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The Role of Direct Referenda in Institutional Reform*

1. - Introduction

On 6 December 1992 the Swiss citizens voted in a referendum whether their country should join the European Economic Space. This date was preceded by a heated discussion in the public media (radio, television and newspapers), the political parties and interest groups (who organized a large number of contradictory meetings and who engaged in a lot of propaganda activities) as well as among individuals (you saw them discussing in restaurants, trains and in their homes). The position of the Swiss political, economic and cultural leadership was as unanimous as never before: the national and cantonal governments and parliaments, the political parties, the pressure groups involving both the producers and the trade unions, academics, artists and sports people, and whoever else «matters» in a society all¹ supported Switzerland's entry into the European Economic Space. The popular referendum witnessed an extraordinarily high rate of participation (78 percent while the average between 1985 and 1992 is 42 percent only). 50,3 percent of the population, and 16 out of the 23 cantons² were against the proposal so that it was rejected by the citizens.

Such a clear cut difference between what the leaders or the 'classe politique' and what the population want is no rare event in Switzerland. Thus, in 1986

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¹ The major exception was the Zurich section of a bourgeois party (Schweizerische Volkspartei) but the delegate of this party in the Swiss national government composed of seven members of equal rank (Bundesrat) strongly supported entry.

² Both a majority of the population and of the cantons is required for adopting the proposal.

the government decided that the country should become a member of the United Nations. The whole political, economic and social élite (again with very minor exceptions) supported this move but this proposal was rejected by no less than 75 percent of the popular vote, and only one canton mustered a majority for entry. In the history of Swiss voting many more such clashes between the opinions of the leaders and the citizens can be found.

This paper claims that the observations made for Switzerland are of great importance for all democracies, including Italy. Four aspects will be in the centre of attention:

(1) Most probably, a major deviation between the wishes of the 'class politique' and the population is no rare event in all representative democracies *but it is not observable* because the issue is not tested via referenda.

More generally, the following proposition can be advanced:

Proposition 1. Popular referenda are an effective, and perhaps unique, means to break the cartel of the 'classe politique' against the general population.

This proposition will be discussed in section 2.

(2) A referendum should not be looked at as simply a decision taken at given point of time but the discussion taking place before, and the political adjustments undertaken thereafter, form an essential part of it.

Proposition 2. A referendum is a process composed of three steps each of which is of great importance:

(a) an institutionalized discussion of discourse before the referendum;

(b) the referendum vote;

(c) the reactions of the political decision makers after the referendum.

This proposition forms the content of section 3.

(3) The institution of referenda is closely linked to the institution of federalism. In a unitary national government, referenda tend to degenerate to plebiscites, *i.e.* to a vote of confidence for the politicians in power who initiate it whenever they expect it to be advantageous to them.

Proposition 3. Referenda require federalism and must be possible at all levels of government. The population therewith is able to decide on substantive issues and is not forced into a plebiscite.

Section 4 will deal with these issues.

(4) Many arguments are current against referenda, not few of them by intellectuals. But there are valid counterarguments.

Proposition 4. Referenda should be evaluated in a comparative perspective. The often used arguments against popular referenda referring to

(a) low rate of participation;

(b) missing competence and level of information of voters; and

(c) high cost of organization

then appear in a different light and are refutable.

These aspects will be the subject of section 5.

Before embarking on the discussion of these four propositions, I want to state my scientific and moral position. My analysis is based on methodological individualism: persons are actors (and not entities such as «the state», «the

nation», or «society») and individual preferences are to count exclusively. This position stands in stark contrast to a wholistic conception of the state where 'the state' is an acting entity with values and goals of its own (including the 'raison d'état' or 'Staatsraison' current in large parts of constitutional law). My position corresponds to Modern Political Economy, or (as the Americans call it) Public Choice³ but it deviates in various respects from an orthodox interpretation as will presently be seen. The analysis is strongly influenced by the role of institutions in the political process, *i.e.* by Constitutional Economics⁴.

