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# The Political Economy of Right-wing Populism and Euroscepticism in Switzerland

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Stefan Collignon\* and Omar Serrano♦

## Abstract

We provide an explanation for Euroscepticism in Switzerland – and for the rise of the political right throughout the decade of the nineties – by looking at the effects of fundamental changes in the economy in the context of globalization and Europeanization. These effects are measured by examining underlying voting patterns through comparing two Federal referendums: the 1992 referendum on the European Economic Area (EEA) and the Schengen/Dublin referendum of the year 2005. Both referendums are used to measure attitudes in favour or against European integration. Taking into account such structural characteristics we examine the pressure arising from Europeanization and Globalisation. We use the cleavage of tradable/non-tradable goods as an indicator for globalization effects. This study reaches the conclusion that the changes induced by globalization are relevant throughout the decade of the nineties for explaining Swiss Euroscepticism and to a certain extent also in the rise of the political right.

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## Keywords

Euroscepticism; EU integration; Globalization; Europeanization; Right-wing populism; Political economy; Switzerland

## Introduction

Europe has seen, since the late 1980s and early 1990s, the re-emergence of right-wing extremism and populism. New political parties with charismatic leaders have advanced xenophobic, nationalist, and communitarian discourses that have changed the nature of the post-war policy consensus and have become a threat to European integration. Instead of opening society to foreign influences, European citizens are increasingly closing their minds and reject those who are an imaginary “other.” Prominent examples are France, which put Jean-Marie Le Pen into second position in

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\* London School of Economics and Harvard University

♦ Graduate Institute of International Studies, Geneva.

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the 2002 presidential elections and rejected the European Constitutional Treaty in 2005; the Netherlands, which returned the populist party of the assassinated Pim Fortuyn as the second group in parliamentary elections in 2002 and also rejected the Constitutional Treaty; the *FPÖ* of Jörg Haider in Austria, Umberto Bossi's *Lega Nord* in Italy and the *Vlaams Belang* in Belgium are also classic examples. But even Switzerland, despite longstanding democratic credentials, has been affected by populism. Over two decades, the right-wing Swiss People's Party (SVP), under the leadership of Christoph Blocher, has become the largest party in the National Council (lower house) with 26.7% of the vote in 2004.<sup>1</sup> Blocher was also President of the officially non-partisan Action for an Independent and Neutral Switzerland and played a dominant role in the campaign against Switzerland's joining the European Economic Area (EEA) in 1992. As elsewhere in Europe, Euroscepticism is but one manifestation of right-wing populism.

This paper looks at some factors that may have contributed to the populist rejection of Europe by Swiss voters.<sup>2</sup> It proposes that right-wing populism is fuelled by the anguish many citizens experience in the more traditional, less-performing sectors of the economy as a consequence of rapid globalization and Europeanization.<sup>3</sup> We look at two apparently unrelated federal referenda: the 1992 EEA-vote, which was rejected, and the Schengen/Dublin vote in 2005, which was accepted. The first one was intended as a first step towards Swiss membership in the EU and the second consisted of extending the bilateral agreements (towards joining the Schengen area and on asylum cooperation). At first sight the referendums measure different, even opposing phenomena (the membership versus the bilateral option). Moreover, the EEA was of a comprehensive nature and likely to affect the entire Swiss economy whilst Schengen had no significant direct economic effects. What is puzzling is that the correlation amongst the voting patterns of both referendums is extremely high.<sup>4</sup> We argue that the reason for such high correlation is that both referendums are measuring the same underlying structural characteristics which translate into Euroscepticism and right-wing populism. This is particularly interesting given the time-span of thirteen years between the EEA and Schengen referendums; this is also the main reason why we have selected these particular two referenda. We have also tested for this effect on other referendums which dealt with the topic of European integration and found the same strong correlation.<sup>5</sup>

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<sup>1</sup> See footnote 16

<sup>2</sup> Whilst there are other factors for Swiss Euroscepticism such as national identity, the attachment to neutrality or constitutional patriotism, economic elements are the most significant in explaining this phenomenon, as has been measured through Eurobarometer surveys by Christin and Trechsel (2002). Moreover, even when some smaller parties on the left of the political spectrum have also taken a critical stance towards the EU, the only major party which has expressed a vocal opposition to the EU since 1992 has been the SVP. It has done so through a populist and xenophobic discourse. The aforementioned reasons underline the importance of studying Euroscepticism and right-wing populism from a political economy perspective and as intertwined phenomena.

<sup>3</sup> Even when the SVP is supported by big industries and has an economically liberal approach, the core of its appeal is to be found amongst those classified as losing out from globalisation. Mazzoleni (2003) shows that in the 1999 election for example they represented about 60% of the SVP electorate.

<sup>4</sup> Comparing the results of both referendums gives a correlation of .904. See section on explaining the Swiss vote.

<sup>5</sup> With the exception of the referendum on the initiative of 'yes to Europe!' which called for immediate negotiations to join the EU. The initiative had been proposed since 1995 and only in March 2001 was submitted to popular vote. The initiative had only the support of the political left and was not supported by either parliament or major social organisations which explain to a large extent its dramatic failure in the polls. It failed to win even a single canton, and thus appears as a clear outlier when compared to the other referenda.

Analyzing the socio-economic factors behind these votes is tempting for two reasons. First, federal referenda on Europe make the issue of nationalism more transparent than parliamentary elections, which mix European with national and local issues and are strongly structured by the institutional context (Norris, 2005; Gifford, 2006). Second, given that Switzerland is not part of the European Union, factors explaining populism can not be interpreted as dissatisfaction with previous EU policies. Rather, we may isolate structural reasons for the emergence of right-wing populism that cause similar effects within the European Union. Given that Swiss Euro-scepticism seems to have slightly receded by 2005 when Schengen was accepted, it may be of interest to find out, if these structural factors have also subsided. If that were the case, the Swiss example may carry an important lesson for the rest of Europe. The paper presents at first the theoretical assumptions of our explanation for the emergence of right-wing populism, as we consider Euroscepticism to be one manifestation of this phenomenon; in the second part we look at empirical evidence.

## I. The Rise of Right-Wing Populism

In order to understand the phenomenon of rising right-wing populism, we need to clarify first what we mean by this term. We will explain its emergence from changes in the economy, to which populist discourses respond. We then place this analysis in the context of Swiss society.

### *Characteristics of European Right-wing Populism*

Populism as a concept does not command universal agreement. Yet, despite a wide variety of manifestations, some common features of different forms of populism across countries and time have been identified: (1) the formation of a political movement, by charismatic and paternalistic leaders who claim to speak for the “whole of the people” or the undifferentiated mainstream of society (the “silent majority”, the “little and forgotten people”); (2) nostalgia for the traditional economy and inconsistent economic policy proposals that promise redistributive effects (Kaufman and Stallings 1991:38), (3) an overtone of defensive intolerance and xenophobia. Populists refer to an idealized vision of the ‘heartland’ (*Heimat*) for ordinary people, from which they derive what is “normal” in a traditional sense and, consequently, comfortable (Taggart 1996:3). Without discussing the broad literature,<sup>6</sup> we will take a political economy approach and focus on economic changes, which may contribute to the growing acceptance of populist discourses. Or, to put it differently we propose that structural economic changes affect the public “demand” for policies in different economic sectors of society and right-wing populists “supply” a discourse that articulates these demands.

As a historic phenomenon, populism first appeared in the USA at the end of the 19<sup>th</sup> century after the integration of the transcontinental American market (Collignon and Schwarzer, 2002). It also became a significant political movement in the rapidly industrializing pre-revolutionary Russia and in import-substituting Latin America in the 20<sup>th</sup> century. It does not seem to appear in countries where economic development produces a rapidly growing prosperous *middle* class. Populist movements are remarkably absent from emerging economies in East and South-East Asia.<sup>7</sup> They also

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<sup>6</sup> For a comparative overview list of literature see Norris 2005: 273, Note 1.

<sup>7</sup> Possibly with the exception of Taksin’s Thai Rak Thai Party in Thailand.

played no role in Western Europe in the early post-war period. Populism only re-emerged here in the early 1970s after the Golden Age of Bretton Woods and Keynesian liberalism had come to an end. The socio-economic equilibrium of the 1950s and 1960s had been based on high growth, monetary stability, and consistent distributional claims on income between labour, capital and the public sector. High labour productivity translated into high real wages and the wage share remained fairly stable. After the end of the Breton Woods system and the oil shocks of the 1970s, monetary instability and high inflation undermined the Keynesian equilibrium. The 1980s were marked by harsh anti-inflation policies, pushing up unemployment and public debt (Collignon, 2003). These policies were contested by left-wing parties and often also led to left-wing populist discourses and movements (Taggart 1996).

