

January 23, 2003

Towards a European Market for Good Politics

A Politico-Economic Reform Proposal

Reiner Eichenberger*

University of Fribourg

1. Introduction

The academic discussion on European governance aims at making European politics more efficient, i.e. at gearing governments towards fulfilling more closely the demands of the citizens. While many scholars concentrate on the democracy deficit at the level of the EU, the inefficiencies at the national and local levels are perhaps even more important as the respective governments command over a far larger power to tax and to regulate. Thus, this paper focuses on reducing the leeway of the national governments as well as of the local governments to deviate from the preference of the citizens by asymmetrically serving the well-organized interest groups.

The economists' recipes to cure the bias towards the well-organized interest groups are typically incentive-oriented. They propose to change the political institutions in order to

* I thank Roland Kierstein and Frank Bickenbach for their critical but constructive comments on this and an earlier version of this paper.

increase the government's incentives to cater for the preferences of the citizens. With respect to the European level, most authors rely on traditional types of democratic control as well as checks and balances such as two parliamentary chambers or an executive which is elected independently of the legislative. With respect to the national and local levels, most authors focus on federalism and, thus, on strengthening the citizens' exit options. Others concentrate on making voice more effective, e.g., by institutionalizing direct democracy. But the citizens' high migration cost prevent federalism from achieving full efficiency (EPPLE AND ZELENITZ [1981]), and direct democracy cannot fully eradicate special interest groups' asymmetric influence, although there is a strong improvement over representative democracy (FREY [1994], KIRCHGÄSSNER [2001]).

However, proposals for institutional reform suffer from the fact that these reforms are implemented by politicians and that many of the proposed institutions tend to degenerate in the current politico-economic process. A case in point is federalism. Designing the ideal allocation of competencies to the various levels is only a minor problem compared to disciplining politicians not to undermine inter-jurisdictional competition by fiscal equalization, central government grants, and policy harmonization. Thus, there is an urgent need for a mechanism which gives the politicians incentives not to act in their own interest but to implement and sustain effective institutions.

Such a proposal is presented in this paper: the *deregulation* of the representative-democratic process. It targets at representative democracy and at the fact that the political process is most extensively regulated by three kinds of prescriptions:

- Protectionist regulations: Almost everywhere, only nationals can run for political offices. In local elections, only residents of the respective jurisdiction are eligible.

- Regulations of the "production process" of politics: Usually, only individuals can run for political office. Parties and firms are not allowed to do so, but have to nominate individuals as candidates. Moreover, parties must be non-profit organizations, and their internal structure is heavily regulated.
- Regulations of the "prices of politics": all the explicit prices for political services, i.e. the pay of representatives and the government subsidies for parties, are fixed by law.

These regulations weaken political competition. Consequently, it is proposed to abolish them. Thus, European individuals and parties would be free to run for office wherever they like to do so, and even Non-Europeans should be allowed to step into the European political market as suppliers. Such a deregulation of politics changes the incentives of the policy suppliers fundamentally. Most importantly, it strengthens the incentives to care for the citizens' preferences and to keep the election promises to the citizens because a strong reputation of being honest is a prerequisite for being successful in the international political market. Thus, deregulation of politics benefits the citizens in a similar way as the deregulation of consumer markets benefits the consumers. It strengthens the influence of the weakly organized social groups, and it enhances efficiency in all fields of politics.

The concept of deregulating politics differs fundamentally from other politico-economic reform proposals (see SCHWEINSBERG [1999]). It is strictly process-oriented (MUELLER [1996]). It proposes new rules for the "game of politics" which strengthen the suppliers' incentives to cater for the citizens' preferences. However, it does not give any recommendation on political contents. Thus, its parole is not "more market, less government". Indeed, the deregulation of politics goes a decisive step ahead of federalism and direct democracy: By opening national borders for foreign suppliers of

politics, it adds migration of politicians to the migration of citizens and firms, and its strong supply orientation complements the demand focus of direct democracy.

The deregulation of politics fits perfectly into the main program of the European Union, i.e. into creating a common market. It is a consequential development of the integration of the markets for goods, services, capital and labor. Basically, it is nothing else than the fifth freedom: the free movement of political services and politicians.

The remainder is organized as follows: The next section investigates into why politics so often deviates from the citizens' preferences. It emphasizes the role of incomplete information as well as incomplete contracts. The third section analyzes the impact of the above-mentioned regulations on politics and outlines the consequences of political deregulation. The fourth section considers the arguments which are potentially raised against the concept here proposed. The fifth section concludes.

