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Citation

Armingeon, K. (2002). Consociationalism and Economic Performance in Switzerland 1968-1998: The Conditions of Muddling Through Successfully. *Acta Politica*, 37: 2002(1-2), 121-138. Retrieved from <https://hdl.handle.net/1887/3450857>

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Downloaded from: <https://hdl.handle.net/1887/3450857>

Note: To cite this publication please use the final published version (if applicable).

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Consociationalism and Economic Performance in Switzerland 1968-1998: The Conditions of Muddling Through Successfully

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Abstract

Swiss economic policy is neither left nor liberal: it intervenes strongly in the economy but through regulations rather than expenditures. It does not constitute a coherent strategy but rather a pragmatic mixture of a variety of policies. It is reactive, not anticipatory. And it works well in international comparison. The institutional design of policy-making in Switzerland favours these types of policies. This institutional configuration is made up of an independent national bank, a fragmented party system in a quasi-presidential system, a weak central government and strong cantons, strong and stable corporatism, and direct democracy. The interaction of these elements fosters compromise and makes coherent and conflictual economic policy hardly feasible.

1 Introduction

The political system of Switzerland is a paradigmatic case of consociational democracy. In such a political system the main political actors – political parties, the bureaucracy, the central government – do not use majority rule as the predominant decision-making technique. Rather, agreement is sought by respecting minority rights, by bargaining and by making cross-concessions (Lehmbruch 1993). What type of economic policy did this particular political system attempt to create and what effects did the system have from the late 1960s to the late 1990s? This is the guiding question of this chapter.

I put forward two propositions. According to the first proposition, consociationalism is not the only decisive political institution for making economic policy in Switzerland. Rather, consociationalism operates in tandem with political institutions that are historically and functionally closely interwoven with Swiss consociational democracy: federalism and corporatism. Together, they form a system of negotiated economic policy-making. With regard to inflation-prone policies, the system is constrained by another major institution: the independent central bank. As a non-conflictual mode of policy formation, the system is reinforced by direct democracy, which creates a rational bias towards broadly based compromise on the elite level.

The second proposition holds that this system of constrained horizontal and vertical bargaining produces pragmatic, inconsistent economic policies. They are made up of a variety of elements, which are legitimated by different economic theories and political convictions. By systematically muting economic strategies and by foregoing the benefits of radical and consistent economic strategies, Switzerland avoided the risks and disadvantages of Keynesian or neo-liberal strategies, as well as the side effects of a rapidly expanding welfare state. There have not been the inflationary pressures and the fiscal consequences of neo-Keynesian macro-economic steering; there have not been the costly social and political confrontations of pure neo-liberal policies; and there have not been the problems created in most other European countries by skyrocketing public deficits and debt.

Of the possible objections to my two propositions, I shall address the three most significant. The first objection points to consociationalism in flux. One could argue that the system of policy-making in the 1960s was very different from that in the 1990s (Steiner this volume). However, although some societal cleavages have lost importance and others have come to the forefront, we observe substantial continuity in the institutions originally constructed to mediate these societal rifts. As judged by data on the composition of the government, by proportional rules on the recruitment of politicians or senior members of the bureaucracy or by the use of referenda against top level elite agreements (Sciarini & Trechsel 1996), the political system has changed little. In addition, the style of communication and bargaining between political actors has hardly become more conflictual. Rather, the consensual techniques and customs of political elites, which have been developed over time, are still acquired in political socialization and are still practiced in politics. This holds true even for the conservative Swiss People's Party (SVP), which frequently appears to violate the rules of the consociational game. However, analyses of opinion surveys demonstrate that the majority of its voters and supporters are still overwhelmingly bound to the rules and traditions of consensual policy making (Schloeth 1998).

Two other objections arise from analyses of economic policy. The first objection is derived from a major study by Katzenstein (1985). He makes the case that Switzerland represents a successful, innovative, liberal economic policy based on strong social partnership. Social conflict is avoided by private compensation, while innovation is forced by exposure to the international market.