However, classical left-wing policies must be distinguished from populism. The sociology of socialist and social-democratic ideologies and parties is derived from the vertical cleavage of social classes. Socialism seeks, rightly or wrongly, to overcome social injustice by building a fairer society in the future. Its outlook is critical-constructive, forward looking and internationalist. Populism, by contrast, is an expression of anxieties and frustrations following structural transformations, economic hardships, and the loss of confidence in the political system's capacity to restore order. When the cost and benefits of socio-economic change are unevenly distributed, with benefits concentrated on few and the costs affecting many, populism emerges as a discourse of defending the "small people" against the elites. It entertains nostalgia for a glorified past. Yet, contrary to traditional left-wing and socialist discourses, populism is not a class-based ideology.<sup>8</sup> It reflects the horizontal cleavage of socio-economic sectors. The "demand" for populist discourses is an expression of economic transformations, which create "winners" and "losers" in specific sectors of the economy and affect different social groups unequally. These gains and losses are caused by relative real income deteriorations for certain groups following relative price changes. This unequal development gives rise to the "politics of resentment" (Norris, 2005; Agnew, 1995) and the discontented nastiness in populist discourses is expressed in xenophobia, Euroscepticism and can, at times, even go as far as using physical violence against deviating "others."

On the political supply-side, populist leaders and parties seek to mobilize this discontent for their own purposes by promising quick remedies to re-establish the groups' status quo ante. This "quick fix" attitude often ends up in a set of policy proposals, which are internally incoherent with the way the economic system works and incapable of achieving or sustaining the desired objectives. For example, populism in the United States at the end of the 19<sup>th</sup> century was fuelled by declining relative prices of agricultural goods due to the vast expansion of land under cultivation and the reduced transport costs after the construction of the American railway system. But because populists failed to understand the distinction between the fall in relative prices and the deflation of the general price level (Friedman, 2005:123), they demanded the abandonment of price stability under the gold standard and the return to free silver coinage. They opposed the East Coast establishment, large trusts and banks, which drove the integration of the American single market. Their policy would have led to inflation, and undermined the financial system and the industrial foundations of American capitalism and long-term growth.

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<sup>8</sup> The fact has been well established in the literature, See Norris 2005, Derks, 2004, Ivarsflaten, 2005, Betz, 2004.

One reason for the internal inconsistency of populist policies is the imaginary generalization of the particular, which is incapable of seeing the “other” as being a functional part of the whole system. Drawing on Freud’s work on ‘dream work’, Laclau (2005: 137) has called this phenomenon the logic of equivalence - i.e. a situation in which “all the demands [made by the members of a group], in spite of their different character, tend to re-aggregate themselves, forming what we will call an equivalent chain.” As this chain is being enlarged, it is being emptied of specificity (Laclau, 1996: 42). In the process, the logic of equivalence so allows for the creation of the populist identity of the “common people” by merging specific groups with common sectional interests (industries, regions, ethnic groups) into an imaginary “unity of the people” and the “silent majority.” Because there is no systemic or functional link between these groups (contrary to social classes), their identity requires a marker, a rallying point. Usually this is positively a charismatic leader and negatively the rejected “other”. The populist discourse despises the ‘establishment’, which runs the system and is the agent for modernization; it picks on minorities, which are different from the “silent majority”. Thus, populist discourses are characterized by the distinction of “us” against “them” (Panizza, 2005). Populism lives in opposition and feeds on resentment. American populism turned anti-cosmopolitan, anti-Semitic and racist. Populism in Europe today has become nationalist, xenophobic, Eurosceptic, and protectionist (Betz, 2004; Szczerbiak and Taggart, 2000 and 2003). In Switzerland the SVP has successfully used xenophobic and provocative campaigns to keep the issue of immigration in the Swiss political agenda.<sup>9</sup> As with other formations in Europe, the SVP relies on a populist discourse of the kind mentioned above.

The populist inclination to exclude others and value their own undermines the possibility of peaceful consensus that would include all individuals in society through pluralistic tolerance. Instead, it supports the idea of a “community” in Rawls’ (2001:34) sense of being “united in affirming one and the same comprehensive doctrine”. The low degree of mutual respect for others makes cooperation difficult. When populism merges with nationalism, it becomes a problem for international relations. The re-emerging right-wing populism of years has become a threat to the European integration project, as the recent rejection of the Constitutional Treaty has demonstrated. We will now explain the mechanism through which economic pressures translate into right-wing populism.

### *Economic foundations of right-wing populism: the model*

We are proposing here an explanatory model, according to which left-wing populism is a consequence of sectoral economic pressures on real wages; right-wing populism emerges from sectoral pressures on profit margins that threaten to transform the socio-economic tissue of local economies and often put small and medium sized companies into difficulty. These difficulties cut across traditional class cleavages. In the 1990s, a number of factors have been transforming the economy not only within the European Union, but also in Switzerland. These trends have led to a deterioration of the non-tradable goods sectors relative to the tradable sector. Causing this development was globalization and Europeanization. Globalization meant that new technologies and the lowering of transport and communication costs opened new opportunities for

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<sup>9</sup> See: Programme national de recherche « Extrémisme de droite – causes et contre-mesures » (PNR 40+) [www.pnr40plis.ch](http://www.pnr40plis.ch).

international trade and foreign investment. These opportunities were largely dominated by economies of scale; by producing for large markets, companies could reap productivity gains, which translated into increasing returns to scale. European companies therefore had a strong interest to overcome the regulatory confinement to small national markets in order to benefit from these opportunities. A large single European market provided them with the comparative advantage necessary for prevailing in the global economy. The Single European Act sought to address this demand and set 1992 as the deadline for completion of market harmonisation. But first economic effects already appeared in the late 1980s when EU-firms started to adapt their business strategies. Large international Swiss companies also had to react to these developments, as the European Union was one of their most important markets.

However, the benefits of European market integration were not equally distributed. Companies in the non-tradable sector were not reaping significant economies of scale. As their markets were more stagnant, their productivity increased less than those of the larger international companies. As a consequence, their relative profit margins came under pressure. In an economy where the central bank is committed to price stability, and therefore not tolerating price increases resulting from productivity differentials (i.e. not accommodating the so-called Balassa-Samuelson effect), companies with low productivity gains will aim to reduce wages below the average in order to regain their margins, while companies in the tradable sector, where productivity advances rapidly, will shed labour. Both strategies fuel left-wing populism. But if Trade Unions or government regulations prevent wage differentials to widen, the pressure is shifted to profits. Reduced relative profit-margins in the non-tradable sector will lead to increased bankruptcies and capital outflows, if companies are externally financed. Small, proprietary firms may stay in business, but only at the price of deteriorating incomes for owners. The threat of deteriorating relative standards of living becomes the undercurrent for the right wing *Mittelstand*-ideology (Zöllinger, 2004). The less dynamic sector is hurting and populists blame the internationalization of the economy for all their pain. Demands of economic protectionism and political xenophobia are the consequence.<sup>10</sup>

The mechanism, through which productivity gains in the open sector translate into pressure on profits in the non-tradable sector, can be described by the following model. Assume two sectors:  $n$  for traditional non-tradable and  $m$  for modern, open tradable goods. The price equations for the output of the two sectors are:

$$(1) p_n = w_n - \lambda_n + c_n$$

$$(2) p_m = w_m - \lambda_m + c_m$$

Where  $p$  stands for prices,  $w$  for nominal wages,  $\lambda$  for labour productivity and  $c$  for the mark-up or profit margin. All values are in logarithms. By subtracting (1) from (2) we get the relative price structure:

$$(3) p_m - p_n = (w_m - w_n) - (\lambda_m - \lambda_n) + (c_m - c_n)$$

The left-hand side of the equation expresses relative prices between the two sectors. They depend on the wage spread, i.e. relative productivity, relative nominal wages

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<sup>10</sup> Another consequence is the demand of reducing taxes and social contributions in order to increase net income. See for example the declaration of the SVP Nationalrat Hermann Weyeneth who declared on 17 February 2003: "Der Mittelstand wird ausgepresst" ([http://www.svp.ch/index.html?page\\_id=246&l=2](http://www.svp.ch/index.html?page_id=246&l=2)).

between the two sectors, and relative profit margins. We will assume that productivity grows faster in the modern sector because it produces tradable goods subject to economies of scale, while the non-tradable sector is not. Thus the productivity differential ( $\lambda_m - \lambda_n$ ) is exogenously given and positive.

