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Federalism, Direct Democracy, and Welfare State Development in Switzerland

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ABSTRACT

Inspired by the New Institutionalism in political science, the article examines the impact of political institutions on welfare state development in Switzerland. This article suggests that the strength of federalism and direct democracy have proved to be stumbling blocks for the expansion of the Swiss welfare state. Direct democracy and federalism have not only geared the path of welfare state evolution in a more liberal direction, but have also dampened social expenditures.

Recent years have witnessed a reemergence of interest in issues relating to political institutions and their impact on public policies. A host of articles and books inspired by this New Institutionalism (Rothstein 1996; Immergut 1998) provide exciting insights into early welfare state formation (Weir, Orloff and Skocpol 1988; Immergut 1992; Hicks, Misra and Ng 1995) and into politics of welfare state retrenchment, undertaken by neo-conservative governments in the United States, Canada and Great Britain (Pierson 1995, 1996; Myles and Pierson 1997). Despite Switzerland's unique polity with respect to its outstanding institutional pluralism, comparative welfare research up until now has widely neglected Swiss social policy and as a result inadequately examined institutional effects on welfare state development. This article examines such effects on Swiss social policy. Specifically, it sheds light on the impact of direct democracy and federalism on formation, expansion as well as retrenchment of the welfare state in Switzerland. The paper begins by describing briefly some features of the welfare state characterising Switzerland as a special case or *Sonderfall*. The paper proceeds by discussing the explanatory power of several theories in explaining the peculiarities of the Swiss welfare state. Section 3 highlights federalism as determining welfare state development, and section 4 focuses on the impact of direct democracy on social policy. The final section concludingly examines the joint impact of these institutions on welfare state development in Switzerland.

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1 Why is the Swiss welfare state different?

The path of evolution of the Swiss welfare state deviates in at least three crucial aspects from welfare state development in continental Europe. Firstly, Switzerland is a latecomer as regards the date when its core elements of social insurance were introduced: Switzerland ranks twenty-first out of 23 OECD-nations, thus representing the tail end of the European OECD member states (Schmidt 1998: 180). Until 1945 there was only health, accident and a kind of unemployment insurance (effective since 1914/1918/1925 respectively) that provided federal subsidies for the local, cantonal or private unemployment funds. The Swiss welfare state was launched after World War II when Old Age and Survivors' Insurance (AHV) was established in 1948. Due to an exceptionally positive post-war economic performance, the welfare state was expanded through the introduction of family allowances for farmers (1953), invalidity insurance (IV) in 1960 and supplementary benefits for people in need who were receiving benefits from AHV or IV in 1966. In the mid 1970s, the expansion of the welfare state came to a temporary halt. However, the last two decades were a period of catch-up in the field of social policy. Whereas social attempts at welfare state retrenchment have been undertaken in countries maintaining a liberal welfare state regime (Myles and Pierson 1997), Switzerland has revised and expanded all core programmes of social security. Although this period of modernisation was also accompanied by some restrictions in terms of benefit provision, the total effect has been a move away from the liberal welfare model towards the continental welfare model with mandatory social insurance providing high replacement rates.

Second, Switzerland was not only a latecomer in terms of when social insurance was introduced, but was also a laggard with regard to its welfare effort measured by social expenditures as a percentage of GDP. In terms of its social budget, which is of course an inappropriate indicator for *evaluating* social policy (since small budgets can be spent efficiently), Switzerland was consistently ranked at the bottom of the list of European OECD countries. For several decades, its social policy expenditure was in line with those of the much poorer Latin countries in Southern Europe. Owing to an excellent post-war economic performance, the vast majority of Swiss people generated income by participating in the labour market and only a relatively small number of people were living on welfare. Full employment policy and the male wage-earner family have thus been the load-bearing pillars of the Swiss way of welfare.

The third peculiarity of Swiss social policy relates to the structural dimension of the welfare state. Until the early 70s, Switzerland repres-

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ented a liberal island within the conservative world of welfare, set up by the surrounding continental nations (Esping-Andersen 1990). According to the family of nations concept promoted by Francis G. Castles (1993, xiii), nations sharing common linguistic, cultural, and/or historical attributes should envisage similar public policy profiles. Up to the mid 1970s, the Swiss welfare state was related to the liberal welfare state model, whereas Germany and Austria were outstanding examples of a conservative welfare state regime (Esping-Anderson 1990). As Francis G. Castles (Castles 1998, 12) has noted recently, Switzerland and Japan are actually the only two countries among the OECD countries which fail to find a place in one of the four major families of nations.

