

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

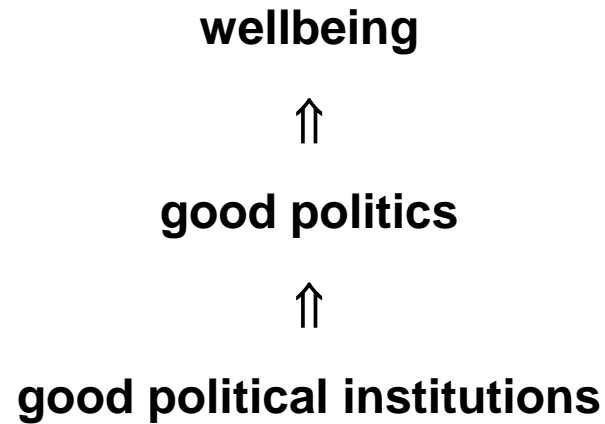
- economic growth due to technical progress
- increasing technical progress?
 - more rich countries
 - more research, patents, and growth
- but no shortage of work
 - worst case: prices drop faster than nominal salaries
 - real salaries increase
 - condition: flexible labor market

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

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open market for politicians

- inexpensive
- high
- tough
- high
- high
- unbiased
- positive
- 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**