

## Notes and Comments

### **The Contradictory Effects of Consensus Democracy on the Size of Government: Evidence from the Swiss Cantons**

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In this research note we have set ourselves the following three principal objectives. First, we show that the well-known concept of consensus democracy,<sup>1</sup> which covers various forms of the division of power, involves analytical problems. Confusion may arise when relating consensus democracy to government action, because the institutions subsumed under the broad concept of consensus democracy, such as executive power-sharing, the multiparty system and federalism, are likely to have different and contradictory effects on the size of government. In this vein, we provide considerable evidence that different aspects of consensus democracy have contradictory effects on government size. In doing so, we endorse the view that it is only variance in the type of democracy (majoritarian versus consensus democracy) that causes systematic differences in government action.<sup>2</sup> Secondly, in scrutinizing the contradictory effects of various aspects of consensus democracy on government size, we distinguish and operationalize the three different analytical views of Crepez, Lijphart and Tsebelis on how political institutions may be distinguished with regard to their veto nature.<sup>3</sup> Thirdly, we try to close a gap in understanding comparative politics, by quantifying and comparing the veto potential of direct democracy. International comparative investigations of the effects of direct democracy on public policy are hardly possible. The Swiss cantons present themselves as a suitable alternative source of evidence, given that they vary considerably with respect to their plebiscitary elements.

To understand why consensus democracies have a contradictory effect on government size, it is crucial to bear in mind that there are two separate dimensions of the majoritarian–consensual contrast.<sup>4</sup> The first is based on five variables, which include the party system, the electoral system and government coalitions, and it is called the joint-power (or executive-parties) dimension; the second is based on five variables and may be conveniently labelled the divided-power (or federal–unitary) dimension.

According to Taagepera, Lijphart’s two dimensions are very different in kind.<sup>5</sup> They differ in the nature of the indices used, in the existence of logical models to connect the indices and in the number of entry points of the institutional structure. Our main hypothesis is that the two dimensions of

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<sup>1</sup> Arend Lijphart, *Democracies. Patterns of Majoritarian and Consensus Government in Twenty-One Countries* (New Haven, Conn.: Yale University Press, 1984); Arend Lijphart, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries* (New Haven, Conn.: Yale University Press, 1999).

<sup>2</sup> Klaus Armingeon, ‘The Effects of Negotiation Democracy’, *European Journal of Political Research*, 41 (2004), 81–105; Margrit Tavits, ‘The Size of Government in Majoritarian and Consensus Democracies’, *Comparative Political Studies*, 37 (2004), 340–9.

<sup>3</sup> Markus M. L. Crepez, ‘Global, Constitutional, and Partisan Determinants of Redistribution in Fifteen OECD Countries’, *Comparative Politics*, 35 (2002), 169–88; Lijphart, *Patterns of Democracy*; George Tsebelis, *Veto Players: How Political Institutions Work* (Princeton, N.J.: Princeton University Press, 2002).

<sup>4</sup> Lijphart, *Patterns of Democracy*, pp. 243ff.

<sup>5</sup> Rein Taagepera, ‘Arend Lijphart’s Dimensions of Democracy: Logical Connections and Institutional Design’, *Political Studies*, 51 (2003), 1–19.

consensus democracies differ not only in relation to their logical interconnections and their susceptibility to institutional design, but also in their effect on the size of government: on the one hand, the first dimension of consensus democracies has been claimed to show a tendency towards state expansion due to executive power-sharing, proportional representation and the multiparty system.<sup>6</sup> On the other hand, government policy making in the second dimension of consensus democracies is supposed to be restricted, due to the fact that the numerous veto points provided by federalism and decentralization force the actors to restrict their influence on government expenditure.