2. Politics - far from citizens' preferences

Four aspects shape the design of representative-democratic politics: (i) Politicians cater for their own interests which often diverge from the citizens' interest, (ii) social groups differ with respect to their organizational potential, (iii) campaign promises are not fully binding, and (iv) the citizens' information on the platforms and achievements of parties and politicians, as well as the politicians' information on the preferences of the citizens, is far from perfect. These aspects result in two main effects.

2.1. Politicians and parties deviate systematically from citizens' preferences

Representative democracy does not effectively prevent the politicians from deviating from the citizens' preferences. If citizens are dissatisfied with the selfish policy of the government, they will not automatically vote for the opposition party. They know that

the politicians of the opposition parties face the same constraints as today's government as soon as they are elected into government. Thus, they do not expect today's opposition to govern differently than the present government (see ACEMOGLU [2002] for additional, more traditional arguments). Therefore, governments have some discretionary power to pursue selfish policies. This results in larger budgets, less efficient government services, higher deficits, higher debts and more regulations than the citizens prefer. Moreover, politicians and parties try to diminish political competition by harmonizing and centralizing policies (see, e.g., BLANKART [1999]), by erecting entry barriers for new parties as well as by designing laws on party finance which favor the established parties.

2.2. The influence of social groups is asymmetric

Well-organized social groups have a stronger influence on politics than weakly-organized groups for at least three reasons:

First, well-organized groups can supply politicians with more tangible resources, e.g., campaign contributions and lucrative positions in associations and business firms.

Second, they can supply politicians with better information on their members' preferences, and they can provide their members with better information on the performance of politicians and parties. This increases their influence, as a politician's incentives to cater for the demands of specific individuals are the higher the more he knows about the individuals' preferences and the better the individuals are informed on the politicians behavior, i.e. the more likely they attribute the respective benefits to the politician (see EICHENBERGER AND SERNA [1996]). Thus, selfish as well as benevolent politicians tend to use the resources they control to benefiting well-organized interest groups rather than weakly-organized groups such as consumers and tax payers.

Third, well-organized groups are in a better position to make politicians complying with their campaign promises. They can better control whether, why and to what extent politicians comply with or break their promises, and they have better means to sanction politicians who do not follow their words. Therefore, promises to well-organized groups are more credible and more effective than promises to weakly-organized groups.

Consequently, politicians target serious promises mainly at well-organized groups, while they tend to appease weakly-organized groups with fair words which often cannot be held, but aim at inducing citizens to vote expressively instead of instrumental (BRENNAN AND LOMASKY [1993]).

Consequently, politics mainly regards the interests of well-organized groups and is driven by politicians' selfish interests, while the interests of weakly-organized groups are systematically neglected. Such policies mainly serve to protect and create privileges and rents. Thus, they are short-sighted, status quo-oriented and distribution-focused, and do not center on allocative efficiency.

3. Regulation decreases, and deregulation increases welfare

3.1. Strengthening political competition

The asymmetries in favor of the established suppliers of politics, well-organized interest groups and short-sighted policies can be undermined by strengthening political competition. The concept of deregulating the political process intensifies representative-democratic competition among the policy suppliers by allowing for a new type of international as well as federalistic competition. It basically differs from other reform proposals which aim at improving the representative-democratic process (see, e.g., MUELLER [1996], SCHWEINSBERG [1999]). Most of these proposals concern election

procedures. In contrast to the concept here proposed, they do not directly target the sources of the asymmetries identified.

The effects of the deregulation of the political process are related to the impact of the deregulation of the economy in general. The decision problems of the voters are closely related to the decision problems faced by consumers of goods and services. In politics as well as in the economy, producers are selfish, competition is restricted, advertising is not fully credible, and the consumers' and producers' information is far from perfect. Although there are also marked differences between the polity and the economy, such as the public choice nature of political decisions and the temporary monopoly that elected governments enjoy, the basic role of competition is the same in both realms. It forces producers to become more innovative and to cater more closely for the preferences of the consumers. The globalization of markets via the abolition of protectionist measures increases the consumers' menu of choice and weakens producer cartels. Enlarging markets strengthens the incentives of the producers to develop brand names with an international reputation and credibility, and it makes producers more independent from local pressure groups. In the following, these economic arguments are transferred to the polity. However, the discussion does not imply that regulations which constrain the government, such as constitutional checks and balances, are to be dismissed. Rather, the argument aims at regulations that hinder free market entry of new suppliers of politics.

