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1. Editorial

In 2008, our Institute experienced an important structural change. Prof. Dr. MICHAEL LECHNER and his team working in the fields of labour markets and econometrics left our Institute and joined the Swiss Institute for Empirical Economic Research. This means that an important focus area of our activities and a sizable number of collaborators changed their institutional home. We now have a stronger focus on international economics and economic policy formulation and work with a smaller labour force and a reduced budget. This change was part of a broader restructuring process at the economic institutes at the University of St Gallen aimed at achieving greater thematic coherence in their activities.

We regret Prof. Dr. MICHAEL LECHNER’s departure from our Institute but we also understand the broader logic of the restructuring process. Dr. MICHAEL LECHNER strongly contributed to the international reputation of our Institute and was also a very congenial colleague. He always had high expectations of himself and others, setting high standards to his work as well as to that of his collaborators, and had a lasting impact on our activities. We would like to thank him for his support over the last 10 years and wish him all the best for his future.

The year 2008 was also marked by another important change. Prof. Dr. HEINZ HAUSER was appointed professor emeritus on 1 August 2008. He will continue to participate in the Institute’s activities until the end of July 2009, but then leave his position as its director. He has been head of the international economics department since 1981, strongly influencing its research orientation. In 2005, Prof. Dr. SIMON EVENETT joined the Institute as co-director of the international economics section, and on 1 February 2009 Prof. Dr. CARSTEN FINK joined the Institute as Prof. Dr. HEINZ HAUSER’s successor in the chair of international economics. These personal changes signal both continuity and change. While the world trade order will remain a central focus of our activities, the direct links to Swiss policy making might become weaker. As a matter of fact, both Prof. Dr. SIMON EVENETT and Prof. Dr. CARSTEN FINK have strong networks to international organisations such as OECD, WTO and World Bank.

University institutes have an important training function for doctoral students. In last year’s editorial we highlighted academic careers of our assistants. Many have taken the practical route and are now holding important management positions in private and public institutions. Just to mention a few from a long list: Dr. HANS-ULRICH DOERIG, President of Credit Suisse, was assistant at the Institute just as Dr. URS HAUSMANN, Partner and President of Wüest and Partner AG, Dr. HERBERT OBERHÄNSLI, Head of Economics and International Relations of Néstle SA, Dr. PATRICK RAALFAUB, Director of the Swiss Financial Market Regulatory Authority FINMA, or Dr. MARCEL SAVIOZ, Head of the Research Department of the Swiss National Bank. Graduates of more recent years have also gained interesting positions in a wide range of organisations. Just to name a few: Dr. INGO BORCHERT (World Bank), Dr. ALEXANDER ROTINGER (Mc Kinsey), Dr. CHRISTOPH SCHALTEGGER (economiesuisse), Dr. SACHA WUNSCH-VINCENT (OECD), or Dr. THOMAS A. ZIMMERMANN (Swiss State Secretariat of Economic Affairs, Seco). We are convinced that it is an important mission for our Institute to train young economists with high potential for an interesting career at the interface between the spheres of economics and politics. We take this commitment very seriously and are proud of our graduates’ success.
We do not want to close without expressing our gratitude to the authorities and all collaborators. The Canton of St Gallen provides us with a high degree of autonomy which facilitates both our research and international orientation. This is a governing structure for which we are thankful to the authorities. Our thanks also go to the members of the Governing Board, chaired by Professor PETER NOBEL,

and of the Institute’s Association of Sponsoring Institutions, chaired by ERIKA FORSTER, member of the Swiss Upper Chamber, who give us financial support as well as valuable suggestions and advice. Last but not least, our special thanks go to all our collaborators and staff. Without their ongoing high commitment we would not be able to maintain our high level of activity.

St Gall, 14 March 2009

Prof. Dr. Simon J. Evenett  Prof. Dr. Heinz Hauser  Prof. Dr. Gebhard Kirchgässner
2. Staff

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Prof. Dr. PETER NOBEL
Prof. Dr. AYMO BRUNETTI
Ständerätin ERIKA FORSTER
Prof. Dr. BRUNO JEITZINER
Prof. Dr. CHRISTIAN KEUSCHNIGG
Prof. Dr. ERNST MOHR

Executive Board

Prof. Dr. SIMON EVENETT
Prof. Dr. HEINZ HAUSER
Prof. Dr. GEBHARD KIRCHGÄSSNER
Prof. Dr. MICHAEL LECHNER (until 01 May)

