



0 293

Direct-Democratic Rules: The Role of Discussion

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Everyone agrees: the political structure of Europe, and in particular of the European Union, needs to be reconsidered if not drastically changed. The role of governments, parliaments and bureaucracies, and above all their relationship to the citizens are to be newly determined. While many suggestions have been advanced, the institutions of direct democracy have been almost completely neglected. This paper stresses that referenda and initiatives should be central institutions to guide the provision of public goods and redistribution in a future democratic Europe.

One of the major reasons why direct democracy performs well for allocation and distribution is that it institutionalizes and channels the political discussion. We argue that institutionalized communication opportunities enable individuals to privatize a decision, and to create and choose between new alternatives, thus extending an individual's possibility set.

In section I the importance of communication for the provision of public goods is demonstrated by drawing on experimental evidence. It is argued that discussion helps to overcome social dilemmas. Section II analyzes the role of discussion in a political process, comparing direct and representative democracies. Section III draws conclusions for the political frame of a future Europe taking benefits and costs of initiatives and referenda into account.

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I. THE ROLE OF DISCUSSION – EXPERIMENTAL EVIDENCE

Many economists have a hard time to believe that discussion makes a difference. They tend to think of communication as a mechanism to exchange information guided by the principle of rationality and thus contend that speech is always strategic [JOHNSON, 1993]. Especially economic game theorists cannot attribute any force to communication not serving as strategic move since it does not fit into their basic assumptions: Communication is labelled ‘cheap talk’ because statements are costless and unverifiable and thus are expected to have no impact on the players’ decisions [CRAWFORD, 1990].

Even though game theorists find it difficult to deal with non-strategic behaviour many acknowledge the indeterminacy generated by their models as a problem:

‘A model with no equilibrium or with multiple equilibria is underspecified. The modeler has failed to provide a full and precise prediction of what will happen. One option is to admit that his theory is incomplete...’ [RASMUSEN, 1989, p. 27].

RAPOPORT [1966, p. 214] has gone even a step further much earlier in game theoretic history:

‘The great philosophical value of game theory is in its power to reveal its own incompleteness. Game-theoretical analysis, if pursued to its completion, perforce leads us to consider other than strategic modes of thought.’

These ‘other modes of thought’, it is argued here, may become prevalent if the institution of communication is introduced therewith overcoming the ‘incompleteness’ of the models.

The effect of communication on cooperation has long been demonstrated by non-economists. In the early sixties it has already been shown that the possibility to communicate results in increased cooperation in two-person prisoner’s dilemmas (e.g., LOOMIS [1959]; SWENSSON [1967]) as well as in five-person games (JERDEE and ROSEN [1974]).

These experiments were further developed by the group around DAWES (e.g., DAWES, MCTAVISH and SHAKLEE [1977]; ORBELL, VAN DE KRAGT and DAWES [1988]) who speculated that the success of communication in increasing cooperation may be explained as an opportunity for ‘group members to get acquainted, which could raise their concern for each other’s welfare’, to exchange ‘relevant information’ and as an assurance of ‘good intentions’ [DAWES, MCTAVISH and SHAKLEE, 1977, p. 3]. As the authors did not analyze the contents of communication it cannot be evaluated which feature accounts

for cooperative behaviour. It may well be, however, that the low defection rates found in these studies are due to moral considerations of the players [VANBERG and CONGLETON, 1992] as such behaviour in one-shot PD-games is inconsistent with the rationality axiom of economics. DAWES and his co-workers [1977] forcefully demonstrate in their eight-person social dilemma game¹ that the possibility to communicate unrestrictedly for 10 minutes dramatically changes the outcome of the game: Defection is significantly higher in the no-communication (73%) than in the communication setting (26%).

These results are further substantiated in later experiments with one-shot communication (see FREY and BOHNET [1994]) and with repeated communication [OSTROM, WALKER and GARDNER, 1992]. It has also been tested whether group identity and the size of the group play an important role in determining the dominating strategy. Discussion increases the probability of providing to a public good even more if the members of the group benefitting from the public good correspond to the people participating in the discussion [DAWES, VAN DE KRAGT and ORBELL, 1988], and the smaller the groups are [ISAAC and WALKER, 1988].

