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**The Deregulation of the Political Process:
The Politico-Economic Turnpike Towards Better Politics**

by

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Abstract

This paper focuses on strengthening the citizens' voice option by deregulating the political process. The concept builds on the fact that politics is the last branch which is extensively regulated. Most important are three kinds of regulations:

i) Protectionism: In almost all countries, only nationals are allowed to run for political offices. In addition, the candidates often have to have lived in their ward for some time.

ii) Regulations of the "political production process": Almost everywhere, only individuals are allowed to run for office. Parties and firms are not allowed to do so, but have to nominate individuals. Moreover, parties are not allowed to be profit-seeking.

iii) Regulations of prices: All the explicit prices of political services (e.g., the compensations of representatives and the state subsidies to parties) are regulated by law.

These regulations weaken political competition. Therefore, this paper proposes to abolish them and to institutionalize an open market for politics. Such deregulation allows the policy suppliers to become active in several countries. This gives them forceful incentives to build up an international reputation of being credible, i.e. of sticking to their promises and not exploiting the voters after election. Moreover, increasing explicit prices (i.e. the politicians' compensations paid by the state) for political services crowd out the implicit prices (i.e. the resource transfers among special interest groups and politicians). The deregulation program strengthens the influence of the weakly organized social groups, mainly the consumers and the tax payers. Thus, it gives the governments incentives to pursue what's of general interest and to adopt the economists' normative economic policy proposals.

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1. Introduction

Politico-economic analyses of the current political process emphasize the fact that well-organized interest groups have a much stronger influence on politics than weakly-organized groups like the consumers and tax payers. This asymmetry is not only assumed to be a main reason for policy failure in industrial countries, but it is even more prevalent in developing countries where politics is often in crass contrast to textbook economics.

However, it is still an open question how asymmetrical influence of interest groups can be cured. Public Choice scholars typically propose to change the political institutions in order to increase the government's incentives to cater for the preferences of the citizens. Many 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 these proposals cope with the problem that the migration cost of the citizens are too high to allow an efficient result to emerge (Epple and Zelenitz 1981),

and that direct democracy, although it is a strong improvement over representative democracy (Frey 1996), still leaves a lot of power to special interest groups.

In this paper, a new proposal for reforming the political process is presented which targets at representative democracy: the deregulation of the representative-democratic process. The concept aims at the fact that politics is the last branch which is encompassingly regulated by three kinds of prescriptions:

- Protectionist regulations: In almost all countries, only nationals are allowed to run for political offices. Moreover, the candidates most often have to live in their ward.
- Regulations of the "production process" of politics: Today, almost everywhere only individuals are allowed to run for office. Parties and firms are not allowed to do so, but have to identify individuals as candidates. While parties must be non profit organizations, their internal structure is heavily regulated .
- Regulations of the "prices of politics": all the explicit prices for political services (e.g., the pay of representatives and the government subsidies for parties) are fixed by law.

In the following it is argued that these regulations weaken political competition.

Therefore, it is proposed to abolish them. Deregulation of politics profits the citizens as deregulation of consumer markets profits 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 the other politico-economic reform proposal (see Schweinsberg 1999). It is strictly process-oriented (Mueller 1996). It proposes new rules for the "game of politics" which strengthen the incentives of the suppliers of politics to cater for the citizens' preferences. But it does not give any recommendation on the content of politics. Thus, it does not demand "more market, less government". However, 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 federalistic migration of citizens and firms, and its strong supply orientation complements the demand focus of direct democracy.

The remainder is organized as follows: The next section investigates why politics so often deviates from the citizens' preferences. It emphasizes the role of incomplete information as well as incomplete contracts. The third section analyses the impact of the above-mentioned regulation on politics and outlines the consequences of political deregulation. The fourth section considers some arguments which are sometimes 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 interest 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 four aspects lead to two main consequences.

2.1. Politicians and parties deviate systematically from citizens' preferences

Representative democracy does not effectively prevent policies which hurt the citizens but are in the interest of politicians. If citizens are dissatisfied with the government because they think that the government behaved selfishly, they will not automatically vote for the opposition. They know that the politicians of the opposition parties have more or less the same preferences and face the same constraints as today's government. Thus, they do not expect today's opposition to behave much different than the present government. Therefore, governments have some discretionary power to pursue policies which are in their interest but result 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 barriers to entry 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, they 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 also provide their members with information on the performance of politicians and parties. This gives them a strong say in politics, as a politician's incentives to cater for the demands of a specific individual or group is the higher the more he knows about the individual's preferences and the better the individual is informed on the politician's behavior (see Eichenberger and Serna 1996). Thus, selfish as well as benevolent politicians prefer to use the resources they control to benefit well-organized interest groups rather than weakly-organized groups like the consumers and tax payers. With respect to the former, they are more sure on the effect of their policies and that the group members attribute the beneficial effects to them.

