

# Outside and inside competition for international organizations—from analysis to innovations

Bruno S. Frey

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**Abstract** The analysis of the competitive environment of international organizations has been neglected in scholarly research. Both the external and the internal type of competition in international organizations are rather weak and their performance is far from ideal. To strengthen both types of competition, several tentative proposals are advanced. They range from the introduction of an international competition agency, competition rules, a monitoring institute, voucher systems, matching contributions, popular participation rights by citizens to the use of prediction markets and institutionalized devil's advocates. These proposals are put forward to stimulate discussion and to advance new ideas about the design of international organizations.

**Keywords** International organizations · Public goods · Principal-agent · Competition · Innovation

**JEL** H11 · H41 · D7 · F55 · F59

International organizations are arguably in trouble. They face great challenges lying in the future such as the quest and struggle for resources, the possibility of state failures, the problems and forces associated with globalization, terrorism and the spread of weapons of mass destruction. These challenges will ask for global rather than only national solutions. At the same time, as stated by *The Economist* (2008) “Global institutions are an outdated muddle...the organizational response looks ever

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B. S. Frey (✉)  
Institute for Empirical Research in Economics, University of Zurich,  
Winterthurerstr. 30, 8006 Zurich, Switzerland  
e-mail: bsfrey@iew.uzh.ch

B. S. Frey  
CREMA—Center for Research in Economics, Management and the Arts, Basel, Switzerland

shabbier, slower and feebler.” International organization scholars have only partially responded to the shortcomings identified.

An effort is made here to address some of the related issues.

This paper intends to make two specific contributions:

- Attention is called on the *competitive environment*—one, a few or many competitors—in which international organizations act. While issues of *inside competition* have found considerable attention in the literature, *external competition* has been mostly disregarded. A recent survey article (Biermann 2008:153) states that international relations “research still is focused on individual organizations,” at best concentrating on dyadic (micro-level) interactions, but not on the macro-level interplay of a large number of international organizations. There is a need to deal with the “market” as a whole in which international organizations act. The entire system of interacting organizations should be considered rather than particular organizations in isolation.
- An effort is made to move from analysis to policy by *advancing proposals* to improve the functioning of international organizations. They are specifically designed to *strengthen both internal and external competition*. Scholars have been rather reluctant to proceed in this direction. As long as our knowledge of the working of specific institutions, as well as their interactions in the international domain remains so limited, the proposals can indeed only be suggestive. The proposals made here intend to stimulate discussion and are far from suggesting a definite answer. Useful proposals must, of course, be based on sound analysis. On the other hand, it is necessary to respond to existing problems even if our knowledge is incomplete (which it will always be). It should be kept in mind that if international organization scholars do not come forth with ideas helping to overcome the problems that have been identified, proposals will still be advanced but by persons even *less* knowledgeable and with potentially serious negative consequences for global governance.

## 1 Analyzing International Organizations from the Point of View of Competition

The term “international organization” is used in a broad sense here;<sup>1</sup> it encompasses both International Governmental Organizations [IGOs, such as the UN and its sub-organizations such as UN Educational, Scientific and Cultural Organization (UNESCO), International Monetary Fund (IMF) or International Bank for Reconstruction and Development, World Trade Organization or EU] and International Non-Governmental Organizations (INGOs, i.e. umbrella organizations such as the World Council of Churches or the European Trade Union Confederations). It also includes non-profit-oriented transnational organizations such as the International Olympic Committee, Amnesty International, Greenpeace or Transparency Interna-

<sup>1</sup> For an extensive, but incomplete list see “List of International Organizations” in Wikipedia ([http://en.wikipedia.org/wiki/list\\_of\\_international\\_organizations](http://en.wikipedia.org/wiki/list_of_international_organizations); Non-governmental organizations; International\_ organization) all accessed January 29th, 2008.

tional. These organizations have achieved increasing political influence over the past decades (see e.g. Werker and Ahmed 2008:75). In several respects the term “international organization” also refers to informal groups defined by self-appointed membership such as G7, G8, G12, etc. They mainly differ from conventional IGOs and NGOs by relying almost exclusively on the meeting of heads of state while the respective bureaucratic organization is (still) weak or does not even exist. Yet these international groups have gained great political and media prominence and should therefore not be left out of account.