2. - Referendum against politicians' cartel

A. Politicians against the Voters

Persons acting within the confines of the political system have incentives to exploit it to their advantage. It need not be assumed at all that politicians are 'bad', or any worse than other persons, but they tend - as anyone else - to opportunism. They endeavour to further their own interest which consists in material wealth but also in recognition and prestige.

In a democracy, politicians can use three main forms to gain benefits at citizens' cost, or to 'exploit' the general population⁵:

(1) Politicians may take decisions which they know to *deviate from the voters' preferences*. Political actors may so act because they have an ideology of their own or because they reap material and non-material advantages by so acting. For instance, politicians systematically prefer direct interventions into the economy over employing the price system because regulations generally allow them to derive larger rents.

(2) Politicians secure themselves *excessive privileges* in the form of direct income for themselves or their parties, pensions and fringe benefits (cars, houses etc.).

(3) Citizens' exploitation may finally take the form of *corruption*, *i.e.* direct payments for special services provided to payers but not to others.

³ The state of knowledge is beautifully summarized in Mueller [1989]. It contains a large number of references to the relevant literature.

Public Choice is part of the economic approach to social problems [BECKER, 1976; KIRCHGÄSSNER, 1991; FREY, 1992], ranging from education [BLAUG, 1969], environment [CROPPER and OATES, 1992], family [BECKER, 1981], history [NORTH, 1981], women [BLAU and FERBER, 1992], sport [GOFF and TOLLISON, 1991], art [FREY and POMMEREHNE, 1991], and many other areas.

⁴ See Buchanan and Tullock [1962] and many subsequent works by Buchanan [1975, 1977, 1991] and by Brennan and Buchanan [1980, 1985]. Relevant is also the literature on rent seeking as developed by Tullock [1967], Buchanan, Tollison and Tullock [1980], and surveyed by Tollison [1982].

⁵ Empirical evidence for the extent of rent appropriations by the politicians are provided *e.g.* for Germany by von Arnim [1988].

Politicians have a common interest to protect, and if possible to extend, these rents, *i.e.* they have an incentive to form a *cartel* against the ordinary citizens. There is, however, a public good problem involved: an individual politician has an incentive to break out if such action is positively sanctioned by the electorate. Such action can regularly be observed in democracies but it is rarely of much consequence for the cartel. The politicians in many countries form a close-knit group of people clearly differentiated from the rest of the population. They mainly have contacts with each other so that the social disapproval of those few who dare to break out of the cartel is a strongly felt and major cost. Moreover, the cartel is administrated by the leaders of the parties so that, in most countries and periods, a small number situation is given and a break out of a politician is quickly and effectively sanctioned by the other members of the cartel, for instance, by restricting access to parliamentary positions, (in particular powerful commissions) or by reducing the monetary support provided by the state to parties. An individual politician finds it equally hard not to form part of the cartel because the leadership of his party has many means available to control him or her, including forced resignation.

B. Constitutional Provisions against the Politicians' Cartel

All the actors involved, in particular the voters, are well aware that there are strong and ubiquitous incentives for the politicians to form a cartel and to exploit the voters. In reaction, one finds three quite different forms of institutions in democratic constitutions designed to check such action.

(1) *Rules* prohibiting the (excessive) appropriation of rents by the politicians, the most stringent ones being against corruption. Obviously, such rules are only effective if they cannot easily be circumvented and if they are well enforced. Such provisions are completely useless against the first stated type of exploitation, namely the systematic deviation from citizens' preferences. As the privileges accorded by the politicians to themselves are of an extremely varied kind and are made difficult to detect (especially with respect to pensions), experience shows that politicians' rent seeking can thereby be scarcely prevented. With respect to corruption, it is only the most blatant cases which are found out. It must be concluded that while such rules are of some use, they certainly are not able to prevent citizens' exploitation to any significant degree.

