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Trusting Constitutions

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1 Introduction

Economists distrust constitutions which rely on trust towards the citizens. Rather, they favour strict over lenient public laws, because they prevent people from behaving in an opportunistic and exploitative way. The view that human beings act as knaves, if given the opportunity, forms the basis of Constitutional Economics (in particular Brennan and Buchanan 1983). It is also reflected in the works of David Hume and John Stuart Mill :

'In contriving any system of government, and fixing the several checks and controls of the constitution, every man ought to be supposed a knave, and to have no other end, in all his actions, than private interest'. (David Hume, 'Of independency of parliament', Essays. Moral, Political and Literary, Vol. 1, London, University Press 1963, pp. 117-118);

'The very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of the holder, not because it always is so, but because such is the natural tendency of things to guard against which is the especial use of free institutions.' (John Stuart Mill, 'Considerations

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on representative government'. *Essays on Politics and Society*, vol. 19 of the Collected Works, p. 505).

Two distinct reasons are normally advanced in favour of strict constitutions. First, people are knaves if not constrained; second, a realistic model of (average) human behaviour is not a reasonable basis for normative institutional design because the harm caused by movements away from the ideal is disproportionately large (convexity assumption). Rather, the worst-case scenario must be considered and society's laws must be so strict that they prevent such malevolent behaviour.

This paper wants to draw attention to a crucial aspect disregarded by such arguments: A constitution designed for knaves tends to *crowd out civic virtues*, and as a result the constitution is less observed. The effort to guard the constitution against exploitation may thus lead to a perverse result. By preparing for the worst case, and not taking into account average citizen behaviour, such constitutions may destroy the positive attitude of citizens towards the state. However, civic virtue can not be spared when it comes to citizenship behaviour. Tax compliance, for example, can not solely be explained by citizens rationally taking into account the expected probability of being punished. Rather, tax compliance depends strongly on intrinsic motivation to pay one's taxes, i.e. on tax morale. A constitution, and more generally public laws and regulations, while checking against knaves to some extent, should therefore also support civic virtues. We present empirical evidence that constitutions allowing for active citizen participation via popular referenda and initiatives in fact lead to higher civic virtue in the form of tax compliance. Trusting constitutions are an important way of economizing on civic virtues.

'Trusting constitutions' is also relevant in another aspect. The economic approach to constitutions can provide valuable insights on how public laws affect social issues. We show empirically that different constitutional designs have an impact on the happiness of the respective citizens. Important social questions can be dealt with by focusing on the constitutional level, and the basic claim of constitutional economics that institutions matter should therefore be emphasized.

Section II expounds the theory of crowding-out civic virtue and applies the concept to the constitution and public rules in general, discussing the relevant conditions and drawing the consequences for legal design. Empirical evidence supporting the effect of the type of legal structure on civic virtues, in particular on tax morale, is presented in section III. Section IV introduces the comparative institutional approach to happiness and presents evidence that constitutional economics can provide additional insights on what makes people happy. Concluding remarks are offered in section V.

2 Crowding Theory and Constitutional Design

Crowding-out civic virtue, or more generally, intrinsic motivation echoes the well-known concern by Titmuss (1970) who claims that an inadequate public policy (in his case material rewards) destroys the moral incentives to donate voluntarily. Also many scholars outside economics have been seriously concerned with the general tendency that external interventions in the form of regulations or the introduction of monetary rewards may drive out civic virtues. Thus Goodin (1980) recognizes governments using both material and moral incentives to the same end, destroy the 'purity and seriousness of moral incentives' while individuals will simply remove those moral considerations from their decision calculus. According to Elster (1989 : 180) it follows that, 'If people feel that they are taken advantage of, why should they not rip off the system in return? By contrast, political systems that leave more decisions to the individual can both economize on information and generate more trust.'