The question is then, how does the system adjust. The rate of inflation is defined as the increase of the weighted index of tradable and non-tradable prices (with  $p_m - p_n = 0$  for the base year,  $0 < \alpha_1, \alpha_2 < 1$  and  $\alpha_1 + \alpha_2 = 1$ ):

$$(4) \pi = \alpha_1 \Delta p_m - \alpha_2 \Delta p_n$$

Let us further assume that prices for tradables are determined by world markets and are stable. Hence,  $\Delta p_m = 0$  is the norm of our system and domestic inflation depends on non-tradable price increases. If monetary policy aims at achieving price stability, it has to ensure that  $\Delta p_n = 0$ , which implies that  $p_m - p_n = 0$ . This was in essence the case under the Gold standard in America at the end of the 19<sup>th</sup> century and in Europe under the Bundesbank standard in the 1990s or even more recently in the European Monetary Union. Switzerland also maintains monetary policies aiming for price stability. Note that such a monetary regime does not accommodate the Balassa-Samuelson effect,<sup>11</sup> whereby productivity differentials translate into price increases. The system then has to adjust through its other variables, either the wage differentials or relative profit margins:

$$(5) p_m - p_n = 0 \Rightarrow (\lambda_m - \lambda_n) = (w_m - w_n) + (c_m - c_n)$$

If the labor market is dominated by centralized wage bargaining, we can assume a uniform nominal wage in both sectors so that

$$\text{Case 1:} \quad \lambda_m - \lambda_n = c_m - c_n$$

The relative profit margins reflect the differences in relative productivities. The tradable sector is reaping increasing returns from globalized markets and the non-tradable sector is falling behind in relative terms. This becomes problematic if the tradable sector is important, so that its higher return on capital sets the standard for investors. In this case companies in the non-tradable sector come under pressure. They will either have to improve profitability or will be squeezed out of the market. Small non-capitalist proprietary business owners in the *Mittelstand* may accept operating at below average rates of return on capital. Given that productivity and prices are exogenous, profitability could only be improved by lowering wages in the non-tradable sector relative to the tradable sector. Thus, if efficient capital markets require equal returns in the two sectors we get:

$$\text{Case 2:} \quad \lambda_m - \lambda_n = w_m - w_n$$

Now all the pressure is on the labour market to adjust. Of course, combinations of Case 1 and 2 are possible. But the main feature of the model is that a persistent and exogenously determined productivity differential, caused by globalization in a regime of

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<sup>11</sup> For an explanation of the Balassa-Samuelson effect see Dornbusch, 1988. In our model the B-S effect does not apply because we allow deviations of money wages and nominal prices from competitive real wages and terms of trade.

price stability, will create a cleavage between winners and losers in the international and domestic sectors of the economy. If quantitatively important, this cleavage will dominate the traditional class distinction between labour and capital. The non-tradable sector will perceive itself as “the underdog” that unites the “small people,” which are workers and small firm owners, while the threat seems to come from large international companies and globalization in the large European market. This is the reality, which the populist discourse addresses. We will provide empirical evidence for this link from the EU- referenda in Switzerland below. But first, we need to understand the specific context of the Swiss vote.

### *The Swiss Context*

The Swiss People’s Party (SVP) became a populist movement in the 1990s. Like Haider’s FPÖ in Austria, it emerged under the leadership of a charismatic leader, Christoph Blocher, from a conservative, but because of its narrow focus on peasants’ interests, rather non-influential political party. It is characterized by Euroscepticism and xenophobia, opposing foreigners of all kinds, whether they were immigrant workers necessary for the growth of the Swiss economy, or the World Jewish Congress denounced as the “leader of the campaign against Switzerland of the past and present” (Betz, 2004:5) or foreign governments in Europe and the United Nations. Most importantly for our purposes, the SVP has continuously campaigned against stronger integration of Switzerland into the European Union. It successfully prevented Switzerland from joining the European Economic Area (EEA) in 1992 and blocked the opening of full EU-membership negotiations in the referendum in 2001. We propose that Swiss voters were tempted by the populist discourses of Christoph Blocher’s SVP and voted against EU accession because globalization and Europeanization created differential effects in the tradable and non-tradable sectors of the Swiss economy that seemed to be addressed most convincingly by the right-wing populist and anti-European discourse. However, as we will show, in 2005 some of these pressures had subsided, and the referendum on the Schengen Agreement was narrowly accepted.

The 1990s were years of deep structural change for the Swiss economy. The industrial structure had to adapt to changes in the world economy and the labour market was profoundly affected. The decade saw a spectacular increase in Foreign Direct Investment (FDI) outflows, a surge in portfolio investment, increased foreign liabilities, and one of the highest rates of mergers and acquisitions (M&A) in Europe. In 1997 their value totalled US\$39 billion, exceeded only by the value of M&As made by the United States. This was a direct result of the emerging Single European Market (Romero and Torres, 2001). The creation of Europe’s single market and the economies of scale that this integration was supposed to achieve, as well as the worldwide opening of markets, presented important challenges for the Swiss domestic economy. The tradable sector of the economy, even if it has become increasingly diversified, remains strongly affected by events on the continent, as the share of both Swiss imports and exports to the European market reveals (see Table 1). At a time when the European single market was put into place and the EU went through profound structural adjustments, Switzerland was able to keep its European exports and imports remarkably stable. This must imply that Swiss companies were able to adapt to the challenges coming from the EU market.



**Table 1. Openness of Swiss Foreign Trade to the European Union**  
(as percentage of total Exports or Imports)

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Exports to the EU	63.14	64.16	64.70	64.65	62.44	62.07	62.34	60.73	59.73	62.35
Imports from the EU	77.49	78.20	76.56	78.51	78.82	79.40	79.80	79.02	77.05	76.65

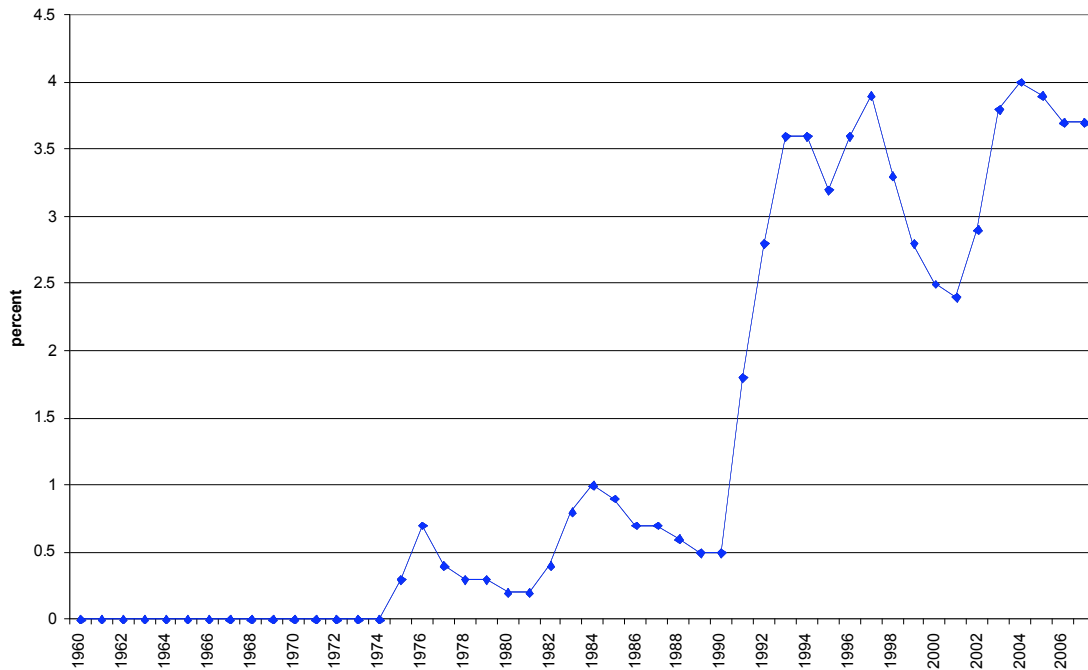
Source: Authors computation based on data from the OECD, 1999

The economic upheaval was also manifest in the labour market. Unemployment surged, even if it remained low by European standards (see Figure 1). From 1940 until 1985 the Confederation's unemployment rate was less than one percent (Puhani 2003), but in 1996 and 2004 it peaked at 4 percent. The reasons were largely macroeconomic. The rate of job creation equals the difference between GDP-growth and labour productivity increases. Swiss economic growth dropped from 2.3% in the 1980s to 1.0% in the 1990s and labour productivity increased from an average of 0.28 % per annum over the period 1980-1990 to 0.9% from 1991 to 2004. At the same time, labour supply became slightly more rigid as unemployment benefits became more generous and Swiss immigration policies became more tolerant and less elastic to economic shocks (Puhani, 2003:9). In a study prepared for the International Labour Organization (ILO), Romero and Torres (2001: 19) highlight the changes in the labour market, which ceased to be able to "absorb significant shocks and emerge from recessions without experiencing significant unemployment... In 1991 job creation came to an abrupt halt, and since then employment has virtually stagnated". According to this study, increases in unemployment were due to several structural changes in the country: the increasing number of young people in higher education, a higher participation of women in the workforce, a rise in self-employment, a rise in employment in the service sector, and decreases in the flexibility of foreign labour due to increases in permanent residence status.<sup>12</sup>

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<sup>12</sup> Switzerland has the highest percentage of foreign resident population in the OECD, 1.5 million or 20.5 per cent (Church, 2004: 24). Traditionally foreign workers made up at least one fifth of the workforce, but where given seasonal permits. Hence, during recessions, these workers took the bulk of the adjustment as less permits were granted and workers were sent home. Over the years many of these seasonal workers have been eligible to residence status; hence the effectiveness of this safety-valve has decreased (Romero and Torres, 2001: 24).

