

# Flexible Government for a Globalized World

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## I. Introduction

Globalization creates a new dynamic geography of political problems, which is incompatible with the rigid boundaries of established democratic structures. Two new types of flexible democratic governance are proposed. The first proposal allows for jurisdictions to adjust to the geography of problems. The second proposal extends the concept of citizenship to institutions beyond states in order to provide a sense of belonging and to therewith bolster civic virtue.

## II. The Quest for a World Government

The fundamental conflict between globalization and democracy has been often discussed<sup>1</sup>. It has led to two quite different, and in many respects even opposite reactions:

(a) “Idealists” resurrect the perennial dream of a *world government* committed to the rule of law, human rights and democratic procedures. Many see the United Nations as the preliminary form of such a world government and are prepared to take its well-known limitations as a transitory phase that will be overcome with time.

(b) “Market believers” rely on the *global market* to essentially solve all problems, provided governments do not interfere. They generally admit the necessity of having some rules to the game (such as a guarantee of property rights) but they believe that such rules emerge endogenously as a result of international competition.

Both reactions are seriously lacking. The notion of a world government tries to superimpose a power structure on existing national government.

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<sup>1</sup> E. g. Rodrik 1998, von Weizsäcker 1999, Beck 2000, Bernholz 2000, Frey 2002.

It naively presumes that a world government would act out of global interest. However, even a representative democratic world government could not provide true democratic governance, but would exhibit pervasive government failure due to its large distance from the citizens and its monopoly power. At best, such a “world” government is the apex of the dominant world power (today the United States), which certainly does not meet the ideal of an institution fairly and equitably serving the interests of mankind.

The notion of a globalized world market setting its own efficient rules is equally naive. It disregards the classical problems of market failures leading to monopolistic structures, wide ranging negative external effects (particularly with respect to the natural environment) and insufficient supply of public goods, as well as an income distribution between regions and individuals which is not acceptable from most points of view. However, it is also unwarranted to expect that globalized economic markets induce governments to provide public goods effectively.

Fearing the consequences of globalization for the effectiveness of politics, citizens have lost trust in politics in general. They rightly feel that they have lost control over the decisions taken in the respective supra-national and inter-jurisdictional bodies. In contrast, professional politicians, as well as public officials, aim at shifting decisions upwards to the international and co-operational arena. At this higher level, they are better able to pursue their own goals and what they believe to be in the interest of their countries, without always having to seek the citizens’ approval.

The increased significance of “technical” decisions induced by globalization has an important negative consequence: Civic virtue, which mirrors the intrinsic motivation of the citizens and the politicians to contribute to public interest, is endangered. But it has by now been well established that civic virtue with both citizens and politicians is an indispensable factor for a successful democracy (see, e. g., Brennan and Hamlin 2000, or Putnam 2000). Traditional rational choice theory overlooks the systematic relationship between intrinsic and extrinsic motivation (see Frey 1997). *Citizens’ civic virtue* depends on their involvement in politics. Civic virtue is bolstered by having extensive participation rights in political decisions. Frey and Stutzer (2002) empirically show that individuals derive substantial procedural utility from having political participation rights.

The decision-making process dealing with issues of globalization requires *more flexible democratic political institutions*<sup>2</sup>. They must be

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2 See, more extensively, Eichenberger and Frey 2001, Frey 2003.

able to adjust to the “geography of problems” instead of being bound by traditional boundaries. Thus, globalization has to become symmetric: it has not only to increase the flexibility and effectiveness of economic units, but also of government institutions.

In the following, two proposals are advanced to change democratic structures in order to overcome the ossification of the present political system. The first one, *flexible political units*, refers to the supply side, and the second proposal, *flexible citizenship*, refers to the demand side of the political process.