Standard economic theory sees the reason for international organizations to exist mainly or even exclusively in the provision of public goods. The main problem is seen to be the incentive to free ride, such that an undersupply of goods will result (e.g. Congleton 2006). In contrast, for international private goods and services no international organizations are needed; global firms and private interest groups are able to provide the respective services.

This approach faces the problem that nearly all of international activities are, to some extent, subject to free riding and to positive or negative external effects. In the international sphere, the distinction between private and public goods is quite blurred. The existence of an international organization should therefore not be seen as a response to the “nature” of the good or service in question. Rather the existence depends on how far reaching they are, and how precisely property rights are assigned within the international sphere. Transaction costs as well as political interests of national governments, private interest groups and existing international organizations play a major role. These considerations imply that any international activity can be provided by international organizations of a wide spectrum, from the purely private to public organizations. The standard economic approach, which starts by examining the character of goods (private or public), is of only limited usefulness. This conclusion is buttressed by two additional considerations. Even in the case of (pure) international public goods private supply does remain possible due to pro-social preferences of individuals who voluntarily contribute.<sup>2</sup> Pertinent examples are the many humanitarian organizations that are active in the international sphere. Moreover, in the case of some international public goods, government interference is unwanted or even rejected. For example, the Red Cross, one of the main actors supplying international public goods, emphasizes its independence and autonomy from national governments, even though, it is heavily funded by them. Modern Political Economy, focusing on internationally active individuals and organizations and following a comparative approach, provides a more useful means to analyze international organizations than the standard economic approach does (as has long been argued by Vaubel 1986).

This paper, based on Political Economy, seeks to address the functioning of international organizations by using the concept of *competition* in two different areas:

- *External competition* (Section 2), i.e. the extent to which the market for international organizations is open to outsiders;

<sup>2</sup> For the extensive literature on the voluntary provision of international public goods see, e.g., Murdoch and Sandler (1997) and Barrett (2007).

- *Internal competition* (Section 3), i.e. the extent to which the preferences of citizens are reflected in the actions taken by international organizations.

The analysis comes to the conclusion that both types of competition are severely restricted and are lacking. Therefore, a number of innovations are suggested to strengthen competition. Section 4 advances several *proposals* to strengthen external and internal competition in the international realm. The proposals are, as will be seen, rather unconventional and are intended to stimulate the scientific discourse. Section 5 concludes.

## 2 External Competition

To come to terms with the interaction of international organizations in “international markets” (where the demand for and the supply of goods and services meet) the concept of external competition is used.<sup>3</sup> External competition refers to the extent to which a particular “international market” is “contestable” both with respect to entry and exit. It must be analyzed how easily international organizations may become active in a market, and how costly it is to leave it again. Entry may be undertaken by newly founded organizations, or by international organizations presently engaged in a different field.

The *costs to enter* may be prohibitive, in which case an existing international organization has a monopoly on a particular market. An international monopoly rarely is prevalent. With respect to some issues, the United Nations seems to have a monopoly today, in particular the Security Council. But in many respects this monopoly is challenged by competing international organizations, for example by the “major” nations (the G7, G8, G12, or the caucus of mostly developing countries called G77 which now comprises 130 members, etc.) convening in separate meetings, and seeking solutions outside the UN framework. In many international areas market entry is encumbered by substantial costs and the international market is populated by a small number of organizations providing the same or similar goods. The market is then characterized by oligopolistic competition. Examples in the humanitarian field are “Amnesty International” and “Human Rights Watch,” both organizations that care for prisoners and detainees. In the field of peacekeeping operations the United Nations, the European Union, North Atlantic Treaty Organization and several other international organizations are sometimes simultaneously engaged. Finally, when entry costs are low a large number of international organizations are competing with each other. Examples are the many humanitarian institutions simultaneously working to relieve poverty and hunger, and to help in the aftermath of natural disasters. The interaction of competing international organizations may even result in an oversupply of a particular international good. An example is the EU Commission, the Organization for Economic Co-operation and Development secretariat and the senior management of the IMF who all promoted

<sup>3</sup> The term “competition” starts from the premise that international organizations are independent units, each seeking the best outcome for itself. In contrast, “inter-organizational networking” (Biermann 2008) implies that it is a beneficial “response to challenges of transnational character that single organizations (and states) cannot master on their own” (p. 173).

the liberalization of capital controls because they were competing with each other to control the issue area (Steinwand and Stone 2008:127; Abdelal 2006).