Our knowledge of the conditions under which civic virtues and other moral motivations are undermined has much progressed recently. There now exists a well-defined Crowding Theory derived from social psychology and introduced into economics (Frey 1997b) which is much more differentiated than the hunch expressed by the above authors. Social psychologists have analyzed and empirically measured the 'hidden cost of reward' (Lepper and Greene, 1978; Deci and Ryan, 1985) which appear when an external intervention (a reward) reduces individuals' intrinsic incentives to act. People are intrinsically motivated when they undertake an activity for its own sake. The hidden cost of reward has been observed, for instance, in asylums where paying the patients to perform certain tasks (such as making the bed or cleaning their room) undermines their motivation to complete them when they are not paid. An everyday example would be an invitation to a friend's home for dinner. Nobody would pay him for the effort because this would destroy his intrinsic motivation (his friendship).

Two psychological processes account for the hidden cost of reward :

(i) When individuals perceive the external intervention to be 'controlling' in the sense of reducing the extent to which they can determine actions by themselves, intrinsic motivation is substituted by extrinsic control. The locus of control shifts from the inside to the outside of the person affected. Individuals who are forced to behave in a specific way by outside intervention, would feel 'overjustified' if they maintained their intrinsic motivation. They rationally reduce the motivational factor under their control, their intrinsic motivation.

(ii) An intervention from the outside undermines the actor's intrinsic motivation if it carries the notion that the actor's intrinsic motivation is not acknowledged. The person affected feels that his or her

competence is not appreciated which leads to an impaired self-esteem, resulting in a reduced intrinsic motivation.

Based on these psychological processes, the hidden cost of reward can be generalized in two respects :

(a) *All* outside interventions can affect intrinsic motivation : in addition to *rewards* the same effect can come about by external *regulations* (commands);

(b) External interventions *crowd-out* intrinsic motivation if they are perceived to be *controlling* and they *crowd-in* intrinsic motivation if they are perceived to be *supporting*.

Crowding Theory is supported by a large number of experiments undertaken by social psychologists (see Deci and Ryan, 1985; Lane, 1991). There have already been not less than five formal meta-analytical studies of laboratory experiments on crowding theory. The most extensive and recent study by Deci, Koestner and Ryan (1999) shows that the crowding-out effect is indeed a robust phenomenon of significant size under the specified conditions. There exists also convincing evidence from real life situations. Frey and Jegen (2001) survey this growing literature that shows the relevance of crowding out for such issues as the siting of locally unwanted projects (the so-called 'Not In My Backyard' or NIMBY-problem), work morale, volunteering or environmental regulations.

Crowding Theory can be fruitfully applied to how constitutional and other legal rules affect the individual citizens. This paper argues, and empirically shows, that the institutional design systematically affects the intrinsic motivation of the citizens : a constitution mistrusting its citizens under identifiable constitutions leads to a crowding out effect, while a constitution acknowledging and supporting its citizens' civic virtue has a positive crowding in effect.

A number of empirically observable conditions for the sign and size of the crowding effect have been identified in the literature (Lane, 1991; Frey, 1997b). In the context of constitutional design, two conditions prove to be the most important :

(1) The individual's institutional participation possibilities. When a person is simply subjected to a decision, she perceives the interference to be controlling, and her intrinsic motivation for the respective activity is crowded out. If, on the other hand, a person is able to take part in a decision, her self-esteem is supported, and her intrinsic motivation is crowded in.

(2) The closer the interaction between the person or institution administering the intervention and the person being subjected to it, the more negative is the crowding effect. In particular, the stronger the communication between the two sides, the more likely intrinsic motivation is crowded out.

External interventions may moreover have an *indirect* damaging effect on intrinsic motivation. The crowding out effect may spread to

further areas, even into those where the external intervention has not been applied. There may thus be an indirect, *Motivation Transfer Effect* which has to be added to the direct crowding-out effect. The fact that changes in intrinsic motivations (in the broadest sense) may be linked across areas has been known as the 'spread effect' in psychology and has also been noted by various economists, though they have not related it to crowding-out (e.g., Sugden, 1989, p. 93; Williamson, 1993, p. 480). In the United States, for instance, strong correlations have been identified between changes in voter participation, charitable contributions and other forms of social cooperation attributing to declines in intrinsic motivation (civic norms) in a multiple regression analysis (Knack, 1992).

