Switzerland’s political performance compared: determinants of a success story\textsuperscript{1}

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Abstract: In comparisons of OECD member countries, Switzerland receives top marks on central indicators of political performance such as the rate of unemployment, the inflation rate and general government net debt interest payment. Focusing on the period from 1990 to 2012, this essay examines the sources and causes of this success story, drawing not only on hypotheses and data that are specific to Switzerland but also on explanatory approaches that compare Switzerland to other wealthy democracies. Of the several key items involved – including the institutional, procedural and actor-related characteristics of Switzerland – the variables that have proven to be most important are those contributing to policy area-specific explanations (such as central bank autonomy, distributional conflict and fragmentation of fiscal policy), as well as indicators of social partnership in industrial relations and the distribution of power between political parties.

1. Switzerland’s success story: a high level of political performance

Switzerland is an exciting case for comparative political science. Its political institutions and political processes make it almost the archetype of the federalist consociational or consensus democracy. Accordingly, Switzerland has come to represent one of the alternatives to majoritarian democracy (Lehmbruch 1967, Lijphart 2012, Vatter 2008). In addition, Switzerland’s political institutions have been marked by a much higher level of direct democracy than in other countries (Vatter 2009, 2014). The Swiss Confederation can also boast of its very good marks in terms of Adam Smith’s “wealth of nations” and in terms of a number of policy outputs and policy outcomes. As measured by its per capita Gross Domestic Product (GDP), Switzerland is one of the richest countries in the world, and for this reason alone, the standard of living in the Swiss Confederation is very high. But beyond this, the high per capita GDP makes it possible for the government to provide a high level of benefits, even though the share of Swiss government expenditure as a percentage of gross domestic product is relatively low in comparison to other countries. The moderately high share of government expenditures as a percentage of gross national product and the moderate level of social spending (measured by public social expenditure as a percentage of GDP) signal that public policy in Switzerland – at least in regards to taxation and spending – is more tightly controlled and more solidly financed than in most of the other OECD member countries. The relatively low costs of government debt also point towards this conclusion. Switzerland’s performance record is nothing less than spectacular when it comes to employment and its anti-inflationary measures. For many years, Switzerland has distinguished itself with its low unemployment rate. This is especially remarkable because the country has a very high labour force participation rate while also having a low rate of
economic growth. What is equally remarkable is that, at the same time, Switzerland can boast of having a low rate of inflation – as if there could not possibly be a conflict between the unemployment rate and the rate of inflation (see figures 1 through 4 in the appendix).

As if that were not enough, the citizens of Switzerland also have a much higher than average appreciation for their government’s performance, according to the most recent OECD report *Government at a Glance* (2013a). In the category “approval of country leadership”, the Swiss Confederation received a top ranking (OECD 2013a: 33). This correlates with a very high level of trust in the federal government (“confidence in national government”; ibid.).

Taken together, these are the marks of a Swiss success story that is the envy of many other peoples and governments. This success is not limited to the economy and to fiscal policies, though; social policy is also a major component. The low unemployment rate, for example, indicates more than just the successful mobilisation of the country’s working age population; it indicates also a high level of social integration of both foreign and native workers. Moreover, it frees the way for the “anonymous social policy of the market mechanism”, as Hans Rosenberg, one of the leading social historians, has cleverly described one of the nongovernmental paths to social protection (Rosenberg 1976: 217, translation by the author).

The low rate of inflation is also more than just the overcoming of a highly dangerous economic problem. It mirrors not only success in controlling inflationary pressure, it also embodies “social policy on quiet feet”:

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2 With an average annual increase in GDP (in real terms) of 2.7 per cent during the period from 1960 to 1990, Switzerland placed third to last in a comparison of OECD member countries, ahead of Great Britain and New Zealand (OECD 1992: 48). During the period from 1991 to 2013, the Swiss economy’s average annual rate of growth sank to 1.4 per cent, placing Switzerland seventh to last when compared to other OECD member countries (basis of calculation: OECD, Economic Outlook 2/2013, Paris 2013, and earlier editions of the Economic Outlook).

limited incomes are infrequently adjusted in response to price increases, and then only after a delay, their earnings are better protected by relative price stability than by moderate or high rates of inflation.

Switzerland’s comparatively solid state financing – as evidenced by its relatively moderate level of public debt and by a debt service rate that is among the lowest in the world – is not only respectable in terms of fiscal policy, but it also relatively sustainable and will place less stress on future generations than the fiscal policy of most of the other OECD member countries.

