

Januar 9, 2007

An Alternative Route to Europe – An Alternative for Europe?

Perspectives for Switzerland and the EU (A pamphlet)

This note briefly describes the current degree of integration of Switzerland in the EU and argues that the reasons for it not becoming a full member any time soon may be at the heart of the current stagnation of the EU constitutional process. However, Swiss membership may come about under conditions that would promote the European idea in an alternative way, emphasising the role of democratic participation of its citizens and more federalism.

The Swiss electorate could be regarded as an electorate a standard EU government could only but dream of. It is generally positive about the EU objectives, its common market, and the four freedoms. The Swiss are fully aware of the economic benefits of the EU, both current and prospective, and they have manifested their support for Switzerland's EU policy in many general votes, approving among other things the free movement of labour within EU and Switzerland. This development, however, comes at the end of a long and winding road leading Switzerland to Europe.

In 1992, the Swiss electorate rejected the proposal to enter the European Economic Area (EEA). At that time, Switzerland had already been a member of the European Free Trade Agreement (EFTA), and it was anticipated that they consecutively join EEA as did some of the other EFTA members. The 50.3% of voters casting their NO ballot have not, however, been opposed to the European idea as such. Instead, they weighed the political implication of a membership against the economic benefits. The latter seemed not to exceed the costs of the former. Interestingly, what first appeared to be the end of a process really kicked things off. By 2004 more than a dozen bilateral treaties had been signed and later approved by the electorate on two occasions.¹ These treaties generate large benefits for Switzerland in that they provide access to a huge market helping to achieve the benefits of the division of labour as already promised by (Smith, 1776 and Ricardo, 1817) and more recently argued by (Grossman and Helpman, 1991). The EU offers relatively cheap production factors including labour, ensuring low costs of production. Finally, the participation in the Schengen and Dublin treaties as well as harmonisation of technical standards provide public goods which can be supposed to generate endogenous growth dynamics (Bretschger and Steger, 2004). As of today major gaps with respect to economic integration remain only in the service sector, including banking and the trade of processed food. There are, however, shortcomings within the EU itself in this regard. As a result, Switzerland trades more than 62 percent of its exports and 81 percent of its imports with the EU. There is no other country in the world for which the Union plays a bigger role

¹A thorough account of the bilateral treaties is available in (Kobel Rohr and Müller, 2006).

Januar 9, 2007

on that account. Moreover, due to the fact that the Swiss franc has been regarded a safe heaven for many investors, the interest rate level is on average one percentage point below the Euro (Deutsche Mark) rates, which provides a comfortable investment environment. Therefore, adding the bilateral treaties and the absence of the Euro, the alternative integration strategy can be deemed successful from the Swiss perspective.

Nevertheless, there are also significant drawbacks to this policy. Most importantly, Switzerland cannot participate in formulating and deciding on EU policy. Its bargaining power in future negotiations is probably even becoming ever lower. It is thus not difficult to imagine that future agreements will not easily become as attractive for Switzerland as the ones already achieved. On the other hand, since most agreements are static there will for sure be more need to negotiate in the years to come. A recurring question therefore is whether the alternative, Swiss way of integration is a promising route. The probably surprising answer to this question is yes. The reason for this answer dates back to 1992 and continued through to the 2005 defeat of the EU constitution at the French and Dutch polls.

As argued, the 1992 rejection of EEA membership cannot be seen as a rejection of the economic spirit of the EU. At its core is political reasoning instead. This is why the Swiss and the EU citizens have much more in common than is widely believed. They both long for an alternative to the current political, institutional design of the community. Looking back to 1992, three important factors contributed to the NO vote: first, Swiss neutrality; second, Swiss federalism; and finally, Swiss direct democracy. The first factor has meanwhile lost part of its importance due to the breakdown of communism, Swiss membership in the UN and its participation in military peace keeping missions. The second and the third reasons, however, are as significant as ever. Swiss federalism has a tradition dating back to 1291 when the first Swiss cantons joined forces. Until today the federal government has far less power than it has in virtually any other EU country. This fact is reflected for example in the fact that the federal budget is only half as large all the budgets of all the regions. On the other hand, despite Switzerland's four languages and despite its strong cantons, it has enjoyed a high degree of political and constitutional stability over the past 200 years. One of the main reasons why this is the case is very likely related to the third factor, direct democracy. Almost every law which passes the parliament (e.g., EEA membership) may be challenged by a group of voters. In addition, citizens may suggest an amendment to the constitution. Both will lead to a public vote on the issue under consideration. The effect is threefold. First, politics becomes comparatively pragmatic as every policy maker must take into account the possibility of finding himself in a minority position. Second, the electorate is supportive of the final decision as a sign of respect for the majority opinion. Finally, the Swiss electorate is very well informed about the issues at stake, politically active and articulate.² Taken together, this is why the Swiss electorate is

²Interestingly, the federal government hardly ever loses in those referenda, the EEA decision being an exception.

Januar 9, 2007

an electorate many other EU governments desire. The 1992 NO thus foreshadowed the recent decline of the EU constitution proposal in that it confronted the political leaders with the fact that their voters had a different perspective for the future of Europe in mind. The tale of Switzerland's development in the aftermath of 1992 may consequently provide a hint as to how to proceed.

Prior to any further decision, the vision of the future Europe must be discussed by the EU citizens themselves that is. the very basis of political power. Such a discussion has to be open to a failure of the current proposal as that would provide the opportunity to move on. A useful means of achieving this is the imperative of a public vote on a constitution, for example, or on a set of agreements as an alternative way to "re-found", or, better, revitalise the EU. As in the Swiss case, a sideway of 12 years and more may in the end prove more beneficial than avoiding the dire prospect of not having reached the final objective within one's legislature. The EU member states' electorates certainly also want to maintain and emphasize the federal structure of the EU while joining forces whenever sensible. The example of Switzerland tells that more democracy by more direct participation is not an obstacle but a promoter of this aim. Therefore, more elements of direct democracy seem desirable, not in the least as they would also help to restrict the EU budget and the flood of regulations. On the other hand, Switzerland has more than 150 years of experience with a strong federalism, a highly diverse population and direct democracy. This experience helped Switzerland turn the initial weakness of not joining the EEA into a strength in the long run, as it appears stronger and internally more united than before in its European integration policy. Being a small country with such an exceptional history also means that it cannot simply be used as a blueprint. It can, however, serve as an encouragement to think beyond the prevailing structures. The next 50 years of EU dynamics should thus see the formation of a truly European vision that should adapt the principles of a genuinely subsidiary federalism and lively democratic participation of its citizens. In this manner, an alternative to the current EU can provide the missing link between yesterday's rejection of the EU constitution and the Europe we wish to live in tomorrow.

Januar 9, 2007

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