The first part of our hypothesis would appear to be at odds with the veto player theory, which argues that the higher the number of (partisan and institutional) veto players is, the more difficult it is to change the status quo, which in turn limits the capacity of the state to expand.<sup>7</sup> Following Crepaz, we argue, in contrast, that there are two different kinds of veto player with contradictory effects on policy outcomes:<sup>8</sup> as far as *institutional* veto players – separate agencies with mutual veto powers, as in federalism and direct democracy – are concerned, one would indeed expect them to restrain government. Here, political power is diffused by means of institutional separation and mutual veto power, leading to deadlock and a restrictive effect. In connection with this kind of veto player, Crepaz uses the term ‘*competitive veto points*’.<sup>9</sup>

However, the opposite is true for *partisan* veto players, such as parties in a coalition government or parties in multi-party legislatures. Parties in oversized coalitions share collective authority and interact with each other on a face-to-face-basis without the protection of separate institutions with respective veto powers. Among partisan veto players, there is an inherent bias for all the coalition partners to pursue expansionary policies through logrolling. The parties have to deal with each other on an ongoing basis, but at the same time they have distinct constituencies with distinctive preferences. All in all, coalition governments and multiparty legislatures have less capacity to exercise restraint in government expenditure. Crepaz uses the term ‘*collective veto points*’<sup>10</sup> in connection with this second type of veto player. Obviously, the distinction between the two dimensions of consensus democracy corresponds closely to Crepaz’s concepts of collective and competitive veto points,<sup>11</sup> in the sense that the first dimension (executive–parties) is more or less identical with ‘collective veto points’, whereas in the second dimension (federal–unitary) there are ‘competitive veto points’. On the one hand, a high score on collective veto points results when different parties share power within a single body; on the other hand, constitutional features such as decentralization and direct democracy create competitive veto points by allowing agents controlling different bodies to prevent policies being enacted. Collective veto points lead to more shared responsibility, extended negotiation and logrolling, which should have an expansive effect on government expenditure; whereas competitive veto points, based on each agent’s respective veto powers, should have the capacity to restrain government.

Bringing together the different theoretical concepts of consensus democracy, the veto player and veto points enables us to state our main hypothesis more precisely:<sup>12</sup> on the one hand, elements of

<sup>6</sup> Lijphart, *Patterns of Democracy*, pp. 245 ff.

<sup>7</sup> George Tsebelis, ‘Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism’, *British Journal of Political Science*, 25 (1995), 289–325; Tsebelis, *Veto Players*.

<sup>8</sup> Crepaz, ‘Global, Constitutional, and Partisan Determinants of Redistribution’, p. 173.

<sup>9</sup> Crepaz, ‘Global, Constitutional, and Partisan Determinants of Redistribution’, p. 173.

<sup>10</sup> Crepaz, ‘Global, Constitutional, and Partisan Determinants of Redistribution’, p. 173.

<sup>11</sup> Crepaz, ‘Global, Constitutional, and Partisan Determinants of Redistribution’.

<sup>12</sup> Lijphart, *Democracies*; Lijphart, *Patterns of Democracy*; Tsebelis, ‘Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism’; Tsebelis, *Veto Players*; Ellen Immergut, *Health Politics: Interests and Institutions in Western Europe* (Cambridge: Cambridge University Press, 1992); Crepaz, ‘Global, Constitutional, and Partisan Determinants of Redistribution in Fifteen OECD Countries’.

the joint power dimension of consensus democracy, partisan veto players and collective veto points, such as multiparty government coalition and multiparty legislature, promote the size of the state. On the other hand, features of the divided power dimension of consensus democracies, institutional veto players and competitive veto points, like federalism, decentralization and direct democracy, act as a brake on the size of government.

#### DATA, VARIABLES AND METHOD

This research note investigates variance in the size of government among the twenty-six Swiss cantons during the decade from 1990 to 2000. Switzerland's cantons are ideally suited for a systematic empirical comparison because they meet the requirements of 'most-similar cases' design:<sup>13</sup> on the one hand, the cantons show a substantial degree of similarity with respect to consolidated structural elements, while on the other they differ considerably as regards executive power sharing, the fragmentation of the party system and the decentralization of fiscal powers. It is potentially less difficult to create *ceteris paribus* conditions for a systematic comparison of cantonal systems than for a cross-national comparison, since the cantons have many characteristics in common that can be treated as constants. Furthermore, international comparative research has shown that Switzerland is one of the world's most decentralized federal states.<sup>14</sup> Article 3 of the Swiss federal constitution guarantees the cantons' sovereignty in all spheres which the constitution does not explicitly place within federal government competence. Moreover, tax sovereignty lies primarily with the cantons and secondarily with the federal government. This justifies the treatment of the cantons as sovereign units in this analysis. Finally, the Swiss cantons offer a unique opportunity to quantify and compare the veto potential of direct democracy.<sup>15</sup> This would hardly be possible at national level as the large majority of modern industrial states are parliamentary democracies.<sup>16</sup>