In contrast, the second objection, drawn from recent analyses by Swiss authors, argues that the Swiss institutions of policy-making have reached a sclerotic stage, protecting interests of certain social groups and being unable to bring about badly needed changes (Borner et al. 1994). Only under conditions of strong external pressure – for example, the pressures to negotiate

and accept the new GATT – do these sclerotic and protective coalitions weaken and thus allow economic adaptation to happen (Sciarini 1994).

Neither of these characterizations is undisputed. The major argument against both depictions of the Swiss situation (a liberal-innovative economic policy or a stalled policy process) is provided by the data on Switzerland's comparative economic position. Compared to what the liberal-innovative hypothesis would predict, Switzerland's outcomes are too poor. Judged against what the stalled policy thesis would predict, the actual results for Switzerland are much too good.

This is demonstrated in Table 1 which depicts Switzerland's economic position compared to other OECD-countries for two time periods: the late 1960s and the mid-1990s. The sum of goods produced and services provided per head of population (GDP p.c.) has been and still is among the highest in the OECD. In contrast, economic growth and productivity have been weak and they continue to be. In international comparison, investment (measured as percentage of GDP) is high, but this does not result in high productivity. Hence, assuming that growth rates continue to be comparatively low, Swiss GDP p.c. will lose its high international ranking in the long run. Contrary to the commonly held view, this small country is not extremely internationally open in terms of exports and imports. Rather, openness is confined to a few industries, which leaves a large, sheltered domestic sector isolated from international competition. This applies to the 1990s as well as the 1960s. However, when assets in other countries are taken into account, the picture of limited economic openness changes a lot.

As for other economic indicators, price increases have been low since the 1970s, with some remarkable exceptions thereafter. The high rank with regard to price increases for the 1990s in Table 1 is due to a few short peaks in the rate of inflation in the late 1980s and early 1990s. Unemployment has been low: although there was a sudden increase in the number of jobless in the mid-1990s, in comparative terms the nation has been close to full employment, even in these years. By 2000, full employment was reached again. Public finance is sound, particularly with regard to debt. The OECD has computed two misery-indices (one adds rates of inflation and unemployment; the other adds unemployment and public deficits) for the periods 1974-1985 and 1986-1996. Switzerland's respective rankings are consistent with the other findings: Switzerland shows a favourable, although not flawless, pattern of economic development.

Table 1 Swiss Economic Performance 1960s/70s, compared to the 1990s (ranking among 16 to 22 OECD-nations)

Indicator	1960s/70s	1990s
GDP per capita in USD	1	1
Economic Growth (average annual % change in real GDP)	14	20.5
Productivity (average annual % change per person employed)	17	11.5
Openness (vol. imports + exports as % GDP)	7	8
Prices (avg. annual % change in cons. prices)	13.5	7.5
Unemployment	20.5	17
Public Debt (average in % GDP)	7	19
Public Deficit	9	10
Misery Index (unemployment + inflation)	17	16
Misery Index (unemployment + deficit)	17	8

Notes: *Periods compared:* GDP per capita: 1960/1994; Econ. Growth: 1960-73/1989-95; Productivity: 1960-73/1989-95; Openness: 1960/1994; Prices: 1960-73/1989-95; Unemployment: 1960/1990-94; Public Debt: 1974-77/1992-93; Public Deficit: 1974-77/1991-94; Misery Indices: 1974-85/1986-96.

Number of countries, if less than 22: Productivity 1989-95: 16; Unemployment 1960: 21; Public Debt 1974-77: 20, 1992-93: 20; Public Deficit 1974-77: 20, 1991-94: 21; Misery Indices: 17.

Sources: OECD: Historical Statistics, Paris: OECD; OECD: Economic Outlook, Paris: OECD

In the following sections I will discuss the institutional arrangements that forced Swiss economic policy onto the path of compromise and eclectic policy-making, far from a social-democratic or a liberal vision of the relation between state and economy.

