency	Percent	% Informed/ Ill-Informed
Informed	136	30.3	30.4
Don't Know	2	0.4	----
Ill-Informed	311	69.3	69.6
	-----	-----	-----
	449	100.0	100.0

TABLE 12 On balance, would you say that you oppose..or..support imposing quotas on imported goods?

PREFERENCES SATISFIED	Frequency	Percent	% Satisfied/ Unsatisfied
Support	274	61.0	63.9
Don't Know	20	4.5	----
Oppose	155	34.5	36.1
	-----	-----	-----
	449	100.0	100.0

TABLE 13 ...Agree..or..Disagree...? "Most economic experts are not in favour of imposing quotas on imported goods."

FAIL	Frequency	Percent	% Pass/Fail
Agree	158	35.2	35.2
Don't Know	111	24.7	----
Disagree	180	40.1	64.7
	-----	-----	-----
	449	100.0	100.0

TABLE 14 ...Agree..or..Disagree...? "Import quotas on goods cost jobs in Canadian industries producing similar goods."

PASS	Frequency	Percent	%Pass/Fail
Agree	163	36.3	41.9
Don't Know	25	5.6	----
Disagree	261	58.1	58.1
	-----	-----	-----
	449	100.0	100.0

TABLE 15 "Import quotas cause Canadian consumers to pay less for imported goods than they would otherwise pay."  
...Agree...or..Disagree...?

PASS	Frequency	Percent	% Pass/Fail
Agree	106	23.6	28.7
Don't Know	23	5.1	----
Disagree	321	71.3	71.3
	-----	-----	-----
	450	100.0	100.0

TABLE 16 ...Agree..or..Disagree...? "Quotas on imported goods cause Canadian consumers to pay more for similar goods...produced here in Canada."

PASS	Frequency	Percent	% Pass/Fail
Agree	284	63.1	63.1
Don't Know	26	5.8	----
Disagree	140	31.1	36.9
	-----	-----	-----
	450	100.0	100.0

TABLE 17 ...Agree..or..Disagree...? "The garment industry in Canada is not affected by tariffs and quotas on imported clothing."

PASS	Frequency	Percent	% Pass/Fail
Agree	40	8.9	17.1
Don't Know	37	8.2	----
Disagree	373	82.9	82.9
	-----	-----	-----
	450	100.0	100.0

TABLE 18 Would you say that trade restrictions have had the effect of increasing, decreasing or leaving unaffected the price of say, imported dress shirts?

PASS	Frequency	Percent	% Pass/Fail
Increase	321	71.3	71.3
Leave Unaffected	66	14.7	----
Don't Know	23	5.1	----
Decrease	40	8.9	28.7
	-----	-----	-----
	450	100.0	100.0

TABLE 19 On average, by what percentage, would you say, has trade restrictions changed the price of say, imported dress shirts.

FAIL (Don't Know: 87 , Refuse to Answer: 5)

Mean Answer	Error Bound	Lower Limit	Upper Limit
19.16%	±2.72%	16.44%	21.87%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
30%	±7.5%	22.5%	37.5%

TABLE 20 Now, if the decision were entirely yours to make, would you increase the selling price of, say, imported dress shirts, above what the price would otherwise be if no trade restrictions were imposed, so as to help our clothing industry face competition from foreign producers?

INSUFFICIENT EVIDENCE	Frequency	Percent	% Satisfied/Unsatisfied
Yes	216	48.0	48.3
Don't Know	3	.7	----
No	231	51.3	51.7
	-----	-----	-----
	450	100.0	100.0

TABLE 21 By what percentage would you increase the price of imported dress shirts, above what it would otherwise be if no trade restrictions were imposed on imported clothing?

PREFERENCE UNSATISFIED: (Don't Know: 52, Refuse to Answer: 5)

Mean Answer	Error Bound	Lower Limit	Upper Limit
9.32%	±2.01%	7.30%	11.33%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
30%	±7.50%	22.50%	37.50%



TABLE 22 ...Agree..or..Disagree...? "The benefits derived from protecting a job in the garment industry exceed the cost of doing so."

FAIL	Frequency	Percent	%Pass/Fail
Agree	235	52.6	67.8
Don't Know	68	15.2	----
Disagree	144	32.2	32.2
	-----	-----	-----
	447	100.0	100.0

TABLE 23 How much would you say it costs Canadian consumers each year..to protect each job in our garment industry... which pays about \$16,000 per year?

FAIL (Don't Know: 199 , Refuse to Answer: 2)

Mean Answer	Error Bound	Lower Limit	Upper Limit
\$8,586.24	±\$1,289.93	\$7,296.30	\$9,876.17
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
\$37,000	±\$9,250	\$27,750	\$46,250

TABLE 24 In your opinion, if the decision were entirely yours, how much should be the total cost to consumers each year, for each job we protect in our clothing industry...which pays about \$16000 per year?

PREFERENCE UNSATISFIED: (Don't Know: 136, Refuse to Answer: 2)

Mean Answer	Error Bound	Lower Limit	Upper Limit
\$3,099.98	±\$731.49	\$2,368.49	\$3,831.47
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
\$37,000	±\$9,250	\$27,750	\$46,250

TABLE 25 Do you agree or disagree with saving a job if it doesn't pay for itself?

