Direct Democracy and Federalism in Switzerland

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Switzerland is a small country in the heart of Europe. To most people Switzerland is known as the country of cheese, chocolate, and natural beauty. More recently, it has also been associated with banks and money laundering, and the younger generation might think of Switzerland as the producer of Swiss watches. More recently, Switzerland has also been known for its banking secrecy laws and its tax havens.

Switzerland has more to contribute to the world, however, than just its mountains or its goods and services. With its population composed of many ethnic groups, languages, cultures, and religions, Switzerland can be seen as a whole continent in a nucleus. The same holds true for economic and social aspects: per capita income varies strongly between poor and rich cantons, in some regions agriculture prevails while others are dominated by high-tech industries such as banking. The way the Swiss have learned to cope with these problems and conflicts arising from these differences may very well become Switzerland's future main export and is of great importance for all democracies: it is both an idea and reality—the constitution of a modern democracy.

Two institutional features are basic for Switzerland. The first is the widespread use of popular referenda, which are of three sorts: obligatory ones for constitutional changes, optional ones for laws (30,000 signatures, or roughly 1% of the voting body are needed), and popular initiatives (100,000 signatures needed). They serve as an effective barrier against the dangers of an uncritical and sometimes self-serving "political class". Between 1848 and 1996 there were no less than 831 referenda at the national level. This instrument of direct democracy is used much more intensively in Switzerland than in any other country.

The second fundamental institutional feature of Switzerland is the federal structure of the country. Switzerland is composed of federal subunits—23 cantons of which some are divided into half-cantons, and 199 political communities. These cantons can, to a larger extent than in any other country, act as independent decision-makers. Most important, they have the power to determine their own personal and corporate income-tax rates. As a result there are communities and cantons situated next to each other with very different tax rates and correspondingly different levels of public expenditures and services. With unrestricted labour mobility, the regions compete with each other for citizens.

We argue here that direct democracy and federalism are excellent institutions for producing socially, politically and economically beneficial outcomes. The democratic process is based on the same criterion as the market process—only the individuals preferences count. Neither a "benignvolent dictator" nor an expert nor a politician should therefore decide what is desirable and what is not—this is decided only by the citizens themselves. The citizens can therefore be viewed as the principal and the politicians as their agents. As in all principal-agent relationships, it is a clear and present danger that shirking occurs and, in particular, that legislators pursue their own goals instead of following their electors' preferences. So, even when leaving the marketplace and entering the political sphere, the competition must be the answer to the question of how people's wishes can best and most effectively be represented and coordinated in the public sphere.

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Neither in economics or policies, however, does it make sense to analyse an unreachable ideal—a fully competitive market without externalities, information asymmetries or monopolies. Rather it is the relative efficiency of the decision-making system that matters—in the present case, that of a direct democratic system compared to a representative system and of federalised decision-making compared to centralism.

Direct Democracy

By the end of 1996, Switzerland had held more than 400 nation-wide referendums covering virtually all aspects of politi
SWITZERLAND'S UPRIGHT BATTLE

Referenda were instituted, at the federal level, with the first Swiss constitution in 1848. It declared that referenda were to be obligatory for all proposed amendments to the constitution. The first referendum was held in January 1848 on subjects such as taxation, religious liberty and the prohibition of intermarriage. In the constitution of 1874, the optional legislative referendum was introduced. In 1891, the Swiss adopted the constitutional initiative by which citizens could propose and decide about amendments to the constitution.

Referenda, either obligatory or optional, enable the voters to state their preferences more effectively than in a representative democracy. In a representative system, deviating preferences, on very specific issues, can only be expressed by informed process, which are difficult to organise and make politically relevant. If no immediate action is taken, voters have to wait until the next election, when they will then find it hard to express specific demands on substantive issues. In a direct democracy, however, citizens may participate in political decision-making.

Popular referenda clearly have a long tradition. Switzerland has been a democracy for over 150 years. They have proven to be very successful for the following reasons: they combine a clear and direct connection to the political process. They are easy for the voters to understand and to participate in.

Referenda and initiatives are means to break the political deadlock that may arise from an identified constituency's position on an issue. They are the basis for a popular initiative, which can be submitted to the people by gaining a certain number of signatures. If the initiative is sufficiently supported, it will be put to a vote in a popular initiative. In the case of a legislative referendum, the people are directly involved in the decision-making process. They have the opportunity to express their views on the matter at hand. This direct participation in the political process gives citizens a say in the decisions that affect their lives. It helps to ensure that the needs and concerns of the people are taken into account, and it promotes a sense of ownership and responsibility among citizens.

Empirical evidence suggests that the more direct and democratic institutions, the less tax cheating takes place.

The Swiss tax system is based on the principle of self-assessment. Taxpayers are required to prepare and submit their own tax returns. This system is designed to ensure that taxpayers are held accountable for their tax obligations. It also promotes honesty and integrity, as taxpayers must take responsibility for their own financial affairs. The tax system is designed to be transparent and fair, with a focus on simplicity and efficiency. It is designed to be easy for taxpayers to understand and to comply with, which helps to reduce the potential for tax evasion.

The Swiss have a reputation for being one of the most tax-friendly countries in the world. They have a low tax rate, and their tax system is designed to be fair and efficient. Switzerland has a long history of protecting individual rights and freedoms, and this is reflected in its tax system. The tax system is designed to be transparent and fair, with a focus on simplicity and efficiency. It is designed to be easy for taxpayers to understand and to comply with, which helps to reduce the potential for tax evasion.

Cantons with more direct democratic institutions generate a much higher per-capita income than those with less direct democracy.

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Problems with Referenda

Democracy is not concerned with end states; solutions are not simply adopted, but the process of arriving at them is essential. In the course of the direct democratic process, needs and preferences are shaped. Voters are confronted with political parties, which have not considered before, and whose role is to communicate the citizens' wishes to the politicians. How well the politicians can respond to these wishes is a key factor in the success of direct democracy.
It is not clear why the citizens should be trusted to choose between parties and politicians in elections but not between issues in referenda. If anything, the former choice seems to be more honest and less open to corruption than the latter.

The Swiss system thus provides a good example of how to design a political system that respects the people's sovereignty without sacrificing efficiency. It is based on the principle that power should be divided among many institutions, each of which has its own specific responsibilities. The federal government is responsible for international matters, the cantons for local affairs, and the municipalities for the most basic services. This system of checks and balances helps to prevent any one group from becoming too powerful.

In addition, the Swiss system provides for a high degree of local autonomy, which allows each canton to determine its own policies. This is important because it allows the people to have a say in decisions that affect them directly. It also helps to ensure that the government is accountable to the people, since the cantons are elected by the people and are responsible to them.

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In summary, the Swiss system is an excellent example of how to design a political system that respects the people's sovereignty without sacrificing efficiency. It is based on the principle that power should be divided among many institutions, each of which has its own specific responsibilities. The federal government is responsible for international matters, the cantons for local affairs, and the municipalities for the most basic services. This system of checks and balances helps to prevent any one group from becoming too powerful.