We test our main hypothesis on the basis of pooled cross-sectional time series models.<sup>17</sup> The *explained variable* is the size of government, which is measured by two indicators, namely total

<sup>13</sup> Adam Przeworski and Henry Teune, *The Logic of Comparative Social Inquiry* (New York: Wiley, 1970). Some eminent scholars of comparative politics have long been demanding that the results of international comparative research should be verified at the sub-national level (see Arend Lijphart, 'Comparative Politics and the Comparative Method', *American Political Science Review*, 65 (1971), 682–93). In his preface to Vatter's study (Adrian Vatter, *Kantonale Demokratien im Vergleich: Entstehungsgründe, Interaktionen und Wirkungen politischer Institutionen in den Schweizer Kantonen* (Opladen: Leske and Budrich, 2002) p. 3), Lijphart makes the following statement about the author's research design: 'The justification of focusing on the Swiss cantons is especially strong because they are powerful political entities in an unusually decentralized federation. Another advantage is that there are 26 cantons – a sufficient number of cases for statistical analysis.' See Appendix table for details of each canton.

<sup>14</sup> Mikhail Filippov, Peter C. Ordeshook and Olga Shvetsova, *Designing Federalism: A Theory of Self-sustainable Federal Institutions* (Cambridge: Cambridge University Press, 2003); David McKay, *Designing Europe: Comparative Lessons from the Federal Experience* (Oxford: Oxford University Press, 2001).

<sup>15</sup> Manfred G. Schmidt, *Demokratiethorien* (Opladen: Leske & Budrich, 2000), p. 350.

<sup>16</sup> David Butler and Austin Ranney, *Referendums Around the World: The Growing Use of Direct Democracy* (London: Basingstoke, 1994).

<sup>17</sup> The difficulties of this design are heteroscedasticity and autocorrelation. To eliminate heteroscedasticity, we compute panel-corrected standard errors. The bias from serial correlation in the residuals is, however, actually more important (cf. Nathaniel Beck and Jonathan N. Katz, 'What to Do (and Not to Do) With Time Series Cross Section Data', *American Political Science Review*, 89 (1995), 634–47; Bernhard Kittel and Hannes Winner, 'How Reliable Is Pooled Analysis in Political Economy: The Globalization–Welfare State nexus revisited', *European Journal of Political Research*, 44 (2005), 269–93). One way of modelling autocorrelation is to include lagged dependent variables among the explanatory variables. However, in this way, the actual significance of the institutional variables of interest will be underestimated. In line with Kittel (Bernhard Kittel, 'Sense and Sensitiveness in Pooled Analysis of Political Data', *European Journal of Political Research*, 35 (1999), 225–53, pp. 230f), we therefore use the Prais–Winsten method to adjust the biased standard errors. Due to the small number

public expenditure and total public revenue in per capita terms. Our figures correspond to the sum of annual cantonal and municipal state expenditure as reported by the Federal Finance Administration.<sup>18</sup> Thus, we concentrate on the usual core variables of government size as used in cross-national public policy research by Armingeon, Lijphart and Schmidt.<sup>19</sup>

The independent variables are specified as follows: consensus democracy of the first dimension (collective veto points; partisan veto player) has been translated into two measurable and observable variables. Crepaz and Lijphart take the size of the governing coalition to reflect the extent to which different political and social groups are integrated in the executive (grand coalition).<sup>20</sup> To measure the scope of the government coalition, we choose an index which consists of the share of seats of governmental parties in the cantonal parliament (divided by 100) plus the number of these parties. The second indicator is Rae's index of fragmentation of the party system,<sup>21</sup> computed on the basis of the different parties' shares of seats in the cantonal parliaments. Our calculations rely on an annual Swiss publication.<sup>22</sup> In these two measures we have included the most pivotal variables of the first dimension of Lijphart's concept of consensus democracy in our analysis.<sup>23</sup>

