

# **Towards a Global Market for Good Politics**

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- **Future economic development: chances and problems**
- **How to solve the problems ?**

**With the economic approach !**

- **Two proposals**
- **What is economics?**
  - **cost AND benefit, supply AND demand**
  - **cost/benefit = everything** which humans like/dislike
  - **individuals react quite systematically to incentives**
  - **aggregate behavior is a complex aggregate of**  
**the incentives of ALL RELEVANT individual actors**
  - **economists are specialists for market failure and its cure**

## **Future economic development: bright chances**

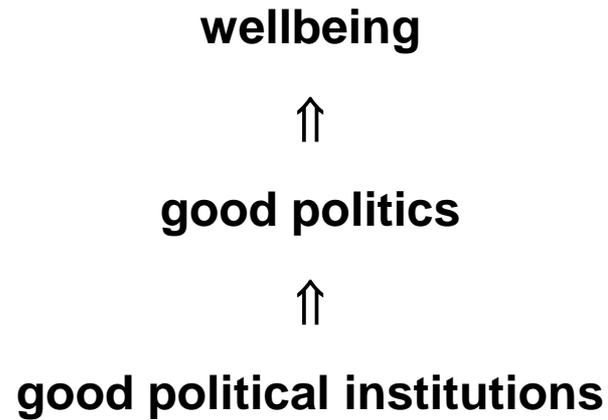
- economic growth due to technical progress
- increasing technical progress?
  - more rich countries
    - more research, patents, and growth
- but no shortage of work
  - worst case: prices drop faster than nominal salaries
    - real salaries increase
  - condition: flexible labor market

# Future economic trends: problems

- **losers of globalization: adverse effects on Terms of Trade**
  - **globalization: information and transportation cost decrease**
    - **competition more global and intense**
    - **incentives for governments to become more efficient**
    - **BUT: countries with ineffective governments lose**
    - **migration increases**
      - **boosted by increasing benefit /cost of migrants**
        - **aspirations increase**
        - **cost of migrating, networking and remittances decrease**
- ⇒ how to increase and equalize wellbeing globally?**

# How to increase and equalize wellbeing globally?

- basic principle



# What are good political institutions?

Two perspectives:

1. competition between policy suppliers for the support of citizens

- A. competition for governmental power: representative democracy
- B. competition for policy issues: direct democracy
- C. competition between jurisdictions: (functional) federalism
- D. competition between political bodies: checks and balances

2. learn from economic sphere

- a. open market for labor
- b. unbiased incentives for managers

⇒ 1. + 2. = Global Market for Politicians and City States

# Global Market for Politicians

## conditions in politics

- market entry and exit:
- number of good candidates:
- competition:
- effort:
- credibility of campaign promises:
- incentives:
- campaigning:
- productive human capital:

## today

- expensive
- often low
- weak
- weak
- low
- biased
- negative
- low

- reason: closed political markets, residential and nationality rules
- analogy: Novartis in Basle

⇒ open up market for politicians

## ... Global Market for Politicians

### conditions in politics

|                                     | today     | open market<br>for politicians |
|-------------------------------------|-----------|--------------------------------|
| - market entry and exit:            | expensive | inexpensive                    |
| - number of good candidates:        | often low | high                           |
| - competition:                      | weak      | tough                          |
| - effort:                           | weak      | high                           |
| - credibility of campaign promises: | low       | high                           |
| - incentives:                       | biased    | unbiased                       |
| - campaigning:                      | negative  | positive                       |
| - productive human capital:         | low       | high                           |

- mechanism: competition by entrants AND the opportunity for exit

## ... Global Market for Politicians

- **examples**

- **German market for mayors, esp. Baden-Württemberg**
- **St. Gallen, Thurgau vs. Solothurn, Schwyz, Valais**
- **Italian podesta in the 12/13th century**
- **city managers**

- **applications**

- **Western policy in Iraq, Afghanistan, Libya, etc.**

- **conditions for success**

- **election mechanisms which support compromise candidates**
  - **single transferable vote**

- **alleged problems**
  - **unrealistic?**
    - **historical and actual examples**
    - **«fifth freedom», EU, Euro, Dollarization, Sport**
  - **expensive?**
    - **no: explicit cost vs. implicit cost, cost vs. benefit**
  - **only for rich countries?**
    - **no: marginal returns are higher in poor countries**
  - **only for democracies?**
    - **no: most countries have democratic windows of opportunity**
  - **«hit and run» strategies, abuse of power?**
    - **no: comparative perspective, endogenous institutions**

# City states

**conditions in politics**

**in large countries**

**institutional equivalence**

**low**

**(payer = user = decider)**

**reciprocal exploitation**

**prevalent**

**elasticity of tax base**

**low**

**overtaxation and overregulation**

**prevalent**

**protectionism**

**endogenous**

- **reason: incentives typical for large centralized states**

**⇒ establish city states!**

... City states**conditions in politics****in large countries****City States**

institutional equivalence

low

high

(payer = user = decider)

reciprocal exploitation

prevalent

rare

elasticity of tax base

low

high

overtaxation and overregulation

prevalent

rare

protectionism

endogenously high

low

⇒ **establish city states!**

## ... City States

- **examples: Singapore, Hong Kong, United Arab Emirates  
Liechtenstein, Basle, Geneva**
- **City States have positive externalities on neighboring countries**
  - **positive effects of Singapore and Hong Kong in Asia**
  - **city states are lacking in Africa**
- **conditions for success**
  - **clear borders**
  - **no endogenous growth**
  - **good location: more than one neighbor, open sea**
  - **number of competing City States**
  - **effective migration policy**

**⇒ Crimea ?**

**= almost ideal City State**

## **Conclusions**

- **good economic prospects**
- **good political governance is becoming more important**
- **very simple strategy: Global Market for Good Politics**
- **more expensive strategy: swarms of City States**