3.2. Competition-constraining regulations identified

The reasons for policy failure discussed in section 2 are not invariably given. Their extent depends on various legal and constitutional regulations. Most important are three kinds of provisions:

a. Protectionist rules of origin

In almost all countries, only nationals are allowed to run for political office. At the local level, only residents are allowed to do so. These provisions have an obvious protectionist impact: The voters are only allowed to demand political services from national and local suppliers. Political competition is weakened and the leeway of policy suppliers is increased. They may even form outright policy cartels or collude in other ways, as foreign suppliers are not allowed to step into the market (on policy cartels see, e.g., WIESENDAHL [1999], GROSSMANN AND WEST [1994]).

b. Regulation of the production process

In most countries, only individuals can run for office. While a party can determine a list of candidates, it is always the individuals who are elected. This procedure makes it even more difficult for the citizens (i.e. the principals) to control the politicians (the agents) as they have often less information on the individual candidates than on the parties as a whole. In fact, parties cannot fully tie their members of parliament and government to the party program. While they can exclude those representatives who do not stick to the party program from being a member of the party, they cannot recall them from the parliament. Thus, it is expensive for a party to enforce its program. Moreover, the exclusive focus on individual candidates reduces the flexibility of the supply side. Job-rotation and job-sharing among part time politicians becomes impossible, and functional specialization reduced.

c. Regulation of explicit prices

The explicit compensations of politicians which are paid by the state are determined by law. Candidates cannot demand higher prices for better services. As the explicit compensations are much below the income which qualified candidates could earn in

alternative occupations, market forces dictate that explicit payments are matched by implicit monetary and non-monetary compensations, which are to be provided by the interest groups. But the various groups' potentials to implicitly compensate politicians widely differs. Thus, the constraints on explicit transfers increases not only the implicit transfers, but also the asymmetric influence of the well-organized social groups.

The abundant regulations weaken political competition and restrain new suppliers.

Today, politics nowhere is a contestable market. Foreign and non-local as well as profit-seeking suppliers are excluded from the market, either directly by law or indirectly by the above-mentioned regulations. The capital owners of a firm can only realize profits when the revenue can easily be transferred within the firm. While explicit revenue is easily transferable, implicit compensations are much more difficult to transfer. Most often, their value is specific to individuals and subject to asymmetric information.

Moreover, the transactions are often at the limit of legality and have to be kept secret.

Moreover, profit-seeking suppliers should be able to flexibly substitute illoyal employees, which is impossible if individuals are elected but not firms.

Close regulations also impede market entry of new suppliers. A political entrepreneur who detects new demands of the citizens quicker than other politicians cannot easily found a new party and supply his program on a large scale because he cannot effectively bind the prospective representatives to his platform. Rather, he has to select candidates who cater intrinsically for the same aims and who are believed by the voters to be credibly committed to these aims. This, however, is time-consuming, costly and often impossible.

3.3. The deregulation program

The above discussion shows that a large variety of legal restraints weakens democratic competition. Therefore, it is here proposed to abolish these regulations.

a. Decreasing protectionist barriers: Allowing foreigners to supply political services.

Today's rules of origin and residential requirements are to be abolished. Foreigners and non-residents are allowed to run for all offices. The effect of this deregulatory step is quite similar to the economic effects of free trade. It increases the supply of candidates and, thus, the competitive pressure which also makes domestic producers more efficient. The incentives of the politicians to stick to their promises increase. Honesty and success in one country increase credibility and, thus, the chances of being elected in other countries. This makes it profitable for a supplier to build up an international reputation of being a credible, high quality policy producer.

b. Deregulation of the production process

Parties and firms are allowed to directly run for political office, without nominating a specific individual (but, of course, individuals are still allowed to run as candidates). If such a firm is elected, it can delegate whomever it likes to fulfil the tasks related to its mandate, i.e. it can also substitute new delegates for hitherto active ones and, thus, bring in specialists for the problems to be solved. This deregulatory step allows domestic and foreign policy suppliers to stick more closely to their promises. Therefore, the credibility of campaign promises is increased. The market is opened for internationally active policy suppliers whose success depends on the professional competence of the organization as a whole rather than on the individual celebrity of their exponents. Thus, internationally reputed private organizations can directly step into politics, be they, e.g., well-known consulting firms, human rights watch groups, or environmentalist organizations.

c. Deregulation of the prices for political services

The explicit revenues of politicians are increased, or even set by a market mechanisms. Increasing explicit revenues crowds out implicit revenues (see below). This decreases the asymmetry among interest groups. The influence of the weakly-organized groups increases. Moreover, the market is opened for profit-seeking firms which are more dependent on explicit income than traditional policy suppliers.