PREFERENCES	Frequency	Percent	% Satisfied/ Unsatisfied
UNSATISFIED			
Agree	119	26.4	26.9
Don't Know	7	1.6	----
Disagree	324	72.0	73.1
	-----	-----	-----
	450	100.0	100.0

TABLE 26 The income levels of farmers are, on average, higher, lower, or about the same as those of the average non-farm family in Canada?

	Frequency	Percent	% Pass/Fail
Higher	76	17.0	----
Remain the Same	80	17.9	----
Don't Know	12	2.7	----
Lower	279	62.4	----
	-----	-----	-----
	447	100.0	100.0

TABLE 27 ...Agree..or..Disagree...? "Farmers generally should receive financial assistance from taxpayers and consumers."

PREFERENCES	Frequency	Percent	% Satisfied/ Unsatisfied
SATISFIED			
Agree	276	61.3	61.7
Don't Know	3	.7	----
Disagree	171	38.0	38.3
	-----	-----	-----
	450	100.0	100.0

TABLE 28 ...Agree..or..Disagree...? "Financial assistance to farmers is not necessary so as to ensure Canadians of adequate supplies of food."

FAIL	Frequency	Percent	% Pass/Fail
Agree	178	39.6	39.6
Don't Know	5	1.1	----
Disagree	267	59.3	60.4
	-----	-----	-----
	450	100.0	100.0

TABLE 29 "Many farming occupations (including chicken, turkey, dairy, and egg farmers) are presently not receiving financial assistance."...Agree..or..Disagree?

INSUFFICIENT EVIDENCE	Frequency	Percent	% Pass/Fail
Agree	158	35.2	53.2
Don't Know	81	18.0	----
Disagree	210	46.8	46.8
	-----	-----	-----
	449	100.0	100.0

TABLE 30 ...Agree..or..Disagree...? "The benefits of programmes meant to financially aid farmers in Canada do not go mostly to the farmers in greatest need."

PASS	Frequency	Percent	% Pass/Fail
Agree	354	78.8	78.8
Don't Know	40	8.9	----
Disagree	55	12.2	21.2
	-----	-----	-----
	449	100.0	100.0

TABLE 31 ...Agree..or..Disagree...? "B.C. dairy farmers, given your perception of their incomes, should receive financial assistance from taxpayers and consumers."

PREFERENCES	Frequency	Percent	% Satisfied/ Unsatisfied
UNSATISFIED			
Agree	143	31.8	34.6
Don't Know	37	8.2	----
Disagree	270	60.0	65.4
	-----	-----	-----
	450	100.0	100.0

TABLE 32 ...Agree..or..Disagree...? "B.C. dairy farmers currently are not receiving financial assistance."

FAIL	Frequency	Percent	% Pass/Fail
Agree	126	28.0	60.2
Don't Know	145	32.2	----
Disagree	179	39.8	39.8
	-----	-----	-----
	450	100.0	100.0

TABLE 33 "The B.C. milk board is regulating the price of fresh dairy products in this province." Agree..or..Disagree...?

PASS	Frequency	Percent	% Pass/Fail
Agree	383	85.1	85.1
Don't Know	40	8.9	----
Disagree	27	6.0	14.9
	-----	-----	-----
	450	100.0	100.0

TABLE 34 If there were no government regulation, do you think the price of milk would fall, rise, or remain the same?

INSUFFICIENT EVIDENCE	Frequency	Percent	% Pass/Fail
Fall	228	50.7	50.7
Remain the Same	53	11.8	----
Don't Know	10	2.2	----
Rise	159	35.3	49.3
	-----	-----	-----
	450	100.0	100.0

TABLE 35 By what percentage might you expect the price of milk to " " (increase/decrease) if there were no government regulation of our dairy industry?

FAIL (Don't Know: 51 , Refuse to Answer: 1)

Mean Answer	Error Bound	Lower Limit	Upper Limit
-4.015%	±2.597%	-6.612%	-1.418%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
-15%	±3.75%	-18.75%	-11.25%

TABLE 36 Now, if B.C. dairy farmers were not financially assisted and if the decision were entirely yours, how much greater, would you say, should every consumers' dairy bill be, in percentage terms, so as to financially support our dairy farmers?

PREFERENCE (Don't Know: 77 , Refuse to Answer: 1)

UNSATISFIED			
Mean Answer	Error Bound	Lower Limit	Upper Limit
8.710%	±1.447%	7.263%	10.157%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
15%	±3.75%	11.25%	18.75%

TABLE 37 ...Agree..or..Disagree...? "Just considering the economic gains and losses, current regulation of the dairy industry by the B.C. milk board is undesirable."

INSUFFICIENT EVIDENCE	Frequency	Percent	% Pass/Fail
Agree	231	51.7	51.7
Don't Know	58	13.0	----
Disagree	158	35.3	48.3
	-----	-----	-----
	447	100.0	100.0

TABLE 38 Overall, would you say that you generally support..or oppose the use of rent controls?

PREFERENCES UNSATISFIED	Frequency	Percent	% Satisfied/Unsatisfied
Support	336	74.8	75.5
Don't Know	4	0.9	----
Oppose	109	24.3	24.5
	-----	-----	-----
	449	100.0	100.0

TABLE 39 ...Agree..or..Disagree...? "Economic experts generally are not in favour of the use of rent controls."

