
INTERVIEW WITH PROFESSORS MARGIT OSTERLOH AND BRUNO S. FREY

Stephan Rothlin 罗世范 interviews Margit Osterloh & Bruno S. Frey

STEPHAN ROTHLIN: You both have made impressive contributions to the field of Economics in which you have enriched the social sciences by exploring the integration of economics and politics, and achieved challenging results, often taking a stand against conventional views. You have introduced new insights into economics from a psychological perspective, which allowed you to address issues such as the transformation of anomalies, the nature of intrinsic motivation and the consequences of crowding effects. Your exploration of the relationship of Happiness and Economics is both original and widely discussed. In your public lecture at the University of Saint Joseph, Macau, on 8 May 2019 you have challenged the audience again with your suggestion of a new policy to address the pressing migrant crisis. You stayed in Macau for 5 full days in January 2019 exploring a wide variety of different aspects of this our beloved city. What particular aspects impressed you in the city of Macau?

FREY/OSTERLOH: We greatly enjoyed our stay in Macau because it offers two totally different aspects of life. On the one hand, a most lively city with beautiful buildings dating from the Portuguese period as well as several modern high-rise buildings. On the other hand, Macau is engaged in casinos where huge sums of money are involved and change hands.

STEPHAN ROTHLIN: You were impressed not only by the historic sites of Macau but also by the contemporary architecture so much so that you suggested that buildings like Grand Lisboa, nicknamed by the locals as “The Vampire,” should be listed as World Heritage, why?

FREY/OSTERLOH: Some of the modern buildings in the city of Macau are interesting from an architectural point of view as they present quite extraordinary features. One of them is indeed the Grand Lisboa which once dominated the old city but has a unique shape never seen anywhere else in the world. Moreover, it perfectly symbolises a cultural artefact of these times: how leisure industry and great architecture have merged

STEPHAN ROTHLIN: On the other side the image of the “Vampire” as a symbol of unrestricted greed may also reveal another aspect which came to light quite strongly in the current World Economic Forum in Davos, namely, a mounting concern about the ever-widening gap between the rich and the poor. The Gini index of Hong Kong for example is alarmingly high with 0.532. What is your key recommendation to overcome this gap?

FREY/OSTERLOH: We recommend that the conditions for persons who today have little chance of getting a higher income in the first place receive an education enabling them to raise their income in the future. Such a policy reduces the discrepancy in incomes reflected in a high Gini-Coefficient most effectively in the middle and long run.

STEPHAN ROTHLIN: You may like to share your take on the view of the Dutch philosopher Rutger Bregman who captured the attention by strongly focusing on raising taxes on the rich. We have discussed the effectiveness of the heritage tax: what is your take on it?

FREY/OSTERLOH: We think that it is not a particularly good idea to fight income inequality by trying to raise the tax rates of the rich. In our

view this is a rather trivial approach. There are several reasons why this will not work in the way expected:

- In countries in which citizens have low democratic rights to effectively participate in political decision making, the rich find many subtle (and not-so-subtle) means to influence government policy in order to protect their wealth. Examples are big investments like road construction and national defence projects which are contracted in a non-competitive way, favouring the established rich.
- Higher taxes usually lead to a higher government share in GNP. This strengthens bureaucracy and furthers corruption in many countries.
- The wealthy usually find innumerable legal and illegal possibilities to evade taxes. To give an example: If there is a high inheritance tax, the wealth will be given to children and grand children as gifts during their life-time. Thus, taxes on gifts have to be raised accordingly. This results in wealthy and powerful people transferring their wealth in even less visible ways.
- High taxes on additional incomes (marginal taxes) induce the wealthy to migrate to countries with lower tax rates.
- It might be that high taxes lower the incentives to work hard and to invest in the future.

As a result, the tax revenue may be smaller than expected, curbing the possibilities to finance collective goods such as infrastructure and education. Therefore it makes more sense to consider the reasons how to avoid the discrepancy of market incomes before taxes and transfers that tend to widen in many countries and regions. One measure is, as already mentioned, a good affordable public education for everybody. Another is to improve the infrastructure with the goal to enable people of lower income to have better economic opportunities, for example improving public transport so that lower income people are in a better situation to compete with persons of higher income.

