

Obama for East African Central Bank President!?



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

presented by

Evelina Nilsson, Rachael Sidi and Maria Isabelle Wieser

(Participants of the Academia Engelberg Summer School on 'Economic Systems'
directed by Prof. Dr. David Stadelmann)



ACADEMIA ENGELBERG
Dialogue on Science

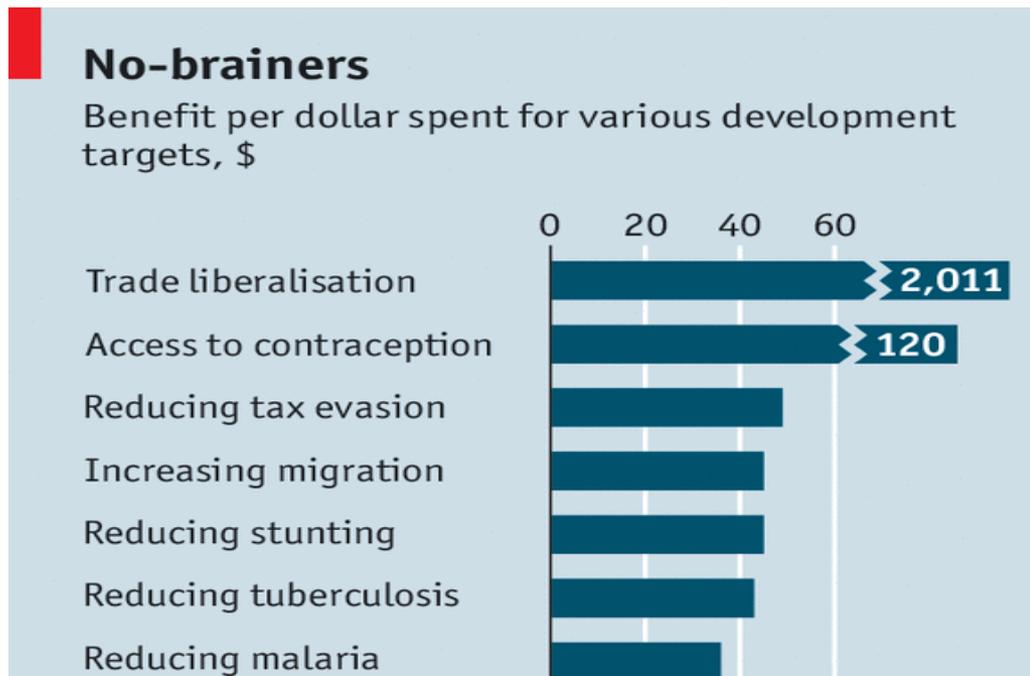
Poverty in East Africa

- 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