“Contestability” also refers to the cost of *exiting* a market. This concept makes immediate sense in the case of private profit-oriented firms. These must consider whether they can take the profits with them and invest them elsewhere, or whether they are locked in. This has been the case in some developing countries where the national legislation prohibits the repatriation of profits. Firms take such restrictions into account and consequently may shy away from foreign direct investments. The concept is less straightforward in the case of non-profit oriented international organizations. However, to the extent that inside competition is muted, employees of international organizations are able to derive rents, i.e. various benefits they would not get elsewhere. If, for some reason, the possibility to repatriate these benefits is curtailed, the decision makers in international organizations are less willing to engage in the respective area or country.

The entry (and possibly the exit) costs for international markets are important aspects to consider, but they do not fully determine the number of competing international organizations. Contestability is not exogenously given but is subject to the manipulations of various actors. In particular, international organizations engaged in a particular area make strong efforts to restrict market access to newcomers by raising entry costs. Politicians and employees involved in international organizations tend to restrict entry to gain for themselves more prominence, to enjoy a “quiet life,” and to create extra rents (e.g. perquisites, see Werker and Ahmed 2008:79) for their own benefit. These efforts are not necessarily made in bad faith. Persons already engaged in a particular international field are often convinced that they are the most knowledgeable and thus the most valuable actors. Newcomers to the field are believed to do much worse or to even cause harm. For similar reasons, when several providers act in the market, cartels tend to be formed in order to prevent “noxious” competition. In particular, international organizations have an incentive to suppress competition by dividing up the field of activity according to regions and specific sub-types of activity.

As the contestability of an international market is at least partly endogenous, it would be a mistake to directly derive the efficiency of international organizations from the market form observed. Nevertheless, to analyze and establish how many international organizations are active in a particular field is a useful starting point. External competition among international organizations should be an important area of research. However, this research, to my best knowledge, has rarely been performed. Two aspects are in need of more analysis: the existing market forms and their consequences.

## 2.1 Market Form

First of all, it is essential to closely look at and understand the market forms in which international organizations act, i.e. the current status and its development over time. It is important to understand the dynamics especially as globalization of the economy has changed the world order (*The Economist* 2008). A crucial issue is the question about how easy it is to establish a new international organization, and how often international organizations disappear again. There seems to be an ever-

increasing demand for international organizations (see Frey 1997; Vaubel et al. 2007). In particular, the number of international NGOs has rapidly increased over the last few decades; its growth has been calculated to be more than 6% per year over the last half-century. It rose from less than 200 in 1909 to nearly 1,000 in 1956, to over 20,000 in 2005 (Werker and Ahmed 2008:75, 82). If new areas of activity opened up (e.g. with respect to communication) or were artificially created, the market form may still be characterized by oligopolistic or even monopolistic competition. If, in contrast, growth occurs in established areas, market forms will be characterized by more competition. As the definition of a “market” is vague, only a careful analysis of particular areas may show whether competition has increased or decreased.

## 2.2 Consequences of Market Forms

Market forms tend to have a significant effect on the size and composition of international goods and services provided. A challenging question is whether wasteful competition exists in international markets, i.e. whether the activity levels of a large number of suppliers is additive or sub-additive, perhaps even negative. It has sometimes been argued that international lending is a case in point. Competing international organizations lending money may provoke a race to the bottom by reducing the conditionalities imposed (see, e.g., Steinwand and Stone 2008). There is evidence that the same applies to international aid agencies. According to Easterly and Pfütze (2008: 38) “... aid agencies split their assistance between too many donors, too many countries and too many sectors for each donor, where “too many” reflects the view that having multiple donors and multiple projects forfeits the gains of specialization and leads to higher-than-necessary overhead costs for both donors and recipients.” Such unproductive fragmentation has been found to be widespread with respect to aid; an example is the United States, which has more than 50 different bureaucratic units with overlapping responsibilities involved in giving foreign assistance (Easterly and Pfützte 2008:38–41). The negative externalities produced by the efforts to help, as well as the large fixed set-up costs may well produce poorer results than if only one (or a few) organizations had been active. The existence of a large number of aid agencies may also shift the power from deserving to undeserving aid recipients. In areas controlled by warlords, one of the few bargaining chips available to nongovernmental organizations that are delivering humanitarian assistance is the threat of pulling out. “...should, say, Médecins Sans Frontières make a noisy withdrawal from a certain area, in a world of many NGO actors, it is likely to be replaced by another organization. This makes the threat of withdrawal far less powerful” (Werker and Ahmed 2008: 87–88). Care must be taken that these results are not unduly generalized as long as there are so few empirical studies analyzing these issues. The conclusions about the possibly negative effects of a large number of competitors are far from obvious, especially if one takes into account that in developed economies the willingness to donate money might well diminish if donors do not have the possibility to give to the humanitarian organization of their choice. The possibly reduced effectiveness of the aid must be weighed against the possibly reduced amount of donations. Similarly, politicians and public officials of smaller countries may prefer to fund smaller international

