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A Market for Citizenships – why Citizenship should be Commodified

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Abstract

Starting from the assumption that citizenship is valuable private property that would be even more valuable if it were transferable, the paper explores the idea of commodification of citizenship. The paper provides arguments in favor of commodification of citizenship and recommendations to how the market for citizenship should be designed. A market for citizenships could result in an improved matching between employer and employee when citizens swap citizenship with each other. Successful States would issue new citizenships and thus provide the possibility for a greater share of the world population to live and work within the countries with the best institutions. The combined effect would be a higher global productivity. Market prices on citizenships would provide a robust indicator of institutional quality and thus provide politicians with information on voters' preferences and it would also provide voters with information on the quality of the work of the government. The market value of a tradable citizenship is also found to be a promising candidate as tax base for a redistributive tax on a global level that could address some of the inherit inequality inherit in the current distribution of citizenships.

¹ This is the originally submitted, pre-peer reviewed version of the following article: *A Market for Citizenships – should Citizenship be Commodified?* which has been accepted (2023-02-25) for publication in *Kyklos* and expected to appear in issue 2023:4.

² A version of the article was presented at the 2022 Public Choice Society conference in Nashville, Tennessee as “A Market for Citizenships – should Citizenship be Commodified?”.

1. Introduction

In this paper, we will explore the idea of a *market for citizenships*, which in turn would call for a *commodification* of the citizenship. The main purpose of the paper is to discuss how a market for citizenships could work and how it could benefit society. A few possible problems with such a market could easily be envisioned and some of them will be mentioned. However, a more thorough analysis of those problems will have to wait for future research.

We are interested in a true market of citizenship. Currently, there are some cases of bought citizenships, but these are very rare exceptions and only targeted to a small global elite. According to The Business Insider, 23 countries are offering full citizenships or different kinds of residence permits against direct payment or investment in the country (Millington, 2018). These examples are interesting inasmuch as they indicate the willingness to pay for citizenships, but the market they create is quite different from what we have in mind. In this paper, the purpose is to explore the idea of a regular market for citizenships where ordinary people engage in trade of full citizenships with a genuine intention to change one citizenship for another, and thus becoming a full member of a different nation than before.

1.1. Background and motivation

The motive for pursuing the idea of a market for citizenships rests on three simple assumptions, (1) citizenships are valuable property, (2) they would be even more valuable if they were transferable and (3) market prices on citizenships would reveal valuable information on institutional quality.

1. The citizenship is decisive for a person's productivity and hence for her income. A given human capital earns very different income in a rich country compared to in a poor country. In this context, the citizenship can be understood as a kind of property. One can reasonably argue that the citizenship for many people is their most valuable property.
2. The citizenship, understood as a bundle of rights, lacks one of the necessary characteristics needed to be fully individualized property – or in short private property – it is not transferable. Making citizenship transferable would increase its value to the holder since it would then be possible to sell it to the person with a higher valuation, just like the possibility to sell company shares greatly increases the value of them compared to a situation when the only option is to hold the share indefinitely (and collect the dividends). We thus conclude that commodification of citizenship would increase its value and that it is the transferability that today is lacking.
3. If citizenships were commodified, it would be possible for a market for trading citizenships to develop. Market trading of citizenships would result in market prices on citizenships, which in turn would reveal most valuable information about the value of the different citizenships and thus provide a yardstick for measurement of the quality of the institutions and politics in that country.

If those three assumptions turn out to be reasonably correct, a market for citizenship hold the promise of bringing to life huge amounts of *dead capital* and with it a huge increase in global productivity.³ The effect would be further reinforced by the improvements in politics and institutional quality that could be expected to result from the information on institutional quality

³ Citizenships are partly *dead capital* since they are non-transferable and mutually beneficial exchanges of citizenships thus impossible. Hernando de Soto has showed that dead capital is an important factor in explaining why some societies are economically under-achievers and thus causing poverty in the world that could otherwise had been avoided (De Soto, 2000).

that market prices on citizenships would reveal. Thus, we have all reasons to explore the idea of commodification of citizenship.⁴

1.2. Outline

In section 2, the concept of citizenship as it is applied in the paper is explained. Section 3 offers a brief account for related research that has previously discussed the idea of a commodification of citizenship. In section 4, the commodification of citizenship in context, it is compared to some alternative ways to achieve benefits of a similar kind. Section 5 develops the idea of a market for citizenship by discussing how the market should work and how it could be expected to be used. Four arguments in favor of a commodification of citizenship is subsequently presented in section in section 6, while in section 7 citizenships as a domestic or global tax base is discussed. Finally, section 8 concludes the paper and looks forward.

2. The citizenship as property

Citizenship is a relationship between a person and a State and thus a relationship between one person and all other persons with the same citizenship. The relationship is organized in several rights and duties and can thus be thought of as a bundle of rights, similar to how property rights are described as bundles of rights (Demsetz, 1967). The citizenship couples the holder to a specific set of rights and duties, each in turn defining relationships between the holder and other persons, regarding various tangible and intangible entities (Hohfeld, 1913-1914).⁵

Though a person's citizenship is a bundle of relations with a large number of other persons, it is codified through the single relationship between the person and the State. In this respect, the concept of citizen thus shows an interesting resemblance to the concept of shareholder, where the State plays the role of the firm. We can picture the State as a legal fiction and a *nexus of contracts*.

