

Obama for East African Central Bank President!?



Improving living standards by allowing foreign central bank presidents within a common currency area

presented by

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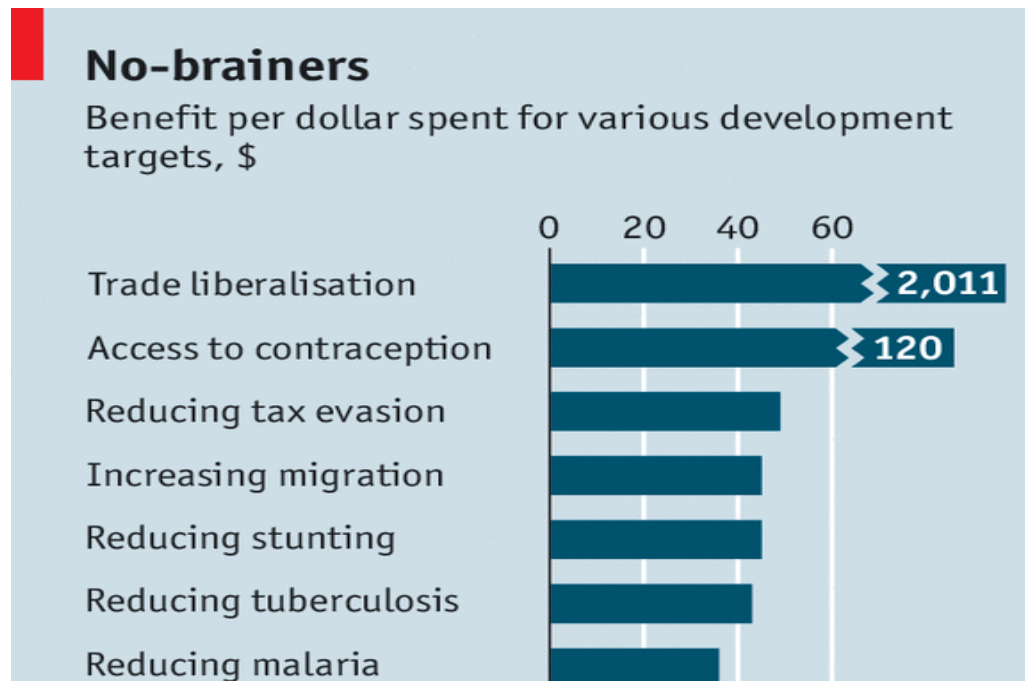
Poverty in East Africa

- Poverty Headcount Ratio at 1.25\$/day (see World Bank 2015)
 - Kenya: 45.9% (2005)
 - Tanzania: 43.5 (2012)
 - Uganda: 37.5 (2012)
- What can be done (see Copenhagen Consensus 2015):
 - Foster health, improve education
 - Strengthen institutions, increase trade
 - Improve macroeconomic stability
- For almost all solutions, **good governance is required!**

What we want:

- **Macroeconomic stability**

➔ increase of investments and trade: **greatest benefits according to Copenhagen Consensus**



What we need:

- **Good governance**
 - lower level of corruption and lower barriers to firm entry (e.g. Djankov et al. 2002)
- Macroeconomic stability through **democratic and independent** East African Central Bank
 - better governance of independent central banks
 - increase trust and credibility
 - increase investments
 - decrease inflation
- lower corruption and increase in democracy
- higher living standards and higher life satisfaction (Frey and Stutzer 2002)

Potential positive side-effects of good central bank governance:

- Reduction of transaction costs
- More regional trade
- Price stability
- Harmonizing export-/import-standards

Potential problems of building a trustworthy Central Bank?

- **Corruption:** state officials try to manipulate the monetary policy to their own advantage
 - ➔ To avoid corruption, we need an **independent and democratic CB-system**
- Managing CB requires experts and **high levels of human capital**. **New proposal:**
 - ➔ Allow **foreigners** to run as CB governors (see also Eichenberger and Rossi 2004)

What structure should an independent and democratic CB have?

- Democratically and independently elected president
- How do we make sure the candidates are qualified?
 - Presidential candidates are chosen by an independent election board
 - Board chosen by direct vote (citizen over 18)
 - President is then again elected through direct vote
- Does this seem strange?
 - **NO! Compare to managers in stock companies**

Democratic independent system

- Board stays as advisor to president
- Board is equally composed of citizens from the 3 countries (Kenya, Uganda, Tanzania)
- Potential presidential candidates:
 - Qualified citizens from the 3 countries without political mandate
 - Qualified citizens from abroad
 - Qualified firms & companies

Presidential candidates

- **How can we make sure, the president acts on the majority's interests and not on his owns?**
 - We need the most qualified applicants that have already proven to do a good job before
 - Presidents need to be re-elected regularly
- **How can we make sure to get the best candidates?**
 - By opening the position to foreign professionals: national borders shouldn't be an obstacle, firms should also be able to apply

What could be the counterarguments for such a system?

- Foreigner would not know the traditions of the countries and could act against national interest:
 - **NO! The good management of a central bank is not an issue of nationality**
 - **Concrete example:** Mark Joseph Carney, Canadian, first foreigner as governor of Bank of England for 319 years
- Foreigner could take advantage of the position to make the most profit possible:
 - **NO! Professionals could have a reputation to lose, it's in their own interest to do a good job**

More counterarguments:

- Foreign directors would be rejected because of the fear of getting back to colonialism:
 - **NO! And if yes, then we could narrow the applicants to only people from former colonies including India, Australia, Canada, USA etc.**
- Such a process would be very costly:
 - **NO! The costs of such a process are much cheaper than the costs of a corrupt system**

Even more counterarguments:

- In a direct vote people would vote on an issue they don't have enough knowledge:
 - **NO! People usually vote if they more or less know on what they are voting (see Lupia 1994), otherwise they get informed first (compare again with stock companies)**
- Too many people would apply for the position:
 - **NO! Holding an effective election campaign is expensive; not everybody would be able to apply**

Conclusion

- Electoral system and independence is a way to achieve
 - Trust & credibility in central bank
 - Stable price levels
 - Lower corruption & increase in democracy
 - Human satisfaction and economic growth
- Thus: Obama could run for such a position after his mandate as president of the US

Discussion: Potential problems and pitfalls

- Countries at the same level of development
- Manipulation of the voters
- Would the best applicants take the costly risk of a election campaign?

Discussion: Further election criteria

- Citizens would vote in accordance with the candidates inputs on qualification and salary demands
- Re-elections for president and board take place every 4 years to assure the incentive of the officials to keep up a good job