organizations in which they can exert more influence than in large ones, which may be dominated by the major national powers.

These are, in my view, important questions that so far do not seem to have been sufficiently addressed by academics.

### 3 Inside Competition

The stronger the internal political competition is, the more international organizations are forced to consider the preferences of the citizens they represent, or of the donors who are funding them. Yet, such internal competition is seriously hampered by the fact that donors in most cases have only limited interest in what international organizations do.<sup>4</sup> Their preferences are muted and are rarely openly expressed. As a result, international organizations have a substantial amount of discretionary power, which bureaucracy tends to use for its own advantage. These aspects have been extensively analyzed in the Public Choice Approach to international organizations (e.g. Vaubel 1986; Frey 1984; Dreher 2004). Here, only issues of financing and decision rules are discussed because the proposals advanced seek to improve on them.

#### 3.1 Financing

Many non-governmental international organizations are financed through donations. Indeed, many NGOs have essentially become fundraising institutions (Werker and Ahmed 2008:88). The directors of these organizations are forced to comply with the wishes of their benefactors. However, most donors are not much interested in what organizations actually do but are motivated by the “warm glow” they will feel when they become benefactors. They tend to not monitor the activities of the organizations but believe what the organizations proclaim. The organizations are thus induced to spend a considerable share of their revenue on propaganda, an aspect pointed out by Tullock (1967) long ago. Administrative and fundraising costs can amount to more than 10% of total costs (Werker and Ahmed 2008:88). Some potential donors have reacted by informing themselves about the activities of international organizations through certified controllers. Their task is simplified when performances of competing organizations can be compared. The problem of a limited demand for information by donors, and a limited capability to monitor the activities, nevertheless remains. This allows privately financed international organizations to enjoy considerable liberties and discretionary room to exploit donors and use them to their advantage.

Difficulties arise in the many instances in which governments finance international organizations. Usually bureaucratic, input oriented rules are applied but such rules tend to lead to inefficiencies and distortions. International organizations receive a steady flow of revenue, independent and regardless of their performance. As a consequence they have an incentive to inflate expenditures to

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<sup>4</sup> An exception are large scandals, which decision makers of international organizations go through great trouble to avoid, and even more so, to suppress the surfacing of the respective information.



conform to the revenue flow, or even to worsen the problems they are supposed to remedy. But such rules have the advantage of being easy to administrate and are therefore often used (e.g. in the United Nations system).

The situation changes when funding is made dependent on the *performance* of an international organization. However, such funding is incentive compatible and induces the leaders of international organizations to act in the interest of the governments financing them. This would be the case if an environmental organization were to be funded according to the improvements in the environment produced, or a peace promoting organization corresponding to the achieved reduction in the probability of wars. Such a financing procedure is extremely difficult to administrate, as it is necessary to clearly identify the contribution made by the respective international organization. The same problem arises when international organizations are given the right to tax individuals and firms in accordance with the benefits achieved. Such financing is again incentive compatible. However, if it is difficult to identify the contribution of a certain organization it could lead to distortions. If a particular organization is credited with the improvement of a particular global situation (say, if the condition of the environment has been improved along some dimension) but if this improvement is due to external factors (e.g. a business downturn), or if other actors and organizations are in fact responsible for the improvement, the funding of the organization is wasteful and leads to the survival of international organizations that do not perform a useful activity.

