

Blankart, Charles B.; Margraf, Simon

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Taxing Expats. A Study in Instrumental versus Expressive Voting

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Taxing Expats

A Study in Instrumental versus Expressive Voting

by
Charles B. Blankart and Simon Margraf
Humboldt-University Berlin

Paper submitted for presentation at the annual meeting of the Verein für Socialpolitik
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Abstract:

A fundamental question in public choice is: How do people vote? According to the preferred outcome (instrumentally) or according to principles (expressively)? The theoretical discussion eventually led to the hypothesis that voters vote non-strategically according to their preferences, as the probability of owning the marginal vote and in turn determining the outcome with a large number of voters is very low. If we add that they weigh their preferences with the impact that the political outcome has on their economic well-being, we come to the conclusion that if the latter is high, they vote instrumentally, if it is low, they are likely to vote expressively.

A unique data set on a natural experiment in Switzerland allows us to test this hypothesis. Citizens of the canton of Zurich voted in 2009 on the highly controversial issue whether to tax non-working and hence mobile foreign residents at a special preferential tax base in order to attract them instrumentally as tax payers or to tax all persons at the same base according to general tax principles. Overall, 53% of the voters preferred to abolish preferential taxation of expats.

Our econometric analysis reveals that in rural communities, where attracting rich expats has a sensible impact on communities' budget, citizens voted instrumentally, whereas in large cities where the budgetary impact is small, voters voted expressively. This outcome raises a more fundamental question on the design of the democracy. It cannot be overlooked that the two groups voted on two different issues. Rural voter's choice was marginal in the sense that they asked: Should we partly give up our tax principles to obtain additional revenues? Their answer was yes. Urban voters, who expected no sensible revenue effect from the tax privileges, in contrast, asked themselves: Should we give up tax privileges for merely marginal or even no benefits? Their answer was no! But if so why should the urban voters in their situation impose their own values on rural voters whose situation is different? This dilemma could be overcome if urban and rural voters voted separately under a decentralized more "federalistic" design of their government.

JEL Classification: D 78 (voting), H 24 (income tax), H 71 (state and local taxation)

Key Words : Voting, taxation

Corresponding author:
Charles B. Blankart
Humboldt University Berlin
Spandauer Strasse 1
10178 Berlin Germany
charles@blankart.net
T.: 0049 30 805 802 55 (Fax 56)

That mobile factors are difficult
to tax has been found more than
300 years ago by the German
political philosopher
Samuel Pufendorf who
wrote in 1672:
*„Ita enim fieri solet,
ut si uno loco nimis
onerentur mercatores,
alia sibi emporia
quaesitum eant.“*

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I. Taxing Expats Differently

There is huge literature on the taxation of mobile factors. Most of that literature is related to the taxation of capital and capital income. The investigations are mostly normative and often related to the European Union where free movement of capital has been introduced with the single market in 1992. The question was and still is how governments should react on tax avoidance and tax evasion in the single market in order to prevent mobile capital from escaping taxation (s. e.g. Sinn, 2003, ch. 2).

In this paper we ask how residents vote and governments decide regarding personal income taxation, when taxpayers are unequally mobile. The tax laws of the United Kingdom e.g. distinguish between resident taxpayers and foreign taxpayers who merely temporarily live in the UK, often so-called “expats”. Such residents may opt for and obtain a so called “non-dom” status and hence benefit from a regulation which dates back to the first British income tax law of 1799. Based thereupon wealthy

subjects who were landed in the British Dominions were taxed on a "remittance basis" when they returned home. They only had to declare what they transferred home and not on what they had earned abroad. This old rule has been extended subsequently to all persons who have their family roots outside the UK. It survived in essence up to the present. A change took place in 2008 when the tax on a remittance basis has been supplemented by a lump sum tax of £30,000 per year to be paid by those who opted for the status of a non-dom resident. Similar taxes on "expats" are known in Belgium and in Austria. The United States Government, on the other hand, does not differentiate between different forms of residence. It taxes U.S. citizens independently of their residence everywhere in the world. The German government distinguishes between residents and non residents. All residents are taxed on all their domestic and foreign revenues according to the residence principle. Non-residents are taxed according to the sources principle for revenues which are generated in Germany.

