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This book is dedicated - with infinite admiration and gratitude - to all the millions of Swiss citizens who have built this wonderful country with abnegation and tenacity over the past 150 years. It is an incredible privilege to enjoy the many benefits of their extraordinary legacy.

And it is also dedicated - with best wishes for success - to all the readers who will endeavor to implement in their nations the "magic recipe" described and explained in these pages.

*No C o p i a r*

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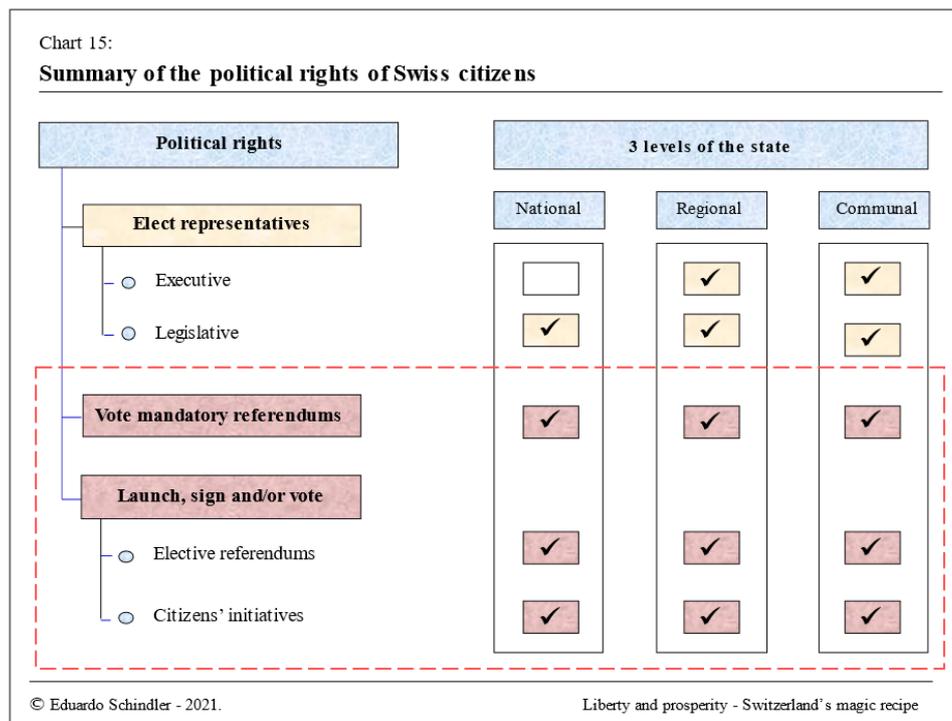
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**Chapter Nr. 1:** (Excerpt from the original)**The extensive range and depth of political rights of the citizens, and their high frequency of use**

The excerpt from this chapter is structured into three themes: the description of the broad political rights held by the Swiss citizenry (better known as direct democracy); the importance of the high frequency of use of these rights; and the distinct role and impact of each of these rights in shaping the body of superior body of laws that govern the nation's rule of law. There is also a summary of the main contributions that this first ingredient of the "magic recipe" makes to generating the unparalleled level of freedom and prosperity that exists in Switzerland.

**1.- Breadth and depth of citizens’ political rights**

The chart below illustrates the wide range of political rights that Swiss citizens have:



Swiss citizens have the right to:

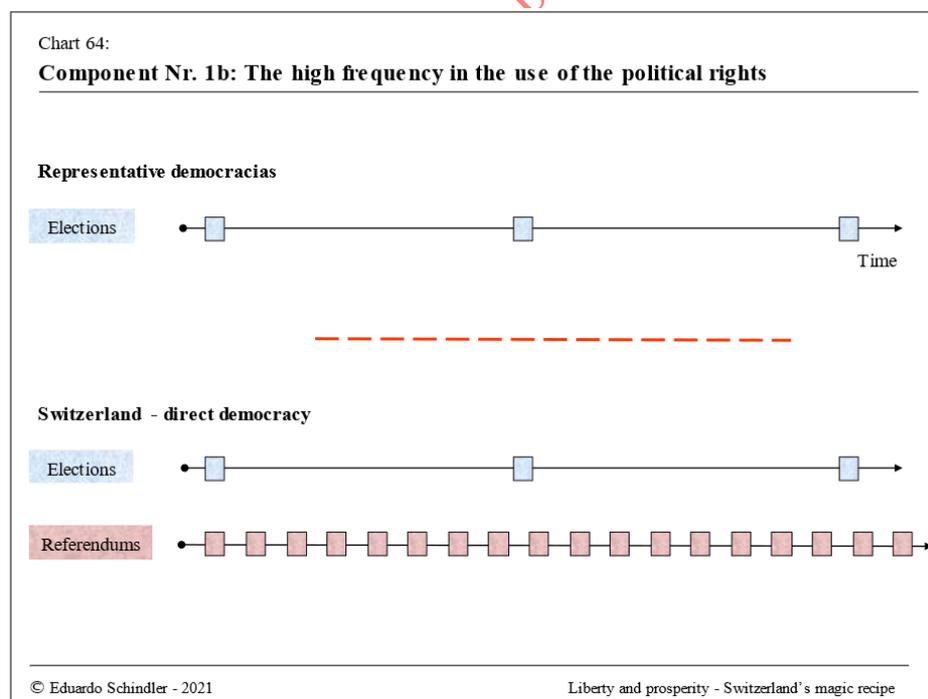
- vote every 4/5 years to elect their representatives to: the federal parliament; the government and parliament of their canton of residence; and the government and parliament (if there is one) of the commune where they live.
- vote YES/NO, in general every 3 months, on all issues subject to mandatory referendums at the federal, cantonal and communal levels.
- to initiate and/or sign, at any time, an elective referendum at federal, cantonal or communal level.