Figure 1. Unemployment in Switzerland



Source: European Commission, AMECO 2005. Note that prior to 1974 the data set indicates zero and not NA (not available) data points. Puhani (2003) mentions an unemployment rate of 0.1 percent for the Bretton Woods years.

The Swiss labour market is highly flexible in terms of employment regulations,<sup>13</sup> and collective bargaining is much decentralised; country-wide referenda have rejected twice (in 1988 and 2002) a reduction of weekly working hours at the image of France or Germany. Nevertheless, the Swiss labour market yields high wage equality across the economy. It seems that despite the general flexibility of a decentralised labour market, Trade Unions were able to affect some wage compression and centralisation through public debate (Puhani, 2003:7). We will argue below that this fact may explain why Swiss populism is primarily right-wing.

The fundamental changes in the economy have translated into the political arena.<sup>14</sup> Throughout the decade of the nineties the traditionally stable and since 1959 unchanged composition of the Federal government (the so called “magic formula,”<sup>15</sup>) was challenged by the electoral successes of the populist right-wing Swiss Peoples Party (SVP)<sup>16</sup> – which was finally given a second seat in the Federal Council (government) in

<sup>13</sup> The OECD (1993) employment protection index ranked Switzerland among the least regulated markets, close to the USA.

<sup>14</sup> Recent scholarly attention on Switzerland has produced some valuable works on both the political system and its social structure. Amongst these, the work by Fossedal (2002) on direct democracy in Switzerland; that of Church (2004) on the politics and government of the confederation; and Kriesi’s (2005) work on direct democratic choice. What is particularly important for the purposes of our study is the central place referenda play in the political process.

<sup>15</sup> This consisted of a continuous representation in the executive (the Federal Council or *Bundersrat*) of the main parties. Since 1959 the Federal Council was composed by allocating two places for each, the Radical Democrats (FDP), the Christian Democrats (CVP) and the Social Democrats (SPS), as well as one for the Swiss People’s Party (Ladner, 2001).

<sup>16</sup> In the 1991 election the SVP achieved 11.9 percent of the total vote; in 1995 it increased its share of the vote by 3 percentage points reaching 14.9 percent. In the 1999 election, the party increased again its share by 7.6 percent reaching this time 22.5 percent of the total vote. Finally in the 2003 election, it increased

2003 to the detriment of the Christian Democrats (CVP). In this context, the so-called “Kollegialitätsprinzip”<sup>17</sup> by the government became more difficult. Concomitantly, joining the European Union, by which mainstream politicians sought to facilitate Switzerland’s integration into the European market, proved impossible. In December 1992, the EEA Federal referendum on joining the European Economic Area was rejected by a slim margin. However, the 2000 referendum on the first round of bilateral agreements was approved, as well as the extension of the free movement of persons in 2005, and the 2005 Schengen/Dublin referendum. The only referendum dealing with European issues which was rejected in this period was the 2001 initiative ‘Yes to Europe!’ subject to particular conditions which make it hard to compare with these other referenda.<sup>18</sup>

Switzerland has attracted little scholarly attention from abroad, given that it was, as Church argues, a “special case”, a *Sonderfall*, which could bring little light to comparative studies. In the past few years, however, perceptions have changed (see for example: Schwok 1991, Fossedal 2002, Kriesi 2005). The social and economic transformation has rendered Switzerland more ‘normal,’ reflecting a process of ‘Europeanization’ (Church, 2004). This allows us to test our hypothesis that opposition against European integration was resulting from different pressures on the external and internal sectors of the economy. A similar link has also been noticed by Sciarini and Listhaug (1997), who have analysed the effects of international competition in what they call dual economies of Switzerland and Norway, but they do not analyse this phenomenon in terms of relative profit margins.<sup>19</sup>

When estimating the impact of sectoral cleavages we will also have to control for other factors, such as income, education, mobility between the cantons and migration. The idea is that well educated and mobile citizens with high income are more open to embrace Europe, while immigration may reinforce identitarian reflexes. Largely a result of the particularity of Swiss history, cleavages in the country have been well defined and taken into consideration by scholars as well as the political system – both in framing political institutions and in the day-to-day politics of Switzerland.<sup>20</sup> Salient cleavages are religion, language (i.e. regional communities) and the urban-rural division of the population. The relevance of some has decreased as changes both in society and the economy have taken place. Religious divisions have become less relevant as both

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again its share by 4.2 percent becoming the main party (though closely followed by the SPS) with 26.7 percent of the vote (Swiss Federal Statistical Office, 2004).

<sup>17</sup> This is to say that the seven *Bundesräte*, or federal ministers, take governmental decision behind closed doors. According to article 117(1) of the Swiss constitution, government decisions must then be presented as a common position in public.

<sup>18</sup> See footnote 5

<sup>19</sup> For (Sciarini and Listhaug, 1997: 411) “the Swiss dual economic policy reflected a sort of division of labour inside the economy and allowed a peaceful resolution of conflicts for a long time; corporatist-driven arrangements have been favoured by the possibility of reconciling interests of both sectors of the economy. More specifically, externally-oriented sectors could adapt without questioning the support and protection of domestic sectors. However, the dual economic policy becomes problematic in a context of increasing international competition (Knöpfel, 1988): this shift highlights the need for structural adjustment that would improve the situation of the externally-oriented sector, inveigled into the deregulation and liberalization process”.

<sup>20</sup> For example many unwritten arrangements such as those which provide balance in the membership of the Federal Council ensure that the main linguistic regions are represented (and hence do not allow for two representatives of a same canton). As of late there has also been an attempt for a more gender-balanced Council.

Roman Catholic, and Protestant populations have declined (Church, 2004). But language divisions have become more acute. This might be the result of several causes. On the one hand the particularity of the Swiss-German dialect<sup>21</sup> (*Schwytzerdütsch*), makes the German-speaking community rather self-contained. Thus, the regional economies which operate in different environments (German cantons being more dynamic and export oriented and less hit by crisis and unemployment, which means the tradable- non-tradable cleavage is more acute). Moreover, the media seem to have played a relevant role in the referendum campaigns since the main broadcasters are divided on language lines. Church (2004: 29) also refers to a centre-periphery cleavage related to language, given that “there is a ‘golden triangle’ [of prosperity] between Basle, Berne and, especially, Zurich, all of which are German speaking”. The urban-rural division of population, which also reflects differences in education and human capital, has also become more salient. This results from the fact that “expansion has led to a growing urbanization of Swiss towns and hence to increased divisions between town and country and between the various regions. In fact, 70 percent of the population now live in settlements of over 10,000 and over a third in the five big agglomerations of Zurich, Geneva, Basel, Berne and Lausanne” (Church, 2004:24). Zöllinger (2004) has shown that metropolitan suburbs are particularly sensitive to the right-wing populism of the SVP.

Finally, one may wonder if the issue of direct democracy has influenced voting for Europe. The Swiss democracy is probably best known for the dominant role of referenda and initiatives in making collective choices. This has two implications. First, critics have pointed out that referenda often do not reflect the issues at stake but act as indicators for the popularity of the government in power and are easily manipulated by political elites and the media. For example, the rejection of the 2005 referendum on the EU Constitutional Treaty in France and the Netherlands has been interpreted as a plebiscite against the Chirac or Balkenende governments – and largely reflected popular dissatisfaction with the domestic economic situation. However, the case of Switzerland is different. The wide-spread use of referenda and the centrality of this tool in the Swiss political system show that it has become embedded in the political culture. Hence, referenda such as those of the EEA and Schengen-Dublin, are not only little politicised but also usually do reflect the issues at stake. Referendum outcomes do not punish the government as a whole. As Kriesi argues (2005), the continuous use of direct-democratic tools makes citizens aware of the utility of this instrument and of their proper use.<sup>22</sup> We draw two conclusions from these observations. First, we are confident

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<sup>21</sup> There are several arguments for this. Church (2004) argues that the fact that most French-speaking children are taught only standard German and that most Swiss-Germans communicate in *Schwizertütsch*, makes a difference. After all, most French patois have disappeared and Swiss-French speak French which is what German-speaking children learn. In the case of the Ticino, however, dialects are still relevant. Another argument by Theiler (2004) emphasises that Switzerland is not a nation-State, and as such it does not have a single national language and unifying myths of shared ethnic origin. He also argues that the fact that Swiss-Germans adopt standard German or *Schriftddeutsch* as official language, but communicate in everyday life situations in Swiss-German dialect or *Schwizertütsch* makes them more wary of the influence from their northern neighbour, and thus the effects of joining the EU.