Switzerland also applies a modified remittance principle as an option for non-working foreigners with residence in Switzerland, i.e. individuals who are presumably more mobile because they live from worldwide rents and capital income compared to those who live mostly from labour income earned in Switzerland.¹ But the authorities ensure that the declared amount of rents and capital income is reasonable compared to taxpayer's living standards.

If the income declared is unreasonably low compared with taxpayer's living standard in Switzerland and abroad, tax authorities assess taxation on the latter. The assessed living standard or consumption then serves as a base on which the ordinary progressive income tax schedule is applied under the presupposition that the income earned abroad is taxed there (in the country of origin) and regarded as surrogate for possible tax obligations in Switzerland. If, however, the revenues from rents and capital located in Switzerland are larger than the assessed living expenses those become the relevant tax base.² This latter case is, however, rare; for the typical foreign capitalist applying for residence in Switzerland has his wealth abroad. In practice most applicants fall into the intermediate case of the standard-of-living based

¹ Art.14 Direct Federal Tax Law (Bundessteuergesetz über die direkte Bundessteuer, DBG, SR 642.11). Art. 6 Tax Harmonization Law (Steuerharmonisierungsgesetz, StHG, SR 642.14), Ordinance on Lumpsum Consumption Taxation (Verordnung über die Besteuerung nach dem Aufwand, SR 642,123).

² With the effect that taxpayers have an incentive to keep their properties abroad.

taxation. A base line for assessment of the tax is five times the rental value of the residence to which the local governments add some increments practically up to the break even point where the taxpayer is about to leave into another community in Switzerland or into another country.³ In practice the living expenses are assessed in negotiations and endorsed by the cantonal government over a foreseeable future. In this sense one can say that these individuals are subject to a *“lumpsum consumption tax”*.

The paper is organized as follows: Section II describes the motivation of expats to move to Switzerland and to opt for lump sum consumption taxation. Section III characterizes the trade offs which a representative government faces when it decides between special taxation for expats and ordinary taxation according to equity criteria. In section IV we focus on the choice between ordinary and special expat taxation in a direct democracy. We shall develop the central hypotheses based on the economic theory of voting and apply them to a recent vote on lumpsum consumption taxation in the canton of Zurich. The econometric estimation follows in section V. Finally, conclusions are drawn in section VI.

II. Why Do Expats Settle in Switzerland?

Up to 1999 Switzerland had about 3.000 non-working foreign residents who opted for lumpsum consumption taxation. This number seems negligible compared to the total number of about 7 million inhabitants of which about one half pays direct taxes. But the number of lumpsum taxed individuals has increased to 5.000 until 2008 and is expected to increase further. Main reasons for this development are the relaxed Swiss immigration regulations, increasing taxation abroad, unpredictable foreign regulations and risks for life and limb from terrorism in many countries. Most individuals applying for lumpsum consumption taxation in Switzerland come from the UK, the Netherlands, Germany and France. The overall federal, state and local revenues from lumpsum consumption tax amount to about 580 mill. CHF (≈380 mill.

³ For a general legal interpretation see Höhn and Waldburger (2009).

Euro) or 0,1% of the GDP, almost 0,5% of the total tax bill. On the average a lumpsum taxed person payed taxes of about 116.000 CHF (\approx 75.000 Euros) in 2008; the highest tax payment was 23.211 mill. CHF (\approx 15.100 mill Euro) in 2008.⁴ Hence, despite of their preferential treatment, these people pay taxes which are far above the average Swiss tax payment. Therefore, especially small municipalities are highly interested in attracting lumpsum taxed individuals.⁵

In a survey we have analyzed the interests of expats coming to Switzerland and opting for lump sum consumption taxation. We have reached 126 of 5.000 non-working foreign residents who opted for lumpsum consumption taxation and asked them on their motives to be rated from 1 to 6 for coming to Switzerland (figure 1).⁶ The respondents gave 5 to 6 points to the following motives: Security, quality of life, political stability, reliability of the authorities and taxes. Taxes rank at number 5 in the top group signalling a good price-quality ratio.