3 Do Trusting Constitutions Affect Civic Virtues ?

Attempts to measure the effect of different constitutional conditions on citizens' civic virtue are necessarily faced with great difficulties and uncertainties, and there is only partial evidence available. Most promising are indirect approaches by looking at revealed behaviour. This method has been used to measure *tax morale* as an important component of civic duty. It has been well established that tax paying behaviour cannot be explained in a satisfactory way without taking into account tax morale. Thus, based on the American Internal Revenue Service's Taxpayer Compliance Maintenance Program, Graetz and Wilde (1985 : 358) conclude that 'the high compliance rate can only be explained either by taxpayers' (...) commitment to the responsibilities of citizenship and respect for the law or lack of opportunity for tax evasion'. The same authors (with Reinganum 1986) attribute the observed falling tax compliance in the United States to the erosion of tax ethics¹.

The extent of tax morale revealed by tax paying behaviour may be shown to depend on the type of constitution existing (for an extensive discussion of the evidence presented in this section see Pommerhne and Frey 1993 and Frey 1997a). Switzerland presents a suitable test case because the various cantons have different degrees of political participation possibilities. It is hypothesized that the more extended political participation possibilities in the form of citizens' meetings, obligatory and optional referenda and initiatives are, and the broader the respective competencies are, the higher is tax morale and (*ceteris paribus*) tax compliance. On the basis of these characteristics, about one third of the 26 Swiss cantons are classified as pure direct democracy (*D*), another third as pure representative democracies (*R*), and

¹ Further evidence can be found, among others, in Schwartz and Orleans (1967), Lewis (1982), Roth, Scholz and Little (1989), Pyle (1990), and Slemrod (1992).

the rest satisfies only some of the characteristics. A cross section / time series (for the years 1965, 1970, 1978, i.e. 78 observations) multiple regression explaining the part of income not declared Y_{nd} , yields the following results² (t-values in parentheses) :

$$Y_{nd} = 7.17 - 3.52p - 2.42f + 0.79^*t - 0.36^*d - 2.72 \ln(Y) + 0.57^{**}NY - 1.09^*A - 7.70^{**}D$$

$$(2.98) \quad (-1.98) \quad (-0.62) \quad (2.10) \quad (-2.51) \quad (-0.30) \quad (2.98) \quad (-2.53) \quad (-3.80)$$

$$R^2(\text{adj.}) = 0.69, \text{d.f.} = 41, F = 11.08$$

$$Y_{nd} = 8.98 - 3.22p - 2.32f + 0.59t - (-0.42^{**})d + 1.03 \ln(Y) + 0.60^{**}NY - 0.82A + 4.02^*R$$

$$(-1.72) \quad (-0.36) \quad (1.70) \quad (-3.47) \quad (0.29) \quad (3.07) \quad (-1.93) \quad (2.23)$$

$$R^2(\text{adj.}) = 0.65, \text{d.f.} = 41, F = 9.43$$

*, ** indicate statistical significance at the 95% and 99% levels respectively.

The explanatory variables are :

p = probability of detection (the number of individual income tax audits per 1000 tax payers);

f = penalty tax rate;

t = mean marginal tax rate;

d = income deduction possibilities;

$\ln(Y)$ = per capita income (in natural log.);

NY = non-wage income;

A = old-age taxpayers' share (reflecting experience in tax matters).

The coefficients of the variables indicating the type of democracy (D , R) – the other variables are used to control for other influences³ – have the theoretically expected signs. In cantons with a high degree of direct political control (D), tax morale is (cet. par.) higher. The part of income concealed falls short of the mean of all cantons by 7.7 percentage points, or in absolute terms the average amount of income concealed is about SFr. 1,600 (per taxpayer) less than the mean income concealed in all cantons. In contrast, in cantons with a low degree of political control (R), tax morale is (cet. par.) lower. The part of concealed income is four percentage points higher than the average income gap, and the mean income undeclared exceeds the mean of all cantons by about SFr. 1,500. The estimation results are consistent with the hypothesis that greater democratic participation possibilities lead to higher civic virtue as reflected in tax payer behaviour (for corresponding evidence for the United States see, e.g. Smith 1992, and Kinsey 1992).