The explicit revenue of politicians can be increased to cover their full opportunity cost. An additional option is to design a market for determining the appropriate compensations. For instance, the compensations could be determined by a mechanism similar to submissions for public orders. The suppliers could publicize their compensation demand before the election. If they are elected, they get the posted compensation. As another possibility, every citizen could be given a compensation budget which he can allocate with a new type of a secondary vote to the politicians and parties. This strengthens the candidates' incentives to submit reasonable packages of services and compensations demanded. It does, however, not necessarily lower the salaries of politicians. The aggregate compensations to politicians are very low, especially if one compares them with the benefits of good politics. Therefore, citizens will not automatically vote for the cheapest supplier, but rather for the package they judge to be the best. Thus, there is no danger that well-organized interest groups get more influence by posting dumping offers. Rather, the deregulation of prices opens the market to high quality suppliers, which so far could not become active as the compensations were too low.

3.4. Multiple advantages

The proposed reform substantially changes the political landscape. In addition to the traditional suppliers of politics, internationally active policy firms can run for office. If elected, they can delegate domestic and foreign professionals into parliaments and governments. The extent of the three asymmetries which favor well-organized interest groups is decreased, the influence of the citizens relative to the well-organized groups is increased. Policy suppliers are getting stronger incentives to stick to their campaign promises to the common citizens because they are almost permanently engaged in election contests. As their performance in one country or local jurisdiction influences their chances in the others, they depend on their reputation much stronger than traditional suppliers. Moreover, the voters can much easier assess the performance and credibility of internationally active suppliers, because there is a larger sample of observations than for a party which is only active in one country. This makes it easier to judge whether a party has a causal influence on the state of the economy, whether it tends to stick to campaign promises, and whether observed disparities between promises and reality are caused by exaggerated promises or exogenous shocks which negatively affected performance.

Internationally active policy suppliers have much stronger incentives to stick to promises which are against their own interest once they are elected. This increases the prospects of welfare-enhancing political innovations which are not in the interest of the "classe politique" and the well-organized interest groups. Instances are tax decreases as well as constitutional reforms which strengthen the influence of the citizens, most importantly federalism and direct democracy (see KIRCHGÄSSNER, FELD AND SAVIOZ [1999]). In a politically closed country, political parties most often do not follow their promises to strengthen these institutions, because such reforms are against their interests as soon as they are part of the majority. In contrast, an internationally mobile

politician has much lower cost from cutting taxes, because he can leave the country after having implemented a reform. Moreover, it pays to him to become a political turn-around manager who has a reputation for implementing political innovations that benefit the citizens but weaken the governments' and the politicians' influence.

Increasing explicit revenues of politicians crowds out implicit revenues. This is a consequence of various mechanisms. First, explicit compensations are paid by the state. As the citizens decide on the allocation of these compensations by their vote, their political influence increases. Second, the suppliers have to build up an international reputation of not relying on implicit compensations. Third, higher explicit compensations strengthen the incentives of new firms to enter the market and to specialize in explicit instead of implicit compensations. Moreover, profit-seeking policy suppliers depend more heavily on explicit compensations than traditional parties. Fourth, high explicit compensations have an effect similar to efficiency wages. When explicit compensations increase, losing one's job becomes more expensive. Thus, politicians try to stay in government, i.e. they are willing to adapt their policy to suit the citizens' preferences. Therefore, it is well known that the higher salaries of bureaucrats crowd out corruption (see, e.g., WORLD BANK DEVELOPMENT REPORT [1997]). Finally, many implicit compensations are at the limit of legality. In an open market, however, there is a higher probability that a firm's misbehavior will be brought to the political agenda by a competitor.