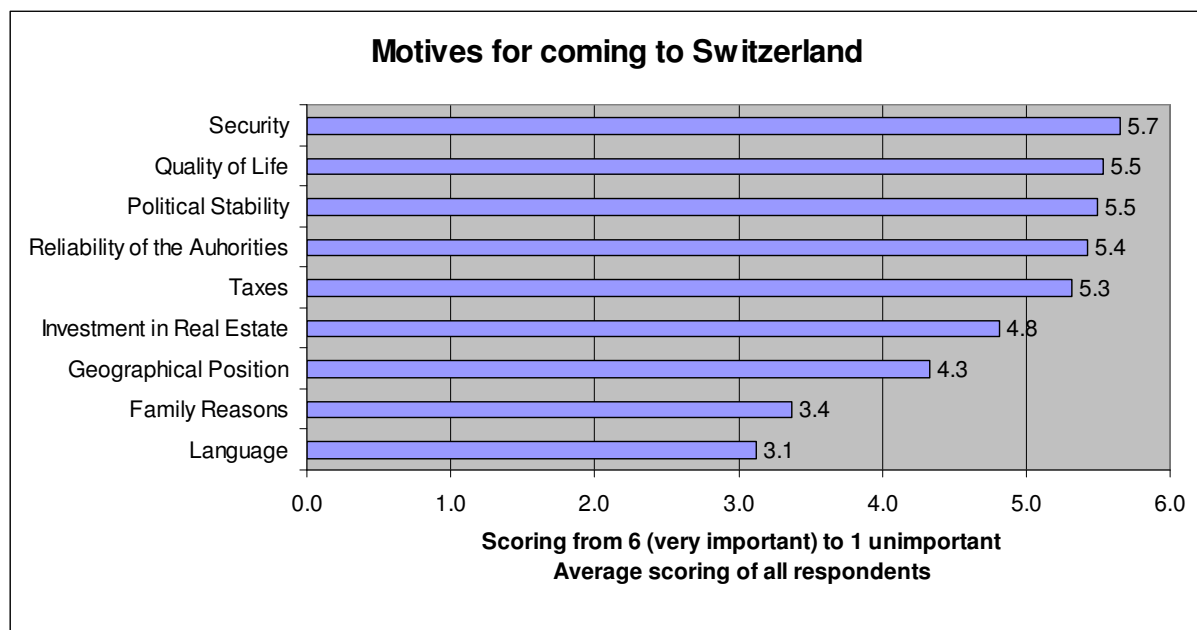


Figure 1: Weights given to reasons of residence in Switzerland

Source: Own compilation, see footnote 4

⁴ Raw data from FDK (2009).

⁵ See below IV, page 7-9.

⁶ The raw data were delivered by Mehrwert Schweiz from a survey conducted in July and August 2009.

That these taxes are lower for expats than for other residents rests on the assumption that they are indeed more mobile than other citizens. A first indicator of a comparatively high mobility is that 70 % of the respondents live for less than 7 years in Switzerland and 57% for less than 4 years. Another indicator is that 98 % of the respondents own one or more residences abroad which they could use as a substitute residence if the tax rules deteriorate in Switzerland (figure 2). Finally we asked how many countries they consider to live in if the lumpsum consumption tax is abolished in Switzerland. 80 % of the respondents have quoted at least one country, many quoted more than one.