### 3.2 Decision Rules

The extent to which the preferences of citizens are reflected in the actions of international organizations depends decisively on the institution's decision making. They determine the relationship between the citizens as principals and the actors in international organizations as agents. This specific *principal-agent relationship* is far more complicated than in firms or in national governments (Vaubel 2006; Michaelowa and Borrmann 2006). There are many more steps in this relationship between the citizens and these actors. Under democratic conditions, citizens elect a national parliament, which in turn elects a government. The government, or rather the specific ministries in charge, will select delegates who will represent the national interests in the international organization. The leaders of international organizations are supposed to follow the decisions made by the delegates of the member countries. They charge their officials in the centre to devise the corresponding policies, which then have to be communicated to the employees in the field. There are thus several layers to the principal-agent relationship that provide international organizations with a considerable discretionary room and allow them to act in an inefficient and wasteful way (Vaubel 2006; Frey and Gygi 1991; Frey 1997). The principal-agent relationship between national delegates and the leaders of an international organization is strengthened when the share of votes corresponds to the share of money contributed, such as in the UN financial organizations, the International Monetary Fund and the World Bank. As a result there is a dominant "shareholder," the United States, interested in the international organization's efficiency (Vaubel 1996). It may, however, be argued that these organizations act in the interest of the



dominant shareholder rather than in the interest of a more global community (see, e.g., Dreher and Jensen 2007).

#### 4 Plea for Innovative Proposals

The analysis suggests that both internal and external competition for international organizations is rather weak and that the performance of international organizations is far from ideal. It does not match the pressing problems of current and future international governance. There exists considerable room for improvement. Despite the fact that our analytical knowledge about the workings of international organizations is still quite limited, it seems possible to advance proposals designed to strengthen competition and hopefully make international organizations perform better. The scope of institutional innovations has not been sufficiently explored; indeed it seems to me that researchers in the field accept the status quo too readily. I wish to argue that for researchers an important objective should be to bring forth new ideas, even if they are only partial, and their success uncertain.

To illustrate the potential usefulness of improving the performance of international organizations, I discuss eight proposals that could serve as input in a scholarly discourse process, and later on could be used as a possible building block for the construction of new institutions, and the improvement of existing ones.

*External competition* can be strengthened through the following proposals:

##### Proposal 1. International Competition Agency

An organization can be established that assumes the task of identifying and eliminating entry barriers into markets for international organizations. This agency should also identify under which specific conditions competition among international organizations may become wasteful, taking into account all relevant considerations. Moreover it could be given the task of coordinating the competitive activities of independent international organizations, whose uncoordinated action have led to undesirable results in the past, such as a possible exploitation through undeserving aid recipients.

The structure of an international competition agency could be similar to that of existing competition agencies in national markets. With respect to their performance, experiences with such agencies have not always been positive and the results are not beyond criticism. It has been argued that these agencies could get “captured” by particular strong interests. There lurks a danger that a competition agency for international organizations could become subservient to national governments and existing interest groups. If this indeed happens, coordinating activities by the international competition agency would worsen conditions. They might well result in favouring politically well connected, but inefficient international organizations. On the other hand, possibly efficient but politically powerless, international organizations might be excluded. An undisputedly positive contribution of an international competition agency is that they may provide useful information on international market conditions.

The founding of a competition agency to monitor international organizations presupposes a superior power, able to coerce and punish them if necessary. It could

be thought that in the United Nation system the sub-agencies such as UNESCO, World Bank or IMF could meet this condition. However, these international organizations have acquired so much power of their own that they are largely immune to such pressures. Moreover, in many cases there exists no superior power willing and able to monitor the competitive conditions in the various international markets. For these reasons, while desirable, it is most unlikely that such an international competition agency will ever be founded and has any impact.

#### Proposal 2. International Competition Rules

International law can be employed to strengthen and open markets for international organizations and to curb the exploitation through monopolistic and oligopolistic providers, including cartels. An independent international competition court can be established in order to prevent the violation of competition rules.