Consequently, the differences between well- and weakly-organized groups become less important, and their political weights become more equal. Politics aims increasingly at the citizens' preferences and caters less for specific interests. As market entry of new suppliers becomes more likely, established suppliers have to react quicker to new social problems and unsatisfied demands. Because the differences between the various

suppliers are larger in an international market, producers find it more difficult to form cartels. Finally, the deregulation of the political process leads to a new type of harmonization of politics. Citizens who wish closer international policy coordination can vote for suppliers who are active in various countries. This new type of endogenous policy coordination strongly contrasts with traditional types of "world governments".

3.5. Opportunities abound

Deregulation enhances the efficiency of all political systems, be they presidential, parliamentary, proportional or majoritarian. Deregulation is the more beneficial the worse the performance of a country's present institutions is and the tighter its political markets are regulated. Thus, deregulation of politics is not only a means to improve the performance with respect to day-to-day policy (i.e. at the level of the current politico-economic process), but all the more to bring about fundamental institutional changes which are in the interest of the population but not of the "classe politique".

a. Direct democracy emerges

Direct democracy is surely one of the institutions which benefit the population but not the politicians. While its welfare-enhancing properties are clearly demonstrated by empirical and theoretical research¹, it does not emerge in today's representative democracies (except if the citizens can already command over some kind of direct-democratic instruments which allow them to enforce additional kinds of direct democracy, such as it was the case in the German Länder Bavaria and Hamburg in the 1990s. The obvious explanation for the sluggish development of direct democracy is

¹ See, e.g., FREY [1994], EICHENBERGER [1999], FREY AND STUTZER [2000], FELD, KIRCHGÄSSNER UND SAVIOZ [1999], FELD AND KIRCHGÄSSNER [2001], KIRCHGÄSSNER [2001].

that it does not serve the government. While the opposition parties sometime are in favor of implementing direct democracy, they change their mind as soon as they are elected into government or become part of a majority coalition, because direct democracy is decreasing their power and making their new task more difficult. Thus, an eventual campaign promise of an opposition party to introduce direct democracy is not credible and, therefore, ineffective and rare.

In contrast, in an international market, parties have incentives to become political turn-around managers who have a reputation for institutionalizing reforms that benefit the citizens but weaken the governments' and the politicians' influence. Thus, it becomes worthwhile to promise to implement direct democracy and to realize the plans after winning the elections.

b. Deregulation of the political process of federal states

The above arguments can easily be transferred to federalism and decentralization. The chances of effective decentralization to emerge are much larger in deregulated political markets. But political deregulation also increases the effectiveness of decentralization itself. Today, politicians at sub-national levels usually have to live in the jurisdictions where they hold a political office. This restrains political competition. However, after deregulation, politicians could run for office in various jurisdictions at the same time, and they could have several mandates in parallel. This would not only strengthen political competition, but it would above all solve a serious problem of highly decentralized political systems. While today's small-scale jurisdictions often have difficulties to find qualified (part-time) politicians among their citizens (see STEINER [2002, 348]), political deregulation at the national or at sub-national levels allows the local jurisdictions to engage non-residential politicians. Such politicians could cumulate political positions in different jurisdictions. Thus, a career in local politics would

become an attractive job opportunity even for highly qualified individuals. Moreover, politicians could economize on the economies of scale and scope inherent in doing related jobs for several jurisdictions.

4. Alleged problems

The idea of deregulating the political process meets strong opposition by politicians and academics (see, e.g., KIRSTEIN [2003]). In the following, some of the standard objections are discussed (for a broader account see EICHENBERGER [2001]).

Assertion 1: "Today's regulations serve as a safeguard against politicians' opportunistic behavior. Therefore, deregulation brings about high political risks."

Usually, the critics do not clearly specify why they dub regulations to make politics more effective. It has, for instance, been argued that the nationality constraint and the personal mandate of representatives may help to bring politicians to court in case of very severe misconduct. But this argument is not convincing. With today's institutions, foreigners and nationals are treated quite similarly in case they commit a crime. Thus, private firms do not seem to have much trouble in bringing foreign managers to court. Differential treatment of foreigners and nationals is not seen as an obstacle to hiring foreign managers. While it is not obvious that there is a difference between the public and the private sector with respect to the possibilities to calling an individual to account, the constraints for foreign politicians could be tightened even more by international agreements which stipulate that internationally active politicians have to be extradited to the countries where they have been misbehaving according to some agreed upon rule. Another argument brought forth against the deregulation program is that the non-profit rule prevents politicians from offering special services in exchange for money. However, the non-profit rule is not effective in bringing about honest behavior as it only forbids explicit profit but not implicit profit which biases incentives even more.