Consensus democracy of the second dimension (competitive veto points; institutional veto player) has been translated into three measurable and observable variables. The degree of decentralization is measured by an indicator of fiscal centralization developed by analogy with Lijphart's measure and also used by Castles, Lane/Ersson, Keman and Schmidt.<sup>24</sup> It denotes the tax revenue of the canton as a percentage of the total tax revenue of the canton and the municipalities. The tax-share measure is based on the reasonable assumption that the scope of the activities of the central (cantons) and non-central government (municipalities) can be measured in terms of their revenues. The corresponding data was provided by the Federal Finance Administration. The influence of direct democracy on the size of public sector is specified by two variables. First, the formal institutions of direct democracy are measured via the index of financial referendums defined by Stutzer and Frey,<sup>25</sup> which includes the number of signatures required to be collected, the deadline

(*F*'note continued)

of observations, only one  $\rho$  was calculated for the whole estimate. In addition, the values of the Variance Inflation Factor (VIF) obtained in the tests are tolerable, so that multicollinearity is not a cause for concern.

<sup>18</sup> As the division of power between the cantonal and municipal level varies from canton to canton, the data has been aggregated for the sake of comparability (Christoph A. Schaltegger, 'Ist der Schweizer Föderalismus zu kleinräumig?', *Swiss Political Science Review*, 7 (2001), 1–18). The figures denote per capita spending after deducting the contributions from the federation, as quoted by the functional division of the Swiss Federal Statistical Office (Swiss Federal Statistical Office, *Statistisches Jahrbuch der Schweiz* (Bern/Zürich: NZZ Verlag, various volumes).

<sup>19</sup> Klaus Armingeon, 'Konkordanzzwänge und Nebenregierungen als Handlungshindernisse', *Swiss Political Science Review*, 2 (1996), 277–303; Lijphart, *Patterns of Democracy*; Manfred G. Schmidt, 'When Parties Matter: A Review of the Possibilities and the Limits of Partisan Influence on Public Policy', *European Journal of Political Research*, 30 (1996), 155–83; Schmidt, *Demokratiethorien*.

<sup>20</sup> Markus M. L. Crepaz, 'Consensus Versus Majoritarian Democracy: Political Institutions and their Impact on Macroeconomic Performance and Industrial Disputes', *Comparative Political Studies*, 29 (1996), 4–26, p. 9; Lijphart, *Patterns of Democracy*, pp. 65ff.

<sup>21</sup> Douglas W. Rae, 'A Note on the Fractionalization of Some European Party Systems', *Comparative Political Studies*, 1 (1968), 413–18.

<sup>22</sup> *Année politique Suisse, Schweizerische Politik* (Bern: Institute of Political Science, 1990ff).

<sup>23</sup> Lijphart, *Patterns of Democracy*, pp. 62f.

<sup>24</sup> Lijphart, *Democracies*; Lijphart, *Patterns of Democracy*, p. 193; Francis G. Castles, 'Decentralization and the Post-War Political Economy', *European Journal of Political Research*, 36 (1999), 27–53; Jan Erik Lane and Svante O. Ersson, 'Is Federalism Superior?' in Bernard Steunenbergh and Frans A. van Vught, eds, *Political Institutions and Public Policy: Perspectives on European Decision Making* (Dordrecht: Kluwer Academic Publishers, 1997), pp. 85–113; Hans Keman, 'Federalism and Policy Performance', in Ute Wachendorfer-Schmidt, ed., *Federalism and Political Performance* (London: Routledge, 2000), pp. 196–227; Schmidt, *Demokratiethorien*.

<sup>25</sup> Alois Stutzer and Bruno Frey, 'Stärkere Volksrechte – Zufriedenere Bürger: eine mikroökonomische Untersuchung für die Schweiz', *Swiss Political Science Review*, 6 (2000), 1–30, p. 25.

for submitting them and the level of expenditure, which can be challenged in a referendum. The authors claim that the index reflects the barriers to direct citizen involvement in fiscal matters that exist in the different cantons. However, there is evidence that the existence of formal rights of citizen participation does not necessarily mean that these rights will be exercised.<sup>26</sup> Therefore, we examine the effect of the use of the instruments of direct democracy in practice alongside formal institutional design. The variable of the actual use of direct democracy denotes the annual number of financial referendums in a canton. The data for both variables is based on Moser and the *Schweizerische Politik*.<sup>27</sup>