This proposal follows the idea of using international law with respect to human rights, and the respective court, established by a voluntary constitutional consensus among most countries in the world (though several important countries, among them the United States, do not, at least not fully, participate). Even though the court is far from functioning perfectly, it is still true that in many cases even the most powerful countries—which could *not be forced* into compliance—honour the international legal arrangements. Many nations determined that it is in their long-term best interest to follow the rules, and to respect the independence of the court even though it may be disadvantageous to them in individual cases. Even if some countries sometimes disregard the rules agreed upon, the constitutional consensus need not break down but may survive. Competition rules addressing international organizations tend to emerge over time and arise from the demand for better functioning global governance. This process is likely to be slow and incomplete. For a considerable time to come the main function of the rules will be “expressive,” i.e. indicating the desired direction, rather than a binding constraint on the international organizations.

#### Proposal 3. International Monitoring Institute

A scientific organization can be created which will report and inform about existing situations and expected future trends with respect to the internal and external competition of international organizations. As it is not given any power to intervene or coerce but will fulfil a useful role, little opposition to its establishment is to be expected. However, exactly because its role in improving global governance is only advisory, its establishment and financing is not likely to be seen as a high priority.

The next two proposals seek to strengthen the *internal competition* within an international organization.

#### Proposal 4. Vouchers

Individuals, households and communities can be given vouchers allowing them to “purchase” the services of international organizations. The recipients turn in the vouchers to a central voucher fund, which will give the corresponding agency an increase in its budget. The vouchers develop a secondary market in which the price of the vouchers reflects the preferences of the recipients.

Vouchers can only be used for specific private goods and services but this part of the activity of international organizations, or at least of NGOs, is of great importance. Most of the spending of NGOs has been documented to have been allocated for goods and services going to individuals (Werker and Ahmed 2008:89). Voucher schemes have indeed been implemented on a restricted scale and they have been found to work well (Harvey 2007; Catholic Relief Services 2006). In contrast, vouchers given to prospective recipients for goods and services with strong public good elements are unfeasible due to the standard economic arguments of failing markets.

#### Proposal 5. Matching Contributions by Citizens

This proposal seeks to influence the behaviour of international organizations by addressing "...the only "market force" in NGO-sector industry, where donors can be viewed as desiring to improve the quantity and quality of the product of the NGO..." (Werker and Ahmed 2008:78). Each citizen is encouraged to make contributions out of his or her private pocket to the various international organizations. A variant of this proposal would be that citizens could determine that a share of the taxes they pay will be distributed to the international organizations of their choice. The national government will match these donations by a given factor, for instance ten times the total sum earmarked by the individual donors. In order to secure their funding, the international organizations are so forced to inform citizens of what they do, what they have achieved in the past and what they plan to do in the future. Those organizations that are best able to convince the citizens that their donations will be spent wisely can expect to receive the most funds; the principal-agent relationship is thereby strengthened.

Introducing matching contributions may tempt international organizations to spend excessive sums on popularizing their activities instead of doing the actual work. It should be noted that every recipient of government funds faces such temptation but it normally applies to a small group of relevant decision makers rather than the whole population of citizens. To impress the former may be cheaper than if the latter have to be addressed. The problem is, however, that democratic rules demand that the preferences of the citizens as principals have to be respected and not those of their agents.

Three arguments are certain to be advanced against the proposal of giving citizens the right to directly allocate funds to international organizations. It could be argued that citizens are not informed, educated or motivated enough to make a reasoned decision. And so, not the most worthy but rather the international organizations that best sell their activity will benefit. These are the same arguments raised against *any* form of direct citizen participation in political decisions. It may well be true that under the existing conditions citizens are ill informed, poorly educated and motivated compared to the decisions taken by the government and the public administration. This is only rational, as the citizens do not benefit from having such knowledge. However, empirical evidence shows that *once citizens have the right* to directly participate, they *learn* to take in relevant information, they educate themselves on the issues in question, and they have a motivation to participate (see Stutzer and Benz 2004; Olken 2008). The arguments against letting the citizens have a say in allocating the funds going to international organizations are not

persuasive. The major reason why this proposal of matching contributions is prone to meet opposition by national governments and bureaucracies as well as legislatures, is that it reduces their power. The proposal only has a chance of being implemented behind the veil of ignorance, i.e. before people know in what situation they will find themselves in the future. Under that condition people may well establish matching contributions in respective laws or even the constitution. The same may be possible if governments lack resources and can only induce citizens to agree with spending money for international organizations in exchange for having a say in the respective decisions.