It is important to recognize that most organizations are simply legal fictions [By legal fiction we mean the artificial construct under the law which allows certain organizations to be treated as individuals.] which serve as a nexus for a set of contracting relationships among individuals. (Jensen & Meckling, 1976, p. 310)

This means that every person holding a citizenship has a contractual relation to the State that consists of a bundle of rights and duties, which in turn implies that all persons with the same kind of citizenship have a bundle of relations with all the other citizens in that country. The legal fiction of States are thus organizing and coordinating vehicles for all their citizens.

Many authors have – from different perspectives – previously pointed out how vastly important institutions are for an individual's productivity. Widely recognized are e.g., the work of Douglass C. North (North, 1991) and Hernando de Soto (De Soto, 2000). More closely related to our issue of citizenship are e.g. Ayelet Shachar (Shachar, 2009, pp. 24-27), Michael Clemens (Clemens, 2010, p. 29) and Bryan Caplan (Caplan, 2019, p. 33). Shachar pictures citizenship as a kind of property.

Returning to our property analogy, when we explore the realm of citizenship, we soon recognize that what each citizen holds is not a private entitlement to a tangible

⁴ The reader should be aware that there is a quite extensive literature arguing *against* the commodification of citizenship (Shachar, 2009) (Shachar, 2017). We will not specifically address those arguments in this paper.

⁵ Hohfeld pointed out four pairs of correlative jural relations: right – duty, privilege – no-right, power – liability, immunity – disability (Hohfeld, 1913-1914, p. 30). They are correlatives in the sense that when one person hold the first right regarding an object, all other persons hold the second.

thing, but a relationship to other members and to a particular (usually a national) government that creates enforceable rights and duties (Shachar, 2009, p. 29).

Being interrelated to all other citizens in the country, a person has an economic interest in *who* the other citizens are and what they do. For example, to be able to work with very smart people makes a person more productive herself, to live in a society where rich people pay a lot in taxes provides a person with good welfare services. On the other hand, to live in a society where a lot of the other citizens live on welfare increases the tax burden for a person. We can see these interdependencies as various forms of externalities, which can be positive or negative. The interdependencies between citizens distinguish the citizenship from the shareholder contract. As a shareholder in a firm, you do not depend on the other shareholders; they are only represented by the capital they put in. The difference is central to this paper and we need to think very carefully about what it means for the workings of a market for citizenships.

3. Previous research on markets for citizenships

Gary Becker has on several occasions argued in favor of some sort of market for citizenships, for example in *The Challenge of Immigration – a Radical Solution*. Becker argues that the US should sell citizenships for a fee that would generate the desired number of immigrants (Becker, 2011, pp. 32-33). Anybody who could make the payment would be allowed to immigrate, aside from potential terrorists, criminals and people who are very sick and who would be immediately a big burden to the health system (Becker, 2011, p. 27). Becker proposes that the State should sell citizenships but does not discuss the possibility of a market where *individuals* buy and sell citizenships. This is true for most of what has been written on the subject. An exception is Christopher Freiman who in a recent contribution to the literature argues in defense for legalized markets for citizenships (Freiman, 2019). Freiman first provides a moral argument in favor of a market for citizenships. He argues that States ought to permit their citizens to swap citizenship rights with foreigners in exchange for money. The argument is that such a market would enable mutually beneficial exchange and increase the labor market opportunities of the global poor (Freiman, 2019, p. 124). Having discussed a number of counterarguments, Freiman reaches the conclusion that they are not critical and that any vices citizenship markets may have are outweighed by their virtues (Freiman, 2019, p. 125). Freiman refers to Javier Hidalgo who has offered a moral defense for the permissibility for States to sell citizenships. In short, Hidalgo builds his argument on the condition that if it is permissible for a State to deny anyone citizenship, then it is also permissible for the State to sell citizenship, since demanding a fee for a citizenship is a lesser infringement on a person's rights than to deny the person a citizenship altogether (Hidalgo, 2016, p. 223). Acknowledging Hidalgo's argument in favor of the public sale of citizenship, Freiman continues to conclude that it is not enough for his purposes. His focus is on a different arrangement, the private sale of citizenship, citizenship swaps, or in short, a citizenship market. On that market, citizens would privately exchange their citizenship with citizens of another country for their citizenship plus financial compensation (Freiman, 2019, p. 125).

Discussing how individuals could exchange citizenships, Freiman's paper is of certain interest to this paper. Another example is a blogpost by Robin Hanson where he proposes private exchange of citizenships as a first step to gain public acceptance for the State to sell new citizenships to foreigners (Hanson, 2011). Hanson has recently developed the idea further and argued that transferable citizenships could lead to a change in attitudes towards national membership that is more like the attitudes that people have about other kinds of associations, such as firms and neighborhoods (Hanson, 2020, p. 44). Transferable citizenship, Hanson argues, could thus pave the way towards freer movement of people between countries.