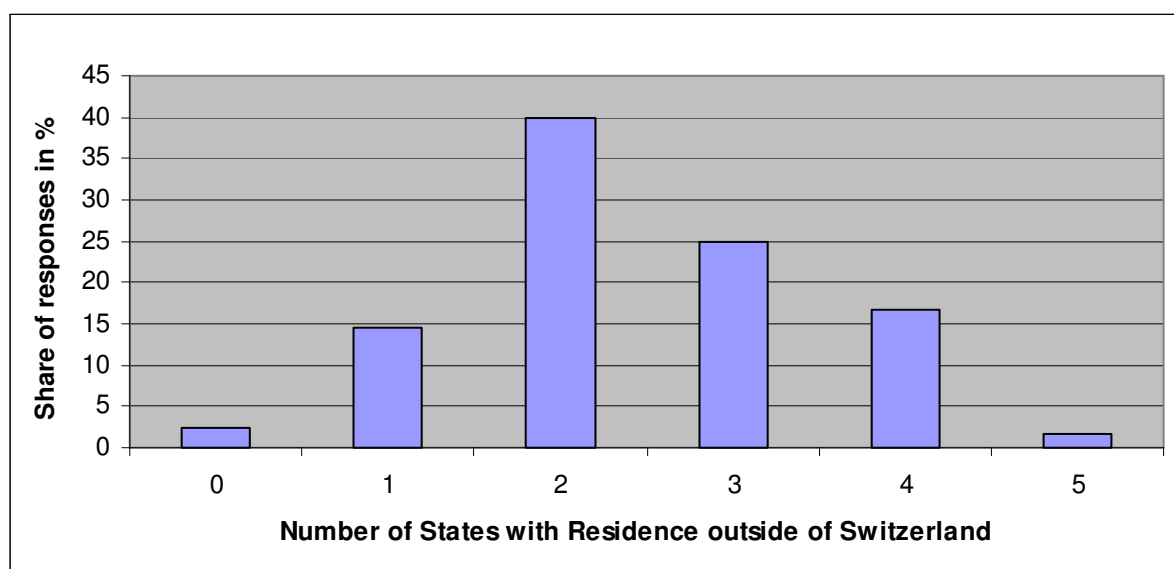


Figure 2: Real estate owned by the respondents outside of Switzerland in %

Source: Own compilation, see footnote 5

III. Revenue Maximizing versus Equitable Taxation

A revenue maximizing Leviathan intends to tax all individuals down to their level of subsistence. As some of these individuals might escape taxation he would furthermore consider each individual's mobility and first assign the highest, fully exploitative tax rate to the most immobile individual and then, down the scale, tax each individual at gradually lower rates up to the last fully mobile individual who pays no tax. Such a fully individualized tax scheme would, however, create excessive

administration costs. Therefore Leviathan would compromise and bundle tax payers in different tax classes until the administrative cost of an additional tax class equals the marginal tax revenues.

In figure 3 optimization leads to five tax classes with a standardized tax base each: In the first class are the most immobile individuals, presumably the real estate owners. Leviathan would tax away their full land rent. A little more mobile are wage earners in class two. They can migrate between jobs. But they may also acquire specific local and occupational skills reducing their mobility. Therefore, they will be taxed less than real estate owners, but still more than expats of class three who live exclusively from capital. Expats have no locational productivity advantages. They can earn the same gross income everywhere in the world. Only tax rates count for their locational decision including those amenities which are related to taxes as explained in section II. Next comes foreign financial capital deposited anonymously in a bank whose ownership may, however, be revealed upon request from foreign tax authorities according to the recently extended OECD rules. Insofar even financial capital is not fully mobile. Most mobile are presumably people as travelling showmen, opera singers, foreign administrative board members, papergivers etc. who often stay only for a few hours or days in a country and therefore are taxed at the source. The city of Zurich, e.g. raises a tax of 17 % on the honorarium of an opera star though her total income might require the top rate of 36,6 % (for local, cantonal and federal tax).