(2) The establishment of special *courts* with the task of preventing citizens' exploitation. All democratic countries know some institution of courts of accounts but it may well be shown that they fulfill their role only to a small extent. They are obviously the less effective, the more directly they depend on the politicians they are supposed to control. In this respect it does not help much if the members of the court of accounts are elected and must answer to the parliament (instead of to the government) because the cartel includes politicians inside and outside government. Even courts of accounts for-

mally independent of government and parliament have little incentive and possibility to check the exploitation of the citizens by the voters. This applies particularly to the deviation from citizens' preferences; it may indeed be shown that courts of accounts which necessarily have to focus on the formal correctness of politicians' and administrators' behaviour in some respects tend to widen the gap between what politicians provide and what the population wishes ⁶.

(3) The *competition between parties* is the classical institution in representative democracies to prevent politicians to pursue their own goals at the population's cost. Constitutions know various devices to further competition and to make a coalition between the politicians more difficult. One is the division of power between the executive, legislative and jurisdictional branches, another is the establishment of two houses of parliament. Because of the many types of interactions existing, and the well defined gains to be expected, these devices are rather ineffective to check the interests of the 'classe politique'.

An important constitutional device to stimulate the competition between parties is to guarantee, and to facilitate, the entry of new parties into the political system. While this certainly forces the established parties in a democracy to better care for the population's wishes and to be more careful with respect to privileges and corruption, the effect tends to be short-lived. The previous outsiders quickly realize that many advantages are to be gained by tolerating the politicians' cartel, and even more to participate in it. The experience in many countries supports this theoretical proposition (e.g. with respect to the 'Green' parties who first fought against the political establishment but within surprisingly little time have learnt to take advantage of the taxpayers' money).

On the basis of these arguments it must be concluded that neither constitutional rules, nor courts, nor party competition are particularly successful in reducing the exploitation of the general population by the politicians. It is not argued, of course, that the constitutional features elaborated are useless but that they do not provide a sufficient safeguard against politicians' rent seeking. It is desirable therefore to search for, and to seriously consider, other constitutional means to fight the politicians' cartel.

C. Referenda as Effective Threat against the Politicians' Cartel

A referendum in which all the citizens have the possibility to participate meets the crucial requirement that it gives decision-power to people *outside* the politicians' cartel. The deciding individuals are not integrated into the 'classe politique' and they evade the control by politicians. In an *initiative*, the demands are explicitly directed against the political establishment represented in parliament and government. *Optional* and *obligatory* referenda serve more

⁶ This argument is developed in Frey and Serna [1990], and is applied to the Italian Corte dei Conti in Frey, Serna and Ferro [1993]. See also Forte and Eusepi [1990].

a controlling function as they overrule, if successful, the decisions taken by the executive and legislative.

A popular referendum (in the wide sense) can only serve its purpose if the 'classe politique' cannot block it. In many countries, the supreme court has the power to decide whether a referendum is admissible – legally the criteria are purely formal but in fact the members of the court who form part of the 'classe politique' have considerable incentives to forbid referenda threatening the position of the politicians' cartel, often using vague concepts based on what *they* consider to be the 'raison d'état'. In other countries, such as Switzerland, almost no such possibility exists, and therefore issues are brought to the vote which meet an almost unanimous opposition by the politicians.

There exists empirical evidence that referenda are indeed able to break the cartel among the politicians by getting through constitutional provisions and laws totally against the interests of the 'classe politique'. The following cases refer to Switzerland, the referenda *nation par excellence*⁷. The first two cases concern important historical episodes [BLANKART, 1992].

(a) During the 19th century, the house of representatives (Nationalrat) was elected according to the majority rule. The largest party greatly benefitted therefrom; during seven decades the Radical-Democratic Party secured a majority of the seats. When the idea was raised that the elections should follow proportional representation in order to allow small parties to enter parliament, the then 'classe politique' in the executive and jurisdiction strongly rejected this proposal for obvious reasons of self-interest.

Nevertheless, in 1918 the corresponding referendum was accepted by a majority of the population and by the cantons. In the subsequent elections the Radical-Democratic Party lost not less than 40 percent of its seats.