2 *Explaining Swiss exceptionalism: theories and hypothesis*

What accounts for this special way of welfare? Traditional macro-theories regarding the determinants of the welfare state do not tell us the whole story. Functionalism theories for instance, which primarily pay attention to the socio-economic forces behind the welfare state, are not able to explain why one of the most affluent nations in the world is maintaining a lean welfare state. While this theory is predicting convergence for countries at a similar stage of economic development, Switzerland for a long time had expenditure levels comparable to countries like Greece or Portugal (OECD 1996; ILO 1996). On the other hand, Switzerland's exceptional labour market performance is an important functionalist determinant for the low expenditure devoted to social security (Schmidt 1997). However, this school of thought does not give a sufficient explanation for the creeping welfare state formation in Switzerland. The same is true of socio-cultural explanations. Hettlage (1993) for instance argues that the widespread (protestant) work ethic and a scepticism towards a strong state have restrained the evolution of a highly developed welfare state. Although this kind of reasoning highlights some stones of the mosaic, this theory is greatly questioned by the multi-cultural make-up of Swiss society. In contrast, power-resources theory and partisan theory do well, though the peculiarities of Swiss social policy are still not fully explained. The theory of power-resources is based upon the basic assumption that social classes are the main agents of societal change and that the balance of class power determines distributional outcomes (Esping-Andersen 1990, 16–18). Specifically, coalitions across classes such as "red-green coalitions" provide a good starting point in establishing both an universal and egalitarian social security system. Since this approach focuses on the power-resources of the labour movement, the welfare state is seen merely as

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a response to the strength and/or the incumbency of Social Democratic parties (Shalev 1983). At this point the power-resources approach overlaps with traditional partisan theory which states that parties, in exchange for political support, serve as agents for the preferences and ideologies of their constituencies (Hibbs 1977; Castles 1982; Schmidt 1982). Once elected, governmental parties are able to realise policies which are in line with the demands and ideological orientations of their constituencies. Thus, according to this theory, policy differences are merely due to the partisan composition of government. While secular rightwing parties are regarded as opponents of a large-scale welfare state, Social democratic as well as Christian democratic parties are seen as advocates of social policy, though there are obviously differences on how the system of social security should be designed (Huber, Ragin and Stephens 1993; van Kersbergen 1995). In sum, power-resources theory as well as partisan theory is very important for understanding Swiss social policy. Since 1848, the Swiss government has been dominated by a liberal party and there is still a broad bourgeois majority in the *Bundesrat*. Moreover, the weak position of the left also extends to the pre-parliamentary stage of the decision making process, where the ideologically fragmented trade unions are dominated by well organised business interest organisations. Finally, due to the multi-dimensional segmentation of Swiss society, coalitions between workers and peasants have never emerged, which could have strengthened the bargaining power of labour to push social policy forward.

Yet the explanatory reach of both partisan theory and the theory of power-resources is constrained by two institutional aspects relevant for the Swiss case. First, the Swiss consensus democracy with its oversized four-party cabinet set up in 1959, reduces the explanatory power of partisan theory. Since the Swiss federal government is a collegial body, it is impossible to relate a given policy outcome to a certain party because policy outcomes are products of a complex bargaining process of which the government is only one forum of negotiation (Armingeon 1998). Second and more importantly, recent versions of partisan theory, inspired by the rediscovering of political institutions, point to institutional settings under which governments are operating (Schmidt 1996). Partisan and power resources theory do not adequately take into account the impact of institutions on individual preferences and behaviour. A strong countermajoritarian institutional pluralism (Schmidt 1996, 171) limits the room for manoeuvre of incumbent parties and thus the extent of welfare statism (Huber, Ragin and Stephens 1993). Furthermore, power-resources are weighted and structured by electoral rules, patterns of bicameralism, referenda or federalism. Hence, an adequate understanding of public policy requires a combina-

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tion of actors-centrist theories with the institutional framework or state structures under which political decisionmaking takes place (Scharpf 1997; Schmidt 1998). Considering Switzerland's superior level of GDP per capita, one has to seek the causes for the low spending levels and the delayed expansion of welfare statism in the political-institutionalist context rather than in socio-economic conditions. It is hypothesised that the strength of federalism and the exceptional role of direct democracy, together with the long lasting majority of a liberal party, have been the major impediments of welfare state expansion in Switzerland. Federalism and direct democracy represent powerful institutional veto-points (Immergut 1992) therefore considerably limiting the room for manoeuvre of the Swiss federal government. Specifically, these veto-points determine the level of threat available to groups opposing governmental legislation projects in a given policy field (Bonoli 1998). Policy stability is thus increased, since any major policy change requires the approval of several veto players (Tsebelis 1995).

3 Federalism

The turbulence engendered by the Industrial Revolution and the associated pressure on the traditional, merely family-based, social security nets had to be filtered by a political system which is distinguished by an outstanding vertical and horizontal fragmentation of power. One cornerstone of this diffusion of power and responsibilities is Swiss federalism. Federalism not only splits responsibilities and increases the number of relevant actors in a field of policy but also modifies their preferences, perceptions and strategic options (Pierson 1995). Public policy in fragmented political systems requires, in procedural perspective, the aggregation and co-ordination of these fragmented resources of action. Multi-tiered negotiations resulting from shared policymaking generate veto points, since collective decisions have to be made and implemented on a broad coalition basis. Specifically, a crucial veto point is that decisions of the super decision unit require the consent of the subordinate units. As the seminal work of Fritz W. Scharpf and others has demonstrated, joint decision-making might represent an important barrier for public policy (Scharpf 1976; Schmidt 1994). Points of friction may result from information deficits and problems arising from consensus building across different decision units (Scharpf 1976). Any major policy change requires coordination of multi-layered interests and the approval of a host of actors, who have to bargain until they agree on a joint course of action and – what is especially important for expensive public policies like social policy – how the associated costs are shared. The problem with a large number of protagonists with con-

