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The winner of the Nobel Prize for Economics in 2000 closed the ninth edition of the Festival

MC FADDEN: SHOULD WE REWARD POLITICIANS WHEN THEY GET GOOD RESULTS?

"How can we align the interests of politicians with those of society"? This demanding question was directed at Daniel Mc Fadden, winner of the Nobel Prize for Economics in 2000, at the closing session for the ninth edition of the successful Trento festival. At the Teatro Sociale, Mc Fadden, who currently lectures at UB Berkley and the University of South California, began his analysis with the limitations of representative democracy in controlling the work of politicians and whether it is necessary to reward them, or rather to "penalise" them if they perform badly. So if voting is an inadequate tool, how is it possible to ensure that politicians are on the one hand encouraged to achieve certain objectives, and on the other discouraged from choosing routes leading to corruption, for example, or in any case pursuing objectives or interests which are different as compared to those agreed with the electorate? McFadden considered the analogies with the private sector, with existing incentives and deterrents in large corporations, for example.-

"Should politicians be paid according to their performance? And should they receive bonuses if they achieve certain difficult objectives, in relation to growth, for example?". Mc Fadden started from this question, asking whether it is right to consider politicians in the same terms as managers. In Italy estimated growth is just over 1%. But if Parliament instead set itself the objective of arriving at 2% growth by 2015 without increasing public debt? If this happened, Italy would have gained 13.5 billion Euro. So even if this cost several million Euro in bonuses paid to politicians, the outcome would still be positive. Many people will be shocked by this idea. "Me too", said Mc Fadden "however, in general a project of this kind would pay for itself, with a growth in employment, taxes and even a reduction in subsidies paid out. So the use of financial incentives for politicians could also work. The relationship which would be created between politicians and voters would be similar to the one existing between agents and their employers, although clearly the government of a country cannot simply be compared to that of a large corporation".

Over and beyond this, there are limitations implicit in democracy, in terms of controlling the action of politicians both through voting and by the judicial system. However, the main advantage of democracy is to protect citizens from the abuse of power and we should never lose sight of this.

This having been said: could financial incentives really improve the performance of politicians? The answer of the Nobel laureate would seem to be yes, or at all events, he concluded, it is in the interests of the public to pay the most capable politicians well. What is more, the right financial incentives shelter the politician from the temptation of corruption, or at least from pursuing partisan interests. In his presentation McFadden concentrated on the "Agency" relationship, for example, by selecting political candidates better.

"There are two questions to be considered in an agency contract. The first is moral hazard. The agent carries out actions damaging the principal, who cannot control him. The second is adverse selection, on the basis of which 'bad money drives out good'. A good contract based on financial performance should represent the fundamental answer to this kind of problem. In this case, if the agent performs well, his pay increases.

Payment by results can also be an effective antidote to corruption. However, it is necessary to say that having higher incentives is not on its own enough to remove all temptation. There are also politicians who affirm that corruption is the lubrication for the system ".

The question of payment by results is controversial. As recognised by Mc Fadden, this also concerns high pay in the private sector. Incentives are often criticised because they distort the work of managers, driving them to pursue short term objectives while neglecting long-term ones, when they are not directly manipulating the results of their actions. There is however a positive link between results-based pay and the results of the company itself. So is it possible to incentivise politics in the same way? It is not so automatic, also due to the heterogeneity of the objectives that politicians are called on to pursue. However, above all who decides the price? Nevertheless, despite many difficulties, it is possible to consider better assessing politicians' performance, or the appeal of a public project for example, by making recourse to specialist agencies or "economic juries", in their turn offered suitable incentives. Projects such as the diffusion of Wi-Fi or electric bicycles could be decided in this way.

At the conclusion of this final session at the 9th edition of the Festival of Economics there was also time for an initial spontaneous assessment by the organisers.

Tito Boeri, the Scientific Director, underlined among other things the high level of student participation at various moments during the Festival and the media impact on national and international newspapers.

The President of the Autonomous Province of Trento, Ugo Rossi thanked all the speakers who have animated the last few days, in addition to Boeri, the University, the publisher Laterza and Marilena Defrancesco, on behalf of the administrative staff of the Province. "I hope we have gained some interesting suggestions regarding politicians' pay, a subject which we find particularly fascinating", he added a little ironically. "We have tried to improve the spin-offs of this festival on young people and the German-speaking world and I believe we have achieved this", said Rossi. "Never have we succeeded better, I believe, in combining current affairs, our needs and interests with in-depth academic appraisal and thinking. I like to think that above all many of the young people who have participated may gain a desire and ambition to be the new ruling class of tomorrow, placing themselves at the disposal of the common good. Goodbye and so long until next year ". -

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