Departments

International Economics

Prof. Dr. SIMON J. EVENETT
AUGUSTIN CORNEJO (until 31 January)
DARIO FAUCEGLIA (since 01 June)
JOHANNES FRITZ (since 01 September)
DARYA GERASIMENKO (since 15 September)
STEFANIE HOFMANN (until 31 March)
MALWINA NOWAKOWSKA
MARTIN WERMELINGER (since 15 March)

Prof. Dr. HEINZ HAUSER
ANDREAS BÖHM (until 30 September)
INGO BORCHERT (until 31 July)
ANDREA MÄCHLER (until 30 April)

Economic Policy

Prof. Dr. GEBHARD KIRCHGÄSSNER
FLORIAN HABERMACHER (since 15 November)
THORSTEN UEHLEIN (until 30 September)
Research Fellows
Prof. Dr. Lars P. Feld
Prof. Dr. Jürgen Wolters

Research Associates
Dr. Christoph A. Schaltegger
Dr. Sacha Wunsch-Vincent
Dr. Thomas A. Zimmermann

Secretariat
Michele Lampert (since 01 October)
Gabriela Schmid
Rita Widler (until 31 October)
3. Research Activities

3.1 Section International Economics

Directors: Prof. Dr. SIMON J. EVENETT

Prof. Dr. HEINZ HAUSER

Researchers:

AUGUSTIN CORNEJO (until 31 January)
DARIO FAUEGLIA (since 01 June)
JOHANNES FRITZ (since 01 September)
DARYA GERASIMENKO (since 15 September)
STEFANIE HOFMANN (until 31 March)
MALWINA NOWAKOWSKA

ANDREAS BÖHM (until 30 September)
INGO BORCHERT (until 31 July)
ANDREA MÄCHLER (until 30 April)

Secretariat:

MICHELÉ LAMPERT (since 01 October)
RITA WIDLER (until 31 October)

A) General Objectives of Our Research

Prof. Dr. SIMON EVENETT, Prof. Dr. CARSTEN FINK (as of 1 February 2009) and Prof. Dr. HEINZ HAUSER (until 1 July 2009) co-chair the International Economics Section. They all share a strong belief that the Institute’s activities should be based on rigorous theory but have a strong policy orientation.

Much of our research is devoted to developing a better understanding of the multilateral trading system and its consequences for international commerce and the wealth of nations. An important objective is to undertake research that is of interest to scholars, policy-makers, leading business people, and members of civil society who follow developments in the multilateral trading system. As a result, our research often draws upon institutional knowledge and recent policy proposals while, at the same time, using microeconomic tools and econometrics. In this respect, a challenge often faced is to maintain academic rigour without losing the non-academic audience for our research. The dissemination of our research to many different fora is a complementary objective, and we go to considerable lengths to present our research not only at academic conferences and international organisations such as the OECD, WTO, UNCTAD, World Bank, and regional development banks, but also to non-specialist audiences. Given the diverse audiences for our research findings, it should not be surprising that our writings are published in a wide range of different formats and sources, including our own publication, the journal Aussenwirtschaft.
B) The Team

Prof. SIMON J. EVENETT, PhD, is Professor of International Trade and Economic Development. His research interests cover international trade and related policy areas. He serves on the Programme Commissions for the Department of Economics' PhD Programme for Economics and Finance and the HSG Executive School of Management, Technology and Law. Furthermore, he teaches courses with an international orientation in various teaching programmes of the HSG. He is guest professor at the Graduate Institute in Geneva and at the Ross Business School in Michigan, USA.

In 2008 he was appointed one of the two Directors of the International Trade and Regional Economics programme of the Centre for Economic Policy Research (CEPR, London), Europe’s most established group of academic researchers. This particular programme is extremely active and its most important annual conference was organised by SIAW staff in Appenzell during June of 2008. The conference saw some of the best international trade and economic geography researchers in the world come to our part of Switzerland. Prof. EVENETT’s appointment is for four years and other conferences are planned which will further raise the profile of the SIAW and of HSG.

Before joining our institute, Prof. Dr. CARSTEN FINK was senior economist with the World Bank and guest professor for international economics at Sciences Po in Paris. His broad research interests include international trade, institutional issues of the WTO, international investment and international regimes for intellectual property rights (TRIPS). He has been consultant to several Asian governments. His profile complements the existing portfolio of our Institute very neatly.