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siderable ideological polarisation is that it simultaneously increases the transaction costs necessary to implement a policy change, therefore enhancing the probability of retaining the status quo (Tesbelis 1995). Thus, policymaking in fragmented decision systems is likely to result in either a retardation of decision-making or in a suboptimal and time-consuming policy. In the extreme case, a joint decision trap might appear in entwined decision systems. Yet the literature on joint decision-making also points to different strategies which can be pursued by the central decision unit, in order to avoid a deadlock of decision-making. Such mechanisms comprise the setting-up of positive incentives by means of subsidies, the renunciation of interference in matters of the decentralized units or the retention of certain policy patterns. Moreover, considering a caveat of Paul Pierson (1995, 451), federalism is not a one-way arrangement which induces a specific policy outcome. Apart from looking on the country-specific concept of federalism, one has also to take into consideration the interaction with other polity characteristics. It will in fact be argued that it is the close interplay between direct democracy and federalism in Switzerland that is responsible for some important peculiarities of the Swiss welfare state. Furthermore, as Paul Pierson (1995, 463) notes, the impact of federalism on social policy development has to be analysed on three levels: the distribution of power and responsibilities between the central state and the constituent units, the representation of these constituent units at the central state (i.e. the veto points by which cantons can exert influence on federal policies) and finally, the extent of commitment to fiscal equalisation across constituent units (i.e. the distribution of financial resources among political jurisdictions). In addition, one has to analyse the policy legacy from the past and the associated feedback on subsequent social policy development, since welfare programmes rely on long-term contracts with a long-term future orientation thus implying rigidities for policy change (Rose and Davies 1994).

3.1 Distribution of power

According to the original federal constitution of 1874, the cantons have been responsible in almost all matters of social policy, whereas the federal state was only empowered to regulate the working conditions in factories. This original distribution of power has introduced a paralysis of social policy. Many of the industrially leading cantons felt no obligation to improve their social security regulations since workers at the end of their working life were entitled to receive social assistance in their home canton. Thus, the cantons had either no incentive to take the burden of expensive social security schemes on their own shoulders,

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or they felt too weak to do so, whereas the central state on the other hand was not empowered to legislate in the field of social security.

Due to the federation's lack of responsibility in the field of social insurance, the legislation process in the field of social policy was split into two stages. The engagement of the federal government (*Bundesrat*) first of all concentrated on implementing constitutional amendments to empower the central state in social security legislation. However, this process of transferring responsibilities to the central state in all fields of social security took a lot of time. The central state was first entrusted with the right to enact health and accident insurance in 1890 and 35 years later it was given the right to legislate on old age, survivors' and disability insurance. In 1945, the federal government was empowered to regulate maternity insurance as well as family allowances. Finally, unemployment insurance was shifted to the central state in 1947. The reason for this creeping engagement of the federation was that this first stage of the legislation process was furiously contested, because many constitutional amendment at least partly predetermined the design of the social insurance schemes, especially with respect to coverage, funding and organisation. Existing mutual funds had also to be taken into consideration (Sommer 1978). In addition, cantons had to be compensated for giving up the right of legislation. This was solved either by non interference in certain policy areas like social assistance or by integrating cantons into implementation of federal legislation where they are now playing an important role (Tschudi 1994).

One has to note that the federal government, after the constitutional amendment had successfully passed the obligatory referendum, had gained responsibility but there still was not any implementing legislation. Moreover, the corresponding second stage of social policymaking faced four obstacles which blocked the expansion of the welfare state. Firstly, policy inheritance was a major impediment for a far-reaching policy change. Secondly, several institutional veto points enabled cantons and interest groups to influence federal policies. Thirdly, the central government had only a narrow tax basis which depressed the capacity of the state to generously fund social insurance. Finally, direct democracy, especially the optional referendum, has proved to be an important veto point which has curtailed and delayed the expansion of the early welfare state.

3.2 Policy inheritance

The legacy of the past plays an important role in public policymaking (Rose and Davies 1994). Besides the fact that the federal state had no

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power for setting up social security programmes, the governing Radical Party relied strongly on the self-regulation of the market and favoured poor relief as a remedy against market imperfections up until the 70s of the nineteenth century. This politics of non-decisions gave rise to a bottom-up development of social policy arrangements. Workers, unions, and also entrepreneurs founded mutual funds and friendly societies to cope with the dramatic changes in society set in motion by the Industrial Revolution. In 1903, there were already 2,006 mutual aid societies and sickness funds with 500,000 members which predominantly were located at the local level (Krumbiegel 1913, 7–8). Since federalism is also a source of innovation, municipalities and cantons similarly began to establish social programmes. For example, Swiss cities (especially Bern) belonged to the pioneers in the establishment of public unemployment insurance in Europe. However, the interference of the federation in matters of these local welfare systems was difficult and the diffusion of social policy up to the federal tier took a lot of time. Once established, a lot of interests accumulated around these decentralised social security arrangements. Workers administering these funds as well as sickness companies were reluctant to accept any state intervention, because setting up these funds had been associated with investments which would have become sunk costs in the case of state interventions. As time went on, these mutual funds because increasingly larger and more complex thus hampering federal intervention even more. Meddling with these arrangements was problematical, since the private carriers of these schemes could threaten to launch a referendum. The federal government therefore had to pay attention to the policy feedback resulting from the locally based social security systems. The private carriers of these arrangements had to be integrated into the organisation of social insurance. Consequently, the policy inheritance generated by policy pre-emption (Pierson 1995) not only blocked the expansion of federal intervention, but also gave rise to a high path dependency in the field of social security.