(b) Up to the Second World War, «Urgent Federal Laws» (dringliche Bundesbeschlüsse) were not subject to the (optional) referendum. In order not to have to seek the population's approval and to pursue policies in their own interest, the 'classe politique' in the government and parliament often declared federal laws to be 'urgent' even if that was in fact not the case. In 1946, an initiative was started with the objective to prevent this disregard of the interests of the population. Again, the executive and legislative urged the voters to reject the initiative which was clearly an act of self-interest. However, the initiative was accepted by the voters and the politicians are now forced to take the citizens' interests into account when they decide on federal laws.

⁷ Between 1848 (when the present constitution was enacted) and 1990 there were 146 obligatory referenda (on constitutional issues), 102 optional referenda (on law) and 182 initiatives at the federal level, and many thousands at the cantonal and communal level. The Swiss political system is explained *e.g.* in de Rougement [1965] or Aubert [1984], referenda in particular *e.g.* by Hertig [1984]. The leading role of Switzerland among all nations with respect to referenda is documented in Butler and Ranney [1978]. They report that of the roughly 500 referenda made at the *national* level between 1793 and 1978, 300 or 60 percent were held in Switzerland. The second most intensive use is in Australia, with just 40 referenda or 8 percent of the total.

Referenda were not only able to break the politicians' cartel in the past, but it regularly happens, as the two more recent cases mentioned at the beginning: both the referendum on Switzerland joining the United Nations (1986), and on joining the European Economic Space (1992) were heavily supported by the 'classe politique' but were nevertheless rejected by the voters⁸.

The politicians are well aware that the institution of popular referendum severely restricts their possibility to exploit the citizens/taxpayers. It may be argued that this is one of the reasons why Swiss politicians like a membership in the European Economic Space (where many political issues are exempted from referenda) or in the European Community (where the institution of referendum has altogether no place). They also make great efforts to endorse as quickly as possible any movements originating from outside the cartel. It is sometimes established parties (but usually at the fringes of the cartel), or associated interest groups which initiate referenda. If this strategy is to be successful, the politicians have to at least partly take into account the population's preferences, and have to reduce the extent of their rent seeking. The *institution* of the referendum in this case indirectly leads to the desired outcome that the politicians' cartel has less leeway.

3. - *Referendum as a process*

A. The Traditional Public Choice View

The Economic Theory of Politics as surveyed *e.g.* by Mueller [1989, part II] looks at direct democracy in terms of preference aggregation and choice of voting rules but does in this context not consider referenda. Most people, including social scientists, on the other hand would identify popular referenda as a defining element of direct democracy. Where referenda are considered [MUELLER, 1989, pp. 259-61, 345-7] the emphasis is on the resulting decision while the pre-referenda and post-referenda processes are lightly treated. It is argued here that important insights can be gained by interpreting referenda to be more than just a decision outcome.

B. The Pre-Referendum Process

The constitutional setting determines to a large extent what issues are put on the political *agenda*, and what are prevented to appear. In representative democracies, politicians are often very skillful not to let problems be discussed

⁸ This does, of course, not mean that these decisions were 'good' but only that they were reached by the *correct* procedure which is part of the basic constitutional consensus in Switzerland. Once this process view is accepted, the outcome cannot and need not be further evaluated.

in the democratically legitimized institutions which are to their disadvantage. For example, they usually succeed not to have their privileges (e.g. their income and pensions) discussed in open parliamentary session. If they cannot prevent it then they restrict the discussion to scandals already known in the public, and the same applies to outright corruption. In direct democracies, however, in which the citizens may put any issue on the ballot, the agenda is much less under the control of the 'classe politique'. As has been shown both theoretically and empirically, agenda setting power has a significant effect on vote outcomes⁹.

An important feature of referenda is the *discussion process* stimulated among the population, and between politicians and voters. Pre-referendum discussion may be interpreted as an exchange of arguments among equal citizens taking place under well defined rules. This institutionalized discussion meets various conditions of the ideal discourse process as envisaged by Habermas [1983] but it has one crucial advantage: the exchange of arguments has not the form of an academic seminar without consequence, but at the end there is the final decision by the voters. The relevance of the discussion for politics induces citizens to participate depending on how important the issue in question is considered to be. The experience of Switzerland shows indeed that some referenda motivate intensive and far-reaching discussions (such as the referenda on whether to join the European Economic Space with a participation rate of almost 80 percent compared to an average of roughly 40 percent). Other referenda which are considered of little importance by the voters engender little discussion and low participation rates (down to 25 percent). This variability in the intensity of discussion and participation overrides the much studied «paradox of voting» [TULLOCK, 1967; RIKER and ORDESHOOK, 1968].