- to vote YES/NO, in general every 3 months, on all issues that come to be voted on by way of elective referendums that come to be voted on at the federal, cantonal and communal level.
- to initiate and/or sign, at any time, a popular initiative at the federal, cantonal or communal level.
- to vote YES/NO, in general every 3 months, on all the topics that come to be voted by means of the popular initiatives that come to be voted at the federal, cantonal and communal level.
- vote, and intervene, in the annual assembly of their commune to approve/reject, inter alia, the income and expenditure budget, all investments/expenditures of a certain importance, and all new laws, regulations, or local taxes - or modifications to these.

Moreover, these broad political rights have maximum coverage - as they apply to their full extent at each of the three levels of the state.

## **2.- High frequency in the use of political rights**

As in most nations, voting to elect representatives to national, cantonal and communal governments and parliaments takes place every 4/5 years. But, unlike all other countries, Switzerland is the only nation in the world where, in addition to elections, referendum votes are held every three months - as illustrated below.

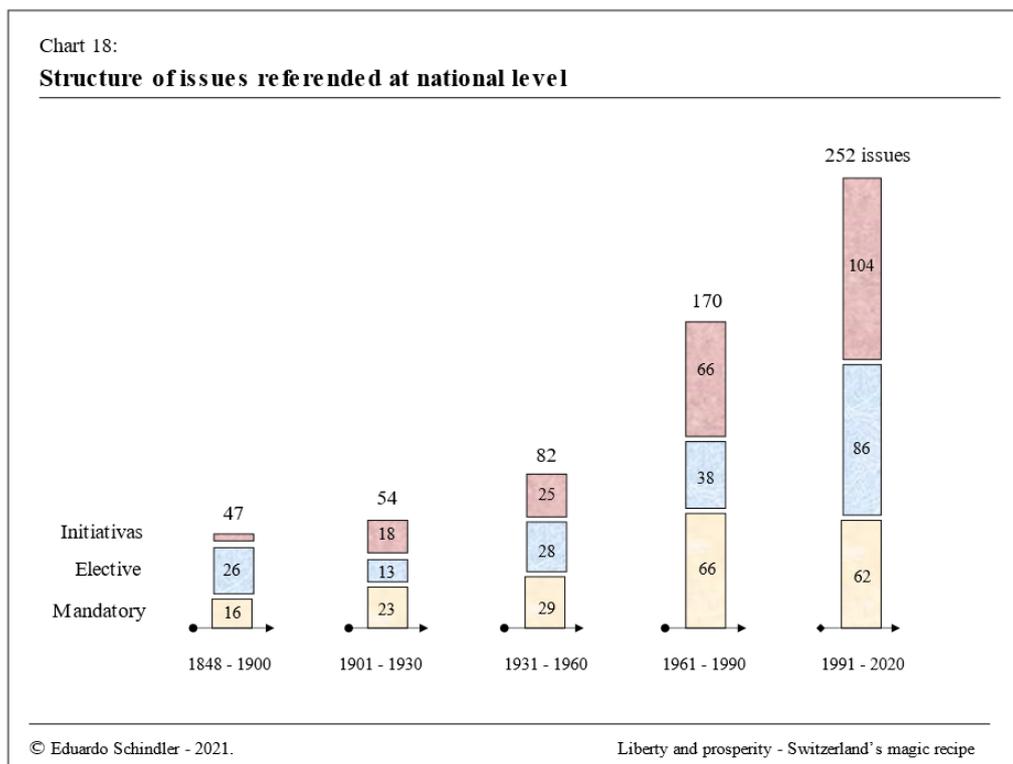


In each of these sessions the citizen is called upon to vote (referend) YES/NO on proposed laws and government/parliamentary decisions as a necessary precondition for them to enter into force. Each issue to be voted on has come to be referended by way of one or another of the three political rights of direct democracy described above.

At the country level, in each session about 2-3 national issues, about 50-60 cantonal issues, and about 2'000+ communal issues are referended - obviously voted only by the various respective citizenships. That is to say, in each session a citizen say YES or NO to between 5 and up to 10+ issues.