INSUFFICIENT EVIDENCE	Frequency	Percent	% Pass/Fail
Agree	224	49.9	49.9
Don't Know	80	17.8	----
Disagree	145	32.3	50.1
	-----	-----	-----
	449	100.0	100.0

TABLE 40 "Rent controls contribute to the deterioration in the quality of rental accomodation over time."

INSUFFICIENT EVIDENCE	Frequency	Percent	% Pass/Fail
Agree	233	51.8	51.8
Don't Know	7	1.6	----
Disagree	210	46.7	48.2
	-----	-----	-----
	450	100.0	100.0

TABLE 41 "Rent controls are a solution to, rather than a contributing cause of, a housing shortage."

INSUFFICIENT EVIDENCE	Frequency	Percent	% Pass/Fail
Agree	192	42.7	49.8
Don't Know	32	7.1	----
Disagree	226	50.2	50.2
	-----	-----	-----
	450	100.0	100.0

TABLE 42 What percentage of the federal government's total expenditures would you say goes towards national defense?

FAIL (Don't Know: 73 , Refuse to Answer: 2)

Mean Answer	Error Bound	Lower Limit	Upper Limit
17.81%	±1.58%	16.23%	19.39%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
7.5%	±1.9%	5.6%	9.4%

TABLE 43 What percentage of the B.C. government expenditures would you say goes towards highways?

FAIL (Don't Know: 77 , Refuse to Answer: 1)

Mean Answer	Error Bound	Lower Limit	Upper Limit
21.90%	±1.55%	20.35%	23.44%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
6.3%	±1.6%	4.7%	7.9%

TABLE 44 What percentage of Kelowna's residential property taxes would you say goes towards education (ie. to local School District #23)?

PASS (Don't Know: 72 , Refuse to Answer: 0)

Mean Answer	Error Bound	Lower Limit	Upper Limit
23.62%	±1.68%	21.93%	25.30%
Correct Answer	Acceptable Range of Error	Acceptable Lower Limit	Acceptable Upper Limit
26.0%	±6.5%	19.5%	32.5%

TABLE 45 Do you generally vote in federal elections?

	Frequency	Percent
Always	358	79.7
Frequently	29	6.5
Infrequently	23	5.1
Never	39	8.7
	-----	-----
	449	100.0



TABLE 46 Do you generally vote in provincial elections?

	Frequency	Percent
Always	359	79.8
Frequently	35	7.8
Infrequently	16	3.6
Never	40	8.9
	-----	-----
	450	100.0

TABLE 47 Do you generally vote in municipal elections?

	Frequency	Percent
Always	218	48.4
Frequently	58	12.9
Infrequently	77	17.1
Never	97	21.6
	-----	-----
	450	100.0

TABLE 48 Do you belong to a labour union or professional association (which sets or negotiates fees or rates of pay)?

	Frequency	Percent
No	349	77.6
Labour Union	52	11.6
Professional Ass.	45	10.0
Both	4	.9
	-----	-----
	450	100.0

TABLE 49 Do you generally support or oppose labour unions?

	Frequency	Percent
Support	219	48.8
Don't Know	10	2.2
Oppose	220	49.0
	-----	-----
	449	100.0

TABLE 50 Sex of the Respondent.

	Frequency	Percent
Female	238	52.9
Male	212	47.1
	-----	-----
	450	100.1

TABLE 51 Are you currently employed or unemployed?

	Frequency	Percent
Employed	247	55.0
Involuntarily Unemployed	44	9.8
Voluntarily Unemployed	158	35.2
	-----	-----
	449	100.0

TABLE 52 What is your principal occupation?

	Frequency	Percent
Homemaker, Retired	153	34.0
Semi-skilled/General Work, Clerical/Junior Sales, Skilled Trade or Craft	112	24.9
Self-employed, Managerial/Exec. Sales, Professional	104	23.1
Other	71	15.8
No Answer	10	2.2
	-----	-----
	450	100.0

TABLE 53 What is your education?

	Frequency	Percent
Grade 13 or Less	214	47.8
More than Grade 13 Education	234	52.2
	-----	-----
	448	100.0

TABLE 54 Have you ever taken any economic courses?

	Frequency	Percent
Yes	96	21.4
No	352	78.6
	-----	-----
	448	100.0

TABLE 55 If yes, how many?

Number of Courses	Frequency	Percent
1	40	8.9
2	28	6.2
3	15	3.3
4	6	1.3
5	2	0.4
6	2	0.4
8	1	0.2
12	1	0.2
15	1	0.2
	-----	-----
	96	21.4

TABLE 56 Are you either a renter or a Landlord?

	Frequency	Percent
Renter	146	32.6
Landlord	77	17.2
Neither	225	50.2
	-----	-----
	448	100.0

TABLE 57 What is your current age?

	Frequency	Percent
44 yrs. or less	219	48.9
Above 44 years	229	51.1
	-----	-----
	448	100.0

TABLE 58 What is your combined family income from all sources before taxes and deductions?