Prof. Dr. HEINZ HAUSER has chaired the International Economics Section since 1981 (since 2005 jointly with Prof. Dr. SIMON EVENETT). Up to his retirement in August 2008, he was a member of the Programme Committee of the Bachelor and Master Programme in International Affairs and Governance where he mainly taught international economics courses. He will continue to participate in the Institute’s activities until the end of July 2009. Prof. Dr. HEINZ HAUSER is also the managing editor of the journal Aussenwirtschaft. In his research, he concentrates on institutional questions regarding the WTO and its dispute settlement process.

After his departure from the Institute, Dr. THOMAS A. ZIMMERMANN was appointed Research Associate. He continues to support the publication of the WTO-News – the newsletter he initiated and judiciously developed in its initial years. On behalf of the Institute, he also teaches in management seminars on topics related to international economy.

After finishing his dissertation, Dr. INGO BORCHERT joined the World Bank, Washington D.C., as trade economist on 1 August 2008. We are very pleased that he could start with such a challenging position and congratulate him on this success.

MALWINA NOVAKOWSKA is research assistant to Prof. Dr. SIMON EVENETT. In addition, she holds the position of editorial assistant of the journal Aussenwirtschaft. Her strong commitment has been very helpful in increasing considerably the flow of new articles.

The following persons have joined the Institute as research and teaching assistants to Prof. Dr. SIMON EVENETT: DARIO FAUCEGLIA, JOHANNES FRITZ, DARYA GERASIMENKO, and MARTIN WERMELINGER. Since January 2009, they have been taking on additional responsibilities as assistants to Prof. Dr. CARSTEN FINK.

During 2008, ANDREAS BÖHM, ANDREA MÄCHLER, AUGUSTIN CORNEJO AND STEFANIE HOFMANN-KOTHMILLER have left the Institute to take up other assignments.
As this account shows, we experienced a high turn-over in our research group. This is due to the retirement of Prof. Dr. HEINZ HAUSER and the prospect of Prof. Dr. CARSTEN FINK entering the Institute in early 2009.

C) Own Publications

1. Journal Aussenwirtschaft

The Institute publishes the journal *Aussenwirtschaft* and can already look back on 63 volumes. Since its start, the journal has been developed as a publication meant to bridge the gap between theory and practice. This aim manifests itself in a number of characteristics: The journal addresses with priority topics that play an important role in the economic policy discussion. The contributions should be well-founded in theory but – through their presentation – easily accessible for practitioners. It is also an important goal of the journal to present research contributions or economic policy statements made by members of the Institute to a wider public.

Several articles analysed recent developments in the WTO and in preferential trade negotiations, thereby continuing a long tradition of the journal. However the 2008 edition also included a larger number of empirical papers on international trade and investments flows, which mirrors recent developments in the international trade literature. As mentioned above, the journal is also an important instrument for the dissemination of research results from our Institute. Two articles follow this tradition: CLAUDIA FRANZISKA BRÜHWILER and HEINZ HAUSER: “Biofuels and WTO Disciplines” in issue I and GEBHARD KIRCHGÄSSNER: “Parallelimporte patentgeschützter Güter: Eine Option für die Schweiz” in issue II.

2. Newsletter WTO-News

In addition to the journal *Aussenwirtschaft*, our newsletter *WTO-News* is another important instrument to position the Institute internationally. On four pages, two important issues related to the international economic order are discussed. The contributions deal with systemic WTO questions and comment on important dispute settlement cases. Moreover, short book reviews provide information on new literature that is worth reading.

Due to the personal changes in the International Economics Section, we decided to temporarily stop the production of the *WTO News* so that the new team can decide on how to continue.

D) Research Focus WTO

The International Economics Section has primarily been dealing with WTO related questions over the past few years. Prof. Dr. HEINZ HAUSER has published papers addressing institutional issues. Prof. Dr. SIMON EVENETTI is currently managing a multi-year research project on the accession process of new members. In addition, this research focus is supported by dissertation projects of our research assistants as well. Dr. AXEL FLASBARTH analysed empirically important questions concerning the inclusion of labour standards in the world trading order. Dr. ALEXANDER ROTTINGER examined the general tension between binding rules and flexibility in the WTO order. Dr. THOMAS A. ZIMMERMANN looked at the proposals for a reform of the WTO dispute settlement system put forward since 1995 and analysed their potential systemic implications for the WTO. Dr. SACHA WUNSCH-VINCENT provided one of the first comprehensive studies on the treatment of digital content services in the WTO. Dr. SANGEETA KHORANA analysed the efficiency of preferential rules of access for development, using data on Swiss agricultural imports, while Dr. XUAN LI’s dissertation covered the protection of traditional medical
knowledge, including a case study for China. Dr. SIMON SCHROPP recently finished his dissertation with a thorough law and economics analysis of the WTO agreements and institutional structure. Dr. SVETALNA NURMASHEVA analysed the tensions between regional and global approaches to trade liberalisation for the Independent States of the former Soviet Union. Further projects are work in progress.