### **3.- Very different functions and impact among the different types of political rights**

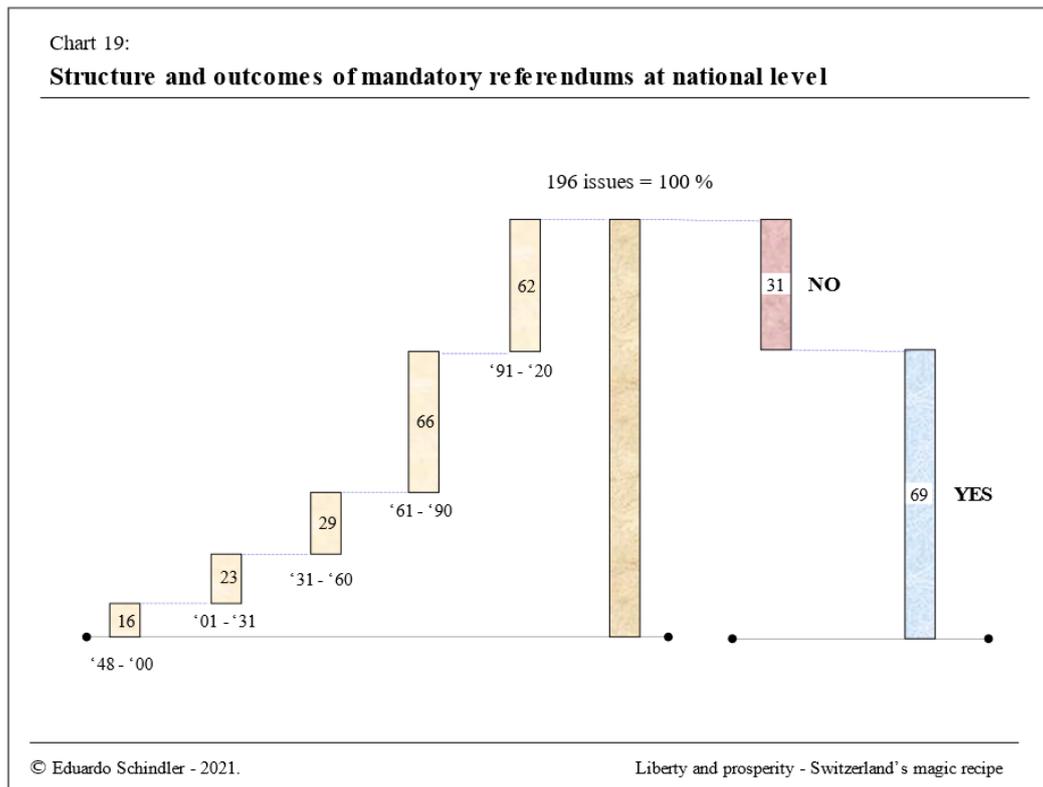
The combination of the breadth of rights and the high frequency of use means that between 1848 and 2020 a total of 605 issues of national level have been referended. The chart below illustrates the structure between the political rights exercised that led to these referendums, and this in 5 different time periods.



As can be seen, citizens have made active and growing use of the rights available to them (elective referendum and popular initiative) to directly influence the nation's political agenda.

#### 3.1.- Mandatory referendums

Given the nature of this political right, these issues come from the work of the government and parliament (let us call it "state" for simplicity's sake), and are supported by the authorities who recommend voting YES. The chart below shows that almost 70% of the issues referended in this way have been approved by the citizens.



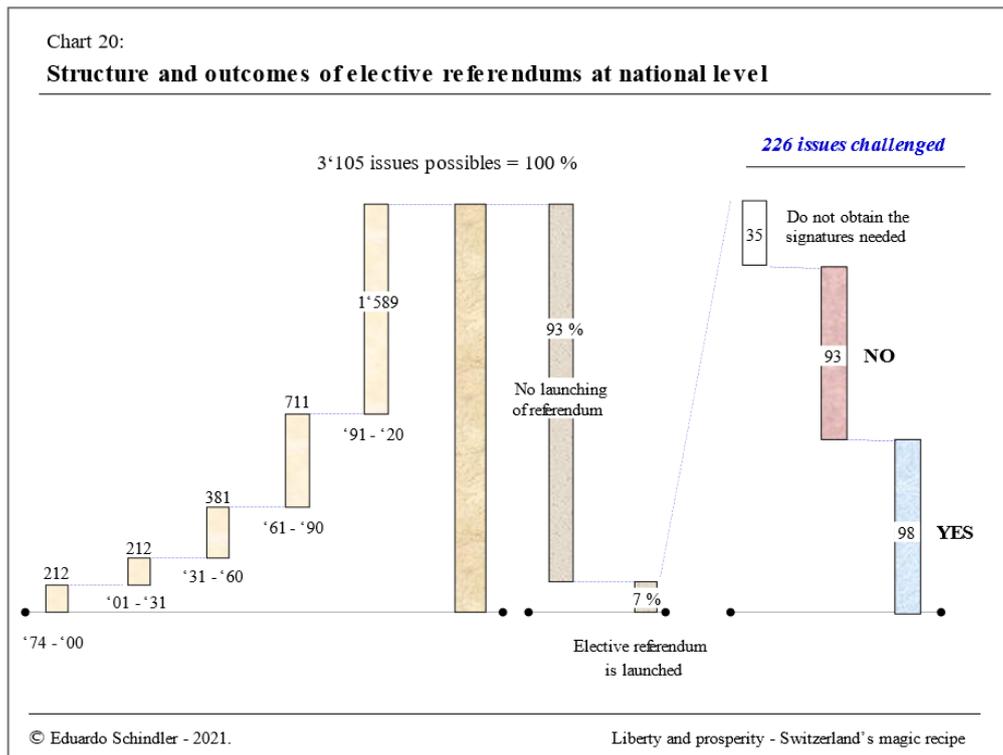
That is, people generally accept the work done by the state on the vast majority of these issues. However, there are 30% of them that the public rejects the state's proposal - despite the many years of work behind the matter being referended. The result is that the proposed law/decision should be modified to take more account of the people's preferences, and be resubmitted for a vote again in an improved version.

### Function

In simple terms, it can be said that the main function of this political right is to ensure that no legislation or state decision on issues of major importance (and therefore subject by law to mandatory referendums) comes into force unless it has the explicit approval of the majority of the citizenry. This in turn means that the state (the political class) is never in a position to "impose" anything against the will of the majority of the people - no matter how important (or banal) the issue in question may be.

### 3.2.- Elective Referendums

All, absolutely all, legislative acts and decisions coming from the state can be questioned, and if necessary annulled, by the citizenship. For this purpose, it is sufficient that a group of persons launch an elective referendum against an issue and collect the necessary number of signatures within the available time period. In case of success, the issue is referended. In this context, the chart below illustrates that:



- between 1874 and 2020, there have been a total of 3'105 possible issues to be "attacked" by means of the elective referendum;
- in 97% of the cases the citizens preferred not to exercise their right to the referendum - which means that the majority of the people were happy and implicitly approved what is being proposed by the state;
- in only 3% of the cases (226 issues) did citizens proceed to launch an elective referendum - that is, question the state's decision and call for a YES vote of support against the state proposal;
- in almost half of the votes the majority of the people support the position of the initiators of the elective referendum - and thus the law/decision does not enter into force.