In this paper, we will discuss both individuals trading existing citizenships *and* States creating and selling new citizenships. Freiman is mainly arguing in favor of a market for citizenships and does not elaborate on how the market could be set up and which design issues that need to be addressed. In this paper, we will put forth arguments in favor for such a market, but we will also address the question of *how* such a market could work. An additional difference between this paper and previous research is that we are here especially interested in the *information* on institutional quality that *market prices* of citizenships would reveal.

4. A short note on alternative arrangements

We will argue in the paper that a market for citizenships would increase global production, as well as increasing equality by decreasing the importance of blood and soil. However, commodification of citizenships is not the only way to achieve those objectives, and we will therefore offer a short note on three such alternative global regimes.

4.1. A single global citizenship

Proposing radical changes to how citizenship is created and managed, why not take one step further and propose a single global citizenship and a single global State? One could argue that it would be better if the best set of institutions were to be used everywhere and that all people were to possess the same citizenship. One could of course propose this, but there are at least three arguments in favor of our proposal of a market for citizenship. For one, it is more realistic. However far-fetched a market of citizenship might seem, a single, global State seems several steps more far-fetched. Secondly, different people have different preferences, and a diversity of institutional arrangements could therefore increase total utility. Thirdly, it is not at all obvious that it would be better with one good set of institutions and one good government, than at plethora of good, average, and bad sets of institutions and governments. Without the presence of institutional competition between States, we have no guarantee that the single government would in fact be good or shape good institutions. To the contrary, without the disciplining effect of competition we would rather expect a world-government to be corrupt to the benefit of the ruling elite and to the detriment of the masses. It is not all about competition either; different States with different institutions is beneficial since it provides more opportunities for testing different institutional arrangements and different policies. States can use other States as benchmarks and pick proven policies and institutional arrangements (Hayek, 1945). Simply put, the coexistence of a wide array of different constitutions and institutional arrangements would provide useful information about how they work. Lastly, we have the matter of diversification, which should be valid also to the choice of constitution. We do not know which challenges the future will bring to society and we can assume that different constitutions are differently suited to handle different challenges.

4.2. Open borders

A single global citizenship is one alternative to a market for citizenships and the case for *open borders* is another (Caplan, 2019) (Clemens, 2010) (Clemens, 2011). Open borders could be interpreted to mean that you are free to live and work wherever you choose, i.e., you do not need permits for work and residency or that those are routinely granted to you upon application. An even more generous interpretation of open borders would mean that you also receive voting rights and other rights included in the bundle of rights that come with the full citizenship. The latter interpretation would mean that you in practice are free to choose the citizenship of your liking. The first, narrower interpretation would nonetheless be sufficient to achieve most of the economically important effects since it would mean that employers and employees worldwide would be free to enter employment contracts with each other. On a global scale, the value of migration from poorer

to richer countries could sum up to very large numbers. Michael Clemens argues: “*When it comes to policies that restrict emigration, there appear to be trillion-dollar bills on the sidewalk.*” (Clemens, 2011, pp. 83-84)

There are both similarities and differences between open borders and a market for citizenships. Both would improve matching between human and physical capital and lead to a more intense use of the best institutions. Thus, both would lead to higher production and higher income globally, although open borders would have a bigger impact than a market for citizenships. On the distributional side though, there is a big difference between the two regimes. Open borders would level out the value of different citizenships, leading to a sizeable distributional effect. A market for citizenships would preserve the differences in value between different citizenships and thus have a much smaller impact on distribution. The effect would be small but not zero, since a market for citizenship still would decrease the importance of which citizenship you are born with. In this regard, one could see a market for citizenship as a step *towards* open borders; it would improve both efficiency and equality but to a lesser degree than open borders. So, why should we care about a market for citizenships, and not just focus on achieving open borders? The reason is that a market for citizenships has certain advantages. First, it is less revolutionary; the idea of open borders is to many such a subversive idea that it would surely meet hard resistance, especially from people living in the richer countries. Therefore, the public might accept a market for citizenships although they would not accept open borders. The outcome of open borders is also more unpredictable since it is a more radical change to the present society and for that reason it could be prudent to start with the smaller step of commodified citizenships.⁶ Furthermore, one could argue that a commodification of citizenship could be a step towards open borders. As Hanson suggest, it could help to change people’s perception of citizenships: “*Transferable citizenship might lead citizens to favor freer movement of people between nations, more like support for free movement between firms and neighborhoods.*” (Hanson, 2020, p. 45). Moreover, a market for citizenship would produce market prices on citizenships and thus a very valuable source of information on institutional quality. As we will argue in more detail in section 6.2., this information should be valuable to voters/citizens as well as to policy makers and should in the end lead to better policies and better institutions. Admittedly, open borders would produce flows of migrants, which undoubtedly is very clear information on differences in institutional qualities between countries. Nevertheless, market prices on citizenships would offer faster and more transparent information and to lower transaction costs. This would be especially true if derivative products such as options were developed with the citizenship as underlying security. Together, this should be reason enough to find it worthwhile to consider, in some depth, what a market for citizenship could look like. For this reason, this paper is devoted to the idea of a market for citizenships rather than the idea of open borders.