How can the successes among these policy indicators be explained? This question is easier to pose than to answer. Some approaches explain the Swiss success story by looking at characteristics specific to Switzerland; they will be covered in the second part of this essay. What has turned out to be more difficult is the search for approaches that are not satisfied with Swiss exceptionalism and that want to interpret the Swiss success story from the perspective of international comparison with other successful or unsuccessful rich democracies. The third part of this essay deals with this search.

2. **Switzerland-specific explanations for its success story**

The success story of Swiss public policy (as defined in the first part of this essay) does not fit the standard explanations provided by comparative public policy research, nor is it to be found in economics textbooks. The combination of relatively stable prices, near-full employment, a higher rate of labour force participation, relatively solid state finances in conjunction with manageable debt service and high wages poses a challenge to economics and political science.

Most of the experts have taken up this challenge and have developed explanations for the Swiss success story that have concentrated on features specific to Switzerland. Among these explanations, six approaches deserve to receive special attention:
1. Experts in the study of economic policy tend to explain Switzerland’s successes as being the result of unusually favourable economic conditions. The key concepts here include a competitive economy, agile businesspeople (especially in the export sector), employees who are highly qualified, disciplined and hard-working, and a mode of labour relations in which social partnership prevails. To this can be added a diversified economic structure that is less susceptible to crises than those of many large countries. Unlike Germany, for instance, Switzerland is not involved in the large, crisis-prone branches like coal-mining or the iron, steel and shipbuilding industries (Breiding and Schwarz 2001).

2. Switzerland’s success story has also been attributed to its political constellations. Of these, the political and cultural advantages arising from Switzerland being such a long-established democracy play a major role. These advantages include a political culture that emphasizes independence, a pro-business attitude and a sense of solidarity oriented towards the common good. Moreover, in this culture cooperation rather than confrontation is not merely a requirement for political institutions; it is also a principle that the overwhelming majority adheres to (Freitag 2014, Linder 2013, Traber 2013, Breiding and Schwarz 2011).

3. Switzerland’s democratic structures are part of the policy-centred explanations for its successes, particularly its expansive rights to political self-determination, on the one hand, and the pronounced decentralisation of the state, on the other. The effects of these institutions can best be captured using a process described by P.D. Culpepper (2010). In the case of political issues that are of little interest to the general public, there is a tendency for the private sector and for the economic policy of the state to asymmetrically distribute resources to the benefit of powerful economic interests. Economic activity and economic policy are only likely to yield significant benefit to the
general public when those issues are placed under public scrutiny, when they become “salient” to the public and when the public moves to assert its interests in the political arena. Only then will it be deemed worthwhile for policies to be put in place to ensure a symmetrical distribution of resources. This is exactly how the combination of representative and direct democracy with vibrant federalism works in Switzerland. This combination puts economic policy activities on permanent display for voters and the mass media, whose scrutiny becomes all the more intense when indicators that attract a great deal of attention and affect both society and the economy as a whole are at stake, such as unemployment, monetary stability and government financing.

4. The Federal Republic of Germany has recently come to be interpreted in the literature as a “power-sharing state” (Schmidt 2011: 497). In Switzerland, though, the sharing of political power has advanced even further (Vatter 2014). Switzerland profits to a great degree from potential advantages to negotiation democracy that arise from power sharing. An increase in power sharing leads to other changes: there are more opportunities to prevent hierarchical control and to nip attempts at governing over the heads of the opposition in the bud, and the most important individual and collective actors have stronger incentives to cooperate and are more likely to see the potential advantages to collaboration. When the most important political actors actually cooperate and draw from this experience that cooperation is worth their while, the prospects for predictable, stable and trust-based interactions increase. It is not only economic activities promoting prosperity that benefit from these interactions, but also activities that promote solidarity and that take heed of social balance. It is exactly these two types of activities that can be understood as forming one of the bases of Switzerland’s success in the areas of employment, monetary policy and fiscal policy.
5. Additional factors for explaining this success story are the business-friendly constellations of actors and the business-friendly distribution of political power in Switzerland. C. Trampusch and A. Mach (2011b), for example, have seen the special characteristics of the Swiss political economy in the interaction of three factors: the federal government’s limited political capacity, the greater power held by private actors to regulate themselves, and the political dominance of business-friendly parties that have close relationships with the management side. Some of the causes for the Swiss success story may also be found among these special characteristics. The management side and the centrist and right-wing parties have powerful forces on their side that promote the business-friendly configuration of monetary and fiscal policy, while the cooperative patterns in industrial relations do their part to ensure that business-friendly policies are accompanied by policies that have the goal of social balance and social cohesion.

