

THE ROLE OF DEMOCRACY IN SECURING JUST AND PROSPEROUS SOCIETIES[†]

Direct Democracy: Politico-Economic Lessons from Swiss Experience

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Most scholars and lay people are biased against direct democracy and its use of popular initiatives and referenda. Americans normally think of New England town meetings (at best a curiosity), of school bond votes (a very narrow issue), and of California (where the voters are hopelessly overburdened). While 26 states allow popular referenda, the United States is indeed one of the only democracies that does not permit referenda at the *national* level.

The negative view of direct democracy, however, is also prevalent in other major democracies. The French tend to associate referenda with plebiscites for the president (Charles de Gaulle was particularly skillful in this respect); the Germans emphasize the bad experiences made during the Weimar Republic and the Third Reich (Adolf Hitler had, among other issues, ratified the annexation of Austria by a later plebiscite). The Italians, on the other hand, think differently today: referenda have played a major role in putting an end to *partitocrazia* (the dictatorship of established parties); and there are the Swiss in whose country popular initiatives and referenda are a central part of democratic life, thus by far dominating all

other countries with respect to the frequency of use.¹

Economic theory does not have a favorable view of direct democracy. Public economics disregards the issue when assuming a benevolent dictator maximizing social welfare. Public choice associates "direct democracy" with various voting rules (Dennis Mueller, 1989 part II), but the *institutions* of direct democracy as such are neglected.

I will argue and substantiate by empirical evidence that popular referenda are a *feasible* and *effective* institution to fulfill individual preferences and are able to break the *cartel of politicians* directed against voters and taxpayers.

I. Institutions of Direct Democracy

Popular initiatives and referenda supplement, but are no substitute for institutions of representative democracy such as parliament and government. Referenda must be embedded in a federal system, as each issue should be decided on the lowest possible level, consistent with fiscal equivalence. Decentralization is also essential for the citizens to acquire the information and knowledge to make a well-reasoned decision. There is a second crucial institutional feature: referenda do not simply consist of a *choice* between given alternatives, but should be

looked at as a *process* extending over time. Three stages can be differentiated.

A. Pre-Referendum Stage

Referenda stimulate *discussion* among citizens, and between politicians and voters. The public-good situation of discussion which benefits all citizens is transformed into a private good as the participants are expected by the other citizens to have opinions, thus reaping private benefits (see Albert Hirschman, 1989). Pre-referendum talk produces a number of important effects. Preferences are articulated, enabling mutually beneficial bargaining and exchange (on efficiency of direct democracy, see Eli Noam [1980]), and the agenda of alternatives is determined by the citizens, thus constituting the relevant decision space. Discussion provides information on the "theory component," or the causal relationships involved (Victor Vanberg and James Buchanan, 1989); it moreover constrains free-ridership and rent-seeking. Discourse is claimed to lead to communicative rationality and to a shared view of what is normatively acceptable, thus being an application of an ideal discourse as propagated especially by the German philosopher Jürgen Habermas.² While referenda do not fully meet the criteria of unprejudiced talk and nonstrategic and nonpersuasive behavior among equals, every citizen who cares may participate (in this sense it is nonhierarchical). Unlike the rather academic and institutionally unbound notion of the ideal discourse (John Dryzek, 1987), the pre-referendum discussion is practically relevant, focused, and limited in time. It is in sharp contrast to "instant referendum," "electronic voting," or "teledemocracy," which simply register voters' preferences.

Empirical evidence supports the contention that discussion strongly affects outcomes even though "cheap talk" (James

Johnson, 1993) should be ineffective following the traditional rationality point of view. The proportion of cooperators in one-shot prisoners' dilemmas increases dramatically from 26 percent to 73 percent when participants are allowed to talk to each other prior to making their still independent choices. Behavior more in accordance with "generalizable" than with narrow self-interest has also been observed in coordination and ultimatum games in which the allocator keeps a smaller share of the prize for him- or herself when a prior discussion has occurred (e.g., Richard Thaler, 1992; Frey, 1992). The positive effect of discussion on cooperation has also been established for real-life common-property resource setting (Elinor Ostrom et al., 1992).

B. Formal Decision Stage

The pre-referendum stage screens the alternatives to be voted upon, reduces the number of relevant alternatives (often to two), and makes the preferences more homogeneous, thereby lowering the chance that the preference-aggregation paradox will occur. Discussion thus supports a "structure-induced equilibrium."

Constitutional considerations demand that the decision rule has to be more restrictive the more important the issue to be decided upon is (Mueller, 1993). This requirement is met in Switzerland. Changes in the federal constitution must be approved by the majority of both the voters and the cantons; initiatives to change the federal constitutions are put to the vote with the support of 100,000 citizens (about 2 percent of the electorate), while optional referenda concerning changes in federal laws need only be supported by 50,000 citizens.

C. Post-Referendum Stage

Participants in the referendum process seek to predict the vote outcome and adjust the propositions in order to attract voters in their favor. In Switzerland, many propositions do not reach the formal decision stage but are withdrawn by the initiators when they realize that the government offers an

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¹Between 1970 and 1990 there were 63 national referenda in Switzerland; but only five in Australia, seven in Ireland and Italy, four in Denmark, and two in France. A general discussion of direct democracy is given in Thomas Cronin (1989).