² Due to multicollinearity between D and R ($r = 0.6$) two separate equations including D and R have been estimated.

³ It may be observed that while many coefficients are statistically highly significant and have the theoretically expected signs, the probability of detection p and the size of the fine f are not statistically significant at the conventional levels, i.e., it cannot be presumed that deterrence works.

The empirical evidence collected for Switzerland can be generalized. In a broad sense, two kinds of democratic tax systems can be distinguished: One is based on the premise that the citizens are responsible persons, and that in principle they are prepared to contribute to the provision of public goods and the redistribution of income by the state, provided this process is reasonably efficient and fair (see, e.g. Smith 1992). The corresponding tax laws allow the citizens to declare their own income and to make generalized deductions. The tax statements are in principle accepted as trustworthy, and the tax authority bears the burden of the proof if it doubts the declarations.

The second type of tax system starts from the assumption that all citizens want to exploit the tax laws to the fullest, and cheat whenever they can. The corresponding tax laws deduct the taxes directly from gross income, and the citizens are charged to claim back from the government depending on the deductions the tax authorities grant. In the whole process the burden of proof always lies with the individual citizen.

The economic approach to taxation has centred on deterrence, following the influential article by Allingham and Sandmo (1972) based on Becker's theory of crime (1968). Recently, the perspective has changed. Thus Slemrod summarizes his authoritative book on *Why People Pay Taxes* (1992, p. 7) by stating: '... there .. is a change in perspective away from deterring noncompliance toward positive encouragement for compliance – and emphasis on the 'carrot' for compliance rather than the 'stick' for noncompliance'.

The two basic types of tax systems can be empirically associated with the general level of civic virtue and tax evasion in particular countries (Schmölders 1960, 1970, Strümpel 1969). A trusting tax system, a correspondingly high tax morale and relatively low tax evasion exist in the United States and Switzerland. Econometric research on taxation has indeed revealed for these two countries that the citizens' willingness to pay taxes cannot be explained by an expected utility calculus based on the probability of detection and magnitude of fine⁴. A distrusting tax system obtains in countries such as the Federal Republic of Germany, France and Italy where tax morale is low and tax evasion is relatively large (Frey and Weck 1984).

On a more general level, there is a cumulative body of research indicating that people's perceptions of how they are treated by the authorities strongly affect their evaluation of authorities and laws, and

⁴ The implied risk aversion to account for observed behaviour would be incredibly higher than anywhere else empirically observed, see Skinner and Slemrod (1985) and Alm (1995) for the United States, and Pommerehne and Frey (1993) for Switzerland. Hessing et al. (1988) find that a quite small level of deterrence is enough to keep citizens from evading taxes. Econometric tax research has at least so far not been able to identify a consistent, and quantitatively significant negative influence of deterrence on tax evasion (see, e.g., Roth, Scholz and Witte 1989, Cowell 1990, Slemrod 1992).

their willingness to cooperate with them (e.g. Bardach and Kagan 1982, Lind and Tyler 1988, Tyler and McGraw 1986). Citizens who consider the constitution and its laws, and the authorities acting on their basis to be fair and to treat them respectfully, tend to be more compliant than those with more negative perceptions of government (e.g., Thibault and Walker 1976, and for extensive empirical evidence see Tyler 1990). The notion that people reciprocate trustworthy behaviour by the government has been empirically confirmed by Kucher and Goette (1998) for the case of voluntary income tax declaration in Switzerland. Kelman (1992) shows that the extensive use of adversary institutions for resolving public conflicts (which are prevalent e.g., in the United States) tends to negatively affect civic virtue, thereby appreciably raising transaction cost in the areas concerned.

4 Trusting the Constitutional Approach : Institutions and Happiness

'Trusting constitutions' has a second meaning. Constitutions can in fact be trusted. In this section we argue that the constitutional approach to politics and society can provide insights in a comparatively young field of research : happiness and economics. Evidence from Switzerland shows that happiness and constitutional design are related. A higher extent of direct political participation possibilities, or in other words more strongly developed institutions of *direct democracy* (in particular via popular referenda and initiatives) raise citizens' subjective well-being.

