

1 Summary

There is an increasing number of studies showing that individuals' preferences (or attitudes) are associated with society-specific, cultural (e.g., religion, language, ethnicity) and institutional (e.g., political regimes, electoral systems) characteristics. For instance, Alesina and Fuchs-Schündeln (2007) show that the communist regime in East Germany did impact people's preferences for redistribution policies. Instead, Eugster et al. (2011), by exploiting the historical presence of two large cultural groups in Switzerland, suggest that the demand for social insurance is higher in the Latin-Swiss than the German-Swiss population. These are extremely relevant findings because they suggest that individuals' policy preferences are endogenous to political institutions. Importantly, this also calls into question the empirical validity of estimates of the effect of institutional reform when the outcome of interest can be assumed to be even partially affected by people's preferences. Using the words of Bowles (1998): *"If preferences are affected by the policies or institutional arrangements we study, we can neither accurately predict nor coherently evaluate the likely consequences of new policies or institutions without taking account of preference endogeneity."*

I want to contribute to this literature by investigating the role of direct democratic institutions in shaping individual preferences. While there is an extensive literature focusing on the effect of direct democracy on economic and fiscal outcomes, very little is known about its effect on people's preferences towards public policies. This is a relevant open question given that most of the existing empirical studies on direct democracy implicitly consider preferences as exogenous with respect to the decision-making process. Indeed, the effect of direct democracy on public policies is commonly explained by its ability to bring representatives' decisions closer to citizens' preferences. However, this interpretation would be valid only if one confirms that people's preferences towards public policies are unaffected by direct democratic institutions (i.e., it is as if citizens living in jurisdictions that avail themselves of direct democratic institutions had the same preferences of citizens residing in jurisdictions without direct democratic institutions). An interesting exception to the literature is in the recent work of Funk and Gathmann (2013). In this study, the authors analyze the Swiss case and relate the cantonal socioeconomic and institutional characteristics with the citizens' revealed preferences in federal referenda and initiatives. Although their results tend to confirm that direct democratic institutions are correlated with individuals' preferences, the direction of causation cannot be derived. In order to infer causality running from direct democratic institutions to citizens' preferences towards public policies, I will take advantage of two unique elements to the Swiss system. Specifically, I will link the presence of direct democracy in the form of town meetings (local assembly) in municipalities from Canton Vaud, with the results of all votes on federal initiatives or referenda held in Switzerland starting from 1981. On the one hand, the institutional framework of Canton Vaud will allow me to provide causal estimates by using a regression-discontinuity design, as in this canton the presence of a town meeting is based on municipalities' population. On the other hand, using citizens' votes (aggregated at the municipality level) on a significant number of policies will make it possible to study the existence of systematic differences in individuals' preferences. A potential reason on why this might happen relates to the fact that being constantly involved in the decision process increases citizens' political knowledge, and this eventually might affect their preferences.