### The tip of the iceberg

The most important message revealed by the above chart is, in the author's opinion, to demonstrate that the real impact and major contributions of the right to an elective referendum do not come from the 5% of issues that are voted on, but much more from the 93% of issues that are not voted on ... but that could have been referendum/voted on if they had not represented the preferences of the majority of the citizenry.

In this sense, the elective referendums that are voted on are only "the tip of the iceberg" in terms of the impact of this political right. And rather than forcing a modest 3% of the state's output to be changed, the mere existence of the elective referendum forces the Swiss political class to work 100% of the time thinking about what is the true will of the majority of the citizenry.

Indeed, the avoidance of an elective referendum, and potentially the loss of years of work devoted to the issue in question, is of great significance to the government/parliament. And it is this incredible effectiveness in disciplining the actions of the political class, at all times and on every issue, that makes the elective referendum by far the most powerful and effective political right in the hands of the citizenry to ensure that it is their will that predominates in priority. Always.

Put another way: the greatest impact of the elective referendum comes from the "submerged part of the iceberg", it acts implicitly, permanently and on all issues dealt with by the state (rather than explicitly, quarterly, and on the few issues voted on), and it is by far the greatest and most significant contribution of all the political rights available in direct democracy to creating/promoting the high level of freedom and prosperity that exists in this country.

#### Function of the right to an elective referendum

It can be said that the main function of this political right is to ensure that the citizenry is in a position to intervene, correct and if necessary, cancel any legislative and/or decisional act of the state (read, political class) in case such an act/decision does not represent the true interest of the majority of the citizenry.

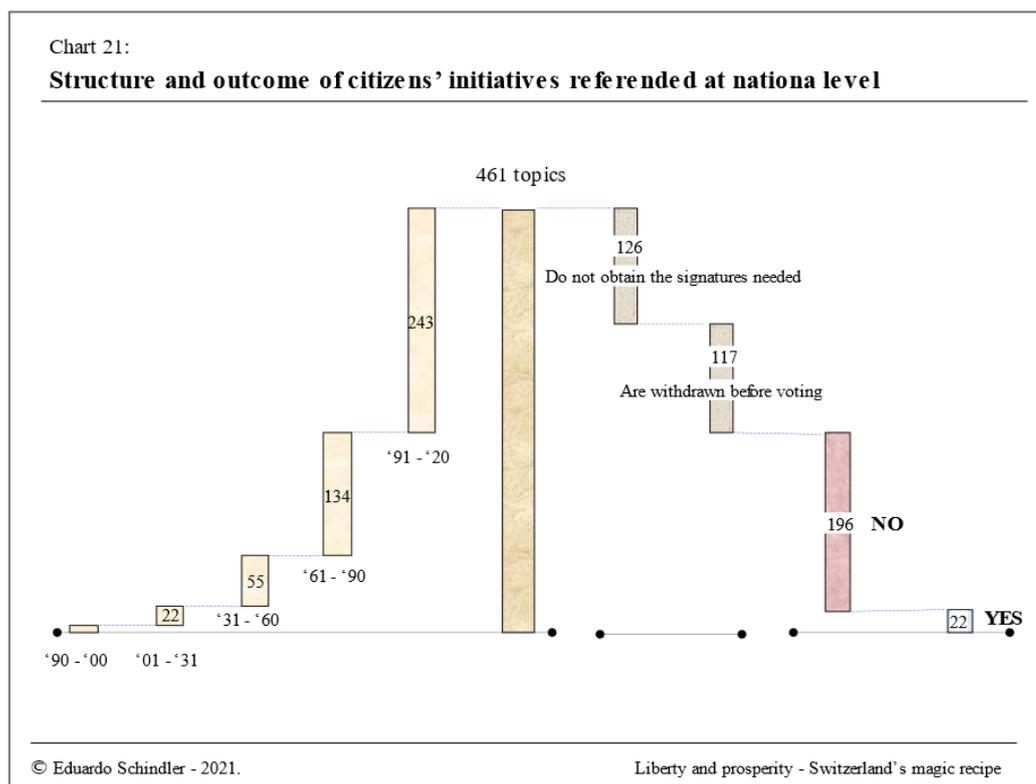
And since the elective referendum must be exercised before an issue comes into force, it is a right with a great and unlimited preventive capacity - both implicit and explicit - to keep society from suffering the "bad" decisions of the state.

The above also means that the function of "checks&balances" in direct democracy as practiced in Switzerland is primarily in the hands of the citizenry, and not in an antagonistic (and doctrinarian) dynamic between government and opposition and/or parliament as is the case in representative democracies.

#### 3.3.- Popular initiatives

Every citizen has the right to launch a popular initiative - that is, to propose a topic for referendum. If the necessary number of signatures is collected within the time limit, the topic will be referended and if it is approved by the majority of the citizens, then the proposal becomes part of the constitution.

The chart below indicates that in 130 years of history, a total of 461 topics have been launched through the popular initiative mechanism, and of these: 126 failed to gather the signatures, 117 were not voted on because the initiators withdrew the initiative (for example, in case of accepting a government proposal), 196 were rejected by the people, and only 22 of them have received the support of the majority of the citizens.



These results illustrate that popular initiatives have, in reality: (i) a rather marginal role in shaping the body of laws that govern Swiss society; but at the same time, and this is very valuable, (ii) a fundamental role in ensuring that the country's political agenda and life is always free of pending issues and/or noisy and dissatisfied minorities that "clog or destabilize" the system.