2 Swiss Central Bank and price policy: the non-feasibility of inflation-prone strategies

The Swiss Central Bank (Schweizerische Nationalbank, SNB) remains outside the interconnected bargaining rounds of the consociational, corporatist and federalist arenas of policy-making. In international comparison, it belongs to the group of central banks that are particularly independent of government (Busch 1995: 110; Iversen 1998). According to the Swiss Constitution, the

bank has to pursue an exchange rate and credit policy that is in the general interest of the country. Since 1973, the bank has operationalized this task as the maintenance of price stability by means of (restrictive) monetary policy (Schürmann 1980; Schmid 1981; Rich 1984; Strahm 1997). Until 1973, price control was carried out via government price controls: a ban on the demolition of houses, restrictions on advertisements for loans, a negative interest rate and other means (Frey 1993: 65). Since 1973, price control policy has been restricted to monetary policy. The maintenance of government price controls (1972-78; 1985 until today) after the breakdown of the Bretton Woods system has been largely symbolic; economic research points to the monetary policy of the central bank as the predominant reason for the favourable performance in fighting inflation.

The independence of the central bank and the monetarist orientation of the majority of its directorate limit the room of government, parliament and the interest associations to manoeuvre. Economic policies that are not compatible with the restrictive course of the central bank are possible, but they carry high costs (Scharpf 1987). This description does not mean, however, that Swiss price stability is only due to the independent central bank (Busch & Merkel 1992). Two preconditions for an effective monetarist policy have been met: (1) the government was neither willing nor able to significantly expand government expenditures; (2) labour unions did not pursue an aggressive wage policy, but coordinated in decentralized bargaining rounds with employers in a very flexible way.

3 Federal government and parliamentary parties: the non-feasibility of coherent economic strategies

The Swiss federal government is a collegial institution, i.e., there is no prime minister and all members of the government are responsible for all of the government's policies. The Federal Council is composed of members of all four major parties. Hence major decisions on economic policy are made by a grand coalition of Liberals of different leanings, of Christian Democrats, of Social Democrats and one Protestant Conservative politician. Under these conditions, there can hardly be a consistent liberal or left economic policy. With the inclusion of two Social Democrats in 1959, the federal government renounced the idea of an economic policy guided by an economic programme (Gruner 1964: 67).

In addition, parliamentary parties do not force the government to adopt a clear position on economic policy. This is due to the fact that parliament elects the government every four years, and afterwards is unable to remove the executive. (There is not even a procedure for impeachment.) Thus, once

elected, the government has no reason to fear replacement as a result of parliamentary action. In turn, parliamentary parties know that their decisions have no consequence for the stability of the government. This 'presidential design' explains the low degree of parliamentary party discipline compared to the Austrian, German or British systems (Jeitziner & Hohl 1997). As a result of this institutional arrangement, the government is forced to compromise on economic strategies. There is no disciplined and powerful parliamentary actor willing and able to extract a coherent economic policy from the government.

The strong political and programmatic heterogeneity of parliamentary parties is not only caused by their institutional relation to government. Another reason is the different cantonal party systems. Cantons have different electoral rules and different socio-cultural cleavages, which are organized in different ways (Kriesi et al. 1998). Although it would be an exaggeration to say that Switzerland is unique in this respect, Switzerland is clearly one of those European nations in which national political parties are federations of regional parties that have different ideologies and are based on different coalitions of socio-cultural groups.

This is true even of the liberal party, the Free Democrats (Freisinnig-Demokratische Partei, FDP), which, in terms of votes, is one of the strongest European liberal parties. The notion of a liberal Swiss economic policy could easily be derived from the dominant position of the FDP in the Swiss party system. However, the Free Democrats have different politics in different cantons. More importantly, it has historically been a party that strongly favours intervention in the economy (Gruner 1964).