Assertion 2: "Deregulation is expensive". It is argued that increasing explicit compensations of politicians increases political decision cost and makes the influence of money in politics even more prevalent. However, explicit revenues partly substitute for implicit revenues. Moreover, there is no evidence that explicit compensations crowd out intrinsic motivations more strongly than implicit compensations (see Frey [1997]). Finally, the cost of policy reforms should be evaluated against their beneficial effects. Obviously, the explicit compensations of the politicians are most often irrelevant when compared to the benefits of good politics. In addition, it has to be noted that the decision cost could be reduced by decreasing the size of the parliaments. Most likely, this measure would not have much disadvantages as decreasing size of a parliament does not seem to lower the quality of politics. Thus, only few observers would argue that the US-Senate with its 100 members or the second chamber of Switzerland (the "Ständerat") with 46 members reaches decisions which are inferior to the decisions of the larger chambers of these countries or the Italian parliament with 630 representatives or the German Bundestag with 672 members.

Assertion 3: "Deregulation is bad for the poor". It is claimed that internationally active politicians would concentrate on the rich countries, leaving the poor countries with the "lemons", i.e. those politicians who were not successful in rich countries. However, an open market for politics induces suppliers of politics to become active in those countries where they are needed most urgently. The deregulation of the explicit compensations allows them to appropriate part of the value added that they create. This stops the brain drain from, and even leads to an inflow of political human capital into, political hotspots. Therefore, there is no danger of a race to the bottom with respect to the quality of politicians. It pays for politicians to behave like turnaround managers, who enter firms with the largest unexploited opportunities. Still another incentive to supply

political services in poor, troubled countries is the reputation which can be gained by doing a good job in such countries.

Assertion 4: "The citizens would not elect foreign and non-local politicians". This argument typically is advanced without reference to empirical observations. However, there is evidence that the citizens are willing to delegate power to foreign politicians if this offers promising opportunities. After all, an increasing number of countries import large parts of their policy. An example is provided by the many countries whose inhabitants wish to join the European Union and, thus, to delegate governmental power to foreign politicians. Another instance are countries which unilaterally peg their currency to foreign currencies and, thus, delegate a most important segment of politics to a foreign authority. A recent example is provided by Montenegro which unilaterally adopted the German Mark (and today the Euro) as legal tender. Actually, it would be surprising if individuals never voted for foreign politicians; at least they consume foreign products, marry foreigners, work in foreign-owned firms and with foreign bosses, and have foreign nurses to take care of their children. Recent evidence stems from Eastern Europe where there are many politicians who have not lived in the respective country for a long time (or even not at all) but have been campaigning successfully. Another well-known example is Daniel Cohn-Bendit who was a member of the city government of Frankfurt but was elected into the European parliament as a representative of France. Finally, it has to be emphasized that the citizens' preferences for domestic politicians do not justify rules of origin for politicians. If the citizens have a strong preference for domestic politicians, they can elect them anyway. Then, international policy suppliers are either not successful, or they have to adapt. They could, e.g., delegate local candidates. This reminds of international consulting firms which engage local consultants in order to satisfy their clients' respective demands.

Assertion 5: "The proposal is utopian". In history, in most countries foreigners were allowed to play a much more active role than they did in the 20th century. It was often by marriage and succession that foreign aristocrats became kings and princes. Sometimes, they even were elected as kings. Well known example are the elected kings of Poland from the 16th to the 18th century. Another example is provided by the French marshal Jean-Baptiste Bernadotte who was elected king of Sweden in 1810. In the 19th century, foreigners on the throne were no exceptions, as is illustrated, e.g., by the first kings of Greece, Rumania and Bulgaria who were all born in Germany. But also high ranking ministers were imported. A well known example is Klemens Wenzel Metternich, the long time minister of foreign affairs of the Austro-Hungarian monarchy, who was not only born in Germany but who also began his political career in Germany. Finally, our proposal is closely related to a governmental system called "Podesta" which was successful in Northern Italy during the 12th and 13th century. In this system non-local and foreign political entrepreneurs were elected as majors of city-states for a predetermined period (sometimes also for lifetime). Often, they were paid according to an incentive contract and had to bring along important parts of their bureaucratic and police staff (see, e.g., MITTERMAIER [1995, 52 ff.]). While some of these foreign kings and politicians were highly successful even from the perspective of the population, others where less so. However, as they were most often not elected by the population but by the aristocracy of the respective countries or city states, one should not judge the success or failure of these kings and politicians by looking at their impact on the welfare of the population but by analyzing whether they served the interests of the aristocracy better than domestic candidates. While such a comparison cannot be provided here, these examples show nevertheless that open political systems existed.