While discussion seems to induce moral behaviour it also improves cognitive capabilities. Introducing communication possibilities into minimal contribution games [VAN DE KRAGT, ORBELL and DAWES, 1983] increases the accuracy of the decision taken by the players by minimizing the over- and underprovision of the public good. The experiments are structured similar to normal PD-games, however allowing for the public good to be provided only if a (exogenously) specified number of contributions are made. Given the opportunity to communicate individuals are able to exactly specify the required number of contributors thus designing the 'minimal contributing set'. In these experiments, communication-groups, therefore, always provide the public good in a nearly optimal manner. In contrast, as an individual's cognition is not enlarged in the no-communication setting, tacit groups fail to achieve the minimally required contribution set 35 percent of the time, thus not providing the public good. In those instances where the public good is supplied over half of the no-communication-groups are not capable to generate an optimal contribution but create an

1. The game was designed as follows: Each person in a group of eight had to choose between O and X, O being the cooperative solution and X being the strategy of defection. The collective outcome for the group is best if all subjects choose O, i.e., contribute to the provision of the public good, and worst if all choose X, i.e., all act according to the strong rationality axiom in game theory. Choosing X instead of O, i.e., defection, leads to a gain for the respective player of \$ 8.- and produces cost of \$ 1.50 for everybody else. The decision to cooperate (choosing O), on the other hand, costs a subject \$ 9.50 and creates benefits for all players (including the cooperators) amounting to \$ 1.50.

inefficient over-provision. Communication may indeed be understood as an efficiency enhancing mechanism. This important result is used to analyze institutionalized communication opportunities in democracies in the next section.

II. DEMOCRACY AND DISCUSSION

Having established that communication produces more efficient and morally more accepted results we will elaborate on the features of this production process. We propose in part 1 that discussion transforms a decision into a private good. It also helps to create and shape alternatives relevant for decision-making, thus increasing an individual's possibility set (part 2).

1. The Transformation of Individuals' Choice

The process which takes place before casting the vote has been almost completely neglected in economics (see, e.g., MUELLER's survey of Public Choice [1989]). Some unorthodox economists, however, stress that public debates are an essential feature of a living democracy:

'For a democracy to function well and to endure, it is essential ... that opinions *not* be fully formed *in advance* of the process of deliberation' [HIRSCHMAN, 1989, p. 77].

This view stands in stark contrast to the proposed institutions of 'instant referendum', 'electronic voting' or 'teledemocracy' [BARBER, 1984, pp. 289-290 and CRONIN, 1989, pp. 220-222] where decisions would be taken without allowing for a preceding and integrating public debate.

Political discussion only arises if adequate institutional incentives to talk about the issues at stake are created. These incentives are better supplied in a direct democracy where citizens do not have to wait for the next election to express their preferences but are confronted with political issues much more often, thus being motivated to engage in a public debate frequently. In representative democracies citizens have only a choice at election time and only between parties which each offers a mixed basket of policies and where personal attributes of politicians tend to dominate the election campaign.

Public debates about political issues, thus, may be observed much more often in direct than in representative democracies. A recent example for a public discussion initiated by an optional referendum was the decision of the members

of the Swiss parliament to substantially increase their own salaries as well as their staff. While in representative democracies politicians' salaries are not discussed publicly (even though they are very sizeable, see VON ARNIM [1991]) the referendum taken in 1992 aroused a lively public debate. The proposal greatly benefitting the members of parliament would have become law if the voters had not initiated a referendum, therewith sending down the proposal.

This face-to-face interaction induces individuals to become involved. Having an opinion is a benefit *per se*, disregarding its specific content [HIRSCHMAN, 1989]. Thus, talking to one another transforms a public decision about some political issue into a private choice where each individual participating in the discussion derives benefits from finding and declaring his or her position. Communication by mass media, on the other hand, does not have the same effect as it only allows a passive reception of information.

Only if a decision becomes a private good people have a strong incentive to demand information on the subject. This process was witnessed in Switzerland when the citizens had to decide on Switzerland joining the European Economic Area in 1992. Swiss citizens proved to know more about the EEA as well as the EC before casting their vote than the citizens of neighbour countries already belonging to the EC [Eurobarometer Schweiz, 1991].