6. The sixth explanatory approach postulates that Switzerland also profits from its flexible, undogmatic combination of market-friendly and interventionist policies. This unconventional combination of liberalism and protectionism includes a monetary policy stance calibrated to monetary stability as well as the safeguarding of property rights and the protection of special interests, for instance within the agriculture industry and also in the preferential treatment given to native workers in labour market policy (Schmidt 1985). Other elements that are part of Switzerland’s political mix include moderate fiscal policy and a labour market that, unlike that of many other OECD countries, offers comparatively little job protection: Job protection in Switzerland is rather weak, but because it largely impedes the insider-outsider division on the labour market, it can generally be seen as employment-friendly. Overall, Switzerland benefits from the fact that it has drawn political instruments from varying economic cultures and economic theories into its economic, fiscal and
social policy. The overall result has been an intelligent “muddling through” (Armingeon 2014, Bonoli 2014) that has proven to be useful for the country, not least in its handling of severe recessions such as in the “Great Recession” (Bermeo and Pontusson 2012) of 2008 and 2009.

3. Switzerland’s success story compared

The explanatory approaches discussed so far provide a plausible explanation: Switzerland’s success in employment, price stability and government financing is based on the idiosyncrasies of its economy and the particular characteristics of its political institutions, political actors and political processes.

Much is to be gained from this. But any explanation for this success would only be completely convincing if it were able to stand the test of an international comparison and if it were able to prove that this success would not occur if the conditions under which Switzerland has been so successful were lacking. The performance of those countries that are similar to Switzerland would have to be similarly good, while the other countries would have to perform less well than Switzerland.

But this is clearly not always the case. To take one example, Switzerland is not the only country to have a low unemployment rate and a low rate of inflation. Low unemployment and low inflation rates are also true of Japan and Norway. Also, a high employment rate and relatively stable prices were the Federal Republic of Germany’s trademark from the mid-1950s to the mid-1970s. As a further example, the Swiss Confederation is not the only country that stands out due to its fairly solidly financed public policy; this honour is also shared by Norway and Korea – countries whose political systems are completely different from that of Switzerland.
This raises two additional questions, although it is really only the second of these that can be tentatively answered at this time, due to the limited amount of data available. First: To what extent can the Switzerland-specific explanations for this success story be generalized? And second: To what extent can these explanations be complemented by additional variables? An international comparison of Switzerland with other countries, particularly other wealthy democracies, is one potential approach to finding answers to these questions.

There is no commonly accepted blueprint already available, though, for such a comparison and for an explanation that applies to the success stories of both Switzerland and other economically advanced democracies. Moreover, internationally comparable data is not always available for all of the possible explanatory approaches. Nevertheless, there are studies available that a comparison could be built on. Of these, there are a number of studies – and again, this list is not exhaustive – that could potentially prove very productive. Beyond the policy area-specific explanations for unemployment rates and rates of interest, one possible starting point is P. Katzenstein’s *Small States in World Markets* (Katzenstein 1985). Comparative studies on types of democracy and on the impact of parties on public policy (Zohlnhöfer et al. 2012) are also possible approaches.

One basis for an explanation for the Swiss success story from a comparative perspective is to be found in Peter Katzenstein’s work (Katzenstein 1984, 1985). According to Katzenstein, small states have comparative advantages on world markets if they combine at least four of the following: cooperative labour relations; intelligent inclusion of interest groups in the formation of public policies; cooperation between the most important political actors; and coordinated policies that serve to promote the economy and to make the labour market more flexible. If these factors are present, it is likely that a country will achieve high levels of performance in economic policy and in employment. Switzerland profits from these mechanisms to this day. Recently, Kathrin Düming’s international comparison of
unemployment rates provided evidence for this theory. The participation of management and labour in economic and social policy are included among Dümig’s key explanatory factors for low unemployment rates in the OECD member countries (Dümig 2015). Obviously, this is not the only explanatory variable; rather, it works in conjunction with several other economic configurations – particularly economic growth, capital spending and unit labour costs – as well as with indicators of labour supply management and labour demand management, with flexible labour market structures and with effective labour market policies.