The main function of the pre-referendum process is certainly to raise the level of information of the participants. It may, moreover, be hypothesized that the exchange of arguments also forms the participants' preferences [FREY and KIRCHGÄSSNER, 1992] but what matters in our context is that this preference formation – provided it happens at all – can be influenced, but not be controlled by the 'classe politique' in a constitutional state with freedom of the media and communication.

C. Post-Referendum Adjustments

In a referendum a political decision is formally taken but this does not necessarily mean that the politicians and the public administration take the appropriate action to implement it. The more legitimate the constitution is

⁹ See Romer and Rosenthal [1978, 1979] for Oregon school budget referenda, and Weingast and Moran [1983] for congressional Committees. The two groups of researchers do not consider the *general* role of referenda in agenda setting but concentrate on its effect on bureaucratic decisions. Our emphasis is on its role as a means to break the politicians' cartel.

taken to be in a political system, the higher are the costs of not following it. The politicians may also be induced to so act by the threat of not being reelected by the voters, but ultimately the extent of implementation depends on how the constitution rules are voluntarily obeyed by the persons in power.

The question of which side gets a majority in a referendum is not the only thing that matters. A referendum also clearly reveals how the population feels and where and how large the minorities are. Groups dissenting from the majority are identified; their preferences become visible and become part of the political process. This makes it more likely that particular parties start to champion their cause in order to win additional support, and for referenda in particular regions to take place.

Switzerland provides again a suitable example. In 1989 a popular initiative demanded that the Swiss Army be completely dismantled. This was considered by many Swiss as an attack against one of the most essential, almost sacred institutions of the country. The 'classe politique' was again solidly against the initiative, and the generals threatened that they would retire if the initiative was not overwhelmingly rejected (they spoke of a share of no-votes between 80 and 90 percent). The referendum outcome was a surprise to all because one third of the voters (and a majority among the young voters eligible for service) voted for the dissolution of the army. After a short period of shock, several parties suggested changes in the army which were put into reality within a short time – changes which before the referendum were considered to be impossible to achieve by everyone.

4. – *Referendum and federalism*

The institution of citizens directly deciding an issue and the decentralization of decision making are closely connected. On the one hand, federalism is an alternative means for better fulfillment of the voters' preferences: individuals tend to leave dissatisfying jurisdictions while they are attracted to those caring for the population's preferences at low cost. The possibility to vote with one's feet [TIEBOUT, 1956; BUCHANAN, 1965; HIRSCHMAN, 1970] tends to undermine regional cartels by politicians, provided, of course, the persons concerned have political rights.

In more important respects, on the other hand, federalism is a *prerequisite* for effective referenda rather than a substitute. In small communities, much knowledge needed for informed political decision-making is impacted in everyday life: as consumers, producers and persons doing the housework they are well aware about the benefits and costs of particular public programs, and as taxpayers they immediately have to carry the burden, provided there exists a sufficient amount of fiscal equivalence [OLSON, 1969, 1986]. Referenda undertaken on communal and regional issues help the citizens to evaluate political questions to be decided at a higher federal level, and make referenda a more effective institution to undermine politicians' cartels against the voters.