In addition to the above, we use prominent theories in cross-national public policy research to identify the relevant control variables. The class and partisan approach stresses the importance of the party composition of the government. Therefore, the first control variable is the percentage of left-wing parties (social democrats and greens) in the cantonal governments, calculated on the basis of the data in *Schweizerische Politik*.<sup>28</sup> The hypothesis of socio-economic determination puts the following variables at the centre of the analysis: the degree of urbanization (proportion of inhabitants living in urban areas), the unemployment rate and the population aged over 64 as a proportion of those between 20 and 64 years. The source of all these figures is the Swiss Federal Statistical Office.<sup>29</sup> Moreover, we include the annual percentage growth of the economy in the calculations. The socio-cultural dimension, which is relevant in the context of the Swiss cantons, is represented by a language variable.<sup>30</sup> Finally, a comparison of sub-national units needs to take

TABLE 1 *Variables, Hypotheses and Measurement*

Independent variable (indicator)	Hypothesis ( <i>ceteris paribus</i> )	Measurement of the independent variable	Expected sign of coefficient
Party system fragmentation	The more the party system is fragmented, the higher the structural pressure for negotiation, the larger will be the public sector.	Rae's index of fragmentation of the party system	Positive
Index of government coalition	The higher the number of parties in the executive and the stronger its parliamentary support, the larger will be the public sector.	Share of seats of governmental parties in the cantonal parliament (divided by 100) plus the number of these parties	Positive
Institutions of direct democracy	The easier the access to the right of financial referendum, the smaller will be the public sector.	Index of financial referendums by Stutzer and Frey (low values correspond to high institutional barriers)	Negative

<sup>26</sup> Cf. Markus Freitag and Adrian Vatter, 'Direkte Demokratie, Konkordanz und wirtschaftliche Leistungskraft: Ein Vergleich der Schweizer Kantone', *Swiss Journal of Economics and Statistics*, 136 (2000), 579–606, p. 603.

<sup>27</sup> Christian Moser, *Abstimmungen, Initiativen und fakultative Referenden in den Kantonen* (Bern: FSP, 1990ff); *Année politique suisse, Schweizerische Politik*.

<sup>28</sup> *Année politique suisse, Schweizerische Politik*.

<sup>29</sup> Swiss Federal Statistical Office, *Statistisches Jahrbuch der Schweiz*.

<sup>30</sup> The results of federal votes have recurrently shown that the citizens in the German-speaking part of Switzerland tend to prefer a liberal and subsidiary state, while French and Italian speakers approve a more statist model. We expect a negative correlation between the proportion of German speakers and the extent of the public sector in a canton.

TABLE 1 *(Continued)*

Independent variable (indicator)	Hypothesis ( <i>ceteris paribus</i> )	Measurement of the independent variable	Expected sign of coefficient
Use of direct democracy	The more often the financial referendum is used, the smaller will be the public sector.	Number of financial referendums per year	Negative
Fiscal centralization	The more centralized a canton in fiscal terms, the larger will be the public sector.	Tax revenue of the canton as a percentage of the total tax revenue of the canton and the municipalities (high values correspond to strong centralization)	Positive
Left-wing parties in government	The higher the proportion of left-wing parties in the executive, the larger will be the public sector.	Percentage of left-wing parties (social democrats and greens) in the cantonal executive	Positive
Proportion of the elderly	The higher the proportion of the elderly in the population, the larger will be the public sector.	Persons aged over 64 in proportion to the 20 to 64-year-olds in the population (log)	Positive
Unemployment rate	The higher the proportion of the unemployed, the larger will be the public sector.	Unemployment rate (square root)	Positive
Economic growth per capita	The higher the economic growth in a canton, the larger will be the public sector.	Annual per capita percentage change in cantonal real gross domestic product	Positive
Degree of urbanization	The more urbanized a canton, the larger will be the public sector.	Share of inhabitants living in urban areas	Positive
Monetary transfers from the federation	The higher the redistributive transfers from the federation, the larger will be the public sector.	Annual real per capita transfers from the federation to the canton and its municipalities (log)	Positive
German-speaking majority	Cantons with a German-speaking majority have a smaller public sector than cantons with a majority of French and Italian speakers.	Dummy variable that takes on the value '1' for the German-speaking and '0' for the other cantons.	Negative

*Note:* See text for the data sources of the variables.

into account the transfers carried out in the context of the redistribution of income within the federation. Based on data from the Federal Finance Administration, we therefore include the real per capita transfers from the federation to the cantons and municipalities.