In fact, each and every one of the 196 rejected initiatives (voted NO), the 117 that did not make it to a vote, and even the 126 launched that started to collect signatures and failed to achieve the required number, have nonetheless served the Swiss society to stop the "protesting, pleading, complaining and making noise" by the 400 minorities or so that supported them.

#### Function of the right to launch a popular initiative

In view of such results, it can be said that this political right has two main functions. The first, rather theoretical, is to give the citizenry a mechanism to correct any act of the state even after it has entered into force. For example, in situations where the results of a law/decision are not as expected, and/or bring undesired consequences for the majority of the people. In other words, it is an instrument for the citizenry to get rid (ex-post) of all "bad laws" that the political class does not eliminate/correct by itself.

The second is to serve as an "exhaust pipe" for the system to either incorporate or "get rid", in a civic and peaceful way, of all kinds of minorities and/or topics - no matter how extreme or absurd they may be. That is why in Switzerland people get to vote for such "strange" and incomprehensible ideas as:

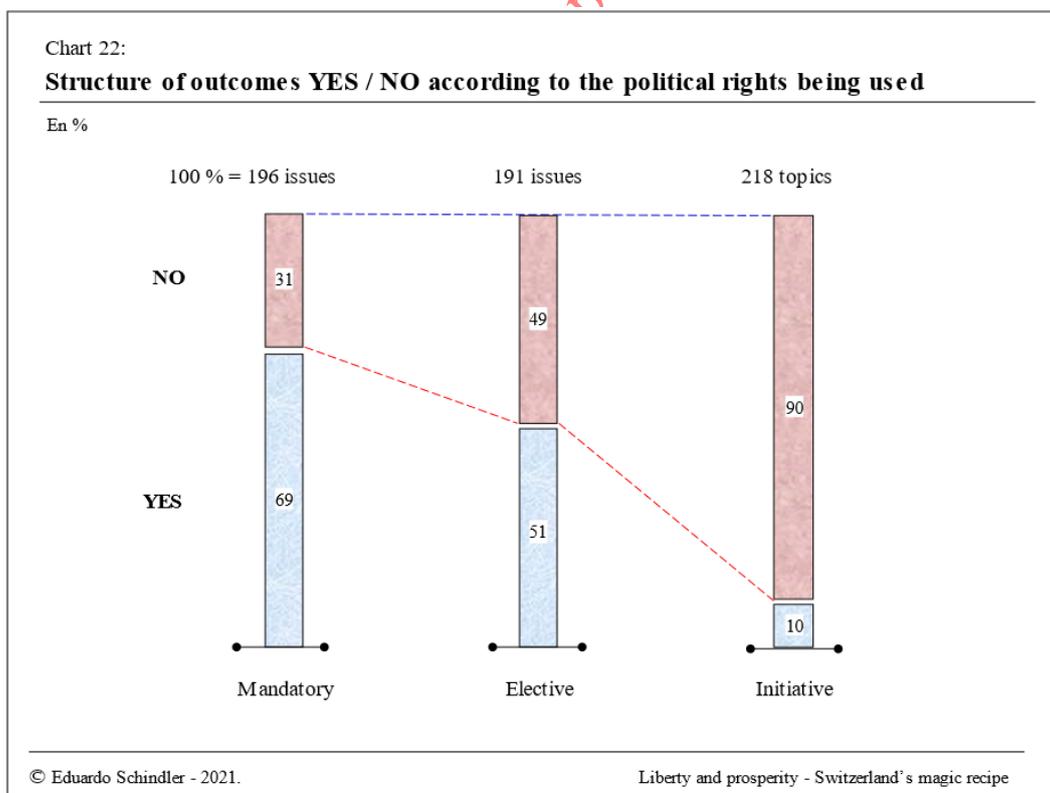
abolishing the army; prohibiting the cutting of cows' horns; or having 6 weeks of paid vacations for all - all topics already referended and rejected by the citizenship.

In this context of 90% rejections, one must consider the difference it makes for a "noisy minority" to receive (and have to accept) a NO coming (i) from the majority of the people, in a peaceful and civilized manner, without facing repression of any kind, and after their topic in question has been discussed/voted, rather than (ii) from the government of the day - which often refuses to even discuss the issue, and perhaps makes use of police containment.

Finally, it should be mentioned that thanks to the mere existence of this mechanism, all minorities that "make noise" and are not willing to make the effort of launching a popular initiative, self-disqualify themselves, nobody pays attention to them, and eventually they "disappear" without altering the stability of the system.