4.3. A market for residency and working permits

The stock market is familiar with differentiated shares; A-shares with more votes per share than B-shares. The practice is on a decline, but it is still a reason for us to consider the possibility of differentiated citizenship. It is possible that there would be a demand for partial citizenships, more like a combined residence and working permit, as we can observe in the (limited) market for citizenships existing today.⁷ Some individuals might prefer to buy a partial citizenship lacking some

⁶ Hayek underlined the prudence of not making drastic changes to institutions that have evolved over long time, even though it – on the blackboard – might seem rational to do so. We should be humble before tried-and-tested institutions and be careful when trying to improve them (Hayek, 1988, p. 27).

⁷ According to *The Business Insider* 2018-12-27, 23 countries are offering different kinds of residence permits against direct payment or investment in the country, most often something less than full citizenship (Millington, 2018).

features, such as voting rights or access to welfare systems. As a fact, we can be pretty sure such demand would indeed exist. Today, in addition to the limited official market, we observe a black market, where illegal immigrants apparently find the residency and working opportunities attractive enough to take some considerable risks to obtain them. In fact, people are willing to take those risks even when the best they can hope for is an opportunity to illegally stay and work in a foreign country. The demand alone, however, does not justify use of differentiated citizenships. It would be a break with some quite fundamental democratic principles. It would also create a state of affairs where it is formalized that people living in the same country have different rights and are treated differently, e.g. as employees.⁸ It could result in some unpleasant dynamics when first degree citizens are living side-by-side to second degree citizens; it could prove to spill over on peoples' mental images of people holding the other kind of citizenship. Additionally, as a practical matter, it would raise difficult questions about citizenship birthrights of the children of the less-than-full-citizens, questions that are debated already today under the heading of *birth tourism* (Grant, 2015).

Nevertheless, a market for residency and working permits – something like the US Green Cards – would be easier to set up than a market for citizenship. A market for residency and working permits could be a step towards a market for citizenships, just as a market for citizenships could be a step towards open borders. The idea has recently been discussed in a World Bank Policy Research Working Paper (Lokshin & Ravallion, 2019). They argue that there is a missing market of work permits and pursue the idea “... to allow people to rent out their right-to-work for a period of their choice. On the other side of the market, foreigners could purchase time-bound work permits.” (Lokshin & Ravallion, 2019). Their proposal is very interesting, would achieve many of the benefits of a market for citizenships and would be a lot easier to implement and to win acceptance for with the public. It would not achieve, however, the decoupling of citizenship and nationality as a market for citizenship would. Additionally, it would lead to the above-mentioned problems associated with differentiated citizenships. For these reasons, this paper pursues the idea of a market for full citizenships rather than a market for work permits.

5. Basics of the market

The starting point is the current state of affairs, more specifically current rules and meaning of citizenships, to which we simply *add* the possibility for individuals to trade citizenships and for States to issue and sell new citizenships via auctions. Today, newborns acquire a citizenship according to a country's *citizen rule*. Those rules could be *birthright rules* referring to blood or soil or both. The other way to acquire a citizenship today is through naturalization. For the sake of simplicity, these rules could stay the same when we introduce the market for citizenships. What is new is the possibility to exchange citizenships and to buy additional citizenships.

To take full advantage of the market, a person should be able to possess more than one citizenship at the same time. Therefore, we need to address the question of how to handle multiple citizenships. This is a reality already today and different countries have different rules to handle it, unilaterally and bilaterally. With a market for citizenships, it would be desirable if there existed a single international rule for handling multiple citizenships. For this purpose, it would be suitable to define and distinguish between *active* and *passive* citizenships. The active citizenship is the one the individual is using for the moment. This is important for questions of taxes, social benefits, voting

⁸ This can be observed today in countries with a large numbers of guest workers. One example is the outrageous working conditions that has been discovered in the construction of new arenas for the World Cup in Football (Soccer) 2022 in Qatar. Amnesty reports of abuse and exploitation of migrant workers in the building and refurbishment of the Khalifa Stadium (Amnesty International, 2016).

rights, residency and working permits and other aspects of the relationship between a citizen and a State. By *passive citizenships*, we refer to those additional citizenships that are held by someone but currently not in use as the active citizenship. There should be a globally accepted rule to decide which citizenship should be considered the active for the coming year. By distinguishing between active and passive citizenships, we avoid some awkward problems with multiple votes or taxes.

Individuals should be free to hold as many citizenships as they wish, but we argue that an individual *must* hold *at least one* citizenship. One could imagine a situation where a person would be allowed to sell her “last” citizenship, but it would raise difficult questions about the possible nature of such a state without any citizenship at all. Thus, it should be possible to sell only passive citizenships, or directly swapping the active citizenship for another citizenship that would then become the active citizenship.