	Frequency	Percent
0 to \$29,999	195	43.3
\$30,000 up	176	39.1
Refuse to Answer	79	17.6
	-----	-----
	450	100.0

**APPENDIX B**  
**THE QUESTIONNAIRE**

**KEY:**

One of the following identifying marks appears beside each question:

- P = Preference question
- K = Knowledge question
- SE = Self-evaluation question
- D = Demographic question

Additionally, the following mark may also appear:

- M = Magnitude question

INTERVIEWER'S NAME: \_\_\_\_\_  
FIRST LAST

RESPONDENT'S  
NAME \_\_\_\_\_  
ADDRESS \_\_\_\_\_

DATE: | | | | | | | |  
-----

TELEPHONE \_\_\_\_\_ - \_\_\_\_\_  
APPOINTMENT DATE: \_\_\_\_\_  
TIME: \_\_\_\_\_

INTERVIEW START: | | | | | | | |  
-----  
HR MIN

I have a few questions and statements on the issue of free trade. First:

1. On balance, would you support or oppose Canada adopting free trade with the United States?

-----  
| Probe: 'Strongly Support' or 'Somewhat Support' |  
OR 'Strongly Oppose' or 'Somewhat Oppose'

1 Strongly Support      2 Somewhat Support      4 Somewhat Oppose      5 Strongly Oppose      1 |      |  
-----

-----DO NOT READ-----  
|      3                      6      |  
D.K.\N.O.      R.T.A.

2. ... Agree..or..Disagree...? "Most economic experts are in favour of Canada adopting free trade with the United States."

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1 Strongly Agree      2 Somewhat Agree      4 Somewhat Disagree      5 Strongly Disagree      2 |      |  
-----

-----DO NOT READ-----  
|      3                      6      |  
D.K.\N.O.      R.T.A.





5. Now, on the subject of "tariffs", or as they are some-  
 SE times called, custom duties. Overall, would you say that  
 you are informed..or..not informed about the economic  
 consequences of charging a tariff on imported goods?

-----  
 | Probe: 'Well informed' or 'Somewhat informed' |  
OR 'Somewhat not informed' or 'Definitely not informed'

1	2	4	5	5
Well Informed	Somewhat Informed	Somewhat Not Informed	Definitely Not Informed	

-----DO NOT READ-----

3	6
D.K.\N.O.	R.T.A.

6. On balance, would you say that you oppose..or..support  
 P charging a tariff on imported goods?

-----  
 | Probe: 'Strongly Support' or 'Somewhat Support' |  
OR 'Strongly Oppose' or 'Somewhat Oppose'

1	2	4	5	6
Strongly Support	Somewhat Support	Somewhat Oppose	Strongly Oppose	

-----DO NOT READ-----

3	6
D.K.\N.O.	R.T.A.

7. ...Agree..or..Disagree ...? "Most economic experts  
K are in favour of charging a tariff on goods imported  
into Canada."

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	7   <input type="checkbox"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----

| 3 6 |  
D.K.\N.O. R.T.A.

8. "Tariffs on imported goods cost jobs in Canadian industries  
K producing similar goods." ... Agree..or..Disagree ...?

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	8   <input type="checkbox"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----

| 3 6 |  
D.K.\N.O. R.T.A.

9. ... Agree..or..Disagree ...? "Tariffs on imported goods cause Canadian consumers to pay more for imported goods than they would otherwise pay."

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	9   <input type="checkbox"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

10. ... Agree..or..Disagree ...? "Tariffs on imported goods cause Canadian consumers to pay less for similar goods produced here in Canada."

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	10   <input type="checkbox"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

11. Now, on the subject of.. "import quotas"... Overall,  
 SE would you say that you are.. informed, or not informed  
 about the economic consequences of imposing quotas on  
 imported goods?

-----  
 | Probe: 'Well informed' or 'Somewhat informed' |  
OR 'Somewhat not informed' or 'Definitely not informed'

1	2	4	5	11	
Well Informed	Somewhat Informed	Somewhat Not Informed	Definitely Not Informed		

-----DO NOT READ-----  
 |           3                  6          |  
D.K. \ N.O.     R.T.A.

12. On balance, would you say that you oppose..or..support  
 P imposing quotas on imported goods?

-----  
 | Probe: 'Strongly Support' or 'Somewhat Support' |  
OR 'Strongly Oppose' or 'Somewhat Oppose'

1	2	4	5	12	
Strongly Support	Somewhat Support	Somewhat Oppose	Strongly Oppose		

-----DO NOT READ-----  
 |           3                  6          |  
D.K. \ N.O.     R.T.A.

13. ... Agree..or..Disagree ...? "Most economic experts  
 K are not in favour of imposing quotas on imported goods."

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	13   <input type="checkbox"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 | 3 6 |  
D.K.\N.O. R.T.A.

14. ...Agree..or..Disagree ...? "Import quotas on goods  
 K cost jobs in Canadian industries producing similar goods."

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	14   <input type="checkbox"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 | 3 6 |  
D.K.\N.O. R.T.A.

15. "Import quotas cause Canadian consumers to pay less for imported goods than they would otherwise pay."  
 K ... Agree..or..Disagree ...?

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	15   <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px; vertical-align: middle;"></span>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

16. ... Agree..or..Disagree ...? "Quotas on imported goods cause Canadian consumers to pay more for similar goods...produced here in Canada."  
 K

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	16   <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px; vertical-align: middle;"></span>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

Please give me your response to the following statements and questions pertaining to the garment..or clothing industry in Canada.