Dümig’s study is a classic example of a policy area-specific explanation for successes and failures in combating unemployment, and it has also proven productive for explaining Switzerland’s low unemployment rate. Policy area-specific approaches also contribute to the explanation for Switzerland’s success in combating inflation. Ever since the publication of Andreas Busch’s comparative study on price stability policies (Busch 1995), it has been possible to account for the differing rates of inflation in the OECD member countries using three key items: central bank autonomy, distributional conflicts and fragmentation of fiscal policy. According to Busch’s model for explaining inflation, successful price stability policies are found when an autonomous central bank concentrates its activities on controlling inflation, when the distributional conflicts between unions and employers are moderate and include few strikes, and when the moderate size, fragmentation and low flexibility of the government’s fiscal resources result in the weak position of fiscal policy vis-à-vis the central bank’s preference for a price stability oriented monetary policy. Busch’s model of inflation rates also applies to Switzerland: its central bank is autonomous and directs its activities, qualified by its currency policy calculations, largely towards price stability; the distributional conflicts between employers and workers are moderate and rather cooperative, as measured by the low volume of strikes; and the government’s fiscal policy is fragmented due to its moderately large national budget and its division into federation, canton and municipality.
In light of recent developments – such as the triumph of the autonomous central bank structure and the advancement of the euro zone and the European Central Bank – it is clear that the Busch model for explaining rates of inflation will have to be supplemented. The core of the model remains appropriate, though, for a policy-centred explanation for the differences between relative price stability (as in Switzerland and more recently in some of the euro zone countries) and higher rates of inflation in countries with an institutional apparatus that is more open to inflation.

Despite the fruitfulness of the policy area-specific explanations for Switzerland’s success in employment and its price stability policies, they still fail to answer a further question: Why is Switzerland able to boast of several concurrent success stories? And how was it able to be successful not only in terms of its economic and fiscal policy, but also in terms of its social policy? Is it possible that there is one fundamental factor responsible for this, such as deeply seated political and economic causes?

Comparative studies on democracies suggest a hypothesis for this, the hypothesis of the comparative advantage of “consensus democracy” arising from A. Lijphart’s research into majoritarian and consensus democracies (Lijphart 2012). Because consensus democracies ensure better governance and better political outcomes, both in social and economic policy, according to Lijphart, it seems reasonable to suppose that Switzerland’s successes in employment, in combating inflation and in its state finances are due to its structures of consensus democracy, while failures in these policy areas can be traced back to institutions of majoritarian democracy.

At first glance, there seem to be many points in this theory’s favour. For one thing, as is generally known, Switzerland comes very close to being a pure consensus democracy.

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4 This observation makes use of a distinction that M. Olson developed in his ground-breaking analysis of the rise and fall of nations: the distinction between the sources of and the deeply rooted political and social causes of economic growth (Olson 1982: 4). Olson’s differentiation between the two raises the question of the extent to which the success story of Switzerland can be traced back to deeply rooted political and social causes that are also responsible for its successes in multiple policy areas.
democracy, as defined by Lijphart (Vatter 2008). Moreover, Switzerland can point to its successes on the political indicators contained in figures 1 through 4. That being said, the consensus democracy explanation has its limits. Although this explanation does seem to apply to Switzerland, it does not apply to all consensus democracies, nor to all majoritarian democracies, as some majoritarian democracies are almost equally successful in the areas of employment, price stability and state finances. Seen empirically, the relationships between the unemployment rate, the rate of inflation and debt service, on the one hand, and the indicators of consensus democracy, on the other, are rather loose, sample-dependent and insignificant.\(^5\)

In addition, this explanation for policy in terms of institutions (such as Lijphart’s indicators of consensus democracy) is incomplete. While it is true that institutions constitute influential systems of rules that preclude some possibilities for action (“constraints”) and facilitate others (“enabling conditions”), institutions do not prescribe political decisions, nor do they determine the results of political decisions. For this reason alone, variables such as the unemployment rate and the rate of inflation cannot be accounted for directly by institutions, such as the structures of consensus democracy. Rather, it is necessary to employ combinations of institutional theory approaches and actor-centred approaches, such as actor-centred institutionalism (Scharpf 1987, 2000), or combinations of institutional approaches and partisan theory (Hibbs 1977, Schmidt 1996, 2010b, Swank 2013), in order to explain them.