The role of foreigners as political decision makers as well as migrating politicians is not confined to history. In contrast to the local politicians of most other countries, German mayors are allowed to freely migrate. The mayor of Constance, for instance, can run for being elected as a mayor of Berlin or any other town. While the Swiss, Austrians or Americans which are not accustomed to such “footlose” politicians think that even “national markets for good politics” are utopian, German Mayors at least illustrate that such markets exist and work reasonably well.

International organizations as well as non-governmental organizations are other instances which have some features in common with our proposal. Both play an increasingly important role not only at the international, but also at the national level even though they are often dominated by foreigners. In the economy, foreigners play an even more important role. It is commonplace that chief executives are foreigners, or, at least, come from another firm. Actually, nominations of external candidates are often seen as preferable to internal promotions.

There are also partial examples for the deregulation of the production process. The delegation principle, for instance, is enacted in many constitutions. Often, elected presidents or prime ministers have wide-ranging delegation powers, e.g., they are delegating the ministers.

The opposition against the deregulation of politics is related to the opposition against the deregulation of sports markets some years ago. In football and hockey, e.g., the player unions defended quotas and other protectionist measures with the argument that the fans wanted to see domestic players. However, the recent experiences show the opposite. With an increasing proportion of foreigners, the quality of the games as well as the enthusiasm of the fans increase. Actually, today even in national teams the most important man - the coach - is often a foreigner.

5. Summary and conclusions

The European Union and its government are focusing on creating a common economic market and deregulating the European economy. In contrast, the polity has been protected from the efficiency-enhancing forces of markets, competition and free trade. Thus, political reforms should make use of those forces by deregulating the political process. Deregulation means that those forces are weakened that hinder political competition: rules of origin for politicians, regulations of the production process, and prescriptions on the compensations of politicians.

This program changes politics basically by strengthening political competition. Besides traditional policy suppliers, international policy firms could run for office. They could delegate domestic and foreign specialists to the parliament and to government. Such internationally active firms have a much stronger incentive to stick to their promises than today's politicians and parties, because they depend on their international reputation. Moreover, they have stronger incentives to implement new rules that benefit the citizens but hurt the "classe politique" because they can leave the country after the reforms. The increasing explicit compensation for holding political offices crowds out implicit revenues, and the asymmetries among well- and weakly-organized groups decrease. Politics caters increasingly for the preferences of the average citizens and becomes more efficiency-focused. Finally, the globalization of politics leads to a new form of policy coordination. As soon as some policy suppliers gain influence in many countries, politics gets coordinated almost automatically.

The concept here proposed differs fundamentally from the many other policy reform proposals brought forward so far. It is strictly process-oriented. It does not propose specific contents of politics, but it proposes new rules that strengthen political competition and, thus, the incentives of policy suppliers to cater for the preferences of

the citizens. It aims at better politics and, in some way, at the primacy of the citizens over politics.

The arguments brought forward against the concept of deregulating politics do not prove to be valid, and the idea is not utopian. Rather, there exist historical predecessors. However, it is evident that many members of the "classe politique" who make a good living in today's protected political markets are not enthusiastic about the idea.

Two questions remain to be clarified: First, are additional institutional prerequisites necessary in order to prevent the abuse of power by international policy suppliers? It is noteworthy that international policy suppliers have strong incentives to propose effective institutional mechanisms that constrain themselves from abusing their powers because this increases their election chances. Nevertheless, there is no damage when countries or international organizations develop a competition law which specifies the market rules and forbids the development of monopolies. The prescriptions could be inspired by the competition rules for markets. They could, e.g., stipulate that a specific policy supplier is not allowed to hold an office in more than a certain percentage of all communities or to be involved in governing more than a certain percentage of the total population.

The second question asks, how and where the deregulation of politics could be put into effect. The deregulation is welfare increasing in every country. It is the more fruitful, the smaller a country is, the worse the country's political situation is, and the more countries have already deregulated their political markets. Deregulation is also especially promising to highly decentralized countries with closed local political markets. Finally, deregulation has good chances when it can follow the successful deregulation of the economic realm. In the European Union, for instance, the deregulation of politics with its "free movements of politicians" could be looked at as

“the fifth freedom” and a logical complement to the four well-known economic freedoms. Thus, the European Union is the ideal candidate for deregulating politics within and probably even beyond its boundaries.