17. ... Agree..or..Disagree ...? "The garment industry in Canada is not affected by tariffs and quotas on imported clothing."

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	17
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
| 3 6 |  
D.K.\N.O. R.T.A.

18. Trade restrictions have, in fact, been imposed on garments coming into Canada. Would you say that trade restrictions have had the effect of increasing, decreasing or leaving unaffected the price of say, imported dress shirts?

1	2	4	18
Increasing	Decreasing	Leaving unaffected	

-----DO NOT READ-----  
| 3 6 |  
D.K.\N.O. R.T.A.

-----  
| If respondent answers "Leave unaffected" enter 000 to |  
question 19 and proceed to question 20.





21. By what percentage would you increase the price of imported dress shirts, above what it would otherwise be if no trade restrictions were imposed on imported clothing?

	21	
--	----	--

Percentage (000 to 999)

OR

----DO NOT READ----			-----
?                     *			21
D.K.\N.O.     R.T.A.			

22. ... Agree..or..Disagree ...? "The benefits derived from protecting a job in the garment industry exceed the cost of doing so."

| Probe: 'Strongly Agree' or 'Somewhat Agree' |

|     OR   'Strongly Disagree' or 'Somewhat Disagree' |

1	2	4	5		22
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree		

----DO NOT READ----	
3                     6	D.K.\N.O.     R.T.A.

23. How much would you say it costs Canadian consumers each year..to protect each job in our garment industry..which pays about \$16,000 per year?

K&M

-----  
 | | | | | | |  
 -----

23 |-----  
 | | | | | | |  
 -----

Dollars

OR

----DO NOT READ-----  
 |       ?                   \*       |  
D.K.\N.O.     R.T.A.

(? or \*) 23 |-----  

24. In your opinion, if the decision were entirely yours, how much should be the total cost to consumers each year, for each job we protect in our clothing industry...which pays about \$16,000 per year?

P&M

-----  
 | | | | | | |  
 -----

24 |-----  
 | | | | | | |  
 -----

Dollars

OR

----DO NOT READ-----  
 |       ?                   \*       |  
D.K.\N.O.     R.T.A.

(? or \*) 24 |-----  

25. Do you agree or disagree with saving a job if it **doesn't**  
P pay for itself?

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	25
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----

| 3 6 |  
D.K.\N.O. R.T.A.

I will now read you a few statements on the agricultural industry  
in Canada.

26. The income levels of farmers are, on average, higher,  
K lower, or about the same as those of the average non-farm  
family in Canada?

1	2	4	26
Higher	Lower	Same	

-----DO NOT READ-----

| 3 6 |  
D.K.\N.O. R.T.A.

27. ... Agree..or..Disagree ...? "Farmers generally **should**  
 P receive financial assistance from taxpayers & consumers."

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	27   <input style="width: 40px; height: 15px;" type="text"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                          6          |  
D.K.\N.O.       R.T.A.

28. .. Agree..or..Disagree ...? "Financial assistance to  
 K farmers is not necessary so as to ensure Canadians of  
 adequate supplies of food."

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	28   <input style="width: 40px; height: 15px;" type="text"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                          6          |  
D.K.\N.O.       R.T.A.

29. "Many farming occupations (including chicken, turkey, dairy, and egg farmers) are presently not receiving financial assistance." ... Agree..or..Disagree ...?

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	29   <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px; vertical-align: middle;"></span>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

30. ... Agree..or..Disagree ...? "The benefits of programmes meant to financially aid farmers in Canada do not go mostly to the farmers in greatest need."

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	30   <span style="border: 1px solid black; display: inline-block; width: 20px; height: 15px; vertical-align: middle;"></span>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

The following questions and claims deal specifically with the dairy industry in this province.

31. First... Agree..or..Disagree ...? "B.C. dairy farmers, given your perception of their incomes, should receive financial assistance from taxpayers and consumers."

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	31
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
| 3 6 |  
D.K.\N.O. R.T.A.

32. ... Agree..or..Disagree ...? "B.C. dairy farmers currently are not receiving financial assistance."

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	32
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
| 3 6 |  
D.K.\N.O. R.T.A.

33. "The B.C. milk board currently is regulating the price of fresh dairy products in this province."  
 K Agree..or..Disagree ...?

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	33   <input type="text"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	----- -----

-----DO NOT READ-----  
 |       3                   6       |  
D.K.\N.O.       R.T.A.

The B.C. milk board currently, in fact, is regulating the dairy industry.

34. If there were no government regulation, do you think  
 K the price of milk would fall, rise, or remain the same?

1	2	4	34   <input type="text"/>
Fall	Rise	Remain the same	----- -----

-----DO NOT READ-----  
 |       3                   6       |  
 | D.K.\N.O.       R.T.A.       |

-----  
 | If respondent answers "Remain the same", enter 000 |  
to question 35 and proceed to question 36.





37. ... Agree..or..Disagree ...? "Just considering the economic gains and losses, current regulation of the dairy industry by the B.C. milk board is undesirable."  
 K

-----  
 | Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	37   <input type="checkbox"/>
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

Please give me your reaction to the following statements regarding rent controls.