5.1. The marketplace

Citizenships should be traded at an electronic marketplace, much like modern marketplaces for stocks and other securities, where the securities – citizenships – would be traded in an auction-like way. The prices would be quoted daily, or even in real time. All trade should be *anonymous*, as when you buy and sell on the stock market today. Individuals will trade, financial firms will facilitate the marketplace and States will issue new citizenships. Not only human persons but also non-physical legal persons should be allowed to possess citizenships. A firm itself cannot take the position of a citizen in a citizenship, but one could imagine that it could hold (passive) citizenships as investments. Thus, it should be possible for *financial* firms as banks or similar institutions to become active market makers and hold a small stock of citizenships to facilitate a liquid market. Therefore, it should be possible for a variety of investment vehicles to trade in citizenships, although the citizenship will lay idle when possessed by such non-physical persons.

We should expect financial firms to develop a market for derivatives such as options, futures, and different types of funds with citizenships as the underlying security. This would enhance the possibilities for individuals to both speculate in price changes, diversify risks and planning for future migration. We would also expect financial firms to accept citizenships as security for loans so that individuals could make leveraged purchases of foreign citizenships. This would facilitate, for example, for young individuals from poor countries to make a leveraged buy of a high-value citizenship. The conditions for this market should be better than for student loan markets since the underlying security, the citizenship, has a market value and is a tradable security.

5.2. The individual

The *individual* is the main agent; she will take decisions to buy or sell citizenships in a manner similar to how she decides to invest in or dispose of other kind of property. For example, a person presently living in a relatively poor country, but with great professional ability and ambition, would try to buy a citizenship in a country where these traits are higher valued. It would be comparable to the decision to pay for (in time and money) college or university education. On the other hand, a person born with a highly valued citizenship but with less professional ambition would perhaps cash in on her inherited wealth by swapping her citizenship for a cheaper one, plus cash. While it would be very desirable for a person holding a low value citizenship to acquire a high value citizenship, it would be difficult for this person to pay the difference in market price between the two citizenships. As a partial solution to this problem, a *family* could decide to concentrate its resources to one of its members and trust this person to repay by sending back money once established on the foreign labor market, much as guest workers do today. Alternatively, as noted above, a relatively poor individual could make a leveraged buy of a relatively more valuable citizenship.

An important feature of the citizenship market would be the possibility of *direct exchange* of citizenships. That is, for a person holding just her active citizenship, the direct exchange feature is necessary to be able to trade, given that you must hold at least one citizenship. The citizenship exchange will facilitate both direct bilateral exchange of citizenships and more complicated chains of exchanges, possibly involving many individuals, and thus remove the need for a double coincidence of wants.

5.3. The State

The State has two main questions to answer. How to apply blood, soil or some other rule for granting newborn with their first citizenship, and how to manage issuance of new citizenships. The second question is in our focus while we have to leave the first one for a future paper and just assume the current state of affairs.

States will issue new citizenships and sell them on the market, as suggested by e.g., Gary Becker (Becker, 2011). We should expect that States would act like stock companies, i.e., to issue new stocks when it seems preferable to existing shareholders, i.e., when the market value of the citizenship is high compared to the costs of having one more citizen. Likewise, we should expect States to repurchase their own citizenships when they consider the market price to be low. Here, we see that this issue is a lot trickier with citizenships than with shares. For shares, the only effect is dilution of the company's value on more shares. The citizenship is a complex bundle of different rights *and duties*. Thus, unlike shareholders, citizens are affected by *who* buys the new citizenship. Obviously, this is a reason to insist on anonymous trade; it is because the incentive is there for the State to cherry-pick the new citizens. If States were allowed to choose whom to sell new citizenships to, they could use this right strategically. For example, the ruling party could try to increase its voter base by selling subsidized citizenships to persons thought to be positive to the party. Therefore, it is very important that all trade is anonymous and to achieve this, the integrity of the marketplace would be crucial.

Without the possibility to control who buys or sells their citizenships, States will have to adapt to the fact that citizens may come, and they may leave. Under such circumstances, we would expect States to design rights and duties coupled with the citizenship in such a way that its citizenship would be attractive to people who – on average – would add to the utility of the existing citizen/voter majority.⁹ For this reason, we should expect an increased institutional competition between States. This is not to say that all States would apply similar policies and develop similar institutions. Firstly, people appreciate many different aspects of a society and there are many different combinations of those aspects that would lead to the same total level of satisfaction. Secondly, individual States could focus to attract a certain subset of the population rather than the median man, which would be a parallel to how producers in some markets, like the car market, try to address the needs of a certain subset of the consumers rather than the abstract median consumer.

As said, all trade should be anonymous, as when you buy and sell on the stock market today. Obviously, this would imply that governments could not stop anyone from becoming a citizen, just as a company cannot stop anybody from becoming a shareholder. This would imply some problems. A State could want, for example, to be able to restrict specific persons, e.g., terrorists, to cross its borders. This is something that must be weighed against the benefits from an anonymous trading. With this said, the problem on behalf of the states should not be exaggerated. Citizens would still have to obey

⁹ Remember, we are only considering democracies.

the law and the government would still have the capacity of detaining criminals in prisons. Nevertheless, it is an issue that deserves attention in future research.