An interesting case, however, is Denmark where the citizens were asked to decide in a referendum on the Maastricht treaty. Not only did the interest in the treaty as such rise but people also became more concerned about politics in general. Voters started to think about political rules and traditions which, in the absence of a public discussion, they would never have put into question. In order to be able to judge the relevance of the outcome of a referendum for one's own life as well as to evaluate decisionmakers' performance, citizens need to know the working properties of alternative rules, i.e., 'constitutional theories' [VAN-BERG and BUCHANAN, 1989], which are shaped and defined in a process of verbal exchange.

The information created in a public discussion helps individuals to clarify the order and ranking of their preferences, to build commensurable scales and to take care of the effect of differences in time and place – factors which otherwise tend to lead to the paradox of intransitive choices. Even though this paradox cannot be totally circumvented as making the final decision remains a formal procedure, the dilemma of rational choice is certainly diminished².

2. If citizens are induced to communicate about political choices direct democratic decision-making is not more likely to create a preference aggregation paradox than a representative setting even though there may be more differing preferences involved (see BRENNAN and LOMASKY [1993, p. 99]).

This *pre-referendum process* vital for opinion-building and decision-making, is also crucial for developing trust in political decision-making. As shown by the experiments, communication enhances people's willingness to accept the decision made in a referendum. Voters feel more responsible for whatever the result of the referendum may be because the discussion process made them part of the decision. In representative systems, on the other hand, voters easily shift the responsibility onto the actual decisionmakers, the politicians. As was pointed out for the (former) European Community, the more removed the agents are from the principals, the easier it is to pass the buck to someone else [VAUBEL, 1986]. Thus, the very indirect system of the EC made it easy for national politicians to blame the Commission for any decision that might endanger their re-election.

If communication is a distinctive feature of direct democracies what exactly are its characteristics? Communication among the citizens resembles an 'ideal speech situation' as put forward by discursive theorists [HABERMAS, 1983]. An 'ideal discourse' applies if all relevant actors may participate in the discourse about a certain decision and if individuals discuss unprejudicedly, non-persuasively, free of pressure and cognitively adequate. Most recently HABERMAS [1992] looked for discursive designs³ in politics but failed to mention the role of communication in direct democracies. Institutionalizing the ideal discourse by referenda has the advantage of including all relevant actors (the citizens), of being focused (on the issues in question) and of being limited in time (by the actual casting of the vote) [FREY und KIRCHGÄSSNER, 1993]. Nevertheless, while a public decision can be transformed into a private choice by communication, the actual decision has to be taken by a formal procedure [ELSTER, 1986].

The cognitive adequacy of the discussion process needs to be clarified for a direct-democratic setting. This cognitive capability of the citizens has been widely discussed by the critics of popular referenda and initiatives, claiming that direct democracy cannot deal with complex matters reasonably [MAGLEBY, 1984, p. 29; CRONIN, 1989, pp. 60-89 and pp. 196-222]. The Swiss experience tends to contradict this pessimistic view of voters' political sophistication. Two recent examples may serve as illustrations: In March 1993, Swiss citizens voted on a referendum about increasing the petrol tax in Switzerland. Even though this proposal is bound to burden almost each voter's purse, it was accepted. In

3. Discursive designs have been used in different contemporary settings to resolve conflictual social problems (for a survey see DRYZEK [1990]), the most relevant being mediation of civil, labor, international, and environmental disputes and regulatory negotiations. Environmental mediation has proven to be successful in solving siting problems [BINGHAM, 1986] and common pool resource difficulties [OSTROM, 1990].

June 1993 the Swiss had to decide whether they wanted to support an initiative stating that the government is not allowed to buy any new military aircraft until the year 2000. The proposal, if accepted, would have saved a lot of public money. It was, however, defeated.

It also remains unclear how anybody should be taken to be able to decide between a mixed basket of party policies at election time if the person is not able to evaluate single substantive issues. Nevertheless, direct-democratic decisions need to be supported by a process of deliberation, and must not be overloaded by too many topics (as often is the case in California, see EULE [1990]).