38. Overall, would you say that you generally support..or..  
 P oppose the use of rent controls?

-----  
 | Probe: 'Strongly Support' or 'Somewhat Support' |  
OR 'Strongly Oppose' or 'Somewhat Oppose'

1	2	4	5	38   <input type="checkbox"/>
Strongly Support	Somewhat Support	Somewhat Oppose	Strongly Oppose	

-----DO NOT READ-----  
 |           3                   6           |  
D.K.\N.O.   R.T.A.

39. ..Agree or disagree..."Economic experts generally are  
K not in favour of the use of rent controls."

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	39
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
| 3 6 |  
D.K.\N.O. R.T.A.

40. "Rent controls contribute to the deterioration in the  
K quality of rental accommodation over time."

-----  
| Probe: 'Strongly Agree' or 'Somewhat Agree' |  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	40
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
| 3 6 |  
D.K.\N.O. R.T.A.

41. "Rent controls are a solution to, rather than a contributing cause of, a housing shortage."

Probe: 'Strongly Agree' or 'Somewhat Agree'  
OR 'Strongly Disagree' or 'Somewhat Disagree'

1	2	4	5	41
Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	

-----DO NOT READ-----  
| 3 6 |  
D.K.\N.O. R.T.A.

The following three questions pertain to government spending.

42. What percentage of the federal government's total expenditures would you say goes towards national defense?

	42
--	----

Percentage (000 to 999)

OR

-----DO NOT READ-----  
| ? \* | ( ? or \* ) 42 | |  
D.K.\N.O. R.T.A.

43. What percentage of the B.C. government expenditures  
K would you say goes towards highways?

-----  
| | | |  
-----

-----  
43 | | | |  
-----

Percentage (000 to 999)

OR

-----DO NOT READ-----  
| ? \* |  
D.K. \ N.O. R.T.A.

-----  
(? or \*) 43 | | | |  
-----

44. What percentage of Kelowna's residential property taxes  
K would you say goes towards education (ie. to local School  
District #23)?

-----  
| | | |  
-----

-----  
44 | | | |  
-----

Percentage (000 to 999)

OR

-----DO NOT READ-----  
| ? \* |  
D.K. \ N.O. R.T.A.

-----  
(? or \*) 44 | | | |  
-----

45. Do you generally vote in federal elections?

D

Always | 1 |

Frequently | 2 |

Infrequently | 3 |

Never | 4 |

45 | |

46. Do you generally vote in provincial elections?

D

Always | 1 |

Frequently | 2 |

Infrequently | 3 |

Never | 4 |

46 | |

47. Do you generally vote in municipal elections?

D

Always | 1 |

Frequently | 2 |

Infrequently | 3 |

Never | 4 |

47 | |

48. Do you belong to a labour union or professional association (which sets or negotiates fees or rates of pay)?

D

Probe: If "Yes": labour union or professional association?

1 No 2 Labour union 4 Professional association 5 Both

48 | |

DO NOT READ

3 D.K.\N.O. 6 R.T.A.

49. Do you generally support or oppose labour unions?

D

-----  
| Probe: 'Strongly Support' or 'Somewhat Support' |  
OR 'Strongly Oppose' or 'Somewhat Oppose'

1	2	4	5	49
Strongly Support	Somewhat Support	Somewhat Oppose	Strongly Oppose	

-----DO NOT READ-----

3	6	
D.K.\N.O.	R.T.A.	

-----

-----  
Interviewer codes this question from observation

50. Sex of the respondent.

D

Male   M	Female   F	50
----------	------------	----

51. Are you currently employed or unemployed?

D -----  
| Probe: If Unemployed: voluntarily or involuntarily |  
unemployed?

Employed | 1 | Involuntarily | 2 | Voluntarily | 3 |  
          |   | unemployed       |   | unemployed   |   |

51 |   |  
    |   |

52. What is your principal occupation?

D -----  
| Free recall and interviewer records the |  
most appropriate response.

- \_\_\_\_\_ 1. Homemaker
- \_\_\_\_\_ 2. Semi-skilled/general work
- \_\_\_\_\_ 3. Clerical/junior sales
- \_\_\_\_\_ 4. Skilled trade or craft
- \_\_\_\_\_ 5. Self-employed
- \_\_\_\_\_ 6. Managerial/executive sales
- \_\_\_\_\_ 7. Professional
- \_\_\_\_\_ 8. Retired
- \_\_\_\_\_ 9. Other, specify \_\_\_\_\_
- \_\_\_\_\_ 0. No answer

52 |   |  
    |   |



53. What is your education? How many years of school have you completed (with or without a secondary school certificate?)

-----  
| Read alternatives 1 - 8 |

53 |     |  
-----

- \_\_\_\_\_ 1. Less than grade 5
- \_\_\_\_\_ 2. Grades 5 to 8
- \_\_\_\_\_ 3. Grades 9 to 10
- \_\_\_\_\_ 4. Grades 11 to 13
- \_\_\_\_\_ 5. Post secondary education (with or without diploma)
- \_\_\_\_\_ 6. Some university
- \_\_\_\_\_ 7. Completed university
- \_\_\_\_\_ 8. Graduate school
- \_\_\_\_\_ 0. No answer

54. Have you ever taken any economic courses?

D                    -----  
                  No | 1 |                    Yes | 2 |

54 |     |  
-----

(If No, skip  
to Q. 56)

55. (If Yes) How many?