5. – Arguments and counterarguments against referenda

Referenda can hardly be considered a popular institution in democracies, not to speak of authoritarian systems. Not surprisingly, the members of the 'classe politique' are quick to raise many objections because they realize that referenda constitute a threat to their position by limiting their rent seeking potential. Many intellectuals – even those who do not share in the spoils of the politicians' cartel, and even those opposing the political establishment – also reject referenda with a variety of arguments. The basic reason is that they consider themselves to be superior judges of what is good for the people than the citizens themselves. They tend to see themselves in the role of 'philosopher-king' determining what 'social welfare' is. Consequently, they prefer decision-making systems where they have a larger say. Thus, their opposition against referenda is due to the same interests as the ones against the market [STIGLER, 1984]. For Switzerland, a political scientist voices the widespread feeling among social scientists by claiming that referendum democracy 'reduces governmental efficiency of performance and the capacity to innovate' [HERTIG, 1984, pp. 254-5; my translation]. This is, of course, a pure technocratic view of efficiency completely disregarding the tendency among politicians to deviate from citizens' preferences, as well as to grant themselves undue privileges and to engage in corruption.

The following five arguments are often raised against the institution of the referendum:

5.1 – Voters do not understand the complex issues

The average voter, so it is argued, is not well informed and educated so that he or she cannot reasonably be let to determine political issues; this is the task of a specialized group, the politicians who represent the voters. This view can be refuted in various respects.

First of all, it is not clear why the citizens are trusted to be able to choose between parties and politicians in elections but not between issues in referenda. If anything, the former choice is the more difficult one because one must form expectations about politicians' choices on issues forthcoming in the future.

Secondly, the voters need not have detailed knowledge about the issue at stake but rather on the main questions involved. These main questions are not of a technical nature but involve decisions of principle which a voter is as qualified to take as politicians. There are serious writers [ENZENSBERGER, 1992] who forcefully argue that the politicians are a group of people who is particularly ill equipped to take such decisions because as professionals they know much less than ordinary people about what reality is about having passed their whole life in sessions and commissions, meetings and cocktail parties.

Thirdly, the general intelligence and qualification of politicians should not be overrated. Most members of the 'classe politique' have not exactly excelled in any job. Moreover, the average member of the cabinet and of parliament

has little choice; he or she is normally forced to vote according to what the party superiors and some few specialists have decided before.

Finally, the voters are helped by a number of institutions that emerge in a direct democracy to take a reasoned decision: the parties and interest groups make suggestions of how to decide which the citizens to a certain extent take into account¹⁰. Even more importantly, the discourse in the pre-referendum stage brings the main aspects forth and puts them into perspective. The intensity of the discussion should not be compared to the one taking place in representative democracies because the citizens there have less incentive to get informed and to take a decision because his or her position on a particular issue are anyway of little or no consequence to the outcome.

5.2 – Voters are manipulated

Financially potent parties and pressure groups are better able to start initiatives and to engage in referendum propaganda than are poor and non-organized interests. This cannot be denied. However, the perspective is mistaken because it takes an absolute stance: it is *always* true that the rich and well-organized wield more power. The crucial question is whether they have *more* or *less* power in a direct than in a representative democracy. If one looks from this perspective it is no longer evident that this argument speaks against referenda. It is well known that well-organized and financed pressure groups exert much power over the politicians sitting in parliament and in government. Most parties and politicians are amenable to the influence exerted, particularly because the 'classe politique' has long standing and often also close personal contacts with the lobbyists. As the experience of Switzerland shows even when pressure groups and the political class are united they do not always have their way, particularly when important issues are concerned.

5.3 – Referenda are inadequate for major issues

As the voters are taken to be badly educated, ill informed and subject to manipulation it is often maintained that referenda are admissible for small and unimportant issues but that issues of great consequence – such as changes in the constitution or the membership to an international body – should be left to the professional politicians.

The opposite position makes more sense. Major issues are reducible to relatively simple questions where evaluation is no longer a matter of (scientific) education but of value judgements. Following methodological individualism, only the citizens may be the final judges when it comes to preferences, and a substitution by representatives is, at best, a second best solution. As the

¹⁰ For an empirical analysis for Swiss referenda see Schneider [1985].

politicians have a systematic incentive to deviate from the voters' preferences, a substitution leads to biased outcomes.

There is a recent trend in Europe to refer the really important political issue to the population, as it is witnessed by the popular referenda on entry into the European Community undertaken in Scandinavian countries and the United Kingdom, or on the Maastricht Treaty in Denmark, France and Ireland.