The arguments raised against direct democracy are mostly absolute instead of comparative. It has been claimed, e.g., that a referendum democracy is to the benefit of the pressure groups and not of the unorganized citizens [MAGLEBY, 1984, p. 29]. The facultative referendum in Switzerland, many argue, leads to a political process dominated by pressure groups because legislators try to include potential opponents by offering side payments at an early stage of the legislative process ('*Vernehmlassungsverfahren*'). Comparative studies for different European democracies, however, show that legislative processes are very similar in representative and in direct democracies and that pressure groups play an equally important role in deciding in what form the issues should be presented to the parliament [GERMANN, 1981, pp. 52-70]. An evaluation of this 'pre-legislative' setting, furthermore, does not allow to draw conclusions about where the respective groups wield *relatively* more influence over the *whole* decision-making process.

Critics of direct democratic devices often take an absolute stance in yet another question. They argue that 'money' explains all the outcomes of popular referenda [ZISK, 1987]. It cannot be denied that financially potent groups are better able to start initiatives and to engage in referendum-propaganda than poor and unorganized interests. It is, however, a truism that the rich and well-organized, *ceteris paribus*, wield more power. The Swiss experience demonstrates that even when virtually all the important pressure groups and the political elite have the same opinion about some political issue they do not always get their way. Prominent examples are the referendum on Switzerland joining the European Economic Area (6 December 1992) or becoming a member of the United Nations (16 March 1986).

2. *The Emergence of Alternatives*

Relevant alternatives are not all exogenously given in a choice situation but may emerge in a process of deliberation which may be understood as 'airing choices', i.e., creating and shaping alternatives relevant for decision-making. Thus, game theoretic models cannot help being incomplete as in reality people do not only choose between given alternatives but moreover, try to extend their opportunity set. Thus, we need to leave the framework of trade-offs in neoclassical economics where alternatives are immutable and enter the field of 'non-given alternatives' [LINDENBERG and FREY, 1993, p. 7] where new possibilities need to be produced.

This production becomes more efficient, i.e., takes individual preferences better into account, provided the opportunity to communicate exists. People are not forced to accept a certain choice situation but may create new alternatives thus changing the constraints and the whole choice situation. If people are happy with a certain choice environment, on the other hand, they may also try to avoid communication in order to keep relevant alternatives from changing.

In democracies where many decisions are delegated to representatives it is important to determine who may define the issues to be decided about. As has been argued in *Public Choice*, the group specifying which propositions are voted on and in what order, has a considerable advantage, because it determines which alternatives are taken into consideration, and which ones are left out (e.g., DENZAU [1985]). The importance of agenda-setting is further corroborated by experiments which test for the possible effects of 'framing'. They demonstrate that framing a situation, i.e., presenting the arguments in a certain way, has a significant and systematic impact on the choice taken [KAHNEMAN and TVERSKY, 1984]. Thus, variations in outcomes cannot solely be attributed to the relative price effect.

In representative democracies it is the parliament and the government who formally set the agenda. Outsiders have a hard time influencing this process although the capability to exert pressure on the representatives still varies considerably between different groups. Special-interest groups wield more influence over the representatives because of organizational advantages, thus participating in the discussion about the structuring of the decision situation. Rent-seeking theory argues that those who are part of the agenda setting and decision-making may form a cartel therewith creating and appropriating political rents [TOLLISON, 1982]. Referenda and initiatives are means to break this coalition of politicians against the unorganized public.

(i) *Initiatives* take the agenda setting monopoly away from the politicians and the lobbyists by enabling outsiders to propose issues for democratic decision.

Direct democracy, thus, includes all the citizens into the process of creating alternatives. As most often different alternatives are put on the agenda (at least two, one being the initiative by a certain part of the population, the other usually being the status quo) it is less probable that a decision is simply taken because of a framing effect (for an example see BARBER [1984, p. 181]).

A recent initiative in Switzerland is instructive: In 1989, a popular initiative demanded that the Swiss army be completely dismantled, therewith putting a subject on the political agenda which has long been considered an untouchable, almost sacred institution. The subject was hotly debated before casting the votes even though the citizens could have relied on the 'classe politique' which was solidly against the proposal. The communication process, however, did not only induce the citizens to vote (the participation rate was very high for Swiss standards: 69.2 percent) but also led to an unexpected result: One-third of the voters decided for the dissolution of the army, even though it had been expected that the initiative would be rejected by at least 90 percent of the voters.

