

## “City State: Vision or Illusion”

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### Summary

Swiss integration policy admits of only two possibilities: EU membership or independence assured by bilateral treaties. Other possibilities have not been seriously considered at either end of the political spectrum. In mid-2005, Dr. Konrad Hummler made a case in the *Neue Zürcher Zeitung* for a *Swiss City State* model. At the centre of his argument was an independent, pragmatic, globally-oriented city state with an urban core and greenbelt recreational facilities within easy reach. This model was the impetus for a more in-depth examination of the notion of a city state with experts from various fields.

The colloquium entitled “City State – Vision or Illusion?”, held in Schwarzenberg from 10-13 September 2009, adopted an *interdisciplinary approach* to analysing various aspects of a city state. Can a city-state model be applied to a whole country? What would be necessary for the negative sum games (inevitably arising from political or military conflict between town and country) not to result in the city state being crippled from within or simply becoming a puppet state? What domestic and foreign framework conditions must be satisfied? What immigration policy, for example, is right for a city state? What trade policy? Does a city state need its own currency? Should a city state pursue an active economic policy or rely on the spontaneous creation of optimum structures? Should a city state have a standing army? How is it to make its voice heard in a globalised world of unfathomably interconnected international organisations? What steps should it take to prevent surrounding countries from becoming envious of its success? The select bibliography attempts to do justice to these various questions and thus contains well-known works as well as findings from the latest empirical financial research.

### What determines a nation's competitiveness?

The first session discussed an extract from Porter's *Competitive Advantage of Nations*. Porter restricts a nation's competitiveness to its productivity, with output measured against input being the key metric. Innovation is also of central importance as it improves the input-output ratio, thus raising productivity. Using the “Diamond of National Advantage”, Porter constructs a matrix within which to determine a nation's capacity for innovation. Working from these four dimensions and the factors he considers essential, he outlines recommended courses of action for governments.

Participants discussed this chapter in depth, in particular the fact that Porter's argument is predicated on the notion that the preconditions for competitive companies can be applied to competitive nations. There was general agreement that *domestic competition* is a prerequisite for sustainable international competition. The situation of the Swiss finance industry where two large banks predominate, suppressing the rise of competition, was held up as a negative example. Domestic competition relies on an entrepreneurial climate in which the *creation* of new firms is made possible but the *demise* (bankruptcy) of failed firms is also permissible. A prerequisite for this is a re-examination of bankruptcy law at both an academic and practical level. Various votes made clear that Porter neglects the role of the state, in particular a government's responsibility for regulation. A guarantee of property rights and the rule of law were singled out as two important factors in this respect, but education infrastructure, political stability and social security were also mentioned. The question of what makes a location attractive for businesses can thus be answered only imperfectly using Porter's assertions. There was additional debate on the question of how politicians' desire for agency might be reconciled with *spontaneous*, or at least unforced, emergence of domestic competition. The Japanese automobile industry was held up as a model of a sector that had developed into a successful cluster without state subsidies. The idea of a negative list of aspects to be avoided was raised as a possibility.

### **What are the most important characteristics of a city state from a historical perspective?**

Greif's paper examines political and economic activity in 12th and 13th century Genoa, identifying various phases undergone by the city state. After outlining contemporary circumstances he went on to attempt a reconstruction of incentive structures within individual clans using general equilibrium models. In the first phase, from Genoa's founding in 1096 to 1164, the port city prospered, with various families (clans) dominating the political scene and appointing representatives to government. In turn, these assumed various rights and duties, such as raising taxes and organising sea trade. Cooperation between the clans was a further significant feature. The individual families used their incomes to increase their military might and the resulting balance of power enabled the economy to flourish through deterrence. In the course of time, an external threat arose (Frederick Barbarossa). This elicited closer clan cooperation as the danger of internecine attack was eliminated. (Internal conflict would have weakened all the clans to the extent that they would have been defenceless against any external threat.) The importance of Genoa's immediate surroundings for its domestic political state is demonstrated by the fact that civil wars broke out upon the sudden disappearance of the external threat. In 1194, after 30 years of internal strife, the *podestà* system was introduced: the *podestà*, an educated non-Genoese, often a lawyer, at the head of a (small) private army, maintained equilibrium between the clans and professionalised the city administration; the system worked for more than 150 years.