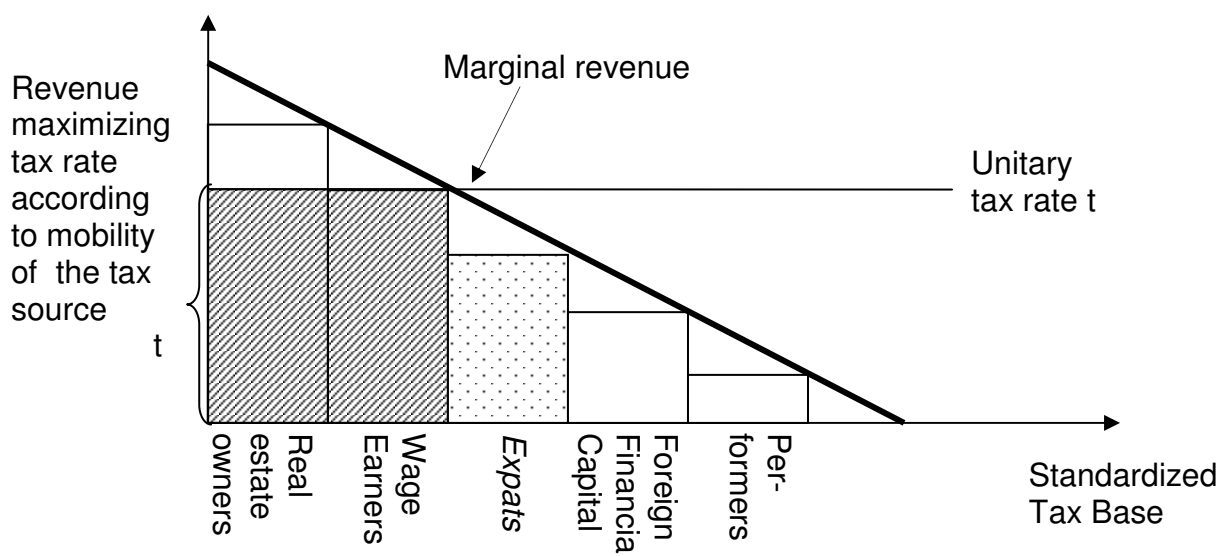


Figure 3: The Law of Declining Imposition

Leviathan's revenue maximizing taxation according to mobility will, however, clash with principles of *equitable taxation* e.g. by Schanz, Haig and Simons requiring that all revenues accruing to an individual have to be added up independently of the source and have to be subjected to the the same individual rate.⁷ Constraining taxation to the principles of equity has obviously a cost to Leviathan. He will make less money. E.g. he can no more differentiate between an individual's revenues from land and revenues from labour income etc. All have to be taxed at the same individual rate t in figure 3. The tax revenue shrinks from the total area under the step curve to the area in the hatched quadrangle at the left hand side of figure 3. All individuals with higher mobility will escape uniform taxation t . So expats will leave the country and cause a loss of revenues of the size of the dotted area. Of course the uniform tax rate t could be reduced so far that all expats remain in the country. But this would reduce revenues from wage and property owners and hence total revenues.

What should the government do? Should it pursue revenue maximizing tax differentiation or should it rather follow the principle of equitable taxation by Schanz, Haig and Simons? Interest groups of labour and of land owners will push towards taxation according to equity principles, whereas groups who are interested to benefit from public spending will search to promote revenue maximizing tax schemes in order to widen the budget constraint for more expenditures. Ordinary taxpayers might also welcome preferential treatment in order to attract expats as additional tax payers as they might reduce their own tax burden. All in all the government has to solve a difficult trade-off in order to survive in the elections.

IV. Theoretical Considerations on Voting

Formalizing and solving the decision between tax differentiation and taxation according to principles is difficult if not impossible for a government in a

⁷ For the Schanz-Haig-Simons principles and related problems see Blankart (2008, ch. 12) and the literature quoted there. It is shown that these criteria respond not only to equity, but also to efficiency.

representative democracy. Direct democratic voting, however, provides a much simpler access to the same goal as individuals express their values themselves. Luckily we can infer from a vote in the canton of Zurich in 2009 on the relative valuation of these two alternatives by the voters. The vote serves as a natural experiment with a unique data set.

In the canton of Zurich the lumpsum consumption tax on non-working foreigners has been in force since 1993. For many years nobody has paid much attention to this special tax. In 2006, however, a committee supported by the social democratic party succeeded in collecting the required amount of 6.000 signatures, about 0,7 % of the total electorate to launch a popular initiative for abolishing the lumpsum consumption tax on non-working foreigners. On February 9, 2009, the voters of the canton of Zurich repealed the lumpsum consumption tax with 52% : 47%.

How can we interpret this vote? The traditional theory of voting says that a voter votes according to her expected benefits. She maximizes her expected net return R resulting from the product of the probability P that her vote is decisive and the expected benefits B of her preferred alternative over her less preferred alternative and her costs of voting C . The resulting equation is according to Downs (1957) and Riker and Ordeshook (1968):

$$(1) R = P * B - C.$$

With about 830.000 franchised inhabitants in the canton of Zurich of which about one half has to be expected to vote, the probability of casting the decisive vote is minimal. Hence whatever the benefits B , the product $P*B$ is close to zero and the net benefit R is likely to be negative given positive costs of voting. Voters are said to be in a low cost and low benefit situation. Hence rational voters do not vote and if they vote their vote is insignificant in general (Kliemt, 1986).⁸ This result is, however, not very encouraging. We have only learnt why people do not vote.

In practice, however, people do vote and voting results are not simply arbitrary. The relevant question is rather: How do people vote if they do vote? Kirchgaessner (1992)

⁸ Sometimes it is argued that expected closeness increases voter turnout. In the case of the vote in Zurich, however, closeness was not expected. In fact, little importance has been given to the vote and a repeal of the initiative was expected. The positive outcome and its closeness was rather a surprise for all participants.

argues that voters who know that their impact is insignificant vote according to their preferences. So they avoid to be in cognitive dissonance with what they think is right. They want to avoid the psychic costs of voting against their preferences and hence prefer to vote accordingly.