### III. Flexible Political Units

The political jurisdictions should extend according to the needs of the various government functions. These needs differ according to the particular function to be provided for. As a result, functional political units generally overlap; a particular geographical area is served by various political suppliers of governmental goods and services. In order to safeguard these units and ensure that they serve the interests of the citizens, they are to be democratically controlled, and the members (ideally small political units such as the communities or even parts of communities) must be able to enter and exit, thus establishing strong interjurisdictional competition. This concept has been called FOCJ, following the initials of its constitutive characteristics: Functional, Overlapping, Competing Jurisdictions<sup>3</sup>.

Based on the traditional analysis of (local) public goods and external effects, it could be argued that in FOCJ the members will resort to free riding. Thus, for example, communities with many childless inhabitants will give up membership in FOCJ devoted to the supply of school services, and so save the corresponding tax cost. They disregard the interests of the citizens with children, though they enjoy the positive external effects of a good school education. The competition between the jurisdictions is thus predicted to lead to a so-called “race to the bottom”, resulting in under-provision of public goods, and, in the extreme, to a complete breakdown of public supply.

This criticism assumes that individuals exploit any opportunity to free riding. But it is wrong to assume that individuals take full advantage of every opportunity to profit at the expense of others. In the majority of situations, most people do not behave in a purely egoistic way. This

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<sup>3</sup> See, more fully, Frey and Eichenberger 1999, and the critical discussion by Vanberg 2000 and Blatter and Ingram 2000.

applies especially to situations in which moral or altruist behavior only implies low cost, as is the case in the collective democratic decisions at the level of communities<sup>4</sup>. As an individual only has negligible influence on communal decisions, it has no reason to vote in favor of collective free riding of the community.

Over the last few years, theoretical and empirical research has collected strong and cumulative evidence that shows that, in many situations, individuals are prepared to contribute substantially to what they consider the common good even if the implied cost is much larger than is the case in democratic decisions. Free riding in the presence of public goods (as analyzed by Olson 1965) remains a serious problem, especially when people feel that others do not contribute their fair share, or when the situation is purely anonymous and the gain is all too large. But very extensive field studies (see, in particular Ostrom 2000) confirm that these incentives to free riding need not dictate behavior, especially when the persons know, and communicate with, each other. There is similar evidence from a large number of carefully controlled laboratory experiments. No less than 40 to 60 percent of subjects in a one-shot public good situation contribute to the provision of a pure public good. The level of co-operation remains between 30 and 50 percent of what would be socially optimal, even after many repetitions where the subjects could easily have learned to take advantage of each other (e. g. Ledyard 1995, Bohnet and Frey 1999). Individuals do have a measure of intrinsic values and corresponding *intrinsic motivation*, which differs from extrinsic motivation induced by relative price variations (Frey 1997).

These insights link up with the rapidly growing research pointing out the importance of social capital for individuals' behavior in the political and general social setting (Putnam 2000, Paldam 2000). There is now a wide consensus among social scientists that intrinsic motivation, loyalty, or social capital, is an indispensable resource for a well functioning society<sup>5</sup>. If it is insufficiently developed, or scarcely exists at all, society threatens to break down altogether or at least functions at a low level of efficiency. Thus care must be taken to protect it. It has indeed been shown in experimental (Deci, Koestner and Ryan 1999) as well as in field research (Frey and Jegen 2001) that external interventions which

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4 See, extensively, Brennan and Lomasky 1993, Brennan and Hamlin 2000, and for experimental evidence see Eichenberger and Oberholzer-Gee 1998.

5 One might add that this also holds for relationships within firms, see Osterloh and Frey 2000.

the persons affected take to be controlling may crowd out intrinsic motivation. In contrast, external interventions which are perceived to be supportive tend to crowd in intrinsic motivation.

People's actions in the public sphere are well captured by the notion of "quasi-voluntary" behavior (Levi 1997). It has been empirically shown that the extent of tax compliance can only be explained in a satisfactory way by assuming that tax payers do have some measure of civic virtue, or tax morale. But it would be naive to assume that people are just "good" and are prepared to maximize the welfare of society. Rather, people are prepared to act in a non-selfish way only when they are explicitly or implicitly (i.e. via social norms) asked to do so, and when they see that relevant others also behave in that way.