<sup>22</sup> Kriesi criticizes the common view, amongst others by Schumpeter, whereby “ordinary citizens are poorly informed, have no serious interest in public affairs and are generally ill-equipped for political participation” (2005:3); and that this would lead to the risk of citizens falling prey to demagogue and other manipulators –what is known as a “populist paradox” (Gerber, 1999). By looking at a wide array of referenda during almost twenty years in Switzerland throughout the period 1981 to 1999 (including the EEA referendum) Kriesi challenges both of these arguments. He shows that even when political elites are

that the Swiss referenda express public opinion about the European Union and nothing else.<sup>23</sup> The European Economic Area (EEA) and Schengen/Dublin referenda should therefore reveal structural factors explaining right-wing populism and Euro-scepticism. These referenda dealt with the same topic, namely European integration, and their results were highly correlated with each another. The second implication related to Switzerland's commitment to direct democracy may be that democracy in itself could become an argument against other closer European integration. Given the widely discussed issue of a "democratic deficit" in the European Union, voters may prefer to remain independently sovereign. The democratic practices in Switzerland, where voters take part in referenda up to four times a year, may conflict with the bureaucratic forms of intergovernmental policy making in the EU. Swiss voters may reject joining a less democratic Union, which suppresses their democratic traditions. We will control for that in our estimates.

### **Previous political economy explanations**

The prospect of membership in the EU has led to a lively debate amongst Swiss political scientists and economists which started with the prospect of the 1992 EEA referendum. This debate has touched upon two major issues, on the one hand the costs and benefits of joining the EU and on the other explanations of Swiss public opinion and voting trends. Anson and Cadot (2004) provide not only with a good overview of this debate, but develop a sophisticated analysis at the commune level on the economic effects of trade liberalisation.<sup>24</sup> Their analysis looks at voters as forward-looking, analysing the costs and benefits of both EEA and bilateral options, and voting accordingly. These results confirm those obtained at the cantonal level by Brunetti, Jaggi and Weder (1998) which looked at employment in different sectors of the economy and concluded that the sectors which were most likely to lose from the EEA voted against it. Armingeon (2000) criticised this study on the basis of its relevance (since economic elements seemed to add only a minor proportion to the votes) and on

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relevant in mobilizing public opinion (and hence voter's participation) and in providing voters with cues and recommendations, "in direct democratic Swiss votes, argument-based systematic voting is more widespread than expected" (2005: 9).

<sup>23</sup> It is important to note here that as a neutral country, Switzerland has always been reluctant to engage in cooperative international arrangements. There is a consensus among Swiss political analysts that neutrality is indeed perceived as a defining trait of Swiss nationhood by its population. As such, neutrality could be understood as a residual cause for isolationism among Swiss voters irrespective of partisan politics and sympathies. Moreover, it is important to differentiate between the impact of neutrality on security affairs, and the impact on international economic relations. Indeed, although neutrality has been significantly reinterpreted throughout the 1990s to include today membership in security institutions such as the UN or the Partnership for Peace (PfP), neutrality has ever since been construed in relaxed terms as regards economic issues. Effectively, the doctrine of Federal Councillor and long-time Foreign Minister (1944-1961) Max Petitpierre stipulated that Swiss membership in 'technical and apolitical' institutions, trade arrangements in particular did not contradict neutrality. A further element to be considered is that with the end of the Cold War, the EU changed its stance towards neutrality. As Sully argues, as negotiations towards the EFTA enlargement took place Brussels made clear that it accepted "the view of the Austrian government that neutrality was fully compatible with the Maastricht Treaty" (1995: 67). We thus believe that given their strong economic character, and Brussels acceptance of the principle of neutrality, the impact in the two referendums of the evolving neutrality debate was limited (see for example: Spillmann, Wenger, Breitenmoser, Gerber, 2001).

<sup>24</sup> They test their results to both a Ricardo-Viner model where each industry combines one or several specific factors with one mobile one; and a Heckscher-Ohlin model where the factors of production are mobile amongst the different sectors. In doing this they seek to identify winners and losers from different types of liberalisation and the effects this has on voters preferences.

using data at the cantonal level. Brunetti, Jaggi and Weder (2000) relied on the basis of the importance of assessing the socio-economic elements in the vote and noting the difficulty of obtaining employment data at the commune level. Our analysis complements these results by looking at the effects of Europeanization and globalisation, and not at the mode of integration per se (i.e. EEA or the bilateral option) and by looking at profit margins. In this sense, rather than analysing the cost-benefit balance of voters, we link the debate on right wing populism with that of Euroscepticism through an analysis of underlying characteristics which fuel both phenomena. We build on the works of Hanspeter Kriesi (2007) and Mazzoleni (1997), which show how the populist right in Switzerland has used an economically liberal and at the same time chauvinistic and xenophobic discourse to rally support from both strong firms in the economic sector, and from those losing out from globalisation. We have found support for many of the patterns previously explained (e.g. a negative relation between unemployment and Euroscepticism). At the same time, our findings suggest the presence of relevant structural characteristics, which are in line with the ‘new cleavage’ thesis of which Kriesi (2007) through a content analysis of newspapers in national election campaigns has also found evidence.

### Explaining the Swiss vote

The first step towards testing our hypothesis is to find comparable data from which to test underlying structural characteristics. The puzzle of the correlation amongst the EEA and the Schengen referendums suggests these common structural characteristics exist. Even more so, a comparison amongst different EU related referenda (the 1992 EEA referendum; the 2000 referendum on the first round of bilateral agreements; the extension of the free movement of persons in 2005; and the 2005 Schengen/Dublin referendum) provide with further support to the thesis of inherent structural characteristics (See table 2).

**TABLE 2. Correlations amongst EU Related Referendums**  
(26 cantons)

		Correlations			
		EEA	Bilateral1	Freemov	Schengen
EEA	Pearson Correlation	1	.890(**)	.790(**)	.904(**)
	Sig. (2-tailed)		.000	.000	.000
Bilateral1	Pearson Correlation		1	.944(**)	.949(**)
	Sig. (2-tailed)			.000	.000
Freemov	Pearson Correlation			1	.935(**)
	Sig. (2-tailed)				.000
Schengen	Pearson Correlation				1
N					26

\*\* Correlation is significant at the 0.01 level (2-tailed).

We have also tested for correlations at the commune level (table 3). In this case we have compared the 1992 EEA referendum with the first bilateral agreements in 2000 as

these two have the highest number of comparable communes. Again the correlation is high and significant. Finally, a simple linear regression amongst these two last variables (using the first bilateral agreements as outcome variable and the EEA as explanatory one) shows that nearly two thirds of each percentage point of a vote in favour is explained by the previous result (see: table 4). This simple model explains 64 per cent of the variation ( $R^2$ ). This confirms there is a high degree of stability and relevant structural elements to be considered.

**TABLE 3. Correlation amongst EEA and the first bilateral agreement referendums (2831 communes)**

Correlations			
		EEA	Bilateral1
EEA	Pearson Correlation	1	.800(**)
	Sig. (2-tailed)		.000
	N	2831	2831

\*\* Correlation is significant at the 0.01 level (2-tailed).

**TABLE 4. Regression amongst the EEA and first bilateral agreement referendums (2831 communes)**

Coefficients(a)						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	33.631	.431		78.100	.000
	EEA	.606	.009	.800	70.971	.000

a Dependent Variable: Bilateral1

Our main argument then is that the squeeze in profits in the non-tradable sector is behind the increase in Swiss Euroscepticism in the early nineties. Support for the EEA, which was strong before the referendum took place, eroded rapidly and the treaty was defeated in the polls. Moreover, we contend that the strong right wing movement (the rise of the Swiss People's Party) which occurred at the end of the 1990s is also partially a result of this phenomenon. To evaluate this link we have tested whether the increase in votes of the SVP correlates with the results of the EEA and Schengen referendums (as one may object that data from European referenda do not necessarily explain such a general phenomenon as party political affinities). Table 5 shows the correlation between the 1992 EEA referendum with the three subsequent parliamentary elections and the Schengen/Dublin referendum. It only considers 21 cantons as the SVP has not been present in all of the cantons during the period examined (1995-2003). It reveals that parliamentary votes are less strongly correlated with the referenda than the referenda are among themselves. This confirms the analysis in other work on right wing populism whereby the institutional factors have an important impact on party specific voting

shares (Norris, 2005). However, the negative correlation between a pro-European vote at a referendum and a vote for the right-wing SVP during general elections is significantly high to warrant a link between Euro-scepticism and right-wing populism. Moreover, as the proportion of votes towards the SVP has increased, so does the correlation with European related referenda. Mazzoleni (1999) in his extensive study on the rise of the SVP also suggests a strong link amongst Euroscepticism and right-wing populism which is both related to socio-economic as well as cultural and identity-related reflexes.

Hence, it seems that the structural elements identified by our study have had an effect in fuelling the radical right. Many authors have found evidence substantiating this relation, whereby structural changes originating from globalisation and the change towards a post-industrial society translate into the rise of the radical right (Norris, 2005).

**TABLE 5. Correlations of right wing party support, and support for Europe<sup>a</sup>**  
(SVP candidates in the three elections: 21 cantons)

	% EEA	% of SVP 1995	% of SVP 1998	%SVP 2003	% Schengen Dublin
% EEA	—	-.580(**)	-.636(**)	-.756(**)	.920(**)
% of SVP vote 1995	—	—	.889(**)	.768(**)	-.500(*)
% of SVP vote 1998	—	—	—	.766(**)	-.562(**)
%SVP 2003	—	—	—	—	-.705(**)
N= 21					

<sup>a</sup> Pearson correlation coefficients

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

Note: Only 21 cantons.