This large minority kept the issue on the public agenda and induced changes in the army which were considered impossible before. Thus, although a political decision is formally taken by a referendum, the issue in question does not disappear from public discourse after citizens have cast their votes. The referendum clearly reveals how citizens feel and who and how large the minorities are. Groups dissenting from the majority are identified; their preferences become visible and part of the political process. Therefore, a *post-referendum adjustment process* to accommodate the demands of the losers is often observed.

This post-referendum process does not take place with representative institutions as post-electoral regrets do not change the course of action until the next election time. Thus, citizens are either relegated to silence or confronted with huge organizational problems in order to 'voice' their dissatisfaction in a public place. The cost of voice as a form of non-institutionalized protest will further increase in a European setting as it becomes more difficult to create incentives for individuals to participate in a European-wide protest movement [OPP, 1994]. Thus, in the European Union it is even more important to supply institutionalized forms of protest which, by their very existence, induce citizens to become involved.

(ii) Unlike initiatives *referenda* do not put new alternatives on the political agenda but they change the agenda setting process of the parliament and the government. Representatives have to take into account that the final decision may be taken by either an obligatory or an optional referendum. This threat changes the possibility space of representatives therewith leading to a different communication process in parliament and government. When discussing a certain subject representatives cannot only invest in political advertising but

must consider citizens' interests in order not to be overruled by a referendum. Communication in purely representative bodies, on the other hand, is oriented at parties and pressure groups [NISKANEN, 1993]. Talking, therefore, corresponds to an exchange of information and to bargaining for pork barrels along individual trade-offs [BRENNAN and LOMASKY, 1993, pp. 98-99].

If a representative setting does not allow for deliberation it is expected to produce less efficient decisions leading to a worse representation of individuals' preferences and concerns about distributive justice. This hypothesis is supported by empirical evidence: The extent of redistribution, e.g., is higher in a direct democracy (Switzerland) than in representative settings (Federal Republic of Germany, U.S. or Canada) [KIRCHGÄSSNER and POMMEREHNE, 1993]. Econometric cross section studies for Switzerland, moreover, reveal that political decisions with respect to publicly supplied goods correspond better with the voters' preferences the more extensively developed the institutions of direct political participation are [POMMEREHNE, 1978; STEUNENBERG, 1992].

It was also demonstrated for Swiss cantons that tax morale depends on the extent of voter participation. The more direct democratic institutions are the less tax cheating takes place. Compared to the mean of all cantons, almost 8 percent (that was about Sfr. 1.600 per taxpayer per year) less income was concealed in cantons with a high degree of direct political influence. In contrast, in cantons with a low degree of direct participation possibilities and, therefore, relatively low tax morale, the mean income undeclared exceeded the mean for all cantons by roughly Sfr. 1.500 [POMMEREHNE and FREY, 1992].

III. CONCLUSIONS FOR A FUTURE EUROPE

When discussing the democratic frame for a future Europe the opportunities that initiatives and referenda could offer are hardly considered (see most recently the draft report of the European Constitutional Group, December 1993). In the 'European Constitutional Settlement' this group stresses the importance of competition as a mechanism to best fulfill consumers' preferences. Competition, however, is not only vital for the working of economic but also of political markets. Competitive economic or political markets require free entry and exit and the absence of regulations which prevent suppliers from being successful with the best product – be it goods or services in the form of policies – and prevent the citizens from choosing freely. Free choice, as argued above, is not guaranteed if citizens are neither part of the agenda-setting (free entry) nor of the actual decision-making process. A better implementation of the distribution of powers, thus strengthening the Council and the European

Parliament *vis-à-vis* the Commission, as often suggested (e.g., BIEBER, [1991]), may serve as first step applying the democratic principle to the European Union but does not take care of the basic problems incurred by delegation.

Besides the political inefficiencies normally discussed when investigating into the 'democratic deficit' of the European Union (e.g., PEIRCE, [1991]) we stress the problems arising from a lack of political discussion. If alternatives are created, shaped and decided in a representative body, outcomes reflect a strategic decision-making, i.e., there is less chance to solve social dilemmas which results in an underprovision of public goods or an undesiredly low amount of redistribution. On the other hand, if initiatives and referenda induce citizens to talk to one another, creating new choice environments, they are more likely to produce efficient and morally accepted results.