In the public sphere, quasi-voluntary behavior can only be counted on when the institutional conditions support such civic-minded action. A crucial task of institutions is thus to maintain and raise civic virtue. Institutions are therefore looked at in a fundamentally different way from traditional institutional economics (e. g. Eggertsson 1990). Their task is no longer to exclusively establish efficiency with given individual preferences, but also to support intrinsic motivation.

FOCJ can be designed to meet these tasks. The term "functional" should be interpreted in a broad, non-technocratic way. The functions, along which the jurisdictions should extend, should be designed in such a way that the citizens' involvement and commitment to specific public activities are strengthened. Thus, for example, citizens' intrinsic motivation to protect the natural environment should be reflected in jurisdictions catering for these preferences. Similarly, FOCJ should be designed to fulfill citizens' conceptions of fairness.

The flexible political institutions in the form of FOCJ are well capable of supporting directed civic virtue for two reasons:

First, citizens are offered the possibility of getting democratically involved in, and becoming financially responsible for, political institutions catering for particular issues, for example the natural environment or social work. They therewith experience a sense of belonging which is more difficult, if not impossible, to achieve in traditional democratic governmental institutions catering to the needs of many diverse functions, or in technocratic inter-governmental cooperation units without either democratic institutions or tax autonomy.

Second, FOCJ are designed to extend over the geographic area in which the beneficiaries of the respective public supply live. Both positive and negative spillovers are thereby minimized, which means that the citizens

contributing to its finance can be certain of not being exploited by others. The crucial requirement that free-riding is prevented is better fulfilled in FOCJ than in traditional, all purpose political units.

#### IV. Flexible Citizenship

Traditionally, citizenship is a relationship between an individual and a state, in which an individual owes allegiance to that state and is in turn entitled to its protection. Three aspects of this definition have to be noted:

– The actors involved are the citizens and the *state*. Today, citizenship is a unique and monopolistic relationship between individuals and a particular *nation*. It is strongly shaped geographically because most government services involved are only provided to residents, i. e. citizens living within the boundaries of the respective state.

– The citizens have both *rights* and *obligations*. The rights refer to the *political* sphere (i. e. the citizens have the right to vote and to hold public office), to the *economic* sphere (i. e. the citizens have the right to become economically active as employees or employers), as well as to the *social* sphere (i. e. the citizens are protected against economic hardship within the welfare state).

– The *relationship* between an individual and the state goes well beyond an exchange of taxes for public services. Rather, the citizen “*owes allegiance*” to the state. The citizens are expected to be public spirited and to exhibit civic virtue. The relationship is thus partly non-functional and resorts to the intrinsic motivation of the citizens and to the community of people who share loyalty and identity. This aspect distinguishes the new type of citizenship proposed here from being purely a customer or member of an organization, as theoretically analyzed in the well-established Economic Theory of Clubs (Buchanan 1965).

The process of globalization with its decrease in communication and transportation costs undermines the geographically based concept of citizenship for two reasons: first, with increasing mobility of individuals, an increasing number of individuals are living in countries of which they are not citizens. Often, they live in a country only for a short period of time. Then they enjoy part of the rights of citizens, but do not have to carry the respective obligations. Second, the transaction costs for delivering government services to non-residents are decreasing dramatically. An example is education, which can be increasingly supplied via Internet to non-residents. Thus, government institutions are becoming more and more virtual (see Colander 2000).

The existing concept of citizenship can be generalized, making it possible to uphold civic virtue and governmental institutions that provide for public goods.

### V. Differentiating Citizenship

There are various ways in which citizenship can be made more flexible (see more fully Frey 2003).

#### (1) Extending national citizenship

– *Temporary Citizenship*. An individual should be able to choose for a predetermined period to become a citizen of a particular political unit, for instance because he or she is working and living in a country for a specific period of time.