Parliament is a (nearly) symmetric bicameral system, resembling the U.S. Congress. The first chamber (Nationalrat) is elected according to proportional representation. However, since the number of seats per canton is severely limited – some cantons can only elect one member of the Nationalrat – the electoral rules actually range from almost proportionality (large cantons) to perfect majority system (small cantons) (Papadopoulos 1997). The second chamber (Ständerat) is composed of two representatives for each canton (in the case of so-called half-cantons, there is one representative). Due to electoral opportunity structures, left parties have less representation in the Ständerat than in the Nationalrat (Kriesi 1998). In addition, judged by their size, the cantons with large secondary and tertiary sectors are underrepresented in comparison to the small, Catholic, mountainous and less industrialized cantons. Hence even if the Left – with some support from other members of parliament – succeeded in bringing about a consistent left economic policy in the Nationalrat, the policy would probably fail in the Ständerat. The bourgeois parties have quite different positions with regard to economic policy. The Catholic Christian Democrats (Christlich-Demokratische Volkspartei, CVP) tend to support a conservative and interventionist economic policy, which

aims at social protection and the smooth development of the economy. The conservative Swiss People's Party (Schweizerische Volkspartei, SVP) historically represents Protestant farmers and trade in the German-speaking parts of Switzerland. It has often supported protectionism in the interests of its clientele. The 'Freisinn', the liberal party, which is far from being a well-organized party, clearly favours neo-liberal economic policy (Gruner 1977; Ladner 1999). Hence, the interplay between parliamentary institutions and the party system makes a clear-cut economic policy very unlikely.

This institutional configuration partly explains why government economic policy is a composite of different approaches. A case in point is macro-economic policy. In the 1970s and 1990s in particular, the federal government tried to smooth out business cycles through demand management. In general, the Left has demanded an expansionist fiscal policy while the Right opposed it. In the end, a compromise was reached that total fiscal policy would continue to be procyclical while some expansionist anti-cyclical elements would be added, reducing (but not reversing) the pro-cyclical development of the public budget. These compromises have often been reached by logrolling. The two expansionist programmes in the 1990s compensated the Social Democrats for concessions in tax policy (lower indirect taxes and lower corporate taxes). Some authors argue that these business cycle policies represent symbolic politics or are simply gimmicks (Schwartz & Graf 1986; Danthine & Lambelet 1987). Others believe that they helped a bit, but were not able to turn the economic tide (Saurer 1996).

Although the Swiss authorities made only very limited use of Keynesian techniques, government economic policy can hardly be called liberal. Rather, a pragmatic interventionism has prevailed. One example are the strategies for combating price increases and an 'overheated economy', such as negative interest rates for foreign investors, a ban on the demolition of houses (in the 1960s and early 1970s), or a planned deposit for exports in 1970. According to the latter rule, firms had to deposit 5 per cent of the value of their exported goods without interest for a limited period of time. However, by the time these plans had been finalized, economic circumstances had changed so much that these measures were no longer needed.

Policy concerning the supply of foreign labour has been non-liberal and pragmatic. An important part of the Swiss economic success story is the low level of unemployment (Blaas 1992). This success is neither due to stable economic growth nor a growing or even constant number of jobs. Dramatic job losses occurred in the 1970s, amounting to about ten per cent of all jobs available. However, the unemployment rate remained low. This paradox is explained by the pragmatic mixing of liberal and interventionist policies. The liberal element of the policy was the absence of compulsory unemployment insurance. Having lost their jobs, many Swiss employees did not register at the employment offices. Since these offices could rarely help in finding new jobs

and the unemployed were not entitled to unemployment benefits, there was no point in registering. Hence a large number of unemployed did not appear in the statistics. It has been estimated, that between 1970 and 1990, the official Swiss unemployment figures, typically below one per cent, underestimated real unemployment by a factor of three (1980s and 1990s) or more (Schmid et al. 1993: 10).

The non-liberal elements of policy pertained to the regulation of the foreign workforce. The employment crisis of the 1970s was solved, in large part, by not renewing the work permits of unemployed foreigners and not replacing foreigners who had gone home, voluntarily or involuntarily. Circumstances changed considerably in the 1990s, making this interventionist policy less efficient.