²Habermas (see his newest [1992] book), while considering discourses in parliamentary democracies, fails to see that direct democracy comes closer to the discursive ideal.

alternative, which is likely to draw more votes (a so-called "counter-proposition"). When surprises nevertheless do occur, the government and parliament react to unexpectedly large minorities by at least partly meeting their concerns. Such adjustments also tend to occur when there are marked differences between the majority by voters and by regions (cantons). In that case, a new initiative tends to be undertaken.

Revised referendum outcomes due to changed circumstances and discussion are not a weakness of direct democracy, but rather an indication of a lively political process by which the participants gain new insights. A political vote is not final, but rather an interim result of an ongoing process of deliberation (Habermas, 1992 p. 220).

II. Breaking the Politicians' Coalition

Economists and rational-choice political scientists subscribe to Joseph Schumpeter's (1942) and Anthony Downs's (1957) definition of democracy as the competitive struggle by parties for votes. This characterization is adequate only for modern (two-party) democracies *at election time*. Between elections the politicians have considerable leeway, in particular because the voters strongly discount past experience and in many countries have little or no possibility to punish politicians who exploit their discretionary room (see Frey, 1978).

The Schumpeter-Downs model of democracy needs to be complemented by a model in which (between elections) a *coalition of all (established) politicians and parties* stands against the voters and taxpayers. Such a model of the "political class" deviates from models of exploitative government (Geoffrey Brennan and Buchanan, 1980) because the political class also includes politicians *outside* government. As soon as a politician (party) enters parliament, he or she is drawn into the coalition. The members of parliament are a well-defined group jointly reaping rents. They have (with exceptions) spent their lives together in all kinds of meetings and sessions, committees and commissions. Outsiders entering parliament find it difficult if not impossible to survive

outside the coalition. A whole set of rules and institutions bolsters this coalition. The seniority principle, or party discipline, robs members of parliament outside the coalition of the chance to enter influential committees, to speak in full session, and to receive public money and material support to carry out their political job effectively and to secure their reelection. Picturing politicians as forming a coalition against taxpayers and voters seems to be an apt illustration of representative democracy between elections. It has indeed been argued for the United States that "party competition must be easily the most protected industry" (Adam Przeworski and Fernando Limongi, 1993 p. 59).

Government and courts, including courts of accounts, constrain the coalition of politicians only fractionally, since they not only lack the constitutional rights to do so, but also have little incentive to oppose seriously the legislators on whom they depend in many ways. The institution of popular referenda is a much more effective constraint on the politicians' coalition.

Initiatives coming from the voters cannot be controlled by parliament; the agenda setting power is with the electorate. While parliaments take great efforts neither to publicly discuss nor to vote on politicians' salaries, pensions, and other privileges, initiatives may bring the issue to the fore. In Switzerland, many initiatives at all levels of government effectively opposed politicians' rent-seeking (but voters were sometimes prepared to raise politicians' incomes when they saw it justified).

More relevant than monetary rent-seeking is the discretionary power from which the politicians benefit indirectly at voters' expense. Again, referenda provide an effective institution to break the politicians' coalition in this respect, as is illustrated by an historical episode in Switzerland (see Charles Blankart, 1993). During the 19th century, the Swiss House of Representatives (Nationalrat) was elected according to majority rule, which strongly favored the then reigning Radical-Democratic Party. Proportional representation was strongly rejected by the members of the *classe politique* for

obvious reasons of self-interest. Nevertheless, in 1918, a referendum induced by a popular initiative was accepted by a majority of the population and cantons. In the subsequent election, new politicians and parties came into the House, and the Radical-Democratic Party lost more than 40 percent of their seats. Instances of voters breaking the politicians' cartel are no rarity: among the 250 referenda held in Switzerland between 1848 and 1990, the majority's will deviated from the stated will of the parliament in 39 percent of the cases. Important examples in which the *classe politique* was solidly in favor of a move but the electorate was strongly against are the decisions of whether to join the United Nations (1986) and the European Economic Area (1992).

Econometric analyses support the contention that direct democracies have the stated effect on policy outcomes. Based on data of Swiss communes it has been shown that the more developed the institutions of direct voter participation, the better the voters' preferences for publicly supplied goods are fulfilled and the more strongly public expenditure is determined by demand (i.e., by citizens' willingness to pay) rather than by supply factors, in particular by the politicians' and bureaucrats' own interests. Moreover, public supply is less costly, and the share of public expenditures in GNP is smaller, the more direct democratic institutions are used (*ceteris paribus*) (Werner Pommerehne, 1990). It is at least suggestive that Switzerland with her direct democracy has a lower public-expenditure share than do other OECD-countries with representative democracies.

III. Concluding Remarks

Cumulating research on the properties of popular referenda has revealed two major aspects on which the economics of institutions has to focus. One is the importance of discussion in the pre-referendum stage. It implies that the number of propositions and the frequency of ballots must be low enough that the voters have an incentive and the opportunity to collect and digest the respec-

tive information in order to participate actively in the decision. The issues have to be put before the voters at the lowest federal level consistent with fiscal equivalence. Also, rational voters only seriously engage in discussions if they have a choice (i.e., referenda should not degenerate to plebiscites).

The second crucial element is that direct democratic institutions enable voters to break politicians' and parties' coalitions directed against them. Direct participation serves to keep the ultimate agenda-setting power with the voters. Initiatives and referenda are effective means by which the voters can regain control over politicians; the widely held Madisonian fear of "irresponsible voters" and "excesses of the majority" has no empirical basis in a well-chosen constitutional framework.

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