6. Possible benefits from commodification of citizenship

In this section, we will provide a few arguments in favor of commodification of citizenship and the establishment of a market for citizenship. The nature of the arguments is qualitative rather than quantitative and we have no ambition to assess how big the various effects could be or to weigh the positive effects against possible negative effects. The aim is to argue convincingly, on a theoretical level, that such a market *could* bring some quite substantial gains to the global community, and that it is thus worthwhile to consider the function of such a market in more detail. To quantify the effects and to weigh positive effects against negative effects must be tasks for the future.

6.1. Migration and allocational efficiency

A society with superior institutions will typically create higher value than an otherwise similar society with inferior institutions (North, 1991). On an individual level this means that a person will be more productive if working in the society with the more efficient institutions, and thus the person's citizenship will be crucial in determine her productivity, and in the end wage and purchasing power. High quality institutions help providing the individual with an environment in which she can make the most out of her human capital. We can imagine that there are citizenships that are preferred by all individuals but still they would be comparably more valuable to persons with a high level of human capital. Now, if we assume that talent and ambition is somewhat evenly distributed over the world, we can also imagine a reallocation of citizenships that would result in a higher total value of world production. Furthermore, if the reallocation were achieved through voluntary exchanges, as it would on a market for citizenships, it would also be Pareto sanctioned.

Improved matching between employers and employees is one factor contributing to higher overall production. However, we could also imagine that those States with the best institutional arrangements, and thus with the most sought-after citizenships, would issue more citizenships and thus increase the share of the world's population being able to take advantage of the best institutional arrangements. This effect would contribute to higher global production, adding to the pure matching effect.

6.2. Market prices and institutional development

In a market economy, prices fulfil the crucial role of transmitter of information between all agents within the economy (Hayek, 1945). They reveal information of costs of production and utility from consumption. The same would be true for tradable citizenships. If the market were to be liquid enough, we would have an unbiased estimate of the market value of different citizenships and thus, in the end, an estimate on the quality of each State's institutions and politics, as perceived by the citizens. This would be a huge improvement as compared to today when we must rely on simple but crude GDP per capita or more complex but arbitrarily constructed measures of well-being as HDI. Market prices on citizenships would facilitate direct cross-country comparisons as well as over-time comparisons within countries. Proposals of changes in institutions or policies would be possible to evaluate directly, observing changes in the market price of the citizenship.

Daily notations of citizenship prices would be of tremendous help to voters as well as to politicians. States could benchmark themselves against other States and they could evaluate past reforms as well as suggested future reforms. It would be comparatively transparent which policies work in the sense of increasing the market value of the citizenship, and we should expect an overall improvement in institutional quality worldwide. Successful States would attract new citizens and

could thus raise capital to new investments through issuance of new citizenships, which would give governments incentives to implement policies that result in increased market prices. Given the transparency of what is good or bad policies, voters would vote for policies known to work, i.e. policies that will increase the market price of the citizenship.¹⁰ Market prices on citizenships would spur a kind of *yardstick competition* between States where we could expect governments to try to increase the value of the citizenship (Shleifer, 1985) (Salmon, 1987) (Besley & Case, 1995). Timothy Besley and Anne Case demonstrated how yardstick competition could explain tax setting in US states when governors who are running for reelection do not want to set taxes noticeably higher than in the neighboring states (Besley & Case, 1995). Likewise, State governments could be expected to try keeping changes in the citizenship price competitive to changes in citizenship prices of comparable countries. The information asymmetry between voters and incumbents is much larger when we are considering the overall performance of a State government than the tax level on a regional level within a country (Salmon, 2014). A market price on the citizenship that summarizes everything that is good and bad with a country should be very helpful when voters are trying to assess how the government is doing, overall. To assess whether a price change should be contributed to the government or to external factors is not a trivial task, of course, but it would still be distinctly easier to evaluate governments with the help of citizenship prices than without such prices.

Although governments would have an incentive to maintain or increase the citizenship price, there would still be rent-seeking behavior and special interest groups would still try to extract benefits on the expense of the public interest. The cost of this, however, would be more readily transparent to the voters than it is today. Prices on citizenships would help voters to evaluate politicians just as stock prices help shareholders to evaluate CEOs. Market prices on citizenships would both discipline the rent-seeking politician and support the honest politician to serve the public. Furthermore, it would help the public to evaluate not only past politics but also political proposals for the future, since prices should be expected to react to political actions already when they can be anticipated, just as stock prices move on the first anticipation of future profit changes.