In short, the economic policy of government and of parliament can be labelled neither liberal nor social-democratic nor Keynesian. Rather it is a pragmatic mixture of different approaches, combining social democratic (generous unemployment benefits, active labour market policy), Keynesian (the programmes of the 1970s and 1990s), liberal (a weak employment protection; tight control of the unemployed) and protectionist elements (control of the supply of foreign workers, negative interest rates on investments by foreigners). This policy mixture can be attributed to the grand coalition between the major parties in government and in parliament. Under these institutional circumstances, there are few options except logrolling and muddling through.

4 Federalism

Regional segmentation of the political system is a major aspect of Swiss consociational democracy (Lehmbruch 1967). Although macro-economic management, price and monetary policy as well as labour market policy are under federal, not cantonal, jurisdiction, the twenty-six cantons play an important part in economic policy in several ways. The federal government has no nationwide administration implementing its economic policy; in this respect, it is dependent on the cantonal and communal administrations. Cantons and municipalities pursue their own economic policies in the fields of regional and structural policies, which are coordinated with federal regional policy. Cantons and municipalities have autonomous rights to tax their people and they do so in a variety of ways. Federal taxes represent a small proportion of total government revenues and a large proportion of federal tax revenues are redistributed to cantons and municipalities (Frey & Spillmann 1994; Frey et al. 1994; Linder 1994). Finally, judged by expenditures and revenues, the Swiss state is a weak state. Since most revenues go directly or indirectly to cantons

and municipalities, the federal budget is small, measured as a percentage of total GDP. This has crucial implications for demand management. If one calculates the increase in central government budget that corresponds to a one per cent increase in total GDP, Switzerland requires the largest central budget increase of all the countries in the OECD; an increase that is much larger than any other country. Scharpf has termed this indicator the degree of difficulty in pursuing fiscal demand management (Scharpf 1987: 261-269).

The consequence for the federal government is that it can hardly expect to administer Keynesian demand management on its own. The solution has been cooperation between the federal state, cantons and municipalities. In the typical Keynesian initiatives of the 1970s and 1990s, the federal government announced its willingness to pay a certain amount of the costs of cantonal or municipal investment, usually in construction. Hence the local or cantonal authorities were given an incentive to make investments, since the federal government would make a contribution. In this way, federal demand management triggered local or cantonal demand management, which, in total, amounted to considerable sums. There have been manifold problems with this concerted demand management. Often cantons or local governments did not have investments planned, ready to be carried out; the federal government, however, supported quick and premature execution of such plans. In some cases, cantons and local governments took the federal subsidies for projects that would have been undertaken anyway ('Mitnehmereffekte'; cashing-in effects). Finally, in the 1970s in particular, the federal institutions had little experience with and limited knowledge of this type of coordinated demand management (Saurer 1996; Schwartz & Graf 1986).

Federalism added another barrier to macro-economic steering. When, in 1972, the federal government attempted to create instruments and rules for Keynesian demand management, the cantons opposed these plans. They were afraid that it would encroach on cantonal autonomy. This opposition was successful. When these instruments were accepted in a second attempt in 1978, it was made clear that demand management would in no way interfere with cantonal autonomy. A further barrier to Keynesian techniques has been the interest of cantons in containing the growth of total government revenues, particularly if the resources go to the federal level.

While federalism severely limits the possibilities of macro-economic demand management, it constrains attempts at deregulation as well. This applies first and foremost to taxes. It took 20 years (1970-90) to create a law on tax harmonization between cantons. This harmonization concerns types and principles of taxation – including a common tax form for all tax payers. It was not possible, however, to harmonize tax rates between cantons. At the end of the 1990s, tax burdens still varied between cantons by a factor of more than 2.

5 Interest associations

The debate on corporatism in the 1970s started from the observation that large interest groups had been incorporated into the macro-economic steering of the economy. According to these criteria of macro-economic coordination, Switzerland was clearly not corporatist on several counts (Kriesi 1995: 333-357). Apart from the Keynesian supplements (see above) to general economic policy, there has been no encompassing macro-economic policy. Since 1973, macro-economic policy has been confined to the regulation of labour supply and the rule that government policy should not interfere with central bank monetary policy. In the absence of encompassing demand management, there has been no need to coordinate these policies with interest organizations. In addition, macro-economic steering in Switzerland proved to be difficult, because of the weakness of the central state and the limited resources at its disposal. A package deal between trade unions, employers and governments – as seen in other countries – presupposes a rapid coordination of cantonal, municipal and federal social and tax policy so that trade unions can be compensated for their wage restraint (Armingeon 1997). Due to cantonal autonomy, this seems unlikely to occur. Finally, in international comparison, the system of collective bargaining is decentralized. Bargaining occurs on the sectoral and company level. There is no goal of economy-wide coordination. Trade unions and employers' associations have limited organizational capacity for implementing central package deals (Traxler 1994: 175).