3.3 Fiscal constraints

New programmes in the field of social policy cost a lot of money. The fiscal capacity of the Swiss federal government is still extraordinarily weak compared to other federal OECD countries (Linder 1999). The largest share of revenues falls to cantons and communes. Thus, as the federation was empowered to legislate almost all branches of social security step by step, fiscal and social responsibility increasingly failed to coincide. One essential determinant for the narrow tax basis of the federal government is direct democracy, which is an effective veto

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player against expansive spending as well as taxation (Frey and Bohnet 1993; Wagschal 1997). The leeway for funding public policy was even more restricted in the last decades of the last century, when the revenues of the federal government depended merely on revenues from tariffs. Moreover, the federation's right to impose income taxes still has only a temporary basis, which naturally limits the planning and adoption of long-term and expensive federal policy programmes. This insufficient tax base not only has dampened social expenditure and delayed the adoption of certain programmes, but also shaped the mode of funding of social insurance. To give an example, the farmers' association demanded a tax funded pension system at the turn of the century, while the labour movement called for a national health service which was to be financed through the general budget. The *Bundesrat* rejected this proposal by pointing to the federation's tight financial resources. Instead, the federal government preferred social insurance which was predominantly to be financed by contributions. Owing to the weakness of the federation's fiscal capacity, the burden of financing of the social security system was thus transferred to the employers and employees. Fiscal federalism based on competition between the constitutional units is often regarded as a threat to social security standards. However, compared to the findings of some scholars with respect to the United States (Peterson 1995; Pierson 1995), one has to note that Swiss federalism has induced no race to the bottom with regard to social security standards, since Switzerland's federalism rests on local autonomy rather than fiscal competition. Moreover, there is a strong commitment to fiscal equalisation since each canton's share of social insurance funding is contingent upon its economic performance. Furthermore, cantons have also set up barriers like residential requirements in order to avert becoming a welfare magnet. Geneva for instance has recently introduced a reintegration income (RMI) for long-term unemployed which is conditional upon having been a resident in the canton for several years. Local autonomy, the Swiss version of federalism, has left its mark on social policy in peculiar ways which differs from the effects ascribed to fiscal competition. Pierson (1995, 454) argues convincingly that minorities in federalist countries try to shift policymaking towards the arena which is under their control. This has often been the case in the Catholic cantons which, strongly inclined to the subsidiarity principle, favoured means-tested cantonal welfare policies instead of federal social insurance. A widespread mistrust towards the federation was a major reason why cantonal Catholic groups successfully launched a referendum against the first draft of old age insurance in 1931. The same held true for the Liberal-Conservative Party which had its strongholds in the French-speaking cantons and was heavily committed to anti-

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centralism and individualism (Rimli 1951). In close coalition with interest organisations of business, these cantonal right-wing parties successfully challenged the expansion of federal social security legislation before World War II. Why have relatively small groups been so successful in their attempts to block federal social policy?

3.4 Institutional veto points

The vertical and horizontal fragmentation is mirrored by several institutional veto points which open a channel for veto-players to obstruct a policy project. There is a strong representation of the cantons at the federal level. The Swiss Parliament consists of two chambers which both have the same rights. The two houses differ with respect to the mode of election. While the 200 members of the National Council are elected according to proportionality rule, the election of the 46 members of the Council of States follows cantonal law and rests merely on majority rule. Each of the 20 full cantons elects two members, while each of the six half-cantons elects one member. This procedure clearly favours small and predominantly conservative cantons, while urban agglomerations, regularly strongholds of leftist parties, are underrepresented. Moreover, bourgeois parties put up joint lists which increase the electoral success of their candidates (Linder 1994, 46). Consequently, there is an outstanding bourgeois hegemony in the Council of States. In light of the symmetrical bicameralism, power-resources of Social Democrats are contained. Hence, centralist and state interventionist policies, pursued by left-wing parties, are likely to be blocked by the Council of States, which is primarily regarded as conservative umpire favouring the status quo and blocking innovation (Ochsner and Riklin 1984; Germann 1994).

Apart from bicameralism which guarantees cantons a strong representation in the central state, there are important pre-parliamentary veto-points which are closely connected with the Swiss institutions of corporatism (Armingeon 1997). One important veto point of the corporatist forum is the *Vernehmlassungsverfahren* which gives cantons and interest organisations of labour and business a constitutional right to express their opinions and objections towards a legislatory project. If a broad majority of cantons express concern, it is rather unlikely that the federal government will pursue its draft any further. In fact, several social policy initiatives were stopped after cantons and/or interest organisations articulated major dissent to the submitted bill. This consultation process often reveals severe horizontal conflicts among the cantons about the appropriate role of the federation in a certain policy area. An often applied strategy to avert a deadlock was to realise a

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least common denominator solution at the national level, where the federation was empowered to set up minimum standards, which in turn left sufficient regulatory leeway for the cantons. The most striking examples have been the health insurance from 1912 as well as the unemployment support Act from 1924.

However, the most important institutional veto point is direct democracy whose effects on welfare state development will be discussed in the next sections.