The results or consequences of different constitutional designs are difficult to measure empirically. In order to do so, a frame of reference is needed. Most political institutions tend to be stable over time, so that a cross-sectional analysis is appropriate. However, it is difficult to isolate the effects of particular institutions because the countries usually differ in a great variety of aspects. Not all of them can be captured in a multiple regression analysis and unobserved characteristics of countries may be systematically correlated with the output indicator.

In our case we want to assess the effect of direct democratic institutions on people's reported well-being. A comprehensive comparison across countries is difficult because there are essentially only two countries, Switzerland and the USA, where major decisions (for the USA at least on the state level) are taken by the voters via initiatives and compulsory or optional referenda. However, the difficulties can be circumvented when the effects of institutional variation within a (federal) country are analyzed. This has been done in a number of studies for the United States and Switzerland, where the extent of direct democratic rights differs between states and cantons. A systematic survey

on this research is provided in the recent book of Kirchgaessner, Feld and Savioz (1999). In the case of the United States, econometric studies reveal that the more directly democratic states (*ceteris paribus*) have lower total public expenditure, but tend to spend more on education.⁵ For Switzerland, econometric analyses suggest that (*ceteris paribus*) the more extended direct democratic rights are in a canton, the lower are the tax burden and public deficits, and the higher are per capita incomes.⁶ As a whole, econometric research leads to the conclusion that the preferences of the citizens are better observed in jurisdictions with more direct participation rights. Moreover, favourable outcomes should be reflected in higher individual utility.

Measures of subjective well-being can serve as proxies for “utility”. They are captured in surveys on individuals’ happiness or life satisfaction.⁷ As people are generally supposed to be the best judges of the overall quality of their life, it is a straightforward strategy to ask them about their well-being. In a number of studies, the validity of these answers has been documented. Happy people are e.g. more often smiling during social interactions (Fernández-Dols and Ruiz-Belda, 1995) and are rated as happy by friends and family members (Sandvik et al., 1993), as well as by spouses (Costa and McCrae, 1988). In psychology, there is a long tradition of research applying well-being measures (see the anthology by Kahneman, Diener and Schwarz, 1999 or the recent survey by Diener et al., 1999). In contrast, there is still a widespread scepticism against studying survey data in economics. However, this is slowly changing now and a growing field of research on happiness and economics exists. Most of the work on happiness and economics tries to capture the influence of economic determinants on subjective well-being, i.e. income, unemployment and inflation (see the early work of Easterlin (1974) or e.g. Clark and Oswald (1994), Di Tella et al. (2001), Frank (1997), Oswald (1997) and Winkelmann and Winkelmann (1998)). Also demographic factors have been investigated (see e.g. Blanchflower and Oswald (2000)). Here the comparative institutional approach is applied to study the effect of constitutional design on subjective well-being.

The empirical test for different extents of direct democratic participation rights draws on Frey and Stutzer (2000).⁸ It is based on survey results of more than 6000 Swiss residents, collected by Leu, Burri and

⁵ See, e.g. Matsusaka (1995) or Rueben (1999) for general government expenditure, or Santerre (1989; 1993) for public education expenditures.

⁶ See e.g. Schneider and Pommerehne (1983) and Feld and Kirchgässner (1999) for general government expenditures. The latter authors also study the effect on self-financing ratios, taxes, and debt. Feld and Savioz (1997) analyse the effect on per capita gross domestic product.

⁷ “Subjective well-being” is used here interchangeably with the terms “happiness” and “satisfaction with life”.