Discussions in the second session concentrated on Greif's text, which reduces the question of what constitutes "success" first to economic prosperity and secondly to the political stability inherent in the system. This narrow view of success was criticised, and participants agreed that a small state possesses the best prerequisites for economic success. The levels of prosperity achieved would result in a higher standard of living for its citizens and the assurance of property rights would create the right incentives. Freedom of expression and a flexible system were suggested as further components of success, not to mention considerations of wealth distribution (prosperity for the greatest number). Small states make only a modest contribution to international peace-keeping ("free riding"), which immediately poses the question of compensation. Nonetheless, it was countered that many cultural, social and economic benefits are exported from small states and that these are an important cultural contribution. Still, the interface between domestic and foreign jurisdictions matters. The example of Genoa illustrates how a state's *externalities* were able to influence domestic circumstances, and what Frederick Barbarossa was to Genoa, the EU could be to Switzerland. It was nevertheless noted that while a state's immediate surroundings could represent a threat, the proximity of large and small states could be beneficial for both (*learning effects*) – Genoa in 1194 was dependent on the availability of a professional city administrator (the *podestà*) who could move on after a year's incumbency. A "liquid" market thus presupposes a close network of small states. For his part, the *podestà* was motivated to guarantee peace and maintain order – his success was measured by this and his reputation as his most important strategic asset was dependent upon it.

### **Small is beautiful?**

The subject of the third round of discussions was Armstrong and Read's analysis of determinants of growth in small states, which illustrates how size can be measured in a number of different ways – population levels, economic performance (GDP), geographical size, etc. The Lewis model limits the definition of a nation's growth to the process of economic transformation – i.e. the transition from a predominantly agrarian to an industrialised society; there are, however, newer parallel theories which use far more varied factors to explain growth. According to the authors, small states have several disadvantages to overcome: demand from their domestic markets is small, natural resources may be limited and a combination of these two factors may give rise to a one-sided export industry. Opening up markets, the availability of human capital and proximity to regions of strong growth are therefore crucial.

The plenary discussion first touched upon various facets of the measurement of size. An examination of the table in the paper's appendix reveals a wide disparity in the listed states' levels of political and economic maturity, illustrating the problem of comparing individual nations. There was general agreement on the centrality of *human capital*, but participants found it harder to define which factors might attract valuable human capital and whether this automatically led to greater economic success. A distinction was drawn between "urban attractiveness" and "urban competitiveness" and illustrated with a comparison of

Barcelona and Madrid: Barcelona is popular with tourists and architects but, in economic terms, Madrid is more prosperous. Such differences may be of interest in town planning, where they can be combined in attractive, multivalent regions. It is also worth bearing in mind that trade in successful regions should not be restricted by territorial borders – free exchange of goods is of central importance for small states and represents a significant factor in growth. Nonetheless, it is worth remembering that many small states are faced with considerable social and economic challenges: it is not uncommon for them to be situated in problematic regions, which again underlines the key importance of geographical location. A further aspect, beyond the scope of the topic dealt with by the authors, is the virtualisation of economic and social spaces – Facebook and the like permit social interaction without the need to be physically present.

### **Free trade and migration: how important?**

The fourth plenary discussion addressed two papers. Zimmermann's analysis examines mobility in the European labour market. Immigrants in Europe constitute more than 30% of the global immigrant population (c. 175 million people). Immigration is determined by the demand for labour in particular, which in turn is predominantly driven by economic growth. In countries with ageing populations, immigration is an essential economic impulse. In Switzerland, for instance, the population has grown thanks to immigration. Immigration naturally presents governments and native citizens with significant challenges; low-skilled citizens in particular will fear the immigration of cheaper labour. The demand for well-qualified people is particularly high in western countries. Analysis of mobility covers three areas: the reasons for migration, the assimilation of immigrants, and the immigrants' effect on the local labour market and the economy in general. Zimmermann particularly advocates a pan-European labour pool. Sally's text is a plea for free trade, emphasising its importance to the individual over any economic benefits; freedom, prosperity and security are the trinity to be reinforced.