4 Direct Democracy

The exceptional role of direct democracy is a major reason why Switzerland's polity is often referred to as a *Sonderfall*. Three major institutions of direct democracy are frequently employed in Switzerland. Firstly, each alteration of the federal constitution or a joining of a supranational organisation is subject to an *obligatory referendum*. The approval of a constitutional amendment requires a double majority, i.e. 50 percent plus of nationwide votes and a majority of votes in a majority of cantons. The emergence of a strong, centralised state was blocked by the people (Saxer 1951; Linder 1999): About 25% of all obligatory (constitutional) referenda have failed since 1848.

Secondly, by collecting 50,000 signatures within 100 days, any bill or decree that has passed parliament may be challenged by an *optional referendum*. Also eight cantons can call for an optional referendum. The bill or decree subject to the ballot can either be approved or rejected, but not altered. The single majority of the votes (popular majority) is decisive. The referendum is a device to challenge the output of parliament and is conceived to be an instrument to preserve the status quo. Some political scientists and economists even argue that the blockade of policy innovation is largely due to this type of referendum (Germann 1994; Borner, Brunetti and Straubhaar 1994). About half of all optional referenda have been successful, although it has to be noted that less than 10 percent of parliamentary bills are challenged by a referendum.

Thirdly, 100,000 citizens may launch a *constitutional initiative* in order to change an article of the federal constitution, provided that sufficient signatures have been collected within 18 months. The federal government can endorse or reject this proposal and is allowed to offer a counterproposal which is submitted together with the initiative to the electorate. A double majority is required for adoption of a detailed constitutional amendment. In contrast to the optional referendum, the constitutional initiative is regarded as a source of bottom-up innovation, since new issues – which of course might also be conservative –

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TABLE 1: *Number of plebiscites on social policy issues 1874–1999 (January).*

Field	Constitutional Referenda	Optional Referenda	Popular Initiatives	*Total*
Social insurance	6	15	11	*32*
Labour law, protection of labour force	1	8	6	*15*
Working hours	0	1	3	*4*
Equal treatment between men and women	1	0	0	*1*
Consumer protection, tenant protection and housing	3	1	4	*8*
Total	*11*	*25*	*24*	*60*

can be translated into the political system. Direct success, however, of the constitutional initiative is rare: More than 90 percent of all initiatives aiming at altering the federal constitution have been rejected.

Direct democracy is also associated with important indirect effects on policymaking. Neidhart (1970) has shown that the referendum is the driving force behind Switzerland's consociational democracy. While the referendum is supposed to have braking effects and a tendency to reinforce the status quo, constitutional (popular) initiatives imply important indirect innovation effects. Launching an initiative allows efficient agenda-setting which in turn forces politicians to react (Möckli 1994). Parliament and the federal government can either reject the proposition, take up certain suggestions for their own legislation projects or even recommend it for adoption. In any case, however, there is at least a discussion on a certain policy issue, which at best may catalyse policy reform (Kriesi 1991, 46).

More or less the same effects of direct democracy can be illustrated in the field of social policy. Between 1874 and January 1999, the Swiss had to decide on 60 social policy proposals (education and research excluded) which are – separated by policy field and type of plebiscite – listed in Table 1. Contrary to the general tendency, none of the eleven obligatory referenda failed, though some of them – as pointed out earlier – slowed down social policymaking. The next section examines the impact of optional referenda and constitutional initiatives on the dynamics and patterns of the Swiss welfare state.

4.1 Optional referendum

The optional referendum has decisively blocked the early take-off of the Swiss welfare state. Apart from one exception (*Bundesgesetz über die fiskalische Belastung von Tabak im AHV-Gesetz*), all proposals subject to a referendum had a substantive impact on social policy. 8 out of 14 proposals aiming at expanding social security regulation were rejected.

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Although eight rejected bills seem to be a low number, the majority of the successfully contested expansive social security laws had a considerable impact on the subsequent social policy development. For instance, the first drafts of sickness and accident, as well as old age and survivors' insurance, both insurance branches lying at the heart of social security, were rejected in 1900 and 1931, respectively. Health and old age insurance have not only been postponed for almost two decades, but the defeat of these pioneering laws at the ballot box had also major impacts on the patterns of social insurance. Instead of more or less copying the Bismarckian German health and accident insurance as was intended by the federal government, the referendum opened the avenue for a liberal skeleton law with little state intervention (cf. Krumbiegel 1913; Immergut 1992; Obinger 1998a). Up until 1945, the optional referendum represented an efficient veto point for groups opposing the welfare state to dilute state-interventionist social policies. Table 2 reveals that all referenda against expansive bills were launched by right-wing parties or vested interest organisations of business, which thereby have been very successful in contesting the expansion of federal social policy legislation.