If the criteria on macro-economic coordination are relaxed, however, Switzerland turns out to be strongly corporatist. While there have not been major package deals on demand management, interest associations do cooperate actively in the quasi-public regulation of economic life. This applies to the setting of technical standards, the regulation of vocational training, and the implementation of agricultural policy (Linder 1988: 140-151; Farago & Ruf 1992). Compared to organizations representing industry, trade and agriculture, the trade unions participate in few areas of cooperation (Kriesi 1980; Papadopoulos 1997: 74).

In addition to self-regulation, interest organizations have been incorporated into the state (Gruner 1959). Already at the end of the 19th century, the Federal Council needed improved information and statistics. For this reason, it subsidized the interest associations representing industry and trade (and later, the trade unions and the farmers' organization) who in turn employed a secretariat to collect the data. As a result of that subsidy and the conditions attached to it, interest organizations have become quasi-public institutions (Gruner 1954: 21-22). In the 1930s, plans were developed to create a more corporatist structure of economic policy-making (Schweizerischer Bundesrat 1937). These resulted in a major constitutional reform in 1947. The reforms

protected interest groups' rights to organize and gave interest associations the constitutional right to be consulted before the development of any implementing legislation affecting their interests and those of their members. In turn, the federal state has the constitutional right to enlist interest associations for the implementation of public policy. As a consequence, associations are normally heard before the passage of any legislation that could result either in implementing legislation or in a call upon private organizations to help the state in policy implementation.

Interest organizations are also represented on about 300 expert commissions, which have a total of about 5000 individual members (Papadopoulos 1997: 75). In these expert commissions or in separate bargaining rounds, important decisions are often made and the various groups reach a compromise, which later becomes law. A good example is the introduction of a new type of active labour market policy. It was hammered out in normal parliamentary procedures and an informal bargaining round (April 1995), composed of members of both chambers, and of representatives of the cantons, the trade unions and the employers' associations.

These institutional configurations make interest groups dependent on the state, through guaranteed access to government decision-making and the recognition and protection the state gives to associations. In turn, the state needs the voluntary organizations for their information and knowledge. The Swiss central state, weak in terms of resources, is more dependent on the support of interest groups than most other European governments. This mutual dependence makes strategies of compromise between associations and government the most likely outcome of policy deliberation.

6 Direct democracy: the institutional support of economic compromise and a limit to the expansion of the public sector

Direct democracy – i.e., popular votes – can be a threat to negotiated economic policy on two grounds. One could argue that the referendum represents a majoritarian check on the negotiated process of policy formation. Another view holds that referenda and initiatives can be weapons, wielded by the politically alienated masses, against a cartel of elites and their bargains (Papadopoulos 1997). The first view is not convincing since most laws are enacted without referenda; only a few are subject to a popular vote. According to Neidhart (1970), it is the possibility of a referendum that forces political elites to compromise, in order to avoid the referendum. In this account, direct democracy is the major reason (Linder 1994), or at least a major institutional support, for the consociational and corporatist mode of policy-making in Switzerland. Hence, as a rule, direct democracy enhances the search for

compromise. With few exceptions, political parties will be keen to include all other parties that are capable of launching a referendum against a particular policy. This strengthens the consociational dimension of Swiss policy-making. Usually government and parliament will try to reach a compromise with all of the voluntary organizations that could trigger a popular vote. This strengthens the corporatist dimension. Thus, direct democracy reinforces pragmatic, negotiated economic policy-making and sets limits on any economic strategy that does not balance its benefits and costs among the various larger groups of the population.