#### Proposal 6. Popular Participation Rights

Giving citizens direct political participation rights can mitigate the fundamental principal-agent problem that has been identified above. This may extend to include the election of delegates to international organizations and the right to vote on major decisions via popular referenda. The latter include both a mandatory or optional vote, as well as popular initiatives to put an issue on the agenda. The direct political participation rights may be exercised by the citizens of a country as a whole (such as done in Switzerland) or may be delegated to “trustees.” The “trustees” are selected from the total population in each country by a random drawing ensuring that every citizen has an equal chance of being chosen. The number of trustees elected for each country can be proportional to population size or to any other criterion chosen (see more fully Frey and Stutzer 2006).

This proposal is inspired by the favourable experiences made in semi-direct democracies such as Switzerland.<sup>5</sup> It might be argued that under these conditions interest groups will try to influence the decisions of the trustees, while in non-democratic countries rulers will force trustees to vote in accordance with their demands. This is true but no worse than present conditions in which the national delegates are subject to similar pressures. Indeed, being elected trustee may provide a measure of autonomy, especially if voting is anonymous.

Similar arguments as the ones against matching contributions will surely be raised against this proposal, and with even more force, as the citizens are given even more power. Such direct political participation rights have little chance of being introduced in countries that are completely committed to representative democracy. Interestingly enough, however, recent developments show that citizens in several countries have been given more participation rights in international governance issue than they have in domestic issues. The formation and extension of the European Union was subject to a number of popular referenda in Ireland, Denmark, the Netherlands and France. The “European political class” of established politicians has made every effort to disregard the referenda outcomes because in many cases they have been against their wishes and plans. Nevertheless, popular decisions have played a significant role in the European integration process, and it may be expected that this will be increasingly the case in the future.

<sup>5</sup> For the institution of direct democracy see, e.g., Kriesi (2005), for econometric analyses of their consequences on production see Kirchgässner et al. (1999), and on happiness Frey and Stutzer (2002), Frey (2008).

### Proposal 7. Using Prediction Markets to Provide Information<sup>6</sup>

A fundamental problem of international organizations, which was identified above, is that management is often badly informed, not only about the principals' desire, but also about what can be done and how it can be achieved. Prediction markets may help to overcome this informational gap and allow managers to utilize the decentralized nature of information. Many people have a wealth of personal knowledge about international organizations but have so only in an extremely incomplete and partial way. Prediction markets give individuals an incentive to share the information they have and to put it at the disposal of a centre, which aggregates this information. Under these conditions the aggregate information gained is superior to other sources of information that are often even more incomplete and distorted.

Prediction markets could, for example, be used when an international organization considers engaging in a major new area, or intends to strongly step up its activities in the traditional area. The information collected via a prediction market makes use of the often extensive and intimate knowledge of specialists and gives them a positive and profitable experience and an occasion to bring it forth.

Prediction markets have first been used, often with good results, to predict the outcome of elections (see Berg et al. 2008; Wolfers and Zitzewitz 2004). As participants obtain a monetary gain by predicting well, they have an incentive to provide an *objective* evaluation of what party or person will win an election rather than supplying an ideologically biased opinion. The technique has been used with good results in many firms. Employees are encouraged to share their "best" evaluation of a planned policy in order to predict as accurately as possible the eventual outcome, and to therewith win the competition (see Plott and Chen 2002).

Prediction markets are a unique and unconventional way to collect information and for that reason tend to be opposed by conservatively oriented, international bureaucracies. They will argue that this method of gathering information is chaotic and will not lead to valuable and usable results. However, the major reason for their resistance is that the top bureaucrats will lose part of their power by admitting that their level of information is so limited. It must, therefore, be expected that prediction markets will only be employed if they are imposed from outside (for instance by a board of external directors) or, more likely, when the leaders of an international organization are at a loss and urgently need the informational inputs from a wide spectrum of experts and participants.