On the other hand, all referenda against propositions aimed at curtailing social security were rejected. These referenda were obviously launched by leftist parties and trade unions (table 2). Thus, the groups backing the referendum vary with the character of a bill. Whereas for the political right the optional referendum serves as an instrument to

TABLE 2: *Ideological backing of optional referenda 1874–1999 (January).*

Effect of proposal on social policy	*Total*	Leftist parties & trade unions	*Rejected*	Bourgeois parties & interest organisations of business and farmers	*Rejected*
Expansive	*14*	0	–	14[a]	*8 (57,1%)*
Expansive *and* Restrictive	*7*	4	*0*	3	*1 (33,3%)*
Restrictive	*4*	4	*4 (100%)*	0	–
	25	8		17	

Notes: Leftist parties respectively trade unions = Social Democrats (SPS), Communists (PdA) respectively SGB, CNG or single trade unions. Bourgeois parties and interest organisations = Radicals (FDP), Swiss People's party (SVP), Christian Democrats (CVP), diverse employer associations, farmers' association, sickness funds, Baumeister- und Gewerbeverband, Zentralverband der schweizerischen Hauseigentümer. For the groups backing the referendum also see: Neidhart (1970). Effect was coded according to Bundesblatt der schweizerischen Eidgenossenschaft (BBl, various issues). Expansive = Welfare state enlargement by expansion of benefits and/or broadening of eligibility rules or protection of labour force. Restrictive = Welfare state retrenchment by benefit cuts and/or tightening of eligibility rules or deregulation of social security legislation. Expansive and restrictive = selective enlargement and retrenchment.

[a] = The referendum against the pension law in 1931 (the so-called Lex Schulthess) was also backed by the communists.

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TABLE 3: *Number of optional referenda according to different periods of welfare state development (number of rejected bills in parentheses).*

Phase	Expansive	Restrictive	Expansive and Restrictive	*Total*
1874–1945 (formation)	8 (5)	2 (2)	0	*10*
1946–1975 (Golden Age)	4 (2)	0	2 (1)	*6*
1976–1999 (consolidation)	2 (1)	2 (2)	5 (0)	*9*
1874–1999	*14 (8)*	*4 (4)*	*7 (1)*	*25*

challenge expansive social policy proposals, it is the labour movement in times of austerity which launches a referendum in order to secure the current level of social provision.

Table 3, which reports the frequency of launched referenda during the three main periods of welfare state development, supports this view. While the adoption of social reforms was decisively blocked in the era of early welfare state formation, only few referenda were launched in the Golden Age of the welfare state after 1945, which was paralleled by the break-through of consociational democracy and an exceptional economic performance facilitating the take-off of the welfare state.

However, in the aftermath of the first oil shock, the frequency of referenda increased again. One-sided attempts at deregulation or curtailing benefits (labour law 1996, unemployment insurance 1997) as well as expanding social security (health and maternity insurance 1987) were successfully vetoed. Direct democracy favours rather balanced social policy reforms which combine benefit expansions with selective retrenchment of benefits and which are results of protracted and multi-tiered negotiations between interest organisations, cantons and the four-party government. Consequently, Swiss social policy is composed of different, incoherent elements which reflect liberal and conservative, but also social democracy policy options (Armingeon 1998; Obinger 1998a). Such compromise-based policies – which account for the various interests of parties, interest organisations and cantons – have a high success rate. Only one out of seven such double-edged proposals was vetoed by the people (table 3). Bonoli (1997, 1998) argues convincingly that a combination of measures of retrenchment with improvements of existing programmes is a suitable strategy for the government to realise policies of welfare state reform, since the division between a proposal's supporters and opponents is less clear-cut. However, dramatic short-term policy changes are unlikely under this mode of governance which is rather conducive to incremental policy development and which – in the long run – might also result in major policy shifts. It was exactly this consociational and compromise based politics that permitted the reform of the welfare state in the last two

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decades. A prime example of this is the tenth revision of the pension law (*10. AHV-Revision*). After 15 years of discussion a compromise was reached in 1994 comprising major improvements for women and low income groups (Obinger 1998b). However, these improvements consisting of the splitting of pensions for couples and credits for care work have been linked to an increase in the retirement age of women. A more recent and even more impressive example of this logic of policymaking is the reform of the labour law. The first draft, which was merely aimed at making working time flexible without major social compensations for the employees, was rejected on 1 December 1996 after trade unions launched a referendum. In the aftermath of the referendum, the bargaining process between the parties and the interest organisation of labour and capital was intensified until a compromise was reached which combined moderate flexibility with slight social compensations. Although an interest organisation of unemployed people once again launched the referendum, the second draft of the renegotiated labour law, which now was backed by all major parties and interest groups, was approved by the people on 29 November 1998.

4.2 Constitutional Initiatives

The constitutional initiative is an instrument which is typically launched by opposition groups to translate a specific issue into the political system. The vast majority of the 46 submitted initiatives had an expansive effect. Despite this clear expansive tendency, there are differences between the actors backing the initiatives concerning the goals they want to realise. Four main groups of launchers have to be distinguished (table 4). In light of the weak power-resources of the Social Democrats and their exclusion from government until 1943, constitutional initiatives were predominantly employed by the labour movement in order to catalyse social policy legislation. In accordance with the ideological background of labour and due to the liberal character of the prevailing welfare programmes, most initiatives were aimed at realising more state interventionist social policy legislation. The second important group of initiatives stems from pressure-groups, whose interests are less clear-cut. The initiatives launched by the Denner AG for instance, arose from a mixture of self-interest and populism (Werder 1978). Notwithstanding this ambiguity, special interest groups primarily aim at rent-seeking for their clientele. The third group are initiatives backed by bourgeois parties. As Sigg (1978) correctly notes, it is the progressive wing of the bourgeois parties which is engaged in pushing a certain social policy issue by means of a popular initiative. In any case, however, no fundamental policy change was demanded. Finally,

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TABLE 4: *Ideological backing of constitutional initiatives 1891–1999 (January).*