All the variables have been compiled on an annual basis. For reasons of causality and for theoretical considerations, the explanatory variables are assumed to take effect after a lag of one period, provided that they vary over time. Table 1 gives an overview of the different variables, their measurements and the correlations that are to be expected.

#### EMPIRICAL FINDINGS

We have estimated two models in order to test the impact of the potential determinants on differences in public sector size.

Table 2 reports the following results for the period from 1990 to 2000: in principle, we have corroboration of the postulated hypothesis that different aspects of consensus democracy have opposite effects on the size of government. The influence of the central factors, i.e. executive power-sharing, party-system fragmentation, decentralization and direct democracy, goes in the expected direction and is significant in terms both of revenue and of expenditure in almost all estimations. Extensive rights of direct citizen participation and a decentralized state structure have a curbing effect on the public sector, whereas collective veto points (e.g. a multiparty system and a grand coalition) lead to state expansion.

TABLE 2 *Pooled Time Series Models of the Determinants of Public Sector Size in the Swiss Cantons, 1990–2000*

Variable	State revenue per capita (log)	State expenditure per capita (log)
Constant	7.38	8.04
Party system fragmentation $t-1$	0.05*** (0.01)	0.04*** (0.01)
Index of government coalition $t-1$	0.02* (0.01)	0.02* (0.01)
Institutions of direct democracy $t-1$ (cf. Stutzer and Frey 2000)	-0.02** (0.01)	-0.02*** (0.00)
Use of direct democracy $t-1$ (financial referendums)	-0.01 (0.02)	-0.08*** (0.03)
Fiscal centralization $t-1$	0.04*** (0.01)	0.04*** (0.01)
Left-wing parties in government $t-1$	0.01 (0.01)	-0.06 (0.06)
Proportion of the elderly (log)	0.25*** (0.09)	0.41*** (0.07)
Economic growth per capita $t-1$	-0.03 (0.02)	-0.06** (0.03)
Unemployment rate $t-1$	0.05 (0.07)	0.02* (0.01)
Degree of urbanization	0.05*** (0.01)	0.04*** (0.01)
Transfers from the federation (log) $t-1$	0.10*** (0.03)	0.13*** (0.03)
German-speaking majority	-0.02 (0.04)	0.04 (0.04)
$\rho$	0.76	0.63
Number of observations	286	286

Notes: Non-standardized regression coefficients with panel-corrected standard errors in parentheses; \*Significant at the 10% level (two-tailed test); \*\*Significant at the 5% level (two-tailed test); \*\*\*Significant at the 1% level (two-tailed test).

In three of four cases, the instruments of direct democracy clearly confine the public sector, measured in terms of tax revenue and public expenditure, in a statistically significant manner. The more difficult it is to launch a financial referendum and the less frequently this is actually done, the higher public expenditure will be. Policies for the benefit of one particular social group and that entail high expenditure tend to fail in popular votes, given the fiscally conservative preferences of the majority of the electorate. However, we do not see the Robin Hood effect arising from strong (re)distributive preferences in the electorate in our results.<sup>31</sup> Contrary to the postulated positive association between direct citizen involvement and tax rates, state revenue is negatively correlated with the right to hold a fiscal referendum.

With respect to decentralization, its restraining influence on policy makers is also confirmed. The more decentralized the cantons are in fiscal terms, the smaller the public sector will be. State revenue and expenditure are evenly affected by fiscal federalism: they both decrease with an increase in municipal autonomy.

Unlike the vertical division of power, the horizontal division of power inherent in consensus arrangements promotes state expansion. Both indicators of the collective veto points have a significant impact on state revenue and on state expenditure in this analysis.<sup>32</sup> In this vein, both executive power sharing and the mechanism of extensive logrolling in multiparty legislatures boost the size of the public sector in the Swiss cantons. With regard to the partisan composition of government, an increase in the share of left-wing parties in government does not lead to more interventionism, either on the expenditure or on the revenue side. As to the socio-economic variables, they seem to play a major role. Thus, the age structure of the population and urbanization are important determinants of government revenue and spending. Government expenditure, in particular, depends on further socio-economic factors, namely on economic growth and on the unemployment rate. Finally, monetary transfers from the federation turn out to be significant on both sides of the cantonal account.