Third, well-organized groups can better lead politicians to keeping their campaign promises. They can better control whether, why and to what extent politicians keep 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 put weakly-organized groups off with fair words which cannot be held, anyway, but are intended to induce expressive voting behavior (Brennan and Lomasky 1993).

As a consequence of the mechanisms discussed, politics follows mainly the interests of the well-organized groups and the politicians themselves, while the interests of the weakly-organized groups are systematically neglected. As policies serve the well-organized groups mainly to gain and protect privileges and rents, 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 established suppliers of politics, well-organized interest groups and short-sighted policies can be decreased by strengthening political competition. The concept of deregulating the political process strengthens representative-democratic competition among the policy suppliers by allowing for a new type of international as well as federalistic competition. It basically differs from the other reform proposals which aim at improving the representative-democratic process published so far (see, e.g., Mueller 1996, Schweinsberg 1999). Most of these proposals aim at the election procedures and, thus, not directly at the mechanisms discussed above which are the sources of various asymmetries. In contrast, the concept here proposed centers tightly on those aspects.

The effects of the deregulation of the political process are quite similar to those of the deregulation of the economy. After all, the decision problem of the voters are closely related to those of the consumers of goods and services. It is also in economic markets that producers are selfish, competition is restricted, advertising is not fully credible, and information as well of the consumers and suppliers is far from perfect. But it is generally accepted that deregulation intensifies competition and forces producers to cater for the preferences of the consumers. The globalization of markets by the abolition of protectionist measures increases the menu of choice of the consumers and weakens cartells. 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, this insight from the economy is transferred to the polity.

3.2. The target: competition-constraining regulations

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 groups of provisions:

3.2.1. Protectionist rules of origin

Almost everywhere, only nationals are allowed to run for political offices. Moreover, very often politicians have to live in their ward during their term or even during their campaign. These provisions have a strong protectionist appeal and their impact is closely related to territory cartels: The voters are allowed to demand political services only from national or even local suppliers. This weakens political competition and allows national and local policy suppliers to form cartels and other kinds of collusion because foreign suppliers are not allowed to step in the market and, thus, to break the cartel (on policy cartels see, e.g., Wiesendahl 1999, Grossmann and West 1994).

3.2.2. Regulation of the production process

In most countries, only individuals can run for office. While a party can determine a list of candidates and, thus, who can run for office in its name, it is always the individuals who are elected. This procedure makes it even more difficult for the citizens (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 and other policy suppliers are not able to tie their members of parliament and government fully on the party program. Even if parties have the instrument of "Koalitionszwang", they can exclude representatives who do not subject to the party leader only from the party but not from the parliamentary. Thus, it is expensive for a party to enforce the party 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, the functional specialization is reduced and professional full time politicians as well as generalists profit.

3.2.3. Regulation of explicit prices

All explicit payments from the state to the politicians are determined invariably by law. Candidates cannot supply their services for lower or higher prices. But these explicit payments to politicians are much below the income qualified candidates could earn in other occupations. However, market forces dictate that explicit payments are matched by implicit monetary and non-monetary compensations provided by the interest groups. Competition among interest groups forces them to supply the politicians and parties with the respective transfers. But the possibilities of the various groups to compensate politicians implicitly differs strongly. Thus, the constraints on explicit transfers increases the asymmetries among the various social groups.

Together, the abundant regulations weaken political competition and restrain new suppliers. Today, in most countries politics is not a contestable market. Besides foreign and non-local suppliers profit-seeking firms 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 be transferred easily within the firm. However, only explicit revenue is easily transferable. Implicit payments most often are much more difficult to transfer because their value is individual-specific and subject to asymmetric information, and sometimes at the limit of legality and thus has to be kept secret. Moreover, profit-seeking firms should be able to flexibly substitute illoyal employees, which is made difficult by the fact that the individuals, not the firms, are elected.

The close regulation impedes market entry of new suppliers. Political entrepreneurs who detect new demands of the citizens quicker than others, cannot easily found new parties and supply their program on a broad base, because they cannot bind the prospective

representatives effectively to their new political strategy. Thus, they at first have to select candidates who cater, at least to some extent, intrinsically for the same aims and who are believed by the voters to be credibly committed to these aims. This is time-consuming, costly and often impossible.