– *Multiple Citizenship*. For persons simultaneously working and living in various countries, a good solution might be to split up the citizenship into various parts. The rights going with the citizenship must be adjusted accordingly. In particular, the voting rights are to reflect the fact that a person chooses to split up citizenship among several nations. In the computer age, there is no problem whatsoever in allowing for fractional votes.

– *Partial Citizenship*. An individual might be a citizen of a political unit with respect to one particular function, while being a citizen of another political unit with respect to other functions. In referenda, the voting rights should accordingly only extend to issues referring to the respective function.

#### (2) Citizenship in various types of organizations

A person may become a citizen of an organization other than the nation. The following possibilities are conceivable:

– *Levels of Government*. Citizenship might refer to the national level – which is the rule – but also to a lower level, such as the region, province or commune (the latter being the case in Switzerland) or to a higher level, such as the European Union.

– *Governmental Sub-Organizations*. Individuals might choose to become a citizen of only part of a government, such as the diplomatic service, the military or the social security administration.

– *Quasi-Governmental Organizations*. There are many organizations close to the public sector in which individuals might become citizens. Universities are such an example. Indeed, the concept of the “*Univer-sitätsbürger*” (university citizen) is well known in the German-speaking academic system. It obviously means much more than being an “employee” of a university. Rather, it means that one is prepared to commit

oneself to the academic life beyond considerations of short term purely personal benefits and costs.

– *Non-Governmental Organizations (NGOs)*. Citizenship may be of organizations such as churches, clubs (e.g. the Rotary Club, the Boy Scouts or even sport clubs such as Manchester United or FC Barcelona); action groups (e.g. the World Wildlife Fund, “Médecins sans Frontières” or the Red Cross), and functional organizations (e.g. ICANN, the “Internet Cooperation for Assigned Names and Numbers”). Yet another organization in which citizenship may be considered are profit-oriented firms. Citizens of firms have a special relationship, which goes beyond just being a customer or employee or stakeholder. Shareholders have a decision weight according to the number of shares, while stakeholders have no formal voting right at all, but exert pressure outside of established channels, e.g. via the media or demonstrations. In contrast, each citizen of a firm has a vote according to generally accepted democratic principles. While these principles differ, they are not necessarily incompatible with each other. Firm citizenship can exist quite well along with shareholder rights.

Citizenship in the broadest sense proposed here is based on *voluntary contracts* between the persons aspiring towards citizenship in a particular organization and the organization offering the possibility of citizenship. These contracts establish a special bond and are necessarily *incomplete* because it is impossible to state all the contingencies the future might hold.

An *essential* feature of citizenship is that an organization can expect a measure of allegiance and loyalty from its members. Citizens are prepared to abstain from exploiting all short-term advantages. “Citizenship” means that the members exhibit an *intrinsically based motivation* to support “their” organization over and above purely egoistic calculations. This also means that citizens are prepared to co-operate in the provision of public goods, even when pure egoists would try to free ride.

## VI. Conclusions

Globalization presents a great challenge to democracy. Under existing political institutions, globalization is likely to undermine democracy. If decisions are shifted to decision-making bodies at the world level, the citizens will increasingly lose influence over the course of politics.

This paper argues that such a development need not occur if the institutions of democratic governance are made more flexible. Two proposals

are advanced which serve to enable the citizens to maintain, or even to enlarge, their influence in the political process in a globalized society. On the supply side, individuals should have the authority to establish functional democratic units (FOCJ) adjusted to the geography of problems, and political markets should be opened to politicians coming from outside. On the demand side, individuals should be able to adjust their citizenship status to varying circumstances and may establish special bonds with organizations beyond the state. Putting these proposals for institutional flexibility into practice would reduce the extent to which globalization undermines democracy. In particular, they bolster civic virtue and reduce the temptation to free ride inherent in public goods supply.

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