Partisan theory could actually contribute to the explanation for Switzerland’s successes from a comparative perspective. According to this theory, both the short-term and long-term partisan make-up of governments and major changes of

\(^5\) When all of the OECD member countries are compared, the correlations between Lijphart’s consensus democracy indicators (Lijphart 2012) during the period from 1981 to 2010 and 1) the average annual unemployment rate from 1990 to 2012, 2) the average annual inflation rate (1990–2012) and 3) the debt service (2012) are not significant at the 0.05 level. The same is true for the direct democracy index that A. Vatter (2009: 152) developed as a critical extension of Lijphart’s comparison of democracy types.
governments have significant effects on public policy. Partisan theory is also suitable for a comparison that includes Switzerland. For example: There are many causes for the fact that Switzerland’s share of government spending as a proportion of GNP is, at best, rather middling. These causes include the political complexion of the federation’s governments. As seen in their long-term partisan composition, Swiss federal governments are dominated by parties from liberal, Christian democratic and national conservative wings. While it is true that Switzerland’s social democratic party has participated in Switzerland’s Federal Council without interruption since 1959, it has been in a subordinate role and with less influence than in countries where both social democracy and unions are strong, as in the Scandinavian countries and in Austria. While the political dominance of centrist and right-wing parties in Switzerland may have promoted state intervention with the assistance of regulatory policies, it has also curbed government spending to this day.  

The effects of the partisan composition of the Swiss federal governments on taxation and spending have spread to other policy areas and can therefore be considered one of the general causes of the Swiss success story. The strength of the centre-right parties in the government and the weakness of the left-leaning governments, in particular, also smoothed the way for price stability policies and for deregulation policies that kept the labour market flexible while also being employment-friendly. Moreover, the moderate level of government spending as a proportion of GDP has led to an only moderately high level of government debt with a correspondingly lower level of debt service than in countries with higher levels of

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6 In the OECD member countries, the share of government expenditure as a percentage of GDP rose sharply during the second half of the 20th century, particularly in two groups of countries: First, in those countries where the left-wing parties have frequently been in control of government affairs and the market-friendly parties have been weak; second, especially in those countries that had a smaller share of government expenditures at the start of that period, above all in Portugal, Spain and Greece. One exception is Switzerland; despite having a below-average share of government expenditure (as a percentage of GDP) in 1960, the long-term growth of government over the next five decades continued to be below-average. Basis of calculation: OECD, OECD Economic Outlook 2/2013 (and earlier editions).
debt (Wagschal 2007). Switzerland’s more solid government financing can therefore be traced back, at least in part, to the partisan composition of the Swiss federal government.

**Conclusion**

Although we still do not have a complete explanation for Switzerland’s success story in employment, in combating inflation and in government financing, we can nevertheless combine the observations and findings of this essay into a tentative explanatory model. According to this model, Switzerland’s successes in employment, price stability and relatively solid state finances resides largely in the interaction of:

- diversified economic structures that are less susceptible to crises than those of large countries with economic branches that are either structurally weak or very dependent on economic cycles,
- institutions that put a premium on cooperation and that make trust-based relationships between important groups of actors in economic and social policy more likely,
- traditions in the political culture that promote prosperity as well as social cohesion,
- the welfare-enhancing functions of Culpepper’s “noisy politics” within federalism and in the institutions of direct democracy,
- the ability to master the challenges of an open economy, not least by means of social partnership-based industrial relations and other forms of quasi-corporatist cooperations between the state and interest groups,
- policy area-specific constellations, such as the institutional conditions and actor constellations that are conducive to monetary stability,

\[\text{This explanatory model combines (without weighting) the explanatory approaches comparing Switzerland with other wealthy democracies which have proven their worth with those hypotheses that refer to the particular conditions in Switzerland but which must still be investigated to see if they bear up to international comparison.}\]
• and a partisan composition of the government that promotes a division of labour between the state and the market that leaves room for economic success and social cohesion and, thus, contributes to bridging the equality-efficiency trade-off (Okun 1975).

References


Appendix

Figure 1: Public expenditure as a percentage of GDP, 1960 and 2012.

Notes to figure 1:
Horizontal line on the diagram: mean of the share of government expenditure as a percentage of GDP in 1960; vertical line: mean of the share of government expenditure as a percentage of GDP in 2012.
Figure 2: Rate of unemployment and inflation rate in OECD member countries, 1990–2012/13

Notes to figure 2:
Figure 3: Public expenditure and general government net debt interest payment in OECD member countries, 2012

Notes to figure 3:
Horizontal line on the diagram: mean of the share of government expenditures as a percentage of GNP in 2012; line from lower left to upper right: regression line.
Figure 4: Level of economic development and social expenditure as a percentage of GDP in the OECD member countries, 2012.

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