3.3. The deregulation programme

So far, the analysis shows that a large variety of legal restraints weakens the positive forces of democratic competition. Therefore, it is here proposed to abolish these regulations.

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

Today's rules of origin and residential requirements are abolished. It is now that foreigners and Non-residents are allowed to run for all offices. The effect of deregulation are quite similar to the deregulation of the economy. They increase the supply of candidates and, thus, competitive pressure which makes domestic producers more efficient. The incentives of the politicians to stick to their promises increases, as honesty and success in one country increase credibility and, thus, the chances of being elected in other countries. As in the economic realm, it is then worthwhile for the suppliers to build up an international reputation to be a high quality and credible policy producer.

3.3.2. Deregulation of the production process

This deregulatory step allows parties and firms to directly run for political office, without nominating a specific individual. However, individuals are still allowed to run as candidates. If a firm is elected, it can delegate whomever it likes for the respective mandates, i.e. it can also substitute new delegates for hitherto active ones. This deregulating measure 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 rather than on the individual celebrity of their exponents. Thus, internationally known consulting firms or human rights watch and environmentalist organizations can directly step into politics.

3.3.3. Deregulation of the prices for political services

The explicit revenues of politicians are increased or set by market mechanisms. Increasing explicit revenues crowds out implicit revenues and, thus, 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 either be increased to cover the full opportunity cost. Another, even more attractive option is to design markets for determining the appropriate wage. For instance, the price could be determined in a process similar to submissions for public orders. Another possibility would be to give to every citizen a revenue budget which he can distribute with his secondary vote among the politicians and parties he prefers. This gives the candidates strong incentives to submit reasonable offers.

3.4. Multiple advantages

The proposed reform changes the political landscape basically. In addition to the traditional suppliers of politics, internationally active policy firms can run for office. If they are elected, they can delegate domestic and foreign professionals into parliaments and governments. Such firms have stronger incentives to stick to their campaign promises because they are engaged in election contests almost permanently. Because the performance in one country typically influences the chances in the others, they depend on their reputation much stronger than traditional suppliers. Moreover, the voters can judge internationally active suppliers much easier, because there is a larger sample of observations than for a party which is active only in one country.

Internationally active policy suppliers have much stronger incentives to stick to promises that are against their interest once they are elected. This increases the chance of welfare-enhancing reforms which are not in the interest of the "classe politique". An instance are constitutional reforms which strengthen the influence of the citizens, e.g., federalism and direct democracy (siehe Frey 1994, Kirchgässner, Feld and Savioz 1999, Eichenberger 1999). In a politically closed country political parties most often do not follow their promises with respect to strengthening such institutions, because such reforms are against their interests as soon as they are part of the majority. In contrast, in an international market parties have incentives to develop into political turn-around managers who have a reputation for institutionalizing reforms that benefit the citizens but weaken the government's influence.

Increasing explicit revenues of politicians crowd out implicit revenues. Various mechanisms contribute to this result: First, explicit compensations are paid by the state. As the citizens decide on the allocation of these compensations, their political influence increases. Second, high explicit compensations have an effect similar to efficiency wages. When explicit compensations increase, losing the job becomes more expensive. Thus, politicians try to stay in government, i.e. they are willing to adapt their policy towards the citizens' preferences. Moreover, many implicit income payments are at the limit of legality. In an open market, however, there are more competitors and thus a larger probability that firms are attacked when they get high implicit revenues. Finally, higher explicit compensations strengthen the incentives of new firms to enter the market and to specialize on explicit instead of implicit compensations.

Consequently, the differences between well- and weakly-organized groups become less important, and their political weights become more equal. Thus, policy aims increasingly at the citizens' preferences and caters less often for specific interests. In this respect, politics becomes more efficient.

At the same time, market entry of new suppliers becomes more likely. Thus, 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 have increasingly problems to form a cartel. 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 offers especially promising perspectives to countries which suffer from underdevelopment and internal conflicts.

3.5.1. Elections in low developed countries

In many low developed countries elections take place occasionally or even regularly (see Barro 1997). In the election contests, all the candidates condemn inefficiency, pervasive corruption and misuse of power and promise to end these abuses. However, when a candidate is elected, his constraints change dramatically. The incentives of a president, a minister or a parliamentarian not to be corrupt are small. Often, the negative effects on his reelection chances are minor. Not rarely, the rules and the result of the coming elections can be influenced (e.g., by gerrymandering, reforms of the electoral system or by outright fraud). Such strategies do not cost much votes, because the citizens know that such behavior is not specific to today's government, but that most opposition candidates would behave similarly. But as soon as one country is deregulating its market for politics, the situation changes fundamentally. Then, reputed foreign policy suppliers (individuals and firms) can run for office which also increases the incentives of the domestic politicians to stick to their promises.