Of course, resources are needed to pay for education and infrastructure. To attain the goal that (wealthy as well as not-so wealthy) citizens pay their tax-share the following preconditions must be fulfilled. First, they are able to participate in the decisions how the tax revenues are spent. Second, they experience that the public money is used efficiently and without corruption. Third, they are treated in a respectful and fair way. Under these conditions also the wealthy are more ready to contribute to the collective good. The not-so-wealthy accept reasonable inequality of incomes as long as they experience that they fare better with it compared to a policy of big transfers. What matters is that primary income (i.e. income before taxes and transfers) is not highly unequal (as reflected in a high Gini coefficient before taxes and transfers).

An example is provided by Switzerland. Semi-direct democracy combined with political decentralisation in cantons and communes allows citizens to participate in decisions how public money is spent. Switzerland not only is among the richest countries of the world, it also has one of the lowest Gini-coefficients of primary incomes. In contrast to most other countries, inequality has not risen during the last decades. In addition, the government share in GNP is relatively low, which means that taxes are spent effectively. It may finally be added, that the Swiss regularly belong to the countries with the highest level of life satisfaction.

To sum up, the major emphasis should not be to impose higher taxes on the rich but to improve democratic participation rights and affordable public education for everybody. This may or may not lead to higher taxes for the rich. What matters is that the bulk of the population is better off.

STEPHAN ROTHLIN: I vividly recall our discussions on executive pay during the 90's. Surprisingly we had already then agreed that the astronomical high pay of executives would not only not be justified at all but would also crowd out intrinsic motivation. What do you suggest are effective measures to cut the high pay of executives down to reasonable levels?

FREY/OSTERLOH: We suggest some rather unconventional approaches. The first is to rotate the CEO position among the group of top-managers. The second is to select managers and the board of directors from a pool of well-endowed lower managers by lot. Both approaches work against the hubris of the now common

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single CEOs who tend to think that they are unique and endeavour to impose their views on the whole corporation. In addition, single CEOs today have the power to – directly or indirectly – determine their own compensation. It is therefore not surprising that they often fix an astronomical pay for themselves because they sincerely (but wrongly) believe that they deserve such huge pay.

STEPHAN ROTHLIN: Europe seems to be shaken by a profound crisis: the chaos around Brexit and the uproar of the Yellow Jackets in France are only a few symptoms of a broader malaise. As you are working on a new book on Europe would you like to share your insights on some key elements out of the crisis given the fact that you, Bruno, have been consistently pointing out some of the shortcomings of the European Union?

FREY: Along with my colleague Reiner Eichenberger who serves now as Dean of the Faculty of Economics of the University of Fribourg I am proposing a totally new way to develop a lively, efficient and at the same time humane and democratic Europe. The idea is to develop FOCJ, i.e. Functional, Overlapping

and Competing Jurisdictions. They form in response to problems, and are organised to deal with the corresponding issues in an efficient and democratic manner. This totally differs from the existing effort to build Europe on the basis of nation states as is the case with the European Union. The result of the EU is a fundamental deficit with respect to efficiency (it is heavily bureaucratic) and democracy (it is governed strongly from above, neglecting the interests of the citizens). Not surprisingly, the support for the European Union as it exists is quite low, and –even more importantly – is waning. A second idea is to introduce aleatoric elements into the government. This means, that some committees

a country's communal wealth from which they benefit once they work in the country. This is analogous to acquiring a share in a cooperative or credit union. At first it seems odd to ask poor would-be migrants to first buy a share, and then to enter a country. However, that must be compared to the existing situation in which such migrants pay considerable sums to people smugglers. Moreover, our proposal offers them a perspective to decide autonomously about their future without running the danger of dying and being mistreated. With our proposal, the country receiving the immigrants get the funds they can well use to integrate them. Political fugitives receive the money back.