### Proposal 8. Institutionalized Devil's Advocate

A major problem of all organizations is that once a "consensus" on an interpretation or policy action seems to have been reached, dissenting views are henceforth discouraged and even punished socially as being against the "esprit de corps." In public, everyone appears to concur, though in fact quite a number of persons have grave doubts ("group think," see Janis 1982; Janis and Mann 1977). However, these reservations are not expressed because everyone is well aware that superiors and colleagues would not like such criticism, and that personal career

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<sup>6</sup> I owe this proposal to Felix Oberholzer-Gee.

prospects could suffer or perhaps even end. Only when a policy has proven to be futile, does it become apparent that many people had entertained and favoured different ideas – but such ex post revelation does not improve the quality of the organization.

In order to overcome the formation of a false consensus and to keep open the discussion, governments intending to form an international organization can agree to appoint a devil's advocate, a position assigned to discovering flaws in the major interpretations and decisions made. The job of a devil's advocate is to produce sound and powerful arguments against policies proposed by the leaders of international organizations. The devil's advocate must therefore be independent from the organizations worked for. He or she must derive prestige from doing his or her job well, opening career prospects in other organizations or activities. A devil's advocate can serve as a powerful antidote to "group think" and other distortions in policy making. An office specifically assigned to this task may also achieve the same results, provided it is truly independent of the international organization that is to be monitored. Moreover, the incentives of its members must be clearly defined and well structured. The persons working in such an office must be able to successfully pursue their career and do their job unhindered even if they are critical of the activities of the international organization in question.

The institution of *advocatus diaboli* has proven its usefulness in the Catholic Church over centuries. It has served as an institutionalized opposition to an excessive or erroneous creation of saints, which would be damaging for the Church in the long run. The institution ensures that only those persons are sanctified, about whom the *advocatus diaboli*, despite serious effort, could not find any negative aspects. This institution has worked well but was undermined by the former pope John Paul II with the result that under his reign more saints than ever before in the history of the church were created. Many observers find this practice to be inflationary and against the interests of the church.

A disadvantage of the position of devil's advocate is its inherently negative role as an opponent. This may be overcome by giving the person in charge the right to advance counterproposals. The institution then closely resembles the popularly elected commissions of account ("Rechnungsprüfungskommissionen"). These institutions have been empirically shown to discipline governments and to induce them to come closer to voters' preferences (Eichenberger and Schelker 2007).

A devil's advocate is not necessarily an effective solution to overcome "group think." An organization may well react by isolating him or her, or by not taking seriously the objections raised. However, this could be counteracted by forcing leaders of an international organization to explicitly and publicly discuss the objections raised, and to show why, in their opinion, they are not persuasive. An organization is unlikely to appoint a devil's advocate as it conflicts with the goal of pursuing a coherent policy. It must therefore be introduced from outside, in preference when an international organization is established.

## 5 Analysis and Proposals

Existing international organizations are characterized by weak external and internal competition. Their performance is, therefore, far from ideal and there exists

considerable room for improvement. To strengthen competition, eight proposals for improvement are discussed. Three of them seek to raise *competition among international organizations*, an aspect, which has been rather neglected in the literature on international organizations. The proposals are informed by national competition policy that suggests an international competition agency, international competition rules, and an international monitoring institute. Five proposals seek to intensify the *competition within international organizations*. Three proposals seek to strengthen the influence of the principals, the national citizens of an international organization's member countries, by suggesting that recipients receive vouchers, that the citizens' contributions are matched by the national governments, and that citizens are given direct political participation rights with respect to international organizations. The last two proposals suggest that prediction markets are used to improve information flow, and that an institutionalized devil's advocate is established.

These proposals are introduced in order to stimulate new ideas and innovations with respect to international organizations, an aspect somewhat neglected in the scholarly literature. The proposals advanced here are only preliminary and far from ideal. Indeed, against each of them many arguments can be raised—but this can be done against *any* new idea or proposal. New ideas are quite generally met with scepticism and it is difficult to put them into practice. By design, they oppose the interests of well-established groups and, therefore, are not welcome or easily accepted. Moreover, new ideas do not necessarily represent an improvement; sometimes they are worse than what already exists and, therefore, are rightly rejected. Despite these basic difficulties it still seems useful that social scientists bring forth unconventional, new proposals because they may have an impact in the future. Examples are the trading in environmental rights or the introduction of road pricing which, for a long time, have been ridiculed by politicians and the general public, but now have been adopted in several countries. Some careful optimism is therefore warranted that new proposals have a chance, also in the case of international organizations.

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