A simple approach to testing our hypothesis on the effects of sectoral pressures due to Europeanization and Globalisation would be to check whether wage and profit differentials are correlated with the anti-European votes in referenda. Unfortunately no data about relative profits or terms of trade between the tradable and non-tradable sector are available. We therefore first establish indirectly whether the economic transformation of the Swiss economy has put more pressure on wages or profits; we then regress the share of pro-European votes on a measure for the importance of the non-tradable relative to the tradable sector and a number of other control variables. If the coefficient for the relative importance of these two sectors is negative and significant, we take this as evidence that our hypothesis is not invalidated by the facts.

### *The data*

In order to test our hypothesis of sectoral cleavage we have selected a wide array of socioeconomic variables. To find evidence for the historic impact of economic transformation on the economy, we used macroeconomic time series for GDP, labour



productivity and unemployment from the European Commission's AMECO database, which is based on OECD statistics. For our model we have used aggregated variables at the cantonal level as the necessary data to measure differentials in wages and profits does not exist at the commune level which would have given more precise measurements.

For estimating the impact of the non-tradable sector on the vote, we took the percentage of votes in favour (yes vote) in the twenty six Cantons of the 1992 and 2005 federal referenda as the dependent variable. Data for the dependent variable (YES) were obtained from the Swiss Federal Statistical Office (1993<sub>a</sub> and 2005<sub>c</sub>). We regressed these values jointly and separately on a proxy for the non-tradable/tradable sector ratio and a number of control variables for each canton.

As a measure of the relative importance of the non-tradable and tradable sector, we constructed two indices, one reflecting the ratio of employers (i.e. firms<sup>25</sup>) from the non-tradable over those in the tradable sector (RATIOESTABLISHMENT), and another taking the ratio for workers amongst the same pair of sectors (RATIOWORKERS). The definition of these two sectors is given in the Annex; data for these variables were obtained from the enterprise accounting<sup>26</sup> of the Swiss Federal Statistical Office. We took values for 1991 and 1998, as the office for statistics published this information only for the years 1991, 1995, and 1998 (Federal Statistical Office, 2000: 152-203).

As control variables, we considered income, unemployment, religion, a direct democracy index, language, monolinguals, professionals, immigrants, and inter-communal mobility as potential proxies for explanatory control variables. Not all these variables proved significant. The following variables were retained:

As the variable for INCOME<sup>27</sup> we took the per-capita index elaborated by the Swiss Federal Statistical Office for both periods studied (1993<sub>a</sub>: 134 and 2004<sub>b</sub>), which gives the deviations from the national average of the Confederation. In the index average income equals 100.

As an UNEMPLOYMENT variable we took average unemployment in the canton for the years 1989 to 1992, based on data from the Federal Department of Public Economy (SECO, 1993:11). For the 2005 vote, the unemployment figures were updated by taking the average of the years 2002 to 2005 (April). The information was obtained from two different publications of the Federal department of public economy (SECO, 2003:91 and SECO, 2005:79).

As a measure of education and ideological openness a variable based on the percentage of MONOLINGUISM within a canton was considered. One would expect

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<sup>25</sup> *Arbeitsstätten/ Etablissements*

<sup>26</sup> *Betriebszählung / Recensement des entreprises*

<sup>27</sup> The statistical office warns: "The per-capita cantonal income provides only very qualified information about a canton's prosperity. In addition to the income of private households, it also covers corporate revenue as well as the income of public government budgets and social insurances. Furthermore, corporate income is assigned to the canton in which the company's owner is domiciled or to the canton where the company has its headquarters. For years, Cantons Zug and Basel-City have had the highest per capita national income – admittedly, the proportion of incorporated firms is particularly high in these cantons" (2005<sub>b</sub>:11).

that people speaking more than one national language would be more open than those who speak only one language. Hence, the number of residents within every canton which spoke only one national language<sup>28</sup> was taken. The percentage of monolinguals was obtained based on the proportion of monolinguals from the total resident population (Federal Statistical Office, 1993b:320).

Many studies have attributed the differences in voting behaviour to ethno-linguistic elements. Hence, we have generated two dummy variables based on the predominant language spoken in each canton. In the first dummy, the value of 1 was assigned to GERMAN and the value of 0 to French and Italian. In the second dummy, the value of 1 was given to ITALIAN and zero to other languages. There is no single canton with a majority of Romansh speakers (Federal Statistical Office, 1993b:320).

Mobility was considered as another measure for openness. Hence a variable which measured the percentage of residents born in a commune other than their place of residence was generated. The data was obtained from the 1990 census (Swiss Federal Statistical Office, 1993c: 16-17). Residents which had migrated from a commune to another (OTHER\_COMMUNE) are expected to be more open and hence more pro-European. Although it is important to note that there is a very high degree of inter-communal mobility in every canton.

Since immigration has become a significant element in the rhetoric of the anti-EU coalition in Switzerland, the relation between different types of immigrants and the referendum vote was assessed. In the 1990 census (Federal Statistical Office, 1993c:16-17) the most significant groups of foreigners classified were western Europeans, southern European including those from Yugoslavia, and austral-Asians. The percentage of each one of these groups with respect to the total population was obtained. A generic variable encompassing all FOREIGNERS was also considered. However, only the southern European (SE\_IMMIG) category was worth considering, reflecting the migration flows from the wars in former Yugoslavia. This category was examined for both the 1990 and the 2000 periods (Federal Statistical Office, 2003: 130 - 131). However, the effect was no longer significant when the Italian language variable was retained, indicating that the immigration issue had an asymmetrically strong effect in the Ticino.

The following control variables proved insignificant.

Differences in human capital were considered by obtaining the percentage of PROFESSIONALS of the total population based on data from the 1990 census (Federal Statistical Office, 1993c:10-11). Gabel has identified a higher level of human capital, to be correlated with pro-European sentiment (Gabel, 1998: 43-44). In our regressions they were not statistically significant.

We measured the impact of religion by the percentage of PROTESTANTS in each Canton, as obtained from the 1990 census (Swiss Federal Statistical Office, 1993b:2).<sup>29</sup> Religion also was not significant.

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<sup>28</sup> *Wohnbevölkerung mit einer Landessprache*

<sup>29</sup> It is important to note that in some cases, officially a canton is considered Catholic or Protestant even when it is no longer the case. For example Geneva is considered to be a Protestant canton (for historical reasons), even when today the main religion in the canton is Catholic. In the study we took the actual figures and not the official denomination.

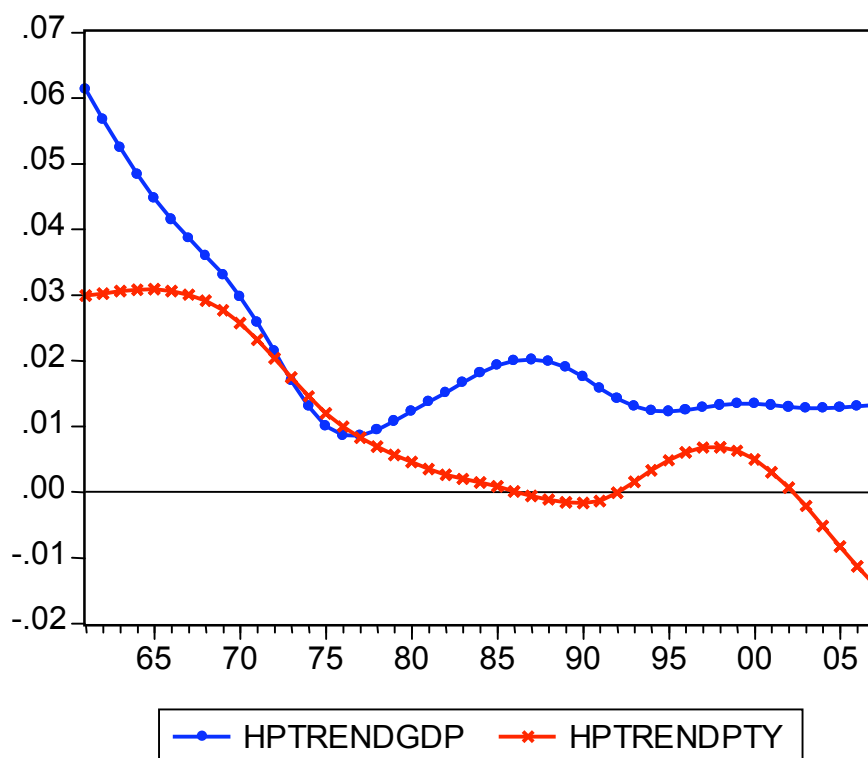
To test for Switzerland's attachment to practices of direct democracy, a direct democracy rights index (DDRI) was obtained from the work of Bruno Frey and Alois Stutzer. It measures the degree of constitutional initiative, legislative initiative, legislative referendum and financial referendum (Frey and Stutzer, 2000). It turned out that the democracy issue was irrelevant for the yes vote.