Citizens observing falling prices on their citizenship have two options, to vote or to exit. The same holds for citizens who dislike the current politics for other reasons than its effect on citizenship market value. The voting option implies that disappointed citizens may not need to exit – migrate – as the Tiebout model would suggest (Tiebout, 1956). We have two forces: one driving sorting through migration where people migrate to the State best matching their preferences, one driving States to adapt to voter preferences. From a transaction costs perspective, it would be preferable if governments were to *adapt* to voters' preferences as in the study by Besley and Case, rather than to *adopt* citizens with certain preferences, as in the Tiebout model.¹¹ Nevertheless, we would expect some degree of migration driven by differences in preferences and human capital, and the possible equilibrium that will result is difficult to predict. This is a very important issue, but it must be left to future studies. Such studies should e.g., consider the possibility that individual sorting through

¹⁰ See (Hanson, 2000) (Hanson, 2013) for a different solution to the same problem - "vote on values, but bet on beliefs". Hanson's idea is that the public should vote on values but that the actual policies should be chosen through the means of betting. Hanson holds that speculative markets are better than democratic institutions to "generate, aggregate, and distribute information" (Hanson, 2000, p. 1). In my view, there is a keen resemblance between Hanson's betting market and the market for citizenship proposed here when it comes to informational efficiency. In fact, I met Hanson 2001 when I spent a few weeks as guest researcher at the Center for Study of Public Choice at George Mason University. There, I first heard about his "vote on values, but bet on beliefs" idea, and I think this encounter sowed the first seed to this paper.

¹¹ Alchian famously argued that profit-maximizing firms are adopted by the environment as the long run survivors and that this is the reason why we should expect firms to "maximize profits", rather than that they are adapting profit-maximization as a guide for action (Alchian, 1950).

migration would result in an inflow of low product workers and an outflow of high product workers in States with a large welfare state. Such migration flows would undermine the tax base and the economic foundation of the welfare state and favor lower safety nets. There could be a risk for a kind of *race-to-the-bottom* mechanism driven by migration and this needs to be carefully analyzed in future research.

6.3. Fairness

As already mentioned, there is an ongoing discussion about the fairness of contemporary principles of citizenship distribution (Shachar, 2009). Given the crucial importance of citizenship to a person's possibilities to shape her future, rules based on blood and soil could be seen as unfair. A market of citizenship as outlined here would not address the initial endowment problem. However, it would be an improvement over the current situation. On the market for citizenships, blood and soil does not matter but only effective demand. Obviously, a person's possibility to effectively demand a specific citizenship is partly dependent on the person's originally endowed citizenship and thus on rules of blood or soil. Still, it is a distinct improvement that, on the market, all persons will be treated equal whatever origin. The possibility for a person to shape her future would be strictly increased as compared to today. As a result, we should expect an increase in social mobility globally. Furthermore, as we will argue below, commodification of citizenship could be a first step towards a world with freer movement of people that eventually could lead to a global regime of open borders.

6.4. Anti-xenophobia

Xenophobia is a nuisance to humanity, sometimes milder and sometimes harsher but always present. In its milder forms, it is a kind of transaction cost hindering mutually beneficial transactions and is thus harmful to the society's overall well-being. In its harsher forms it has been, and still is, outright disastrous. There is a possibility that commodification of citizenships, making citizenships tradable and less strictly associated with ethnic origin, by time would lead to a toned-down meaning of nationality, other than as a matter of contractual arrangements. Over time, it would be increasingly common that persons of a certain citizenship have not obtained it with reference to blood or soil. Possibly, this would lead to a situation where we to a lesser and lesser degree associate nationality with presuppositions about what it means to be of a certain nationality, in terms of personal traits, value grounds and cultural baggage in general. Consequently, we could hope for conflicts *between* States based on xenophobic grounds to be less common, as well as we could hope for ethnically grounded conflicts between persons *within* countries to decrease in number and severity. At least on the margin, this development should be expected, although its magnitude is hard to guess.

7. Citizenship as a tax base

If citizenship were transferable private property, it would constitute a possible tax base. We will therefore briefly reflect on its characteristics as a tax base, in terms of efficiency and fairness. By efficiency we mean the extent to which such a tax would have distortive effects on the behavior of individuals and by fairness we mean the distribution profile of the tax. We will discuss both the possibility of a domestic tax on citizenship and a corresponding global tax.

We can imagine that states might find it interesting to tax the possession of citizenship, when the value of this becomes visible through daily market quotations. One can imagine both a wealth tax and a capital tax. The capital tax may be thought of as a standard tax on the return the holder receives from having the rights and opportunities that citizenship offers. Regardless of whether it is considered a tax on wealth or on income from capital, the tax would be a type of lump sum tax and therefore effective in the sense that it would not induce a change in behavior, the only thing the

individual could do to adapt to the tax would be to sell her citizenship and thus in practice being forced to emigrate. The tax would be similar to a so-called head tax and have the same problem. Citizenship itself does not generate a cash flow and therefore some other restriction is required, which would ensure that only those who have sufficient cash flow would be obliged to pay the tax. This restriction should apply to something that the individual cannot influence himself, e.g., being of legal age. One can also imagine a form of tax credit where the tax accumulates, instead of being collected, during periods of weak cash flow. But even so, the tax would be regressive by its nature since those with lower income would pay a higher share of their income in citizenship tax. The crucial weakness of citizenship as a tax base for domestic taxation is, however, that it is superfluous, it offers nothing new. We could already today design a corresponding tax since citizenship is equal for all citizens, everyone has one. The citizenship tax would have identical consequences as the head tax.¹²

In the perspective of domestic taxation, it is rather the possibility of taxing the possession of passive, foreign citizenships that would add new opportunities. It seems reasonable to put the holding of passive citizenship on equal footing with other forms of savings and it should therefore be taxed in a similar way, in order to maintain symmetry between different forms of savings. Holdings of passive citizenship should therefore be taxed in the same way as other savings, both in terms of wealth and income (capital gains). The possession of passive citizenship is thus both possible and appropriate to tax, but as a tax base, it does not add anything qualitatively new, which, on the other hand, the possibility of a global tax on citizenship would.

