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Why Pluralism and Competition among Institutions Matter More than the Ballot Box

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The poverty of democracy



Source: Robin Pagnamenta (Mumbai), “Cheap food for India’s poor condemned as vote-buying ploy”, *The Times*, July 5, 2013.



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Switzerland as a republic

1291: Confederal pact on limited government

- Mutual defense against external aggressors
- Administration of justice based on individual property rights

1848: Liberal federal constitution

- Freedom of commerce and trade
- Freedom of movement/establishment
- Religious freedom



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Limited majority rule

- Extremely fragmented political decision-making (over two thirds of government spending at cantonal and municipal levels)
- Technocratic government (Federal Council) elected by Parliament, rotating presidency
- Constitutional limits to government activity, including maximal tax rates and debt brake



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The paradox of direct democracy

- Veto right against political power, further limiting representative democracy
- Popular initiatives: same problem as government activism
- Generally favorable to individual liberty and economic freedom (Lutz/Votruba, 2005)
- Double majority of cantons and voters for constitutional amendments



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The “liberal window” of the 1800s

- Industrial revolution, industry and banking in the 18th century
- Pioneer firms founded in the 19th century
 - Credit Suisse financial services 1856
 - Swiss Life insurance services 1857
 - Swiss Re reinsurance 1863
 - Nestlé food and beverages 1866



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Democracy against freedom

- Constitutional revisions of 1874 and 1891: more democratic rights, including popular initiatives, more centralization (federal legislation)
- “The pioneer spirit weakened as the new imperatives of democracy made major achievements more difficult.” (Jung, 2013)



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European exceptionalism

- Renaissance, Enlightenment, industrial revolution
- “Fragmentation gave rise to competition, and competition favored good care of good subjects” (Landes, 1999)
- Emergence of free cities and parliaments: “governments of the merchants, by the merchants, and for the merchants”



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The secret of Europe's success

“It may be that a prerequisite for sustained economic growth is an economy trading across a geographical area divided among a number of rival states, each too small to dream of imperial wars and too fearful of the economic competition of other states to impose massive exactions on its own economic sphere.”
(Rosenberg and Birdzell, 1986)



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The German experience

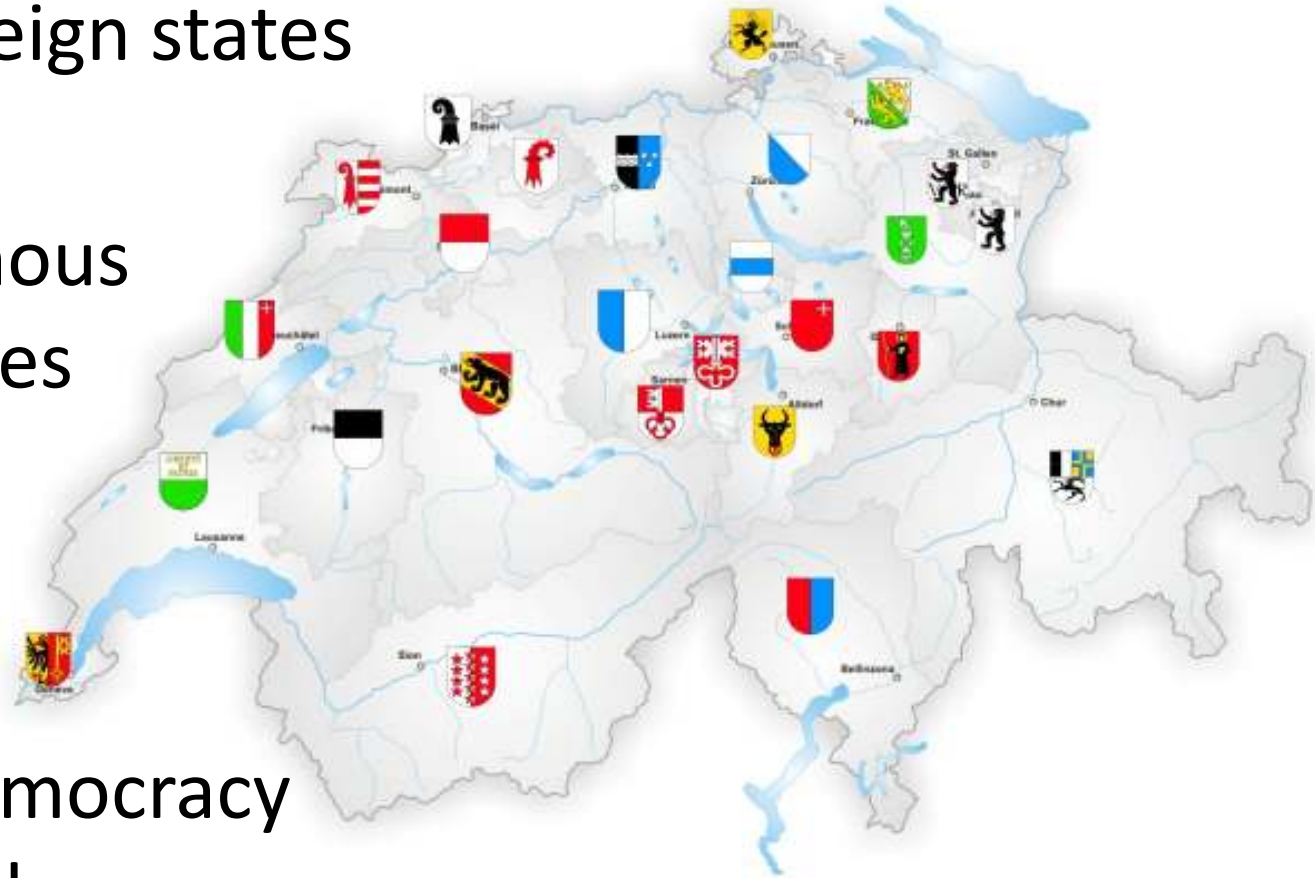
- 234 countries, 51 free cities, and approx. 1,500 independent knighthoods
- “Just assume that for centuries only the two capitals of Vienna and Berlin had existed in Germany, or even only a single one. Then, I am wondering, what would have happened to the German culture and the widespread prosperity that goes hand in hand with culture.” (Goethe, 1828)



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The secret of Switzerland's success

- 26 sovereign states
- 2,500 autonomous communes
- Limited majority rule / direct democracy as a check on power



Why diversity and competition

- **Prosperity:** Savings and capital accumulation
- **Better governance:** Institutional innovation and emulation of best practices
- **Responsibility:** Symmetry of decision-making, financing, and application
- **Liberty:** Restricting government power with the threat of “voting with the feet”



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Constant on centralization

“For morality, justice, peace, a certain kind of happiness, and all natural affections, small States are preferable to large ones. It is by sacrificing everything to exaggerated ideas of uniformity that large States have become a scourge for humanity. Their size requires an activism and force at the heart of government which is difficult to contain and degenerates into despotism.” (1810)



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