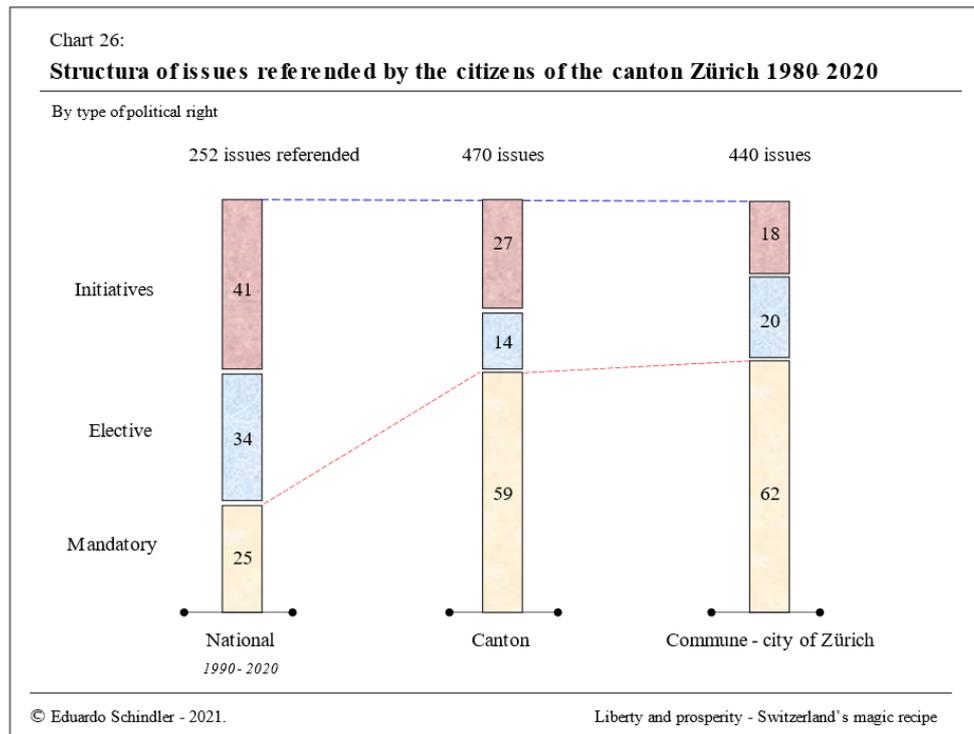
#### 3.4.- Summary of referendum results according to different political rights

The chart below illustrates, in a very clear manner, the very different profile of the explicit impact of the various political rights on the formation of the rule-of-law governing life in society in Switzerland:



3.5.- Direct democracy ensures a high degree of proximity between the people and the acts of the state. As illustrated above, direct democracy is practiced in Switzerland at each of the three levels of the state. In this context, the chart below illustrates the total number of issues referended by the citizens of

the city of Zurich between 1980 and 2020 - and this according to the level of the state for the issue in question as well as the political right that gave rise to the vote.

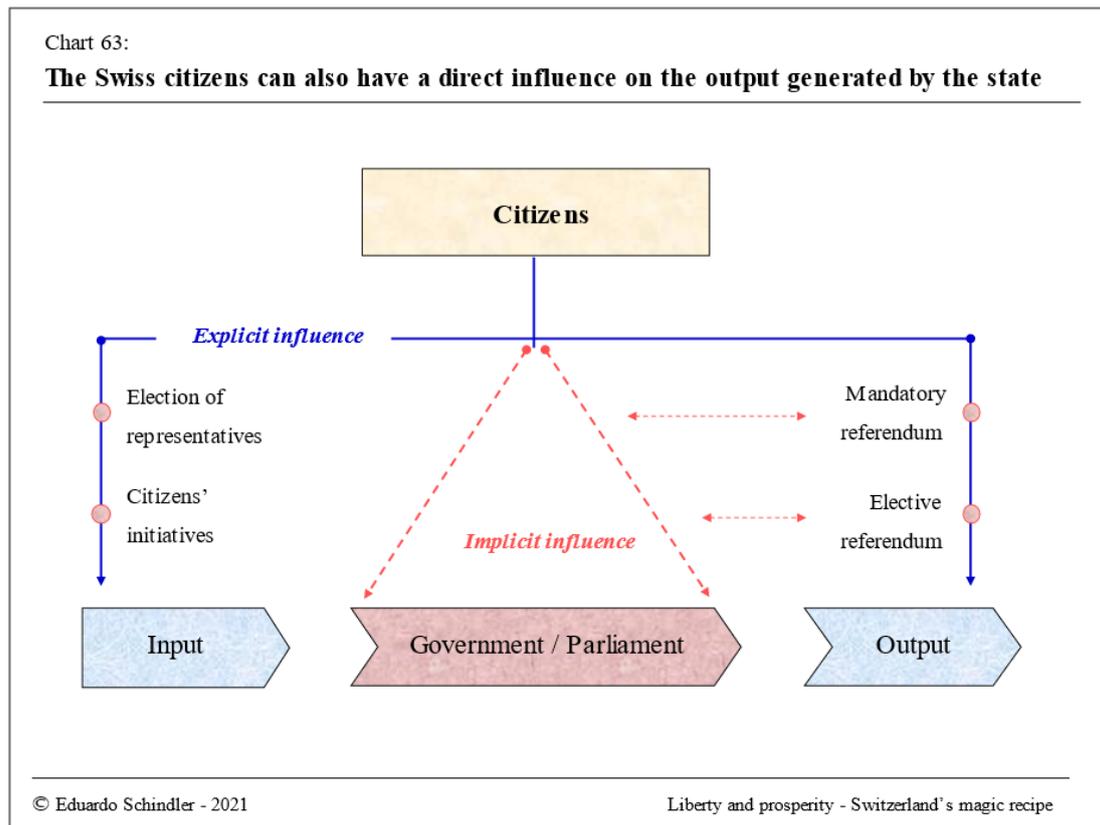


There are at least two aspects of great importance that are reflected in this chart, namely:

- 80% of all issues on which the citizen must consider a YES vs. NO refer to the canton and commune in which the person lives. This means that people's civic experience is based above all on decisions about very concrete issues, relatively easy to understand, and that have a clear and immediate impact on their daily lives and those of their families.
- The need for citizens to mobilize "to correct politicians" through elective referendums and popular initiatives is substantially greater at the national level than at the cantonal or communal level. That is, it seems to be much easier for local governments to manage, given the greater homogeneity of interests that exist in the respective mini-communities, compared to the heterogeneity of interests (cultural and other) that politicians have to try to "balance" at the national level.

### 3.6.- Assessing the role, impact and importance of the various political rights

Another way to analyze more broadly the impact and complementary role of the various political rights in the way the state functions in Switzerland is as follows:



This scheme goes beyond limiting itself to the YES/NO impact of the referendums that came to be voted on. It clearly illustrates that, thanks to the breadth of rights available, the Swiss citizenry is in a position to influence the input, process and output of state actions - directly and indirectly, explicitly and implicitly, and in a manner available in no other nation in the world.