By focusing several dissertation projects on one common thematic area, it is possible to yield synergies and to facilitate the exchange of ideas among doctoral students. For the Institute, this leads to the creation of a research programme that is mainly made possible through the self-financed work of our doctoral students.

During 2008 the International Economics Section devoted much of its resources and expertise to following the multilateral trade negotiations in Geneva (the so-called Doha Round) as well as the free trade negotiations of leading trading countries such as the European Union, the United States and Switzerland. With regard to the Doha Round, the central question concerned the factors contributing to the stalling of these negotiations. Researchers don’t typically ask this question; instead they tend to focus on the consequences of completed negotiations or the decision to launch negotiations. As a result, there is little theory to guide analyses of stalled negotiations. Both Prof. Dr. HEINZ HAUSER and Prof. SIMON J. EVENETT, PhD, have given presentations (including at the WTO headquarters in Geneva) and many interviews with the media on the state of these negotiations. The importance of the initial negotiating set-up, the growing backlash against trade reform in leading trading powers, and, for much of the negotiation, the very fast rate of export growth, appear to have limited the relative importance of the gains from completing the Doha Round to national policymakers.

E) Additional Research Priorities

1. International Competition Law and Policy

International Competition Law and Policy has been a long-standing research priority of Prof. Dr. SIMON EVENETT. In 2008, he not only published several articles in leading journals but was also elected to the Editorial Board of the Antitrust Law Journal. The interface between trade and competition policy was the subject of papers and official reports for international organisations such as the OECD, the Inter-American Development Bank or the Asian Development Bank. It can already be mentioned here that Prof. Dr. SIMON EVENETT became member of the British Competition Commission in early 2009.

2. Economic Reform in China

Research and advising on the reforms of the Chinese economy have been an important preoccupation of the International Economics Section. Prof. SIMON J. EVENETT, PhD, has been part of a small SECO funded team working on proposals for reforming various aspects of the Chinese economy in collaboration with colleagues based in Beijing. In particular, Prof. EVENETT has been considering the question of how the Chinese might upgrade their manufacturing industries in an environmentally friendly manner, possibilities for expanding their service sector and new options for Chinese trade policy. This work has involved a substantial amount of research in St Gallen and travel to China. The Chinese counterparts in this project are very senior and include one of the Chinese Prime Minister’s top economic advisers. This project will be concluded in 2009 with a series of publications that will be made publicly available.
F) Major Publications


3. Research Activities

3.2 Section Economic Policy

Director: Prof. Dr. Gebhard Kirchgässner

Researchers:
Florian Habermacher (since 15 November)
Thorsten Uehlein (until 30 September)

Secretariat:
Gabriela Schmid

A) General Objectives of our Research

In 2008, the activities of our group focused mainly on two areas. First, our research in the field of political economy was continued. This was again done in cooperation with a former colleague of our Department and a Research Fellow of our Institute, Prof. Dr. Lars P. Feld (University of Heidelberg, Germany). Secondly, a substantial part of our time was dedicated to the publication of the third German edition and the first English version of Homo Oeconomicus. The latest German edition of this book is not only an updated and revised version of the second edition, but also contains three new subchapters dealing with coordination problems, soft paternalism as well as the role of heroes in political and economic processes.

Also to be mentioned is our work in connection with the Work, Ageing and Welfare research centre which is supported by the University of St Gallen and made possible the foundation of the St Gallen Centre for Ageing, Welfare, and Labour Market Analysis (SCALA). Prof. Dr. Gebhard Kirchgässner is currently acting as spokesman of this research centre and leader of its Economic and Political Determinants of Welfare research unit.