The second argument rests on the assumption of a crisis of confidence between the people and the political elites. However, in international comparison, confidence in political institutions in Switzerland has been extraordinarily high and is approaching the (lower) Western European average (Listhaug & Wiberg 1995; Brunner & Sgier 1997). In addition, a major empirical analysis covering the years 1947-1995 shows no decline in mass support for the policies of the elite (Sciarini & Trechsel 1996).

In cases where a compromise cannot be found or when the interests of a relevant group have been overlooked or ignored, a referendum will be held. A popular vote is also held when the people want to amend the Constitution, contrary to the wishes of the government and parliament. And parliamentary amendments to the Constitution have to be approved by the people as well. In addition, urgent decisions by parliament can take effect immediately, but after one year they must be put to a popular vote or be repealed.

How did the people vote in referenda concerning economic policy? Looking at the various decisions between 1968 and 1998, the following pattern can be discerned: the people are suspicious of any expansion of government resources, in particular increases in taxes or social security contributions. This mistrust is more pronounced the less clear the returns are and the more central government benefits from new taxes or tax increases. On the other hand, the people generally support the consolidation of public finances. The favourable development of public deficits and debt is, to a large extent, attributable to the people's willingness to support low expenditures and oppose expansionist policies. Price stability is highly valued. In 1982, the people decided to continue the price controls of the 1970s, although most economists concluded that, by that time, there was no point in this measure. Employment security for Swiss nationals is strongly supported. There has been no referendum against the protective labour market policy for Swiss workers; while an even more rigid policy against foreign workers won a large share – albeit not the majority – of the votes in referenda in the 1970s. The people are suspicious of any policies which seem to improve the position of special interest groups like employees, employers or farmers, or public institutions, at the cost of other, weaker groups or at the cost of the community as a whole.

7 Conclusion

Swiss economic policy is neither left nor liberal: it intervenes strongly in the economy but through regulations rather than expenditures. It does not constitute a coherent strategy but rather a pragmatic mixture of a variety of policies. It is reactive, not anticipatory. The institutional design of policy-making in Switzerland favours these types of policies. These are the major results of my overview of institutions and strategies in the field of economic policy.

According to economic theory, this outcome is one of the worst possible scenarios in economic policy. Many Swiss economists complain ceaselessly about this state of affairs (Borner et al. 1994), and a lot of politicians on the left and right concur.

Nevertheless, the system of economic policy-making obviously works sufficiently. One explanation for this pertains to the quality of policy and to its acceptance, once it has been decided upon, usually after a long period of deliberation. Since the major economic actors and the implementing institutions are incorporated into the process of policy-making, they have few legitimate grounds for opposing the policy and for sabotaging its implementation.

In addition, the success of the programmatic patchwork of economic policy can be attributed to the avoidance of problems which have beset other governments pursuing more coherent strategies. First, social peace is an important factor in economic life. It reduces production costs and makes the national economy more attractive to foreign investors (Freitag 1999). Switzerland has never pursued a policy that might endanger this peace, as happened so often in the course of neo-liberal attempts at reform in other countries.

Second, in the 1970s and 1980s, many governments had to pay the price for Keynesian techniques, strong inflation in particular. Since Switzerland did not have and could not have encompassing demand management, its prices have been relatively stable.

Third, some European governments tried to increase government revenues and create a more egalitarian income distribution by strong progressive taxation and, hence, high marginal tax rates. This provoked opposition by the middle and upper classes and resulted in capital outflows. In Switzerland, due to direct democracy and strong bourgeois parties, the tax burden has continued to be low and the tax progression is fairly flat (Eggler & Rotzetter 1992). There is no need to bring about major income tax reforms, as is the case in other countries.

Fourth, the Swiss people have been reluctant to introduce social security schemes. Popular votes rejecting such schemes have delayed the development of the welfare state in Switzerland (Obinger 1998). The late introduction of

social policies, at a comparatively high level of economic development, contributed for a long time to low social security expenditures, measured as a share of gross domestic product. It was only in the 1980s and 1990s that the size of the Swiss welfare state converged towards the average European pattern. Although Switzerland paid much less than it could or should afford – seen from a comparative perspective – social security benefits were and are generous for the most part.

