

# Preface

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Economics is inspiring – or rather, it *can* be inspiring. It is able to provide original and unexpected insights which differ from conventional views and general opinions. Economics is radical in the sense that many of its conclusions are not welcome in a streamlined world. It is also relevant and down to earth, as it squarely faces the trade-offs and conflicts rather than discussing them away. Its comparative approach makes it useful for politics: it suggests what can best be achieved from the feasible options.

This book wants to demonstrate that economics can fruitfully be applied to many different topics and questions.

Part I sets the stage. It discusses what I perceive to be the state of economics. While an inspiring economics exists, it is not the type of economics popular in many quarters of academic economics, and it certainly is not applied in graduate studies.

Part II introduces new insights from psychology into economics. Instead of economics imperializing other fields, I import findings from elsewhere. It is shown how behavioural anomalies initially detected in psychology can be dealt with in economics, without throwing reasonable (or rational) economic man overboard. The ‘Crowding-Out Effect’ discussed thereafter goes one step further. It identifies and empirically measures a relationship stating exactly the opposite of the relative price effect on which economics has so far been founded. The major consequence is that monetary rewards (often in the form of prices and wages) do not always bring about the desired behaviour. Thus, for example, pay for performance may result in poorer performance rather than better. Crowding theory therefore suggests the following, more balanced view: in general, pricing and regulating is less effective than is often claimed, and sometimes the best policy is not to intervene, but to leave it up to the persons concerned to find a solution on their own.

Part III integrates economics and politics. I argue for an improvement in democracy by involving the citizens directly via popular initiatives and referenda. This would be an innovation for many nations. It should be accompanied by a departure from the state being a territorial monopolist. Rather, **F**unctional, **O**verlapping, and **C**ompeting Jurisdictions are suggested. Finally, we turn to authoritarian nations and consider the way foreign aid affects politics and economics in developing countries. It is, moreover, em-

pirically demonstrated how the aggressive warring acts of a particularly vile dictatorship, Nazi Germany, are reflected on the capital market.

This book covers many different topics, yet it has a common thread running through it. All of the chapters seek to embark on uncharted territory: they seek to illuminate a social issue; they focus on human behaviour, and especially on human motivation; and they are empirically oriented. Many of them provide econometric estimates.

The book conforms little to what today is considered 'economic science'. Many of my economics colleagues would argue that economics is the 'queen of the social sciences' for a quite different reason: because it is the most formal and rigorous of the social sciences. But this view comes at a price. Economics has not only become boring but also threatens to become irrelevant. Therefore I do not feel embarrassed about being unorthodox. In fact, I rather enjoy it!

Most chapters have been written in collaboration with co-workers. With one exception (Margit Osterloh, a colleague in business administration at my University), all of them are former or present scientific collaborators of my chair in economics at the University of Zurich. This reflects my understanding of what scientific research is. Joint work is not only fascinating, but it also invites younger scholars to reach the very frontiers of knowledge. Research centred around a chair thus provides a viable alternative to the less personal American type graduate education which, in my view, is too slavishly imitated today in Europe and elsewhere.

In the case of the co-workers included in this book, I am proud to say that in the short time since the underlying papers were originally written, they all have been appointed professors at reputable universities: Reiner Eichenberger is associate professor at the University of Fribourg, Felix Oberholzer-Gee is assistant professor at the Wharton School of the University of Pennsylvania, and Iris Bohnet is assistant professor at Harvard University. Marcel Kucher has just completed his doctorate and Alois Stutzer is presently working towards his doctorate. I am grateful to all of them for giving me permission to base the chapters on the jointly written papers.

To form a coherent whole, the underlying papers have been thoroughly revised. To improve readability, there are no footnotes and there are no references in the text (except for verbal citations). Explanatory notes on the references to the literature are given at the end of each chapter. The reader is informed about major contributions to the topic, as well as about the specific sources used in the text. Mostly, books are cited in order to provide a broader picture. The short comments are designed to help the reader to further pursue the topic without getting lost in the huge body of literature.

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ments, and to Reto Jegen and Stephan Meier for their great help in seeing the book through the press.

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