*Explaining Sectoral Pressures from Swiss Economic Transformation*

As we have seen above, Switzerland has gone through an important transformation of its economy in the 1990s. We now need to show whether this change has primarily put pressure on wages or profits.

First we assess productivity, our exogenous variable. Unfortunately we do not have disaggregated data for sectoral productivity, wages or profits per Canton. We therefore derive this information indirectly from time series macroeconomic data. We have mentioned above that unemployment increased in the late 1980s and 1990s due to a slowdown in economic growth and an increase in labour productivity. Figure 2 shows the long term trends (obtained by the Hodrick-Precott Filter) of these two variables.

**Figure 2. GDP and Labour Productivity Growth Trends (Hodrick-Prescott Filter)<sup>30</sup>**



While the GDP growth trend is falling in the late 1980s and early 90s and remains stable thereafter, labour productivity increases strongly during most of the 1990s, and then turns negative at the end of the decade and the early 2000 years. This means that in the 90s high productivity gains have inverted the dynamics of job creation (the difference between the two curves) that was prevalent in the 1980s. In the early 2000s,

<sup>30</sup> Actual data were smoothed by a Hodrick-Prescott filter, to show the underlying trends without the noise of short term stochastic shocks.

the pressure subsided because of lower and even negative productivity increases. Further analysis reveals that the acceleration in productivity growth is primarily due to Total Factor Productivity and not to higher capital intensity in the Swiss economy.<sup>31</sup> In other words, it reflects general improvements in technology, economic efficiency and the transformation of the Swiss economy. Given that the Swiss openness to Europe has not suffered despite the transformation of the EU single market program, it is highly plausible that this reflects the adaptation to the challenges of Europe's single market and globalisation. But clearly, in a small country like Switzerland, this structural change cannot have affected the economy uniformly. The improvements were concentrated in the tradable sector. This is also confirmed from labour market data.

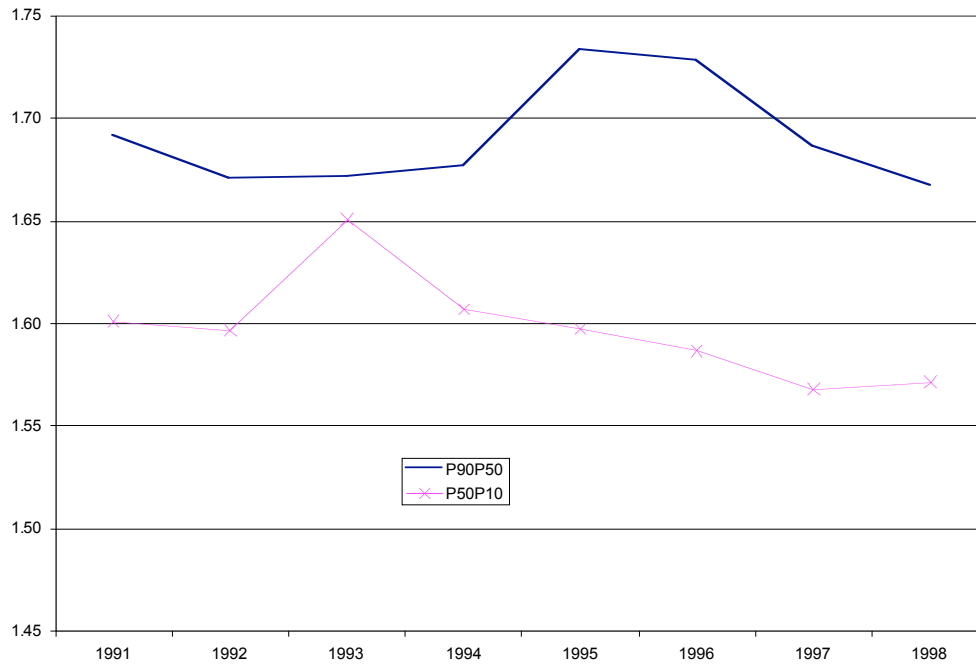
Switzerland's deep structural change has not translated in increased wage dispersion (see also Puhani, 2003). Figure 3 shows two relative wage ratios.<sup>32</sup> P90P5 is the ratio of the gross earnings received by the workers at the 90<sup>th</sup> percentile to the wage received by the workers at the 50<sup>th</sup> percentile and P50P10 is the equivalent ratio for workers in the 50<sup>th</sup> versus 10<sup>th</sup> percentile. The top wages have not significantly risen over the median, and the lower wages have actually slightly improved. Thus, the Swiss adjustment model resembles our Case 2; the pressure of adjustment from productivity differentials must be on relative profit margins. This effect is re-enforced by the resistance in the labour market. If capital markets would impose equalisation of profits, small and medium companies in the non-tradable sector would have to shed labour or quickly go out of business. However, this has not happened because the domestic part of the economy has been traditionally sheltered, so that labour shedding attempts in this sector face strong opposition (for a full description of the nature of labour relations in Switzerland see Church, 2004: Ch. VI). As a consequence, profits in the non-tradable sector and small *Mittelstand*-firms must have been pushed below average. But, in the tradable sector the opposite happened. Restructuring led to significant labour cuts and an overall increase in unemployment (Gagales, 2002). This is how productivity was increased in the tradable sector. But the lack of profitability in the non-tradable sector prevented the growth of GDP necessary to absorb the unemployed workers from the modern sector. Hence, we must conclude that Swiss adaptation to the European market has led to a productivity gap between the tradable and non-tradable sector, which has subsequently caused significant pressure on the profit margins in the non-tradable sector and given rise to right wing populism. However, by the mid-2000s, the adaptation process seems to have come to an end, as productivity increases became even negative, so that the pressure on profits in the non-tradable sector must have subsided.

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<sup>31</sup> For reasons of space this cannot be shown here, Data from European Commission, AMECO 2005.

<sup>32</sup> Obtained from Comparative Welfare States Data Set Assembled by Evelyne Huber, Charles Ragin, and John D. Stephens, December 1997, updated by David Brady, Jason Beckfield, and John Stephens April 2004

Figure 3. Wage dispersion in Switzerland



### *Results of the Regression Model*

The EEA referendum has been thoroughly scrutinised. A detailed analysis after the election found several cleavages in Swiss society to be relevant (Kriesi, Longchamp, Passy and Sciarini, 1993): trust in authorities, linguistic regionalism, rural/urban population, levels of education and left/right political sympathies. Generally, the more people trusted the authorities, were French speakers, lived in cities, had higher education levels and were politically oriented towards the left, the more they tended to support the EU accession. On the other hand, the more people lived in rural areas, were suspicious of the government, were politically centre or right oriented, lived in the German-speaking countryside on suburbs and had a lower education level, the more they opposed the agreement. We have retained most of these factors in our regressions.

From our model explained above, we would expect that right wing populism would diminish the canton vote in favour of the EEA as a consequence of a squeeze in profits in the non-tradable sector. Hence, our hypothesis implies a negative correlation between the Establishment ratio and the share of the “yes” vote in the EEA referenda. Left-wing populism would manifest in a negative correlation of the number of workers employed in the non-tradable sector (RATIOWORKERS). After the step-wise elimination of variables, only the establishment ratio turned out to be significant. This is consistent with our claim that a profit squeeze, rather than a wage squeeze was responsible for the rejection of the EEA referendum.

To test our hypothesis, we have regressed the explanatory variables on the dependent variables. In addition to the control variables of socio-economic and political cleavages we have included a dummy (DUM2005) for 1992=0, 2005=1 and an

interaction dummy (REST\_X\_DUM05), which multiplies DUM2005 and the Establishment ratio. If these variables proved to be significant, we would include that voters behaviour with respect to our structural explanation has changed between 1993 and 2005. This is not the case, so that we can combine the variables for both periods in one panel. Table 6 shows the estimates for all our potential control variables.

**Table 6. Estimate for Yes-vote based on all explanatory variables 1992 and 2005 pooled**

Dependent Variable: YES  
Method: Least Squares  
Included observations: 52

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DDRI	-0.025621	0.097930	-0.261620	0.7951
FOREIGNERS	-0.013783	0.296407	-0.046502	0.9632
GERMAN	-11.25447	5.677393	-1.982331	0.0551
INCOME	0.094803	0.053186	1.782478	0.0831
ITALIAN	-22.17234	5.985185	-3.704536	0.0007
MONOLINGUIISM	-0.446256	0.274655	-1.624788	0.1129
OTHER_COMMUNE	0.171071	0.200961	0.851265	0.4002
PROFESSIONALS	-0.093808	0.149404	-0.627882	0.5340
PROTESTANT	0.022004	0.074576	0.295055	0.7696
RATIOESTABLISHMENTS	-1.791617	1.321011	-1.356247	0.1835
RATIOWORKERS	0.622478	1.387911	0.448500	0.6565
SE_IMMIG	-2.637285	1.578024	-1.671258	0.1033
UNEMPLOYMENT	4.577305	1.931430	2.369905	0.0233
C	82.65767	32.85899	2.515527	0.0165
DUM2005	5.197656	7.039658	0.738339	0.4651
REST_X_DUM05	-0.369474	1.162255	-0.317894	0.7524
R-squared	0.878088	Mean dependent var	48.35442	
Adjusted R-squared	0.827292	S.D. dependent var	14.06416	
S.E. of regression	5.844808	Akaike info criterion	6.616645	
Sum squared resid	1229.824	Schwarz criterion	7.217027	
Log likelihood	-156.0328	F-statistic	17.28640	
Durbin-Watson stat	1.815841	Prob(F-statistic)	0.000000	

We eliminate the statistically insignificant variables in a step-wise procedure, and force the error term to be white noise. The model best fitting the data is given in Table 7. Our hypothesis of the sectoral impact of the Establishment ration is not invalidated. A high ratio of non-tradable to tradable sector companies reduces the yes-vote significantly.