Applying direct democracy to the European frame would certainly call for one major critique: the enormous size of this jurisdiction (e.g., CRONIN [1989, p. 22]). Obviously, town meetings are not feasible in political entities with a large number of voters. They are not even appropriate in 'tiny Switzerland' where today, the actual town meetings – '*Landsgemeinde*' – have survived in only few, small cantons. Town meetings with the decision taken by hand-rising of the present citizens are, however, not the only possible form of a direct democracy but are substituted by casting the vote in a ballot booth nowadays.

The arguments for the smallness of a decision-making unit, nevertheless, remain valid for specific issues. As pointed out by psychological findings communication-induced cooperation in prisoner's dilemmas is the likelier the smaller the amount of people participating. Thus, referenda must be embedded in a federal system where decisions are taken according to the principle of fiscal equivalence [OLSON, 1969]⁴. Federalism provides for cheaper information and communication opportunities as in small communities, it is easier to meet people for face-to-face communication and to understand what is going on, for being able, e.g., to acknowledge the benefits of publicly supplied goods and to attribute the corresponding cost to the relevant political actors or programs.

Referenda are, however, also suited for general issues. As the referenda on joining the European Community or the Maastricht treaty have shown for many European countries, citizens tend to become heavily involved in 'big questions', participating in the discussions and the vote [BEEDHAM, 1993].

Popular initiatives and referenda are, indeed, no substitute for institutions of representative democracy such as parliaments and governments but rather

4. Federalism also serves as safeguard against majorities oppressing minorities as the latter may always react by choosing the 'exit' option.

supplement them. The principle agenda-setting power, however, must remain with the citizens who ultimately decide which part of the agenda and when and how will be delegated to the representative level. In a future Europe, all decisions resulting in a delegation of authority should be taken by the citizens.

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SUMMARY

Referenda and initiatives are hardly considered as democratic devices for a future Europe. Drawing on experimental evidence and empirical findings for Switzerland we argue that direct democracy performs well for the provision of public goods and redistribution as it institutionalizes and channels the political discussion. Institutionalized communication opportunities induce individuals to transform a public decision about some political issue into a private choice and enable the citizens to break the politicians' agenda-setting monopoly: Relevant alternatives are no longer exogenously given in a choice situation but may emerge in a process of deliberation. This process is needed in a future democratic Europe if social dilemmas and redistribution problems are to be solved according to the citizens' preferences.

ZUSAMMENFASSUNG

Entwürfe für ein zukünftiges Europa basieren kaum auf direkt-demokratischen Instrumenten. Ergebnisse aus Laborexperimenten und aus empirischen Untersuchungen in der Schweiz machen jedoch deutlich, dass Referenden und Initiativen das Bereitstellen öffentlicher Güter wie auch das Lösen von Umverteilungsproblemen erleichtern, da die direkte Demokratie neue Kommunikationsmöglichkeiten für Bürgerinnen und Bürger schafft. Öffentliche Diskussionen über politische Sachverhalte führen zu einer Privatisierung von politischen Entscheidungen und erlauben es den Beteiligten, das Gesetzgebungsmonopol der Politiker zu brechen, indem sie neue Alternativen ins Spiel bringen. Dieser Prozess der Privatisierung von Entscheidungen und der Alternativenbildung im Gespräch ist auch in der Europäischen Union wünschenswert, wenn die individuellen Präferenzen ihrer Bürger und Bürgerinnen zum Zug kommen sollen.

RÉSUMÉ

Les concepts pour une future Europe se basent rarement sur les instruments de la démocratie directe tel le référendum ou l'initiative. Les résultats de recherches expérimentales et d'études empiriques pour la Suisse montrent cependant que les instruments démocratiques facilitent la mise à disposition des biens publics et des mécanismes de redistribution, car ils institutionnalisent et canalisent le débat politique. Les discussions publiques sur des sujets politiques conduisent à une privatisation des décisions politiques et permettent aux participants de briser le monopole des politiciens de pouvoir légiférer. De nouvelles alternatives peuvent alors surgir du processus de délibération. Un tel processus est nécessaire dans une future Europe (démocratique), si l'on désire respecter les préférences des citoyens en particulier à l'égard des dilemmes sociaux et des problèmes de redistribution.