D                    -----  
                  |                    |  
                  -----

55 |     |  
-----

56. Are you either a renter or a landowner?

D -----  
| Probe: If respondent answers "Landlord", clarify that you |  
mean "one who owns accommodation that is rented out."

1                      2                      3                      56 |      |  
-----  
Renter                  Landlord                  Neither

57. What is your current age?

D -----  
Read alternatives 1-12

- \_\_\_\_\_ 1. Less than 20 years
- \_\_\_\_\_ 2. 20 to 24 years
- \_\_\_\_\_ 3. 25 to 29 years
- \_\_\_\_\_ 4. 30 to 34 years
- \_\_\_\_\_ 5. 35 to 39 years
- \_\_\_\_\_ 6. 40 to 44 years
- \_\_\_\_\_ 7. 45 to 49 years
- \_\_\_\_\_ 8. 50 to 54 years
- \_\_\_\_\_ 9. 55 to 59 years
- \_\_\_\_\_ 10. 60 to 64 years
- \_\_\_\_\_ 11. 65 to 69 years
- \_\_\_\_\_ 12. 70 years or more
- \_\_\_\_\_ 00. No answer

-----  
57 |      |  
-----

58. What is your combined family income from all sources,  
D before taxes and deductions?

- |       |                         |    |      |
|-------|-------------------------|----|------|
| _____ | 1. Less than \$5,000    | 58 | ---- |
| _____ | 2. \$ 5,000 to \$ 9,999 |    | ---- |
| _____ | 3. 10,000 to 14,999     |    |      |
| _____ | 4. 15,000 to 19,999     |    |      |
| _____ | 5. 20,000 to 24,999     |    |      |
| _____ | 6. 25,000 to 29,999     |    |      |
| _____ | 7. 30,000 to 34,999     |    |      |
| _____ | 8. 35,000 to 39,999     |    |      |
| _____ | 9. 40,000 to 44,999     |    |      |
| _____ | 10. 45,000 to 49,999    |    |      |
| _____ | 11. 50,000 to 54,999    |    |      |
| _____ | 12. 55,000 to 59,999    |    |      |
| _____ | 13. 60,000 to 64,999    |    |      |
| _____ | 14. 65,000 and over     |    |      |
| _____ | 00. No answer           |    |      |

Do you have any comments or questions about this survey?  
RESPONDENT'S COMMENTS:

You have been most helpful. Thank you very much.

TIME OUT: | | | | |  
-----  
HR MIN

INTERVIEWER'S COMMENTS:

APPENDIX C

SAMPLE MONOLOGUE USED BY TELEPHONE INTERVIEWERS IN REQUESTING  
THE PUBLICS' COOPERATION IN BEING INTERVIEWED

Hi, my name is ..... I'm a student at .....  
College (University) working on a research project. I've been  
instructed to speak with the member of the household, 18 years of  
age or over, who is having the next birthday. Might he or she be  
available please?

(Hi, I'm a student at ..... ) I'm working on a  
government grant. My work is part of a research project out of  
Simon Fraser University which involves surveying the opinion of  
taxpayers and voters on government policies.

The researchers believe that your opinion on what the government  
is or is not doing with your tax dollars is very important. Would  
it be possible, please, to make an appointment with you, at your  
convenience - say tomorrow or shortly after?

(In person interview is required by the director of research to  
ensure quality data -- confidentiality is assured)

Director of research: D. McGuire, Economics Department:

762 5445

Approving body: Vice - President of Research, Simon Fraser  
University

APPENDIX D

TABLE OF RESPONDENTS' PROTECTIONIST PREFERENCES AND TABLE OF RESPONDENTS' VIEW OF EXPERTS' PROTECTIONIST PREFERENCES

KEY:

----- x = number of respondents within each cell who support  
 | x / | free trade (Table 1) or feel that experts support  
 | / y | free trade (Table 2).  
 ----- y = number of respondents within each cell who oppose  
 free trade (Table 1) or feel that experts oppose  
 free trade (Table 2).

TABLE 1: RESPONDENTS WHO SUPPORT (n=234) / OPPOSE (n=179) FREE TRADE AND SUPPORT OR OPPOSE TARIFFS AND QUOTAS.

		QUOTAS		
		Support	Oppose	
T A R R I F S	Support	64 / / 113	24 / / 21	n=413
	Oppose	57 / / 26	89 / / 19	

TABLE 2: RESPONDENTS WHO FEEL THAT EXPERTS SUPPORT (n=220) / OPPOSE (n=74) FREE TRADE AND EXPERTS SUPPORT OR OPPOSE TARIFFS AND QUOTAS.

		QUOTAS		
		Support	Oppose	
T A R R I F S	Support	68 / / 33	43 / / 16	n=294
	Oppose	41 / / 13	68 / / 12	

## APPENDIX E

TABULATION OF MACRO FINDINGS WHERE SUFFICIENT EVIDENCE WAS FOUND TO REJECT THE NULL HYPOTHESIS THAT THE QUESTION RESPONSE IS INDEPENDENT OF DEMOGRAPHIC SUBGROUPS (AT A 95% CONFIDENCE LEVEL)

**Note:** Demographic question responses (Q45-Q58) are listed columnar on the right (Q55 is omitted because it was interpreted in the same way in which we analyzed Q54). For a short description of demographic questions, see the question explanation beside Q45-Q58 near the bottom of the page. For a full interpretation of demographic subgroups, see Appendix A, questions 45-58.