To reach a more humane system, we propose that persons wanting to emigrate from poor to rich countries acquire a share in a country's communal wealth from which they benefit once they work in the country.

or even an extra parliamentary chamber should consist of citizen that are randomly selected. This idea, which has its historic roots in Ancient Greece and has been propagated by Aristotle would help to fight against bureaucracy and the government by an elite. It would help to give ordinary people as well as the Yellow Jackets a voice and at the same time would raise their responsibility.

STEPHAN ROTHLIN: Your recent lecture which took place at the University of Saint Joseph, Macau, relating to the migration crisis in Europe was most thought provoking and was very well received. Could you summarise the key elements of your proposal on how to fix the migration crisis?

FREY/OSTERLOH: The most important issue is that the migrants can enter our countries in a legal way, and to offer them quick employment opportunities. If that is the case, the murderous travel where migrants rely on people smugglers is avoided. To reach a more humane system, we propose that persons wanting to emigrate from poor to rich countries acquire a share in

This proposal agrees with Pope Francis' demands to offer migrants more legal possibilities to migrate into Western countries. We agree with what Pope Francis recently said during his visit in Morocco namely "The issue of migration will never be resolved by raising barriers, fomenting fear of others or denying assistance to those who legitimately aspire to a better life for themselves and their families.". But we do not think that an unrestricted migration into Western countries would be a good solution. From an economic viewpoint one could argue, that free migration would raise the wealth of all nations. But there would be winners and losers. For example, the rich can afford better schools for their children whereas the poor must share the classrooms with the children of the immigrants. Therefore the winners would have to compensate the losers to maintain social justice. Since in most countries we cannot expect such a compensation and – as argued – the wealthy are in a better position to avoid taxes and transfers than the poor, the latter understandably oppose unrestricted migration. As a consequence, the position of anti-migration movements and nationalistic parties in our

countries would be strengthened. Therefore we have to think about better legal possibilities to immigrate into our countries beyond unrestricted migration. Our proposal exactly wants to contribute to this goal.

STEPHAN ROTHLIN: The respondent of your lecture, Mr. Andrew So, former Ombudsman of Hong Kong (1994-1999) and founder of the Asian Confederation of Credit Unions has positively valued your contribution. He highlighted above all the fact that your proposal to connect migrants and refugees with credit unions would give them also a sense of their own dignity and self respect on top of the other material advantages they may gain. What did you learn from Andrew So?

FREY/OSTERLOH: It is wonderful for us that Mr. So evaluates our proposal in such a positive way, and we are most grateful that he supported our idea in light of his extensive knowledge and experience as Ombudsman. We appreciate very much that he has enriched our argumentation with the idea that to pay for becoming a member of a credit union or a cooperative not only helps migrants to arrive at our countries safely and to make a living, but also gives them dignity and self respect. This will also enable them to become integrated better and faster into their countries of arrival.

STEPHAN ROTHLIN: The well known economist Paul Collier and other colleagues have responded to your constructive proposal in a most nuanced way. However, among a host of other arguments does he point out the damaging brain drain from poor countries which are precisely in dire need of those capable people who would be attracted to move away from their home countries. Taking into account the broad feedback of objections to your proposal: What do you consider after all a key road block which may make it impossible that your proposal would be implemented?

FREY/OSTERLOH: As we have experienced over and over, we both believe that new ideas always have difficulties gaining acceptance, because they clash with existing views and interests. It often

takes a long time to have a new proposal turned into reality. We can only hope that this will be the case sometime in the near future.

STEPHAN ROTHLIN: You are both members of the Ladanyi-Association, based in Zurich. What do you think have been the key insights of Laszlo Ladanyi S.J. (1914-1990) who was greatly respected as a China watcher?

FREY/OSTERLOH: Laszlo Ladanyi S.J. for us is a great example showing us the importance of China today and in the future. He also has taught us how important it is to learn about Chinese cultures and to resist all kinds of cultural imperialism.



MARGIT OSTERLOH & BRUNO S. FREY, CREMA, Center for Research on Economics, Management and Arts, Zurich, and the University of Basle, Switzerland

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