By a global tax on citizenship, we mean a tax that is collected from all citizens in the world and used globally, in redistributive purpose. For example, we could imagine that the UN administered the tax. Such a tax would be very interesting from the perspective of global justice and would address the fundamental problem that the current system of birthright citizenship is criticized for, that it is obtained based on blood and soil and produces unequal conditions for people from different countries, right from the birth. A wealth tax on the market value of citizenships could be used to improve institutions in countries with low citizenship values. Such a tax would have several attractive characteristics, it would be easy to administer and easy for the individual to predict. Transaction costs would thus be low. The tax would also be effective in the sense that it would not distort the behavior of individuals. On the margins, it would cause some individuals to change citizenship, for example those who have been born with a high-value citizenship but do not themselves expect to make full use of it. For these people, the tax could be decisive for the decision to exchange it for a low-value citizenship. The tax would also reduce the price differences between different citizenships and thus make it easier for ambitious individuals endowed with low-value citizenships to switch to high-value citizenships. The equalizing effect of the tax would work in two ways, partly by somewhat leveling the prices for different citizenships through the direct effect that arises when the market capitalizes future tax burden in today's price, and partly from the use of tax revenues to improve living conditions in countries with low-value citizenships. A global tax on the value of citizenships has the potential to complement or even replace the current system of financial assistance from richer to poorer countries. From the perspective of fairness, it would have a very attractive direct link to the fundamental injustices that result from birthright citizenships. Thus, it would be able to achieve at least some of the objectives of more complex and pervasive measures put forth by critics of the birthright lottery (Shachar, 2009). It should be emphasized that a tax on citizenship value is a direct tax on inherited wealth in a way that alternative taxes, such as income tax, are not. A person's

¹² At least if working and residency permits are not possible to obtain outside the full citizenship. With tradable citizenships, the need for separate working permits would be much smaller than today and perhaps redundant.

income from labor is a product of both inherited property, in the form of the citizenship, and the person's own efforts, while the citizenship is purely inherited wealth.

8. Conclusions and suggestions for future research

In the paper, we have pursued the idea of commodifying and setting up a market for citizenship. We started out from the assumption that citizenship is valuable private property that could be even more valuable if it were also transferable, and the assumption that market prices on citizenships would improve institutional quality globally. We have explored the idea by using a standard electronic market for securities, as the stock market, as our reference market. In this, we have exploited the similarities and dissimilarities between the share contract and the citizenship contract. The outcome of the paper is a model of how the market could function, and four arguments in favor of commodification of citizenship. The two most important arguments in favor of commodification are (a) that it would lead to a higher productivity on a global scale and (b) that it would lead to better politics and thus an improvement in institutional quality since voters would use the information in market prices to assess politics of their governments. Two additional arguments in favor of a market for citizenship is that (c) it would increase equality compared to today and (d) possibly in the long run change attitudes in a way that would reduce xenophobia and make a regime of open borders possible.

A higher global productivity would result from an improved matching between employer and employee when citizens swap citizenship with each other. Successful States issuing new citizenships would amplify the positive productivity effect, since it would create the possibility for a greater share of the world population to live and work within the countries with the best institutions.

Market prices on citizenships would provide a robust indicator of institutional quality. Commodification of citizenship could indeed lead to a huge democratic improvement, making governments more accountable before voters, as CEOs are accountable before shareholders. It would help curbing rent-seeking behavior by making it more costly for politicians to suggest or apply overall harmful policies. Furthermore, the information goes both ways, it also informs the politicians on how citizens appreciate different policies and thus helps the honest politician to pursue good policies.

At the end of the article, we reflected upon the viability of citizenship value as a tax base, either on national or global level. We concluded that a tradeable citizenship with a transparent market value is a promising candidate as a tax base for international redistribution aiming at leveling out some of the inequality of opportunity inherent in the current system of birthright citizenship.

Those – potentially huge – positive effects notwithstanding, it is still hard to see such a market being realized. At the current state of national and international politics, it is hard to see how all, or most, States in the world could agree on making their citizenships tradeable. Practical realism is probably the weakest point for the case of a market for citizenships, although it is probably a more realistic option than open borders. Consequently, the most urgent future research is to sketch a sort of hands-on roadmap on how to implement the market. This research needs to address possible problems as well as several implementation issues such as design issues, transitional issues, and issues of gaining acceptance with both the public and the political rulers.

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