Finally, many European governments of Social Democratic or Christian Democratic complexion financed their policies by high deficits and increasing public debts. In the 1990s, these governments were under strong pressure to reduce these deficits and debts. Skyrocketing deficits and debts occurred to a much lesser extent in Switzerland. This was due to the built-in institutional barriers to growth in public expenditures.

However, this pragmatic policy of muddling through has had its price too. Trade unions abstained from a strategy of redistribution and tax policy changed little with regard to a more egalitarian income distribution. Although the Keynesian supplements to the general economic policy probably helped a bit, they could not, by themselves, turn the tide. For a long time, Switzerland continued to be a lean welfare state with regard to social security expenditure in percentage of GDP. However, as in Scandinavia, in terms of gross benefits and the level reached, there may not be a need to spend more. Finally, Switzerland experiences low rates of economic growth and low increases in productivity.

In the literature, another critique of Swiss economic policy has been put forward: Swiss economic policy is merely reactive. It does not anticipate problems and even in its reactions it is too slow – due to the institutions of direct, federal, consociational and corporatist democracy (Borner et al. 1994). Change occurs only as a result of strong external pressure (Sciarini 1994).

It is true that almost no major reform of economic policy has happened without strong external pressure (Armingeon 1999). This applies to currency, labour market, industrial and agricultural policy (Sciarini 1994) in particular. However, the critique is not accurate with regard to the speed of these reforms. The government reacted very quickly to budgetary problems in the 1980s. When Switzerland encountered a labour market crisis for the first time in the post-war period, it built up unemployment insurance within five years. When, in 1993, it became clear that there would be lasting labour market problems, the parliament, trade unions and employers created an innovative system of active labour market policy (OECD 1996). Hence, policy is reactive but (often) swift – a typical Swiss compromise.

Notes

1. This paper is based on a larger descriptive study of economic and fiscal policy in Switzerland. Information on policies and constellations of actors are drawn from the Yearbook of Swiss Politics (*Année politique suisse*, Bern) and are extensively documented in this descriptive account (Armingeon 1999), which will appear in English in 2002. For a recent account of Swiss social, economic and fiscal policy see the respective contribution in Lane (2001).

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Consociational Democracy in Austria: Political Change, 1968 - 1998

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Abstract

As a consequence of the experience of centrifugal democracy, civil war and dictatorship, Austria's 'Second Republic' developed from 1945 onwards a special kind of consensus-oriented democracy. Based on the reconciliation efforts of the two traditional political movements – the Social Democrats and the Catholic Conservatives – the Austrian political system became an example of political 'over stabilization'. In the 1990s, this type of consociational democracy lost more and more its ability to mobilize political loyalties within its traditional framework. The rise of the rightist populist Freedom Party (FPÖ) and the new Green Party indicates the alienation of the traditional elitist network and the younger generation. The FPÖ's entry into a coalition cabinet – allied with the conservative OeVP – is a rather dramatic signal of political transformation.

The basic philosophy behind the consociational type of democracy in plural societies is to reduce the rule of competition in favour of a balance between competitive and coalescent elements, between conflict and consensus orientation. The rules of the game should not be 'the winner takes all', but rather that the loser gets something too. The history behind this philosophy is a deep fragmentation caused by violent domestic conflict.

1 Historical overview

The Second Republic's inclination towards consociational democracy is not explained by the Austrian constitution. After 1945, the constitution was still the same as it had been during the years of the First Republic; years that certainly cannot be called 'consociational'. Consociational democracy is the specific political culture as it developed after the catalyst years of authoritarian and totalitarian rule.

The political culture of the First Republic fits the pattern of centrifugal democracy in that it was already fragmented along the lines of the camps. Three subcultures divided Austrian society and its political system: the two major ones, the Socialist and the Christian-conservative, and the smaller pan-