But what are these preferences? Are they instrumental or expressive?⁹ We suppose that voters whose tax bill is directly affected by the issue, vote instrumentally whereas voters whose tax bill is not affected will rather vote expressively. Concerning the Zurich vote we can distinguish between small and large communities. In small communities non-working foreign residents often contribute considerably to the local budget and hence alleviate the tax burden for the other residents. Large communities, in contrast, have large budgets coming from many diverse industrial and commercial sources in which revenues from lumpsum consumption tax are much smaller relatively and often negligible. Therefore a proposal to abolish lumpsum consumption tax on non-working foreigners is predicted to generate No-votes in small and Yes-votes in large communities. In quantitative terms local communities in Zurich made a total revenue of about 13 mill. CHF from lumpsum consumption tax in 2008 which is not too much, but which has to be seen before the enormously increasing attractiveness of the option of lumpsum consumption tax over the last ten years.^{10 11}

An indirect evidence that the impact on individuals' tax bill was crucial for the voting decision can be observed from the vote propaganda issued by the initiative committee. They were interested to produce low figures of tax revenues, so-called peanuts of 6 mill. CHF – in reality about 33 mill. CHF¹² – in order to make the loss appearing smaller than it actually is. Apparently even the supporters of the initiative

⁹ Empirical evidence on instrumental versus expressive is scant. An early experiment with donations vs. voting has been executed by Carter and Guerette (1992) with little empirical support for the hypothesis, however. More successful was a similar experiment by Tyran (2004). He finds no evidence for the low cost hypothesis (see below) as a determinant of voting decisions, but rather supposes that voters tend to approve a donation if they expect others to follow. Fischer (1996) shows in an experiment that individuals vote more expressively the smaller the chance of being decisive. Sobel and Wagner (2003) find that the amount of U.S. state governments' welfare payments is inversely related to the probability of a representative being the decisive voter. All in all experimental literature dominates. The only study on political voting (that by Sobel and Wagner) refers to parliamentary voting which is close to small group voting and therefore not comparable with our natural experiment.

¹⁰ The number of foreigners taxed according to the regime of the lumpsum consumption tax increased by 61 % between 1999 and 2008.

¹¹
¹² Own estimate from FDK (2009)

did not ignore that expats will rather emigrate than pay the higher ordinary tax. But they suggested that the citizens of Zurich can afford to lose the rich expats through emigration and that there is scope for voting expressively in favour of horizontal equity in taxation. They conceded, however, somewhat paradoxically, that the revenues from the lump sum consumption tax might grow in the future and eventually become relevant in budgetary decision making and that therefore the decision to abolish the scheme should be taken well rather now than later.¹³ Though the logic of this argument is questionable it was nevertheless important in the voting process in particular in small communities as it should help to pull as many votes as possible from the opponents' to the supporters' side.

Another argument was that land prices would rise in the canton of Zurich and in Switzerland generally due to immigrant expats. This also was a clever exaggeration without statistical underpinning. For the total of 400 immigrants of 2008 who may have been attracted by the special tax has to be compared with the total of 108.000 normally taxed net immigrants into Switzerland in 2008. Even when considering that expats occupy larger lots of land than an average normal immigrant the sum of normal immigrants is nevertheless 270 times larger than that of expat immigrants.¹⁴ Hence, if immigration has boosted land values this was presumably caused by normal immigrants and at most marginally by immigrating expats.

Apart of committee's campaign cantonal government and parliament discussed and voted on what they should recommend the voters to vote. A majority of it voted in favour of the lump sum consumption tax as for them additional tax revenues had an important instrumental value in the budget process. For them every increment of revenues widened the budget constraint and facilitated the budget process. Moreover their number of members of government and representatives was small so that every one had some decisive importance in the vote (see equation 1). They argued that the special expat taxation represents a locational advantage of the canton of Zurich vis-à-vis other cantons who would welcome the taxpayers expelled from Zurich in their cantons. Hence government and parliament recommended the voters of the canton of Zurich to vote with No.

¹³ Source: Regierungsrat des Kantons Zürich, ed., Abstimmungszeitung des Kantons Zürich vom 8. Februar 2009.

¹⁴ Statistical data were not provided by the initiative committee.