### KEY:

#### For Non-Magnitude Questions:

\* = Significantly not independent.

#### For Magnitude Questions:

\* = Significantly not independent when grading responses individually as pass/fail.

m = Significantly not independent when comparing mean response of demographic subgroups.

b = Significantly not independent for both of the above.

	Q45	Q46	Q47	Q48	Q49	Q50	Q51	Q52	Q53	Q54	Q55	Q56	Q57	Q58
Q1 Free Trade Preference					*	*			*	*				*
Q2 Experts Favor Free Trade		*	*		*	*					*	*		*
Q3 Effect of Free Trade on Income					*	*				*				*
Q4 % Magnitude of Free Trade on Income					m	b								
Q5 Tariff Consequences Informedness	*	*	*	*	*	*		*	*	*				
Q6 Tariff Preference					*									
Q7 Experts Favor Tariffs					*	*				*				
Q8 Tariffs Cost Domestic Jobs			*		*	*				*				*
Q9 Tariffs Raise Price of Imported Goods							*						*	*
Q10 Tariffs Lower Price of Domestic Goods					*	*		*		*		*		*
Q11 Quota Consequences Informedness			*	*	*	*	*	*	*					
Q12 Quota Preference			*	*	*	*	*	*	*					
Q13 Experts Oppose Quotas	*	*	*	*	*	*	*	*	*	*	*			*
Q14 Quotas Cost Domestic Jobs			*	*	*	*	*	*	*	*	*			*
Q15 Quotas Lower Price of Imported Goods			*	*	*	*	*	*	*	*	*			*
Q16 Quotas Raise Price of Domestic Goods										*				
Q17 Garment Industry Unaffected by Tariff/Quotas								*	*	*	*			*
Q18 Effect of Trade Restrictions on Shirt Prices							*	*	*	*	*			*
Q19 % Magnitude of Trade Restrictions on Shirts				m	*	*	m	m	m	m	m			m
Q20 Raise Price of Imported Shirts Preference					*	*								*
Q21 % Magnitude of Prices for Shirts Preference				*	m	b								m
Q22 The Benefits of Job Protection Exceed Costs					*	*								*
Q23 \$ Magnitude Effect of Protecting Garment Job														m
Q24 \$ Magnitude Preference of Protecting Job				m	m	m				m	m			m
Q25 Save Job That Doesn't Pay Itself Preference				*	*									*
Q26 Relative Income of Farmers					*	*		*	*	*	*			*
Q27 Farm Aid Preference	*	*			*	*		*	*	*	*			*
Q28 Farm Aid Unnecessary to Ensure Adequate Food	*	*			*	*		*	*	*	*			*
Q29 Many Farming Occupations Not Now Getting Aid				*			*	*	*	*	*			*
Q30 Farm Aid Doesn't Go to Ones in Greatest Need														*
Q31 B.C. Dairy Farm Aid Preference	*			*	*	*			*	*	*	*	*	*
Q32 B.C. Dairy Farmers Not Now Getting Aid				*	*	*		*	*	*	*			*
Q33 B.C. Milk Board Now Regulating Dairy Prices					*	*		*	*	*	*			*
Q34 Effect of Deregulation on Milk Prices	*	*			*	*						m		*
Q35 % Magnitude of Deregulation of Milk Prices	m	m		m	*	*								*
Q36 % Magnitude of Dairy Price Change Preference	m		m	m	*	*	m							m
Q37 B.C. Milk Board Regulation is Undesirable					*	*		*	*	*	*			*
Q38 Rent Control Preference					*	*	*	*	*	*	*			*
Q39 Experts Oppose Rent Controls	*				*	*	*	*	*	*	*			*
Q40 Rent Controls Deteriorate Rental Quality					*	*	*	*	*	*	*			*
Q41 Rent Controls Solution to Housing Shortage	*	*	*		*	*			*	*	*			*
Q42 % of Federal Gov't Expenditures on Defense	m	m		m	m	m		m	m	m				*
Q43 % of B.C. Gov't Expenditures on Highways					m	m		m	m	m				*
Q44 % of Kelowna's Property Taxes to Schools	m	m	m	m	m	m		m				m	m	*
Q45 Vote Federally	*	*	*	*			*	*	*	*				*
Q46 Vote Provincially	*	*	*	*			*	*	*	*		*	*	*
Q47 Vote Municipally	*	*					*	*	*	*	*	*	*	*
Q48 Union or Professional Association Member	*	*		*			*	*	*	*	*			*
Q49 Labor Union Support			*				*	*	*	*	*			*
Q50 Gender		*	*	*	*	*	*	*	*	*	*	*	*	*
Q51 Employment Status		*	*	*	*	*	*	*	*	*	*	*	*	*
Q52 Occupation	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Q53 Education	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Q54 Taken Economic Courses			*		*	*	*	*	*	*	*	*	*	*
Q56 Renter/Landlord/Neither	*	*	*		*	*	*	*	*	*	*	*	*	*
Q57 Age	*	*	*		*	*	*	*	*	*	*	*	*	*
Q58 Income			*		*	*	*	*	*	*	*	*	*	*

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