Finally, the advisory activity of our group in the matter of federalism was continued as well. Prof. Dr. Gebhard Kirchgässner stayed in Ethiopia during one week in December where he met with staff members of the upper chamber of the Ethiopian parliament to discuss the allocation of central governmental funds to the country’s provinces.
B) The Team

PROF. DR. GEBHARD KIRCHGÄSSNER is the director of the Department for Economic Policy. In his research, he focuses on current topics in economic and especially fiscal policy, on questions of political economy, in particular in connection with the Swiss institutions of direct democracy and federalism, as well as on basic methodological questions in economics and other social sciences. In March 2008, he was elected President of the Swiss Society of Economics and Statistics.

THORSTEN UEHLEIN joined the team in autumn 2003. In his dissertation, which he finished in autumn 2008, he explored issues of tax competition in the European Union. Since September he has been doing an internship at the European Union.

FLORIAN HABERMACHER has been a team member since 2008. He studied at the Swiss Federal Institute of Technology Lausanne, where he received a Master of Science in Environmental Sciences and Engineering. He has been admitted to the PhD Programme in Economics and Finance and will address questions of environmental policy in his dissertation.

DR. CHRISTOPH A. SCHALTEGGER, who was a member of our team from 2001 to 2002 and is still attached to our Institute as a Research Associate, has handed in his habilitation at the University of St. Gallen in December.

C) Projects

1. Political Economy

One of the key questions for Switzerland is to what extent direct democracy might represent an obstacle to political reforms. In 2008, we analysed this question from the perspective of economic policy. Since at least the nineties, various sides have argued this position, though no substantive evidence has ever been presented. Earlier studies have shown that the referendum leads to a status quo bias: money invested against a proposition has systematically more influence on the outcome of a referendum than money invested in favour of a proposition. However, when comparing the Swiss system to those of other countries such as the United States or other European countries with considerably less pronounced direct democratic rights, it can be observed that Switzerland only occasionally and not generally appears to be a latecomer concerning reforms. At least up to now clear evidence that interest groups are more influential in the Swiss system than in a purely parliamentary system is lacking as well. From this point of view, there is therefore no specific need to limit direct democratic rights.

An additional subject which was addressed jointly by Prof. Dr. LARS P. FELD and Prof. Dr. GEBHARD KIRCHGÄSSNER and is also related to our project within the SCALA programme is the general question of the role of institutions in economic development. An intense international discussion focusing on the role of institutions in comparison to geographical factors as well as governance has recently developed in this field. In a first step we reviewed this discussion with a special focus on specific Swiss institutions, direct democratic rights and our extensive system of federalism. It seems to be unquestioned that economic institutions, which guarantee property rights, play a more important role than democratic institutions of democracy. In this respect, an independent judiciary is of particular importance. Democracy may have a positive rather than a negative effect on growth, though the results of individual studies in this field diverge strongly. What holds for democracy seems to be valid for federalism as well: there is no clear evidence on whether federalism obstructs or enhances growth. As is the case with direct democratic rights, economic impacts do not provide explicit arguments in favour of or against an enlargement of federalism.
A very different work in the field of political economy focused on the impact of unemployment and inflation on the popularity of the German Government of Chancellor Helmut Kohl and Gerhard Schröder, respectively. Until the end of Kohl’s chancellorship, both unemployment and inflation had a negative impact on the results of the regularly conducted popularity polls and, by consequence, most probably on Kohl’s electoral success as well. This does not seem to be the case with the Schröder government, though. We could not identify a statistically significant impact neither of unemployment nor of inflation. With regard to the unemployment rate, we got at least the expected sign, the size of the effect was comparable to the estimations for earlier governments. The lack of significance might be due to the relatively short period of office; the number of observations might be too low to achieve statistically significant results. As to the inflation, however, we sometimes even got the wrong sign. This can be interpreted as an indication that voters have recognised that monetary policy is meanwhile being performed by the European Central Bank and that the policies of the German Government as well as the German Bundesbank therefore no longer have any impact on prices in Germany.

2. Methodological Foundations of Economics and Other Social Sciences

As already mentioned in the introduction, one of our main activities last year was the revision as well as the publication of the English version of *Homo Oeconomicus*. Besides updating the bibliography this also included the integration of three new sub-chapters. The first deals with coordination problems (in the narrow sense). Such problems appear in situations where actors have to coordinate their actions without having the possibility to communicate with each other and where there exist two (or more) options of action that (at least from an external point of view) seem to be equivalent. Coordination problems, which in the meantime have also attracted the interest of philosophers, can be analysed by means of game theory. Classical game theory does not provide a solution, though, but only leads to an infinite regress. Such problems, which often turn up in reality, can be solved when the actors orientate themselves towards focal points, i.e. towards solutions offering outstanding characteristics for themselves and their partners too. Despite considerable recent efforts, research is still very much in the dark about the functioning of these processes as well as the relevant focal points.