⁸ The extent of direct democratic rights in Swiss cantons is measured by a slightly different index than the one applied in the presented estimates on tax morale. The index used here defines the degree of participation possibilities on a scale between one and six, compared to

Priester. The question on life satisfaction was as follows: "How satisfied are you with your life as a whole these days?", with answers on a scale of one ("completely dissatisfied") to ten ("completely satisfied"). The survey found a high general level of life satisfaction in Switzerland with an average of 8.2 out of 10 points.⁹

Table 1 presents the estimated coefficients and marginal effects of a microeconomic happiness functions, taking into account demographic and socio-economic determinants as well as the constitutional variable direct democratic rights. A weighted ordered probit model is used in order to exploit the ranking information contained in the originally scaled dependent variable. The weighting variable that is applied allows representative results on the subject level for Switzerland.

The estimation results show statistically significant effects of several demographic and socio-economic factors, and, most importantly, the constitutional factor on individual happiness. The results can be interpreted as follows: A positive coefficient indicates that the probability of stating happiness greater than or equal to any given level increases. The marginal effect indicates the change in the share of persons belonging to a stated happiness level when the independent variable increases by one unit.¹⁰ In the case of dummy variables, the marginal effect is evaluated in regard to the reference group. For simplicity, only the marginal effects for the extreme value of very high happiness (score 10) are shown in Table 1.

The estimation results show that constitutional differences affect happiness. People are happier in cantons with more extended direct democratic participation rights, *ceteris paribus*. An increase in the index of direct democratic rights by one point raises the number of persons indicating the highest level of life satisfaction by 2.8 percentage points. In addition, the effect itself is sizeable:

(i) The marginal effect of direct democratic rights on happiness is as large as the effect of living in the second-bottom (SFr. 2,000–3,000) instead of the bottom income category (< SFr. 2,000).

(ii) The effect is even larger when the full range of the institutional variable is considered, i.e. when individuals in canton Basel Land (with the highest democracy index of 5.69) are compared to citizens in canton Geneva (with the lowest direct participation rights of 1.75). The former state with an 11 percentage points higher probability that they are completely satisfied.

the three point scale considered before. A full account of how the index is constructed can be found in Stutzer (1999).

⁹ The data were collected between 1992 and 1994 in order to investigate the problem of poverty in Switzerland. Information is from personal interviews and tax statistics. Additional information includes demographic characteristics, employment status and income situation of the household.

¹⁰ Alternatively, the marginal effect indicates the change of the probability belonging to a stated happiness level when the independent variable increases by one unit.

Table 1 : Constitutional Design and Subjective Well-Being
 Dependent variable : satisfaction with life

Variable	Weighted ordered probit		
	Coefficient	t-value	Marginal effect (score 10)
<i>(1) Demographic factors</i>			
Age 30 - 39	-0.079	-0.865	-0.027
Age 40 - 49	-0.008	-0.106	-0.003
Age 50 - 59	-0.081	-1.275	-0.027
Age 60 - 69	0.206**	2.903	0.073
Age 70 - 79	0.295**	3.401	0.106
Age 80 and older	0.273**	2.968	0.099
Female	0.043	1.211	0.015
Foreigner	-0.284**	-5.048	-0.091
Middle education	0.113**	3.143	0.039
High education	0.119*	2.472	0.042
Single woman	-0.258**	-6.294	-0.083
Single man	-0.174*	-2.589	-0.057
Couple with children	-0.068	-1.777	-0.023
Single parent	-0.372**	-3.602	-0.113
Other private household	-0.128	-1.664	-0.042
Collective household	-0.413**	-3.432	-0.124
<i>(2) Socio-economic factors</i>			
Self-employed	0.072	1.413	0.025
Housewife	0.123*	2.463	0.043
Unemployed	-0.841**	-5.814	-0.211
Other employment status	-0.129(*)	-1.911	-0.044
Equivalence income SFr. 2,000 – 3,000	0.084*	2.199	0.029
Equivalence income SFr. 3,000 – 4,000	0.143**	3.169	0.050
Equivalence income SFr. 4,000 – 5,000	0.258**	5.382	0.092
Equivalence income SFr. 5,000 and more	0.192**	4.277	0.068
<i>(3) Constitutional factor</i>			
Direct democratic rights	0.082**	3.054	0.028
Observations	6134		
Prob > F	0.001		

Notes : Level of satisfaction is on an eight point scale (scores of 1, 2 and 3 were aggregated). White estimator for variance. In the reference group are 'people younger than 30', 'men', 'Swiss', 'people with low education', 'couples', 'employed people' and 'people with a lower equivalence income than Sfr. 2,000'. Additional control variables (not shown) for size of community (5 variables) and type of community (7 variables). Significance levels: (*) $0.05 < p < 0.10$, * $0.01 < p < 0.05$, ** $p < 0.01$.