	Total	Leftist parties & trade unions	Bourgeois parties	Right wing parties	Pressure groups
Submitted	46	29	5	1	11
Withdrawn	22	10	5	0	7
Subject to ballot	24	19	0	1	4
Approved	1	0	0	1	0
Rejected	23	19	0	0	4

Notes: Leftist parties and trade unions = SPS, PdA, Progressive Organisations of Switzerland (POCH), SGB, CNG, Schweizerischer Kaufmännischer Verband, Independent Party (LdU); Bourgeois parties = FDP, CVP, SVP; Right wing parties = Swiss Democrats; Pressure groups: Zentralstelle für Friedensarbeit; Aktionskomitee Lausanne, AVIVO, Denner AG, Schweizerischer Mieterverband, Bund schweizerischer Frauenorganisationen, Der schweizerische Beobachter, Die Tat, Konkordat schweizerischer Krankenkassen. CF. Wili (1991).

initiatives may be employed in order to gain publicity. This was the reason for the popular initiative of the far right Swiss Democrats who called for a legal holiday on August 1st. However, this is the only popular initiative connected with social policy which had a direct success at the ballot box.

Despite the rejection of all other popular initiatives, the indirect effects are conceived to be more important than direct effects of constitutional initiatives. Two major indirect effects can be distinguished. Firstly, launching an initiative enables agenda-setting, since authorities are forced to deal with the issue at stake. This mobilising effect induces discussions and might generate a climate for pushing forward a certain issue. Secondly and more importantly, the government can adopt certain impulses and integrate them into its own legislation. If this is the case, initiatives are regularly withdrawn by the groups backing it. 22 out of 46 submitted popular initiatives were actually withdrawn, indicating important indirect effects on social policymaking. The rate of withdrawn initiatives varies strongly according to the groups launching the initiative. While the bourgeois parties have withdrawn all of the submitted initiatives, the corresponding rate was two-thirds for the pressure groups and only one third for the initiatives launched by leftist parties and/or trade unions. The reason for this difference is the fact that bourgeois parties suggest moderate policy reforms, whereas the labour movement primarily calls for radical changes in social policy. Consequently, bourgeois parties have been more successful in translating their issues in the political system (Obinger 1998a, 190). The numerous initiatives in the aftermath of World War II calling for a considerable extension of pensions have been especially successful (Werder 1978). In contrast to the era of welfare state formation (Sigg

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1978), the take-off of the welfare state after 1945 was therefore catalysed and backed by popular initiatives. The booming economy enabled the authorities to respond to the demands of the people. Only 8 out of 21 initiatives came to the ballot box. This provides some evidence that the federal government responded to the initiators' claims, so that the majority of the initiatives were withdrawn. In contrast, the situation has changed in the last two decades, since almost all launched initiatives have been subject to a plebiscite, indicating that the leeway for responding to the demands of the people is less flexible.

If an initiative is not withdrawn, the government can either recommend its approval or rejection or it can offer a counterproposal. Four out of six counterparts were reactions to leftist initiatives, two responded to initiatives of pressure groups. Only two counterproposals have been successful, one of which is the three-pillar system of old age pensions (instead of unitary pensions promoted by the Communists) which has also decisively influenced the patterns of social security.

5 Joint effects of direct democracy and federalism on welfare state development

The complex interplay between direct democracy and federalism generated three major effects on welfare state development, namely a lag effect, a structural effect and a restrictive impact on welfare state funding. Together, these three effects largely explain the liberal trajectory and the belated formation of the Swiss welfare state from a comparative viewpoint.

5.1 Lag Effect

Switzerland's latecomer position as regards the adoption of social insurance has two causes. Firstly, all responsibilities in the field of social security were initially in the hands of the cantons. Empowering the central state with competencies in the field of social policy took a lot of time, since all constitutional amendments had to pass an obligatory referendum. In addition, the initial distribution of responsibilities gave rise to policy pre-emption at the local and cantonal level. This "patchwork quilt" of local social security arrangements had a twofold future orientation: On the one hand, federalism is a source of innovation. The best evidence is found in the heterogeneity of local welfare arrangements and specifically in the pioneering role that some cities have played in the promotion of public welfare programmes. On the other hand, this heterogeneity generated a powerful policy inheritance, which considerably affected subsequent social policy. Since a lot of interests focused around these systems and direct democracy enabled the articu-

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TABLE 5: *Lag effect of obligatory and optional referenda with respect to introduction of core branches of social insurance.*

Social insurance branch	Adoption of constitutional amendment	First draft	Δ[a]	Optional referendum	Second draft	Enforcement of law	Lag[b]	Time-lag due to referendum
Old age	1925	1931	6	1931	1946	1948	23	17
Sickness	1890	1899	9	1900	1911	1914	24	14
Accident	1890	1899	9	1900	1911	1918	28	18
Invalidity	1925	1959	34	None	–	1960	35	–
Unemployment	1947	1951	4	None	–	1952	5	–
Family allowances	1945	1952	7	None	–	1953	8	–
Occupational pensions	1972	1982	10	None	–	1985	13	–
Maternity leave	1945	1987	42	1987	1998	?	>50	>10

Note: cf. Gilliand and Rossini (1997, 42).
a = Difference between constitutional amendment and first bill.
b = Difference between constitutional amendment and enforcement of law.

lation of resistance, federal welfare programmes which tried to set up centralist and etatist social insurance, were challenged with the referendum which has proved to be the second cause for the late establishment of social insurance. Table 5. reports the total lag effecting from two-step-legislation with respect to the adoption of social insurance.