The second sub-chapter deals with soft paternalism, an issue that recently has been taken up as a consequence of the research on anomalies. Following the traditional version of the economic model of behaviour, the differentiation between act and omission should not be relevant to the individual as long as it is not associated with – at least – some costs. However, field experiments in the area of welfare policy have shown the contrary. When, for example, workers are offered a supplementary insurance to their retirement pension when taking up a new job, the acceptance of this offer depends on its presentation. If such insurance is automatically concluded if the employee does not tick off the option that he does not desire this insurance, it is much more often accepted than in situations where he has to specifically state his agreement with this option. This is the case despite the fact that the same information is available in both situations. Such (and similar) effects can be exploited in the context of welfare policy if, for example, only a (too) small fraction of the population is insured against specific risks. It is disputed, though, to what extent it is desirable to consciously exploit these anomalies to reach certain political goals.

The third sub-chapter concerns the behaviour of heroes. Moral behaviour, a topic typically excluded from economic analyses, has already been treated in the second edition of the book, though only with regard to situations where moral behaviour imposes low costs on the acting person. Such behaviour is of enormous value to the functioning of modern societies that are characterized by a democratic political and a market-based economic system. The analysis has now been extended to situations in which the costs of moral behaviour are high. In some specific situations such behaviour can be of high social relevance, too, even though its importance is generally much lower than that of moral behaviour in low-cost situations.
3. Economic Policy Advice

The most important advisory mandate in 2008 related to the distribution of transfer payments of the central government of Ethiopia among its ten regions. These regions have only very limited own tax revenues and depend largely on transfers from the central government which account for more than 80 percent of their revenues. The allocation formula, according to which the transfers are distributed among the regions, is therefore crucial for their future development. The upper chamber of the national parliament, the House of Federation, is responsible for deciding on this formula.

The allocation formula in force up to 2007 did not treat the various regions equally at all. Smaller regions received considerably more financial resources per capita than larger ones. Understandably, this led to some discontent and ultimately to the decision to develop a new formula. In principle, the new scheme was required to be based on a per capita distribution, while taking the needs as well as the own revenue capacities of the different regions into account. The whole approach closely followed the Australian approach.

A first objective aimed at in 2007 was the establishment of a catalogue of criteria that should serve as the basis for a new formula. For this purpose, an expert commission with representatives from all regions as well as from the central government was formed. The transfer distribution resulting from the criteria proposed by this commission dramatically differed from the former one, especially for small provinces; despite a notable increase in the allocations, some provinces would have had to bear massive losses. It was obvious that it was extremely difficult to reach a consensus for such a solution. It was therefore decided that in the first year the new formula should only be applied to 25 percent of the overall funds, while 75 percent would still be distributed according to the old formula. In the second year, the new formula should be applied to 50 percent, in the third year to 75 percent and only in the fourth year to 100 percent.

For the external observer it was obvious that this consensus could not be long lasting, since already in the second or in the third year at the latest, some provinces would be so much worse off that they would oppose this solution. It is therefore no surprise that claims for a revision of the new formula were already expressed one year after its adoption.

The task of Prof. Dr. GEBHARD KIRCHGÄSSNER which brought him to Addis Ababa in December, consisted in discussing the catalogue of criteria with the new commission of the House of Federation as well as with professors of the University of Addis Ababa in a multi-day seminar and, if possible, in proposing better solutions. The latter was crucial in that some of the rules in force today are not incentive-compatible, i.e. they counter incentives for striving for own revenues and for a sensible use of the received funds. The first step therefore consisted in sensitising the members of the commission on this problem and in pointing out alternatives.

However, even with an improved catalogue of criteria it will not be possible to resolve the main conflict, i.e. the fact that large regions only get a small benefit from the intended more equal distribution of the funds, while small regions will lose quite a lot. This conflict can only partly be alleviated through additional allocations as well as a sensibly designed transition process. The basic problem still remains and will have to be solved politically.

This advisory mandate was conducted in coordination with the Swiss ambassador in Ethiopia, Mr. PETER REINHARDT, and funded by the Swiss Federal Department of Foreign Affairs.
D) Major Publications