5.4 – Referenda hinder progress

To ask the population to take a decision is often rejected because it is argued that the 'ordinary citizens' do not like changes and that they prevent the adoption of 'bold, new ideas'.

It may well be true that many new propositions are rejected in referenda but this does not mean that this constitutes a disadvantage. That proposals contain new ideas is no proof of their quality. Indeed, the citizens are right in rejecting them when they are in favour of the 'classe politique'. The concept of 'bold, new' solutions is not rarely an outgrowth of technocratic thinking and of a planning mentality which strengthen the politicians' and bureaucrats' position but which need not be in the voters' interest.

Referenda are a well-proven procedure to break dead locks in societal decision-making and in this sense are progressive. There are cases in which an issue is difficult to resolve in parliament and by the government, and where a referendum helps to clear the issue. In many countries, the demand of some regions to become more independent is accompanied by much violence and bloodshed. In a referendum democracy such heated issues may be brought to a solution acceptable to a large majority of the parties involved more easily. In Switzerland, for instance, the secession of the Jura from the canton Bern was achieved by undertaking a number of referenda. While some minor violence was involved, the issue was settled with less strife and bloodshed than normally occurs in democracies in which referenda are uncommon, or used only in the form of a plebiscite.

5.5 – High cost of referenda

The last argument against referenda is the alleged high cost of undertaking it administratively. It is argued that parliamentary decisions are much less expensive and should therefore be favoured.

There are two reasons why this reasoning is fallacious.

(a) From the empirical point of view, referenda are not so expensive compared to the immense cost of entertaining a professional parliament with its accompanying party system¹¹. As in a direct democracy, the less say is with

¹¹ See e.g. von Arnim [1988] for Germany.

the citizens, less money needs to be spent on parliament and the parties. Moreover, the administrative cost of referenda are not all that high because several propositions can be bundled at one weekend, and citizens can be asked to actively participate in organizing the vote and counting the distribution of votes. While the citizens drafted suffer some opportunity cost, such a participation has the advantage of getting them more directly involved in governing their state, which tends to raise their sense for citizens' duties.

(b) The administrative cost of running referenda is immaterial compared to their major advantage, namely to significantly reduce the deviation of political decisions from individual preferences. That this is indeed the case has been established by careful econometric investigations¹².

A comparison of Swiss Communes with different degrees of institutionalized forms of participation in political decisions reveals that the outcomes correspond more closely to the voters' preferences the more directly democratic they are [POMMEREHNE, 1990]. The growth of public expenditure is more strongly determined by demand factors (*i.e.*, by the citizens' willingness to pay) than by supply factors (in particular by the politicians' and bureaucrats' own interest) [KIRCHGÄSSNER and POMMEREHNE, 1991]. Moreover public supply is the less costly, the more direct the democratic institutions are [POMMEREHNE, 1978]. There is also evidence from surveys that citizens are more satisfied in referendum democracy [MÖCKLI, 1991], that land prices are higher because people are attracted to such communes [SANTERRE, 1986], and that the tax morale is more elevated than in representative democracies [POMMEREHNE and FREY, 1992].

These results provide strong evidence that the deviations from the citizens' preferences are indeed significantly lower in a referendum compared to a representative democracy. This constitutes a *major* advantage of direct democracy which most likely override the alleged (but unproven) higher cost of administering referenda.

6. - Conclusion

In this paper, no explicit reference has been made to the role of, and possibilities for, referenda in Italy. This is a task which Italian scholars are much better equipped to deal with. But the gist of my arguments is certainly pertinent for the Italian constitutional reform. While many of the examples and empirical studies discussed almost necessarily relate to Switzerland (there exist few other cases to study), a great effort has been taken to show that the results are of general relevance. And the results are clear: Referenda are a crucial constitutional means to restrict the cartel of the politicians against the ordinary citizens, and they therefore constitute an important - and in

¹² For a survey see Schneider [1992]; see also Steunenbergh [1992].

my view essential – element in a constitutional reform designed to improve democracy.

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