5.2 *Institutional effects on welfare state patterns*

Three main effects of federalism and direct democracy on the structural profile of social policy can be singled out. Firstly, instead of realising a class-based Bismarckian health insurance, the federal government had to take care of the decentralised social policies and the interest groups backing them. Impressed by the rejection of state-interventionist social security legislation, the *Bundesrat* was forced to choose policies based on a more minimal form of state intervention (Immergut 1992): The federal state was constrained to set up a legislatory framework regulating minimum standards and providing subsidies to the traditional, private carriers. The pre-existing policy patterns carried by private suppliers were largely preserved under this mode of governance. As a result, the referendum has geared social insurance towards a liberal trajectory.

Secondly, the lack of comprehensive federal social policy induced by the defeat of several social policy projects was compensated by private welfare organisations. Since the federation's policies were vetoed, the central government, as well as the cantons, began to subsidise the social security programmes of these private carriers. This led to the emer-

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gence of a peculiar public-private mix in the field of social policy (Butschi/Cattacin 1993). Thirdly, the referendum supported the adoption of universal insurance (*Volksversicherung*), instead of employment-related insurance branches. It is difficult in a referendum democracy to differentiate between those who have to pay and those who receive benefits, since taxpayers are naturally prone to veto a social security system which is funded by tax revenues but does not honour the principle of reciprocity. Such considerations were in fact taken into account by the *Bundesrat* when old age insurance was designed (cf. BBl 1924 II, 731–2). As a result, the whole population is covered by retirement and invalidity insurance and since 1994, by sickness insurance. Finally, some fields of social security remained the responsibility of the cantons, namely the programmes providing means-tested benefits, like social assistance and unemployment assistance, which have successfully been defended against the federation's efforts to interfere. However, the local and cantonal responsibility in this field is the source of a fragmented and confusing system of income maintenance which is, from a comparative perspective, largely discretionary as regards qualifying conditions, scope of benefits, social control, and procedural rules (Eardley *et al.* 1996). On the other hand, this system is very elastic and is tailored to the specific needs and problems that each canton faces.

5.3 Expenditure

Direct democracy is an effective instrument to handcuff the Leviathan (Wagschal 1997) or – in the terminology of the public-choice literature – to break cartels of rent-seeking politicians (Frey and Bohnet 1993). This particularly holds true for the level of public expenditure. Referenda and federalist power-sharing are impediments to strong welfare statism, since the referendum has strong braking effects on public expenditures. The federation's ability to levy taxes has thus always been extraordinarily weak in Switzerland. After the federation in step-by-step fashion had been empowered to regulate social insurance, fiscal and social policy responsibilities increasingly failed to coincide. Cantons in turn were often reluctant to give up tax powers or to transfer tax revenues to the federation. This had three important consequences on welfare statism. Firstly, costs of funding social insurance were externalised to parafiscal households. As a result, social insurance is predominantly funded by means of contributions, whereas the option of realising a national health service, as well as a tax funded pension system, was rejected by the federal government. Secondly, the lack of sufficient financial resources postponed the adoption of several

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branches of social insurance. The most striking example is invalidity insurance which was delayed for 35 years due to financial shortcomings. Finally, the evolution of social policy was strongly tied to the performance of tax revenues, since deficit spending is despised among the bourgeois parties and the people. Since the federation's right to levy taxes on income has always been temporary and because of the defeat of several attempts to reform public finances or to introduce new taxes, the public spending level for social policy is low in international comparison.

5.4 Conclusion

Political institutions are of great importance in understanding the evolution of the Swiss welfare state from a comparative viewpoint, although they represent only one of the driving forces behind the development of Swiss social policy. Strong countermajoritarian barriers have strong braking effects for social policy development and not only favour a lean welfare state, but also block, from a more general perspective, the expansion of state interventionist policies. These findings correspond closely to results elaborated by political-institutionalist welfare state research on the belated welfare state formation in democracies with a high degree of power fragmentation. The path of early consolidation of Switzerland's welfare state is in line with the creeping welfare state development in the United States and Canada. However, the different conceptions of federalism and the interconnection with other polity characteristics have induced different policy effects in each country. In Switzerland it is the interplay between federalism and direct democracy which reduces the room for manoeuvre of politicians, whose capacity to act is in addition limited by the various bargaining arenas of Swiss corporatism and consociationalism. With respect to social policy, both expansion and retrenchment of social security are difficult to implement. This generates high policy stability and incremental policy development. However, this slow-down of decisionmaking does not necessarily affect the innovation capacity and the quality of legislation, as is often hypothesised by some Swiss political scientists. Federalism and the popular initiative are actually important institutional channels favouring innovation, as was demonstrated by the pioneering social security legislation of cities and cantons in the late 19th century. It is therefore useful to distinguish between the speed of policy change and innovation capabilities. The incremental development of Swiss social policy is in line with the veto player theory of Tsebelis (1995). Westminster democracies are conducive to major short-term policy

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shifts, compared with consociational democracies and countries with a high degree of institutional pluralism. With respect to the capabilities of policy innovation, the "quality" of legislation, the story seems to be less clear-cut. This issue might be an interesting topic for future research.

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