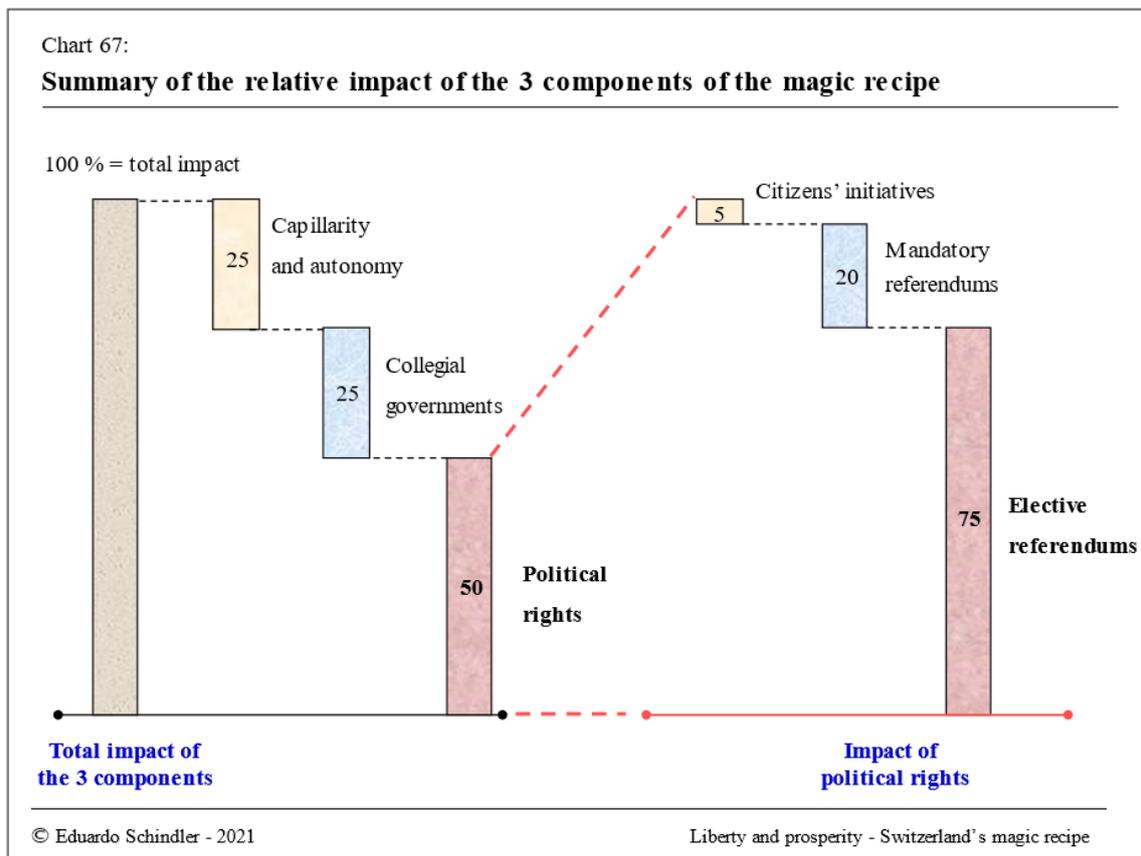
Impact on the input, explicitly, through: (i) electing representatives to governments and parliaments; and (ii) launching popular initiatives, and thereby influencing the issues to be addressed in the political/legislative agenda.

Impact on the political process, implicitly, through the "submerged part of the iceberg" of the elective referendums, which ensures that the political class must work considering, as a priority and permanently, what is the will of the majority of the people regarding any legislative act and/or decision to be taken by the state.

Impact on the output, explicitly, through: (i) mandatory referendums, which ensures that on issues of the utmost importance legislation and/or decisions of the state come into force only on condition that they are explicitly approved by the majority of the people; (ii) elective referenda, which ensures that any issue coming from the state that does not represent the interest of the majority of the people can be "attacked" and eventually cancelled by the citizenry preventing/before it starts to display its negative effects; and (iii) launching popular initiatives - and thereby either (a) adding missing legislation,

and/or (b) correcting or eliminating ex-post "bad laws/decisions" of the state that have made it through the "sieve" of the elective referendum and entered into force.

Having made the broadest possible considerations regarding the role and impact of each of the three main political rights, the author has reached the conclusion that the relative importance and contribution of each of these to the nation-building of Switzerland is as follows:



In fact, and after many years of conducting a great deal of analysis and considerations of all kinds, the author's assessment is that the very right to launch elective referenda against any legislative act and/or decision by the state, and this at each of the three levels, is the instrument that has the greatest impact (by far, and even without requiring its explicit usage) on the formation of the superior body of laws that exists in Switzerland - which is, in turn, the basis and fundamental driver of the unparalleled level of freedom and prosperity that this country generates for its entire citizenry.

3.7.- Main contributions of this first ingredient of the "magic recipe".

Swiss society generates and receives a number of significant benefits in terms of liberty and prosperity as a result of applying direct democracy, in particular:

Stemming from the wide range of political rights - they include:

1.- The citizenry is the highest sovereign of the nation. Always. This means that there is either an implicit or explicit approval of the sovereign to all laws (new or modifications) and decisions of the state.

2.- High quality, legitimacy and reliability of the body of legislation that constitutes the rule of law governing the country. In particular, the laws are well balanced, clearly and simply formulated, and highly effective in relation to their intended effect. These distinctive features also play a fundamental role in generating the stability, continuity and reliability that predominate in the Swiss state - and which, for more than 100 years, have made it so attractive to so many companies and individuals around the world.

