The political economics of Wackersdorf: Why do politicians stick to their past decisions?

FRANZ WIRL*

Institute of Energy Economics, Technical University of Vienna, Gußhausstraße 27–29, A-1040, Vienna

Submitted 16 August 1989; accepted 14 March 1990

Abstract. The politicians' reactions to changing circumstances appear often sluggish. The decisions about the construction of a nuclear reprocessing plant at Wackersdorf (Federal Republic of Germany) provide a recent example. Reprivatization of the company led to an immediate cancellation of the project due to its lack of economics. However, politicians tried (and still try) to save the project, despite a large public opposition. This may be considered as irrational because the politicians apparently account for their past investments. This paper argues that a piecemeal type of a policy is rational if voters honour both credibility and populistic decisions.

1. Introduction

The recent political events concerning the decisions whether or not to build a (nuclear waste) reprocessing plant at Wackersdorf,¹ Federal Republic of Germany, corroborate – in my opinion – the public choice theory. In 1985, the government decided to build a reprocessing plant in the small village Wackersdorf in Bavaria. This region with substantial economic and infrastructural deficiencies was destined to inhabit the first German plant to reprocess nuclear waste and to provide fuel for fast breeders. First, a nationalized company and politicians appeared to have a vested interest in the construction of such a plant. Nationalized monopolies tend to support plants and engineering challenges for pure bureaucratic reasons, often independent of economic considerations;² see Niskanen (1971) for an elaborate exposition of bureaucratic objectives. This attitude is particularly prevalent among national power utilities because the monopolistic market structure and the high demand for electricity safeguard to cover almost any conceivable costs of power generation.

Politicians consider public spending as a means to attract votes because such a spending for constructions can be claimed to create particular jobs. However,

* I acknowledge the helpful comments from an anonymous referee and the suggestions from Elisabeth Szirucsek.
economic theory doubts this net effect, e.g., consult the literature on the irrelevance theorem of public policies. Although the fast breeder reactor at Kalkar, which should use the reprocessed fuel, was cancelled, this project of a German reprocessing plant was further pursued by both, the politicians and the public consortium. The firm’s attitude changed dramatically with its privatization due to a simple economic fact: the projected plant would incur tremendous losses. More precisely, the contracts with COGEMA, the company running the reprocessing facility at LeHague, France, allow to reduce the costs by annually DM 1 billion, compared with the reprocessing costs at Wackersdorf. And this despite the fact that DM 2.5 Billion have been already spent and another DM 1 billion is required to retreat from this project. This sizeable saving facilitates to lower electricity prices up to 1 Pfennig, or roughly half a U.S. cent (Standard, 27/28 May, 1989).

However, the politicians could not change their mind as swiftly. This seems even more surprising since the public opinion changed prior to the revealing of the tremendous economic inefficiency of this plant. Frey and Eichenberger (1989a,b) view such attitudes as a confirmation that politicians respect — irrationally — sunk costs. Thus, Frey and Eichenberger would presumably consider these recent decisions of the German politicians (in particular those of the CSU, the ruling party in Bavaria) as an anomaly because they do not fit (economic) rationality. More precisely, sunk costs should be irrelevant for future decision making. Here, sunk costs represent two components, the money spent and even more important the support acquired by the politicians due to favouring a particular project.

The purpose of this paper is to rationalize and to investigate the intertemporal decisions of politicians if the public evaluation changes. The major clue in order to rationalize the stickyness of politicians’ decisions is that such a sticky (i.e., conservative) behaviour adds to their reputation as trustworthy candidates. And what appears at first sight as “sunk costs” could in effect represent a stock of electorates’ goodwill which must be — like a flower — continuously watered. More precisely, the electorate must choose a candidate (or a party) who decides on many issues, like abortion, strip mining, nuclear power, seat belting, drug enforcement, etc. As a consequence, a voter does not know in advance the future stands of the politician on all relevant issues. Therefore, a risk averse voter might prefer a candidate with stable preferences over another and less predictable candidate (e.g., the challenger) even if the candidate’s stands deviate considerably from the voter’s own preferences, in short, “the devil you know is better than the devil you don’t know.” Hence, substantial moves of a politician risk to alienate voters. Thus, a politician might prefer to change his (public) assessment slowly to maintain his reputation to be a predictable, or if you want trustworthy, candidate. Glazer and Grofman (1989) argue similarly to explain the success of ideological candi-