Literatur

- ACEMOGLU, D. [2002], "Why not a political Coase theorem? Social conflict, commitment and politics", NBER working paper 9377.
- BARRO, R.J. [1997], *Determinants of Economic Growth: A Cross-Country Empirical Study*, Cambridge: MIT Press.
- BLANKART, B. [1999], „Die schleichende Zentralisierung der Staatstätigkeit: Eine Fallstudie“, *Zeitschrift für Wirtschafts- und Sozialwissenschaften*, 119, 331-350.
- BRENNAN G. AND L. LOMASKY [1993], *Democracy and Decision: The Pure Theory of Electoral Preference*, Cambridge: Cambridge University Press.
- EICHENBERGER, R. [1999], „Mit direkter Demokratie zu besserer Wirtschafts- und Finanzpolitik: Theorie und Empirie“, pp. 259-288 in: H.H.von Arnim (ed.), *Adäquate Institutionen: Voraussetzung für „gute“ und bürgernahe Politik?* Berlin: Duncker&Humblot.
- EICHENBERGER, R. [2001], "Bessere Politik dank Deregulierung des politischen Prozesses", *Analyse und Kritik*, 23, 43-60.
- EICHENBERGER, R. AND A. SERNA [1996], "Random Errors, Dirty Information, and Politics", *Public Choice*, 86, 137-156.
- EPPLER, D. AND A. ZELENITZ [1981], "The implications of competition among jurisdictions: Does Tiebout need politics?", *Journal of Political Economy*, 89, 1197-1217.
- FELD, L. [1999], *Steuerwettbewerb und seine Auswirkungen auf Allokation und Distribution: Eine empirische Analyse*, Dissertation, Universität St. Gallen.

FELD, L. UND G. KIRCHGÄSSNER [2001], "The Political Economy of Direct Legislation: Direct Democracy and Local Decision-Making", *Economic Policy*, 16, 329-367.

FREY, B.S. [1994], "Direct Democracy: Politico-Economic Lessons From Swiss Experience", *American Economic Review*, 84, 338-342.

FREY, B.S. [1997], *Markt und Motivation: Wie ökonomische Anreize die (Arbeits-)Moral verdrängen*, München: Vahlen.

FREY, B.S. AND A. STUTZER [2000], "Maximizing Happiness?", *German Economic Review*, 1, 145-167.

GROSSMANN, PH.J. AND E.G. WEST [1994], "Federalism and the Growth of Government Revisited", *Public Choice*, 79, 19-32.

KIRCHGÄSSNER, G., L.P. FELD AND M. SAVIOZ [1999], *Modern, erfolgreich, entwicklungs- und exportfähig: Die direkte Demokratie der Schweiz*, Basel: Helbing und Lichtenhahn.

KIRCHGÄSSNER, G. [2001], „The Effects of Fiscal Institutions on Public Finance: A Survey of the Empirical Evidence“, CESifo Working Paper No. 617.

KIRSTEIN, R. [2003], , in this volume.

MITTERMAIER, K. [1995], *Die Politik der Renaissance in Italien*, Darmstadt: Wissenschaftliche Buchgesellschaft.

MUELLER, D.C. [1996], *Constitutional Democracy*, New York: Oxford University Press.

SCHWEINSBERG, K. [1999], *Demokratiereform. Ein systematischer Überblick zu den Schwachstellen und Verbesserungsmöglichkeiten von repräsentativen Demokratien aus Sicht der modernen politischen Ökonomie. Unter besonderer Berücksichtigung des institutionellen Arrangements der Bundesrepublik Deutschland*, Dissertation Universität Freiburg (Schweiz).

STEINER, R. [2002], *Interkommunale Zusammenarbeit und Gemeindezusammenschlüsse in der Schweiz*, Bern: Haupt.

WIESENDAHL, E. [1999], "Entwicklung zu «Kartellparteien»?", pp. 49-73 in: H.H. von Arnim (ed.), *Adequate Institutionen: Voraussetzung für «gute» und bürgernahe Politik?* Berlin: Duncker & Humblot.

WORLD BANK DEVELOPMENT REPORT [1997], Washington: The World Bank.