#### CONCLUSION

This research note's starting point was the hypothesis that the two dimensions of consensus democracy have opposite effects on the size of government. This hypothesis has been substantiated with respect to the Swiss cantons in the period between 1990 and 2000. Essentially, we have found that institutional barriers to majority rule and features of multipartism are two distinct dimensions of consensus democracies that have contradictory effects on the size of the public sector. Elements that are also termed 'competitive veto points' (or 'institutional veto players'), such as decentralization and direct democracy, fetter the state not only in terms of revenue but also of expenditure. By contrast with studies of veto player theory, collective veto points (or partisan veto players), such as oversized government coalitions or multiparty legislatures, tend to facilitate public sector expansion. In general, our findings demonstrate that consensus democracies comprise two kinds of veto points, both of which signify power diffusion and which have opposing effects on government action.

<sup>31</sup> Cf. Uwe Wagschal, 'Direct Democracy and Public Policymaking', *Journal of Public Policy*, 17 (1997), 223–45, p. 224.

<sup>32</sup> Cf. Vicki Birchfield and Markus M.L. Crepaz, 'The Impact of Constitutional Structures and Collective and Competitive Veto Points on Income Inequality in Industrialized Democracies', *European Journal of Political Research*, 34 (1998), 170–200; Lijphart, *Patterns of Democracy*; Manfred G. Schmidt, *Sozialpolitik in Deutschland: Historische Entwicklung und internationaler Vergleich* (Opladen: Leske and Budrich, 1998).



APPENDIX TABLE *Political Institutions of the Swiss Cantons (1990–2000)*

	Institutional index of financial referendum	Total number of financial referendums	Tax revenue of the canton as % of the total tax revenue	Index of government coalition	Fraction- alization of the party system
Argovia (AG)	4.5	3.0	54.1	4.8	81.6
Appenzell Outer Rhodes (AR)	4.0	6.0	49.1	3.5	50.0
Appenzell Inner Rhodes (AI)	3.0	17.0	49.8	2.5	50.0
Basle-Country (BL)	4.8	17.0	66.4	4.0	80.4
Basle-City (BS)	4.3	18.0	95.2	5.3	85.9
Berne (BE)	4.8	19.0	50.2	3.8	76.1
Fribourg (FR)	2.4	8.0	52.5	4.8	77.6
Geneva (GE)	2.8	6.0	78.3	4.6	81.6
Glarus (GL)	4.0	10.0	82.5	4.9	76.9
Grisons (GR)	4.0	10.0	51.3	4.2	73.0
Jura (JU)	2.6	3.0	50.0	4.1	75.9
Lucerne (LU)	4.1	8.0	47.0	3.9	66.9
Neuchâtel (NE)	1.6	9.0	55.1	3.8	71.2
Nidwalden (NW)	5.0	16.0	46.1	3.2	60.7
Obwalden (OW)	5.0	3.0	33.5	3.8	50.7
Schaffhausen (SH)	4.8	18.0	52.0	3.9	79.6
Schwyz (SZ)	4.5	3.0	45.5	3.9	66.6
Solothurn (SO)	5.5	9.0	47.9	3.9	72.1
St. Gall (SG)	3.6	8.0	51.7	3.8	75.7
Thurgovia (TG)	4.8	14.0	47.7	4.8	81.2
Ticino (TI)	2.8	3.0	60.3	4.5	75.9
Uri (UR)	4.8	14.0	61.3	4.0	58.7
Valais (VS)	1.0	2.0	51.3	3.9	59.6
Vaud (VD)	3.0	5.0	59.7	5.5	76.3
Zug (ZG)	4.0	4.0	47.8	5.2	69.6
Zurich (ZH)	4.0	16.0	47.3	5.6	80.2

*Note:* The higher the index of financial referendums, the lower the barriers for citizens entering the political process. The higher the index of government coalition, the more a given canton fits consensus democracy criteria.