Data source : Leu, Burri and Priester (1997).

(iii) The improvement affects everybody, i.e. the institutional factor is important in an aggregate sense. In comparison, getting a job 'only' raises the subjective well-being of the unemployed.

The result that citizens are the happier the more extensive their constitutional participation rights are, can be attributed to two factors. First, the institutions of popular referenda and initiatives forces the politicians to supply a public output which is closer to the preferences of the citizens. Second, the population positively values the constitutional participation rights as such, i.e. they derive utility from the possibility of being active in the political process.

In addition, the estimate in Table 1 shows that a number of demographic and socio-economic factors taken into account in previous happiness studies, exert a statistically significant and sizeable effect on satisfaction with life: Compared to young respondents, people older than 60 are happier. People with higher education report significantly higher subjective well-being. Compared to couples, people living in other family settings reach high satisfaction scores with a lower probability. Unemployment reduces well-being dramatically; the probability of stating a satisfaction score of ten is 21.1 percentage points lower for unemployed than for employed persons. Higher income correlates with higher happiness in a statistically significant way. However, the differences in subjective well-being are rather small. Consider, for example, the highest income group with a monthly equivalence income¹¹ above SFr. 5,000. Compared to persons with low income, only a 6.8 percentage points larger share reports being 'completely satisfied'.

5 Conclusions

'Trusting Constitutions' is important in two respects. Constitutions that convey trust towards citizens have positive effects by fostering civic virtue. In this respect, the extent to which the citizens are allowed to actively participate in the political process is an important sign of how much citizens are trusted. We present empirical evidence that participation via popular referenda and initiatives leads to higher civic virtue in the form of higher tax compliance. Trusting constitutions is also worthwhile because the constitutional approach provides valuable insights to social and political issues. We show that different constitutional designs systematically affect the subjective well-being of the citizens. In particular, we present empirical evidence that more extensive

¹¹ Equivalence income is measured by household income after taxes, social security expenditure, interests on debts and maintenance is divided through the equivalence scale of the Swiss Conference for Public Assistance. Four income groups are explicitly distinguished, ranging from SFr. 2,000 to SFr. 5,000 and more. The constant term includes the reference group which are people with an equivalence income lower than SFr. 2,000.

institutional participation rights *ceteris paribus* raise the happiness of citizens because the political outcomes are closer to their preferences and because they attribute a positive value to the possibility to directly participate in the political process.

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Résumé

Cet article présente deux raisons de faire confiance aux constitutions : premièrement, parce qu'elles encouragent et nourrissent le sens civique du devoir. Un point essentiel concerne alors le degré de participation qui est accordé aux citoyens. Nous montrons empiriquement qu'une participation croissante, par l'intermédiaire de référendum, augmente le sens civique des citoyens, réduisant les fraudes fiscales. Deuxièmement, il faut faire confiance aux constitutions pour accroître le bonheur des citoyens. Là encore, la participation joue un rôle central.

Abstract

Two explanations for the importance of trusting constitutions are offered : First, constitutions that convey trust towards citizens have positive effects by fostering civic virtue. A crucial factor of a trusting constitution is the extent to which the citizens are allowed to actively participate in the political process. We present empirical evidence that participation via popular referenda and initiatives can lead to higher civic virtue in the form of tax compliance. Second, constitutions can be trusted in the sense that the constitutional approach provides valuable insights to social and political problems. We show that different constitutional designs affect one of the ultimate objectives of life – the happiness of the citizens.

Mots clé

constitutions, démocratie, participation, bonheur

Key words

constitutions, democracy, participaiton, happiness.

Classification JEL : D72, H11, H30.