The first discussion in the fourth session focused on the link between open borders for immigration and the resulting consequences. Immigrants are primarily oriented towards their employer's interests. After, say, 30 years' service to their company they are pensioned off and are obliged to assimilate, as their surroundings are suddenly no longer limited to their colleagues. This poses the question of whether immigration policy is necessarily also *social policy*. This view would be repudiated from a liberal perspective, as restricting immigration policy on the grounds of people's *ability to integrate* would be unjustifiable. The idea of a *poll tax* would however provide incentives towards assimilation. A poll tax would only pay off for immigrants if a long, successful and sustained process of adaptation led them to profit from the tax (school education, pension payments, etc). Preferential treatment for Swiss nationals, for example (or native citizens in general), can be reserved only for specific areas (e.g. education and health care). It is worth considering that taxation of immigration has been attempted by various means (such as the introduction of *saisonnier* status in Switzerland), usually with only limited success. In addition, the net benefit of immigration should be closely analysed. Well-qualified people, for example, often immigrate with their children, who then attend school and thus profit from state services. The country's majority will only benefit from an extremely high salary on the part of the immigrant (and thus high tax contributions) and a long, or rather sustained, stay. Seen economically, the immigrant must also make some kind of additional contribution, for example providing specialised knowledge. A major demand for highly skilled labour also has consequences for town planning: a knowledge-based service industry requires an appropriate technical infrastructure, and provision of the round-the-clock services to which a knowledge-intensive economy aspires demands that low and highly skilled workers live near one another. This means that the residential area should be affordable for both groups. The same is true for transport and commuting. Switzerland especially has much to do in this area. Furthermore, the idea of making a passport – and thus membership of a nation (nationality) – commercially available was contemplated. A libertarian perspective would view nationality as a kind of restriction of mobility for which the individual in effect was not responsible. The price of a passport would depend on the country's attractiveness and could be traded on a secondary market.

### **Town planning and its effects**

In the chapter entitled "Urban Economic Development", O'Flaherty describes measures to promote the attractiveness and economic prosperity of a city. His analysis integrates positive and negative externalities displayed by various town-planning projects (such as an industrial estate or the construction of a stadium).

When a town's attractiveness grows, wages rise if job opportunities are inelastic. Such measures would likely have little effect in the medium term, as wages will fall due to immigration; whether a city's population will profit from the (temporary) impulse in the long term is disputed. Landowners will certainly derive great benefit, however.

Discussion in the fifth session was less concerned with urban economic development; instead, debate focused on whether a city state should pay tribute to the powers affording it security. One argument maintained that a city state creates positive externalities in that both the state and neighbouring regions profit from open markets, freedom of movement and various other forms of cooperation. It is thus only fair that others should afford it protection. In addition, history shows that small states have had disproportionately large military presences. In addition, it would be extremely difficult to ascribe a monetary value to the tribute, presenting significant difficulties for the policy. On the other hand, there are international requirements to consider – the international community might thus forego compensation from only the smallest states. Switzerland in particular is committed to an international contribution to security policy. A sort of papal guard for supranational organisations might serve as one possible tribute from Switzerland to the community of nations. The second point at issue was the question of whether a city state should have its own currency, and monetary independence was generally considered extremely important. A separate currency makes independent economic policy possible, an extremely important consideration for export-orientated countries. In addition, due to diversification, the fewer currencies there are, the greater the significance of a separate currency.

#### **Switzerland as a city state: vision or illusion?**

The literature in the sixth plenary session concentrated on Switzerland. J.P. Roth's presentation made clear that Switzerland is not an island but is well established in its immediate surroundings and in the international community. The chapter "What could Switzerland become?" outlined possible scenarios for Switzerland (hub city, super-Zurich, park city, etc).

Participants brought up several points which had been addressed neither in the literature nor in the preceding plenary sessions, but which were nonetheless important for the notion of a city state. The role of identity-building myths and the social glue which holds people together were mentioned, as was the idea of a social contract that articulated the state's *raison d'être* and made a clear distinction between the private sphere and the state. In his closing remarks, Dr Hummler summarised his conclusions regarding the idea of Switzerland as a city state, noting in particular that it would be difficult to adapt Switzerland, a special case, to the type of city-state model discussed in the workshop. Federalism and direct democracy are the country's most significant institutions. These might stand in the way of a centralised and homogeneous construct.

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