3.- A fundamental difference between the quality of the Swiss body-of-law and that of so many other nations is that they are the product of (and reflect) two very different paradigms. In representative democracies, each law is the result of the lowest common denominator acceptable to the political class of the day. In the case of Switzerland, this is the highest common denominator acceptable to no less than 51% (actually much more) of the citizenry at any one time.

4.- It obliges the entire political class, left and right, at all three levels of the state, to act with great discipline, and to give attention and priority to the interests of the majority of the citizenry at all times. There is a great preempting effect on the way political leaders behave and reason.

5.- People in Switzerland are much more willing to accept, respect and enforce the laws. In this sense, it is probably the most advanced version of the theoretical ideal of combining "government by consent and individual liberties" that has been developed in the world.

6.- For people who "lose" in a referendum, it is much easier to accept an "inconvenient" law that has been decided (and imposed) by the majority of the citizens and not by "a government of incompetents". Therefore, in Swiss society there are no groups of "losers" who do nothing but badmouth the government, and who are just waiting for the time to change it, and to get rid of such a "bad law" as soon as possible. The famous zig-zag associated to parties alternating in power simply does not exist in this country.

7.- The citizen is, feels and acts as a free, sovereign and responsible person - instead of being dependent and subordinate at the service (and even abuse) of the political class of their countries.

Stemming from the high frequency in the use of political rights - include:

1.- The quarterly frequency of referenda makes the experience of "voting" (participating) for the 30-year-old Swiss citizen composed of (i) having voted to elect representatives about 3 times, plus (and this is unique to Switzerland) (ii) having voted YES/NO on about 300+ referendum issues during the same 12-year period.

The result of this practice is a society composed of millions of citizens highly trained to reason and weigh pro/con arguments on very specific issues. This in turn means that periodic referenda are a civic education and training tool of unparalleled effectiveness - leading to a community composed of people: (i) with a pragmatic and non-doctrinaire attitude; (ii) accustomed to always listening and considering both sides of the medal; (iii) in which "the good of all" plays a major and permanent role in every YES/NO voting decision; and (iv) with a great sense of responsibility in becoming aware of the great importance of their role/function as co-sovereign of the nation.

2.- The process of maturing civically includes the "painful" obligation to learn to have fewer "whims" and/or to give them up of one's own free will. The citizen quickly becomes aware that both YES and NO always mean having to give up something, and that in both cases there will be consequences to accept in the future. In this context, the combination of the right to referendum and the ability to do it frequently is the most powerful and effective instrument that exists to help citizens "mature" civically towards the highest possible natural potential - both individually and collectively.

3.- A high frequency of referenda allows the political agenda to be "shredded" so that one issue is voted on at a time, and without mixing several issues at the same time in the vote. This is the famous principle of "unity of matter" in the question to which the citizens say YES or NO. This way of operating allows all persons to form differentiated opinions with respect to the voting indications made by the parties, from issue to issue, and free from demagogic or doctrinaire pressures. In the end people are basically immune to populist slogans and individuals of any kind.

4.- Elections of representatives to governments and parliaments are an event of rather secondary importance to the people. And since the citizenry can directly intervene, override and/or change the output of the state, then who is elected to political leadership positions does not really matter that much.

This in turn means that when there is something that people "do not like", then the persons in Switzerland do not think (nor need to) of changing the government as the only way to "make things better". Instead, they can proceed directly, and without waiting for elections, to "change the things they do not like". This reality is just the opposite of what people are forced to experience in representative democracies. And it also explains why Switzerland is free of the exasperating

antagonism, mutual attacks and accusations that political leaders in such nations constantly make to each other.

An important result of all the above is that election periods do not generate a higher level of risk, do not stop the activities of the state, do not distract people's attention from their activities, and do not delay decisions affecting the level of economic activity. They also cost very little.

5.- A high frequency of referenda provides a very valuable and regular "draft" to the political agenda/chimney. The result is a constantly updated agenda, composed of the most relevant topics to the community, free of "stagnant" issues, and which is regularly renewed in a peaceful manner. In addition, there is a permanent "release valve" (or "exhaust pipe") for all kinds of minorities and/or eccentric issues.

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## About the author

**Eduardo Schindler** is an independent professional, based in Zurich, who focuses on structuring and managing M&A transactions. He primarily serves mid-size companies and private investors in Switzerland, Europe and the GCC region. He is also recognized as an expert by the Swiss stock exchange (SIX) for handling the issuance of shares and bonds. Before becoming independent at the end of 1999, Mr. Schindler gained experience at top-tier firms such as UBS and McKinsey&Co. in Zurich, New York and Sao Paulo.

The author also has extensive experience in teaching, giving lectures and speeches, and participating as panelist and speaker at conferences in the areas of corporate finance, wealth management, private equity and economics. He has taught and/or participated in events in Switzerland, Germany, Italy, Poland, Dubai, Singapore, Malaysia, Vietnam and Chile.

Mr. Schindler is the author of several articles - including "Political autonomy of the regions - the key of a modern state", published in Chile by Tiempo Regional in 1995. In the conclusions of this document, he already made the statement: *"Democratizing democracy" by way of the political autonomy of the regions and a devolution of all natural political rights to the citizens is the only way we have under our own control to strengthen and render sustainable Chile's true development.*"

The author was born in 1957 in Santiago, Chile, where he also attended school and university. He is a Chilean, Swiss and Italian citizen; is fluent in Spanish, English, German, French and Italian; and has lived in Switzerland since late 1982 - first in Geneva and then in Zürich since 1987.

## Education

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