**Table 7. Estimate for Yes-vote based on best fitting variables  
1992 and 2005 pooled**

Dependent Variable: YES

Method: Least Squares

Included observations: 52

White Heteroskedasticity-Consistent Standard Errors & Covariance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GERMAN	-14.04601	2.735426	-5.134854	0.0000
INCOME_CH_100	0.083827	0.035429	2.366099	0.0223
ITALIAN	-22.86988	2.523497	-9.062773	0.0000
MONOLINGUIISM	-0.634380	0.163042	-3.890892	0.0003
RATIOESTABLISHMENTS	-2.354155	0.817238	-2.880623	0.0061
UNEMPLOYMENT	5.265839	1.537933	3.423971	0.0013
C	101.0406	16.97011	5.954032	0.0000
R-squared	0.854567	Mean dependent var	48.35442	
Adjusted R-squared	0.835176	S.D. dependent var	14.06416	
S.E. of regression	5.709844	Akaike info criterion	6.446910	
Sum squared resid	1467.104	Schwarz criterion	6.709577	
Log likelihood	-160.6197	F-statistic	44.07015	
Durbin-Watson stat	1.672380	Prob(F-statistic)	0.000000	

Interestingly the two dummies for distinguishing 1992 and 2005 are also eliminated, which indicates that the structure of political reaction to economic pressure does not change. What changes between the two referenda is the intensity of adjustment pressure due to the changed productivity growth performance.

In order to check the robustness of this result, we recalculated the estimate for 1992 data only. Table 8 indicates the same structure, although the coefficient on the Establishment ratio is higher. The Wald-Test that the coefficient for RATIOESTABLISHMENTS in 1992 is equal to the value of the full sample does not reject the null hypothesis (see Annex II).<sup>33</sup>

**Table 8. Estimate for Yes-vote based on best fitting variables, 1992 only**

Dependent Variable: YES

Method: Least Squares

Date: 12/21/06 Time: 20:12

Sample: 1 26

Included observations: 26

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GERMAN	-19.92957	3.155523	-6.315772	0.0000
INCOME_CH_100	0.098807	0.041737	2.367346	0.0287
ITALIAN	-26.06597	3.926992	-6.637642	0.0000

<sup>33</sup> Further Wald-tests (not shown here) confirm that all 1995-coefficients are equal to the full panel with a likelihood higher than 95%.

MONOLINGUISM	-0.703012	0.163131	-4.309506	0.0004
RATIOESTABLISHMENTS	-3.140624	0.631844	-4.970567	0.0001
UNEMPLOYMENT	6.347088	1.275182	4.977399	0.0001
C	110.4618	16.69396	6.616869	0.0000
<hr/>				
R-squared	0.967504	Mean dependent var	46.15000	
Adjusted R-squared	0.957243	S.D. dependent var	16.96557	
S.E. of regression	3.508121	Akaike info criterion	5.572842	
Sum squared resid	233.8314	Schwarz criterion	5.911561	
Log likelihood	-65.44695	F-statistic	94.28215	
Durbin-Watson stat	1.389657	Prob(F-statistic)	0.000000	

However, other factors discussed by the previous literature are also confirmed: low education (MONOLINGUISM) and regionalism (LANGUAGES) also reduce support for Europe. German Communitarianism is critical of Europe, but the Ticino (Italian speaking) is even more so. Further analysis about the interaction of the Italian language variable and migration reveals (not shown here) that anti-European attitudes in the Ticino were correlated with immigration from Yugoslavia during the 1990s and the Kosovo war. Income levels seem less significant, given the noise contained in the series (see footnote 27), although the sign is as expected: higher income relative to the Swiss median makes people more inclined to vote in favour of Europe.

By contrast, it seems counter-intuitive that unemployment is not lowering, but increasing the willingness of Swiss citizens to join Europe. This result, however, confirms those obtained in previous political economy explanations both at the cantonal and commune level (see: Brunetti, Jaggi and Weder, 1998; Anson and Cadot, 2004) and can be explained by a high levels of human capital amongst the unemployed. As Gales observed:

“[l]abour shedding was greatest in declining manufacturing sectors such as textiles (-41 percent), leather (-33 percent), and clothing (-31 percent). But it was also pronounced in dynamic industries such as chemicals (-15 percent) and electronic equipment (-19 percent). By contrast, in sheltered sectors, layoffs have been more moderate.” (2002:20)

This explanation would imply that well-educated Swiss unemployed are confident that European integration would support job-creation in the tradable sector in the future. Given the Swiss dependency of foreign trade on Europe, this is a plausible expectation. This is consistent with general findings on Euroscepticism which suggest that higher levels of qualifications or human capital lead to lower Euroscepticism (Gabel, 1998) and with previous studies on the EEA referendum (Kriesi, Longchamp, Passy and Sciarini, 1993).



## Conclusion

### *Right wing populism and economic change*

Our results support the initial hypothesis that the impact of productivity differentials in the tradable and non-tradable sectors has had relevant political effects. By comparing the EEA with the Schengen/Dublin referenda, we find that the fundamental structure of Swiss voting patterns does not change. When looking at other similar referendums, this has been confirmed. What has changed, however, is the impact of productivity developments in the 2000s. While overall productivity advanced rapidly in the 1990s due to industrial restructuring, the trend reverts in the next decade, thereby mitigating the pressure on relative sectoral profit margins. First, in 1992 changes in the fundamentals were acute and pressing and Euroscepticism was high; throughout the 2000s changes had taken place, the economic pressures had weakened and the various referenda on Europe have had positive outcomes.

One element which strikes at first sight is the robustness of the results emerging from the  $R^2$  of the model. Given that we have included all of the main cleavages previously identified by other authors, our model only confirms the presence and relevance of these cleavages, in particular those of language divisions between German and French speaking Switzerland. The results also confirm other cleavages, such as unemployment reflecting the geographic and economic differences between the regions and possibly also education. It would have been desirable to have more disaggregated data and to measure pressures on profit margin directly. Unfortunately it is not possible to obtain data which allows to measure profit margins at the commune-level. We have pooled the data in order to increase the number of cases. On the other hand, studies which have tested for economic effects at the commune level (Anson and Cadot, 2004) have found similar effects for the EEA referendum to those based on cantons (Brunetti, Jaggi and Weder, 1998). We have also complemented our analysis by looking at correlations at the commune level and at macro variables. All of which hopefully limits the problems associated with using cantonal data (Armingeon, 2000).

We conclude that our hypothesis of sectoral economic pressure as an explanation for Euroscepticism and right wing populism is compatible with the evidence, although other factors matter as well. Further work, in particular with respect to the 2007 electoral results, could study the link between Euroscepticism, right-wing populism and structural economic change, if data at the commune level can be obtained.

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## ANNEX I: THE DEFINITION OF TRADABLE AND NON-TRADABLE SECTORS

An establishment or employee was counted as part of the *non-tradable sector* if it was listed in these sectors:

Energy and water provision (Energie-, Wasserversorgung),  
construction (Baugewerbe),  
wholesale (Großhandel),  
retail and repair (Detailhandel u. Reparatur),  
hotel industry (Gastgewerbe), terrestrial transport (Landverkehr),  
water transport (Schifffahrt),  
real estate (Immobilienwesen),  
informatics (Informatikdienste),  
services for enterprises (Dienstleistungen für Unternehmen),  
personal services (Persönliche Dienstleistungen),  
education (Unterrichtswesen),  
health and social services (Gesundheits- und Sozialwesen),  
recreation, culture and sport (Unterhaltung, Kultur, Sport).

The *tradable sector* was defined by the following branches:  
manufacturing industries (Verarbeitendes Gewerbe, Industrie),  
aviation (Luftfahrt),  
leasing of mobile objects (Vermietung beweglicher Sachen),  
research and development (Forschung und Entwicklung).

## ANNEX II

The Wald-Test that the coefficient for the Ratioestablishments in 1992 is equal to the value of the full sample does not reject the null hypothesis:

Wald Test:

Test Statistic	Value	df	Probability
F-statistic	1.549328	(1, 19)	0.2284
Chi-square	1.549328	1	0.2132

Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
$2.354155 + C(4)$	-0.786469	0.631844

Restrictions are linear in coefficients.