3.5.2. Deregulation of the political process of federal states

Political deregulation is also especially fruitful within federalistic, strongly decentralized countries. 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 solve a serious problem of highly decentralized political systems. While today small-scale jurisdictions have often difficulties to find qualified (part time) politicians among their citizens, political deregulation (even if it applies only to the sub-national level) would allow it to the local jurisdictions to engage non-residential politicians. Such politicians could cumulate various political positions. 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 inherent in doing related jobs for several jurisdictions.

4. Alleged problems

The idea of deregulating the political process meets the stiff opposition by politicians. In the following, some of their standard arguments are discussed.

Assertion 1: "The citizens would not elect foreign and non-local politicians". This argument is typically brought forth without reference to empirical observations. However, there is evidence that citizens are willing to delegate power to foreign politicians as soon as 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 population wishes to join the European Union and thus to delegate governmental power to foreign politicians. Another instance are countries which unilaterally peg their currency to another currency. A recent example was provided by Montenegro which adopted the German Mark (thus, the Euro) as legal tender. Actually, it would be surprising if individuals did never vote for foreign politicians, despite they consume foreign products, marry foreigners, work in foreign-

owned firms or under foreign managers, and have foreign nurses to take care of their kids. Indeed, some successful campaigns of West-East double citizens in Eastern European countries show that candidates who have not lived in the respective country for a long time (or even not at all) make many votes and sometimes even get elected. Another well-known example is Daniel Cohn-Berndt 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 would not justify rules of origin for politicians. If the citizens prefer domestic candidates, international policy suppliers would adapt accordingly. They could mainly support local candidates, exactly as international consulting firms engage local consultants in order to satisfy their clients' respective demands.

Assertion 2: "Deregulation is expensive". It is argued that increasing explicit compensations of politicians leads to increasing cost for the parliament and makes the influence of money 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 on politics. Obviously, the revenues of the politicians are most often irrelevant when compared with the effects of good or bad politics. Finally, it has to be noted that the cost of politics can be easily reduced by decreasing the size of the parliaments. This measure would hardly have noticeable drawbacks. Thus, only few observers would argue that the US-Senat with its 100 representatives or the second chamber of Switzerland (the "Ständerat") with 46 members does a worse job than the Italian parliament with 630 representatives or the German Bundestag with 672 members.

Assertion 3: "The proposal is utopic". 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. For instance, in 1573 the Polish aristocracy

elected the then 23 years old Henry III, the brother of king Charles IX of France, as king of Poland. But Henry returned to France already in 1574 after his brother's death and became king of France himself. Therefore, the Poles had to search for another king. In 1575, they elected Stephan IV Bathory, the prince of Transsylvania, as their new king. He stayed in office until 1586 and is known to be one of the most successful Polish kings. Another example is provided by the French marshal Jean-Baptiste Bernadotte who was elected as the 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 Austrian minister of foreign affairs, 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 payed according to an incentive contract and had to bring along important parts of their bureaucratic and police staff (see, e.g., Mittermaier 1995, p. 52 ff.)

The role of foreigners as political decision makers is not confined to history. Today, international organizations have some features in common with our proposal. Another instance are non-governmental organizations which play an increasingly important role not only at the international, but also at the national level despite they are often dominated by foreigners. However, in the economy foreigners play an even more important role. It is commonplace that chief executives are foreigners or, at least, are coming from another firm. Actually, nominations of external candidates are often seen as preferable to internal nominations.

The opposition against the deregulation of politics is related to the opposition against the deregulation of sports markets some years ago. In football, e.g., the player unions

defended quotas and other import restraints 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 it is often a foreigner who is the most important man - the coach.

5. Summary and conclusions

Economic growth and development has been boosted by deregulation. In contrast, the political realm 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. The increasing explicit compensation for holding political offices crowds out implicit revenues, and the asymmetries among well- and weakly-organized groups decreases. Politics targets increasingly on 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 published 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 utopic. Rather, there exist historical predecessors. But 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 institutions 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 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 land is, the worse the country's political situation is, and the more countries have already deregulated their political markets. However, deregulation is especially promising to countries with small-scale federalistic structures and to countries that intend to strengthen their federalism. Already the deregulation of politics within such countries promises important welfare gains. Finally, deregulation has good chances when it can smoothly chain to deregulations of the economic realm. In the European Union, for instance, the deregulation of politics with its "free movements of politicians" seems only to be the logical complement to the four well-known economic freedoms.

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