V. Econometric estimates

a) The Data

It has already been mentioned that the vote brought a deception for the government. On February 8, 2009 electorate of the canton Zurich repealed the lump sum consumption tax for non-working foreigners. Hence from 2010 onwards the 200 foreigners of Zurich falling under the provision of the lumpsum consumption had either to pay the ordinary income tax or to take residence in another canton or abroad.¹⁵

According to our hypothesis the voting results differed significantly between urban and rural municipalities. Figure 4 exhibits two areas that are standing out in voting “Yes”; and favour the initiative. The urban areas of Zurich city and Winterthur voted with over 60% for the abolition of the tax. These two city-municipalities account for about one third of the canton’s inhabitants. Furthermore, the ten most populous communities (e.g. Uster, Wetzikon, Dietikon) voted in favour of the initiative. On the other hand the inhabitants of the 79 municipalities in which a majority of voters voted against the abolition of lump sum taxation account for about 25% of canton’s inhabitants, among which mainly the thinly populated communities. Even from eyeball-statistics one can conclude that community size may have had an effect on the voting result. Voters indeed seemed to vote instrumentally in small communities and expressively in large communities.

¹⁵ Zurich Statistical Office (2009). According to sources to be checked, 50 % of the lumpsum taxed people have already left the canton after the vote of February 9 by end of ythe year 2009.

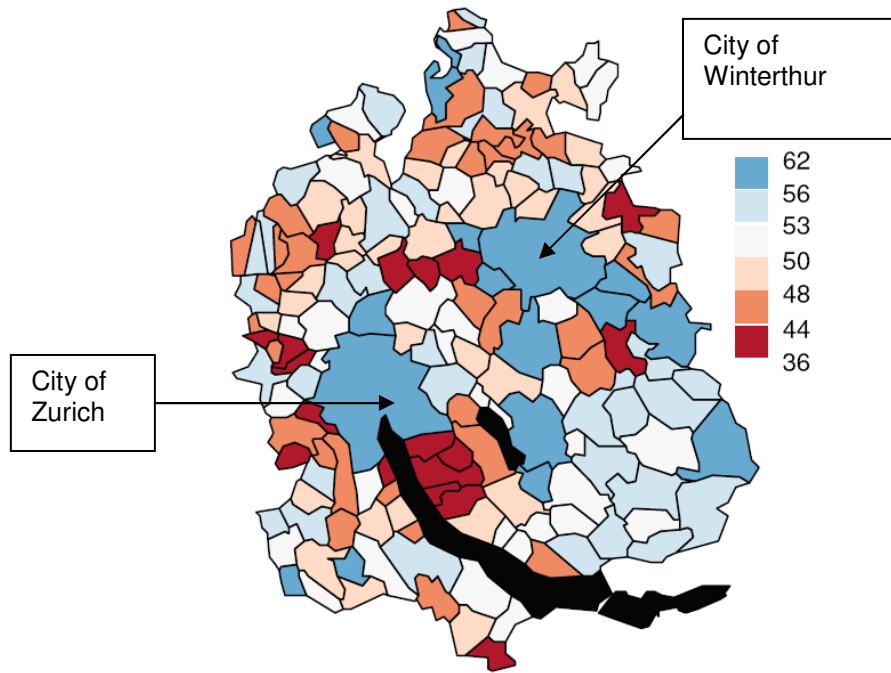


Figure 4: Voting results in the canton Zurich, share of “Yes” votes for the abolition of the lump sum consumption tax; Source: Moser, 2009

The 16 voting districts of the municipality of Zurich and the six voting districts of the municipality of Winterthur were aggregated to two single entities as both communities have only one budget each. With that we obtain 171 (instead of 185) municipal voting results and shares of municipal inhabitants.

But to plausibly identify expressive voting through community size we had to control for additional possible municipal influences on the voting results. For that reason we collected data which cover the economic, socio-demographic and partisan characteristics of the 171 municipalities. As economic indicators we chose the fiscal capacity index and the municipal unemployment rate. The fiscal capacity index is computed as tax income per capita and is thus an indicator for the fiscal strength of the community. The socio-demographic influences are measured by a variable which contain the municipal share of the elderly (above 80). As a partisan variable we computed the voting results for the SVP (right wing conservative party) in the last cantonal election. The SVP was meant to be the single major party which argued against the abolition of the lump sum consumption tax for foreign non workers. Thus this variable covers both the political pros and cons in our econometric setting.

With these variables we are able to control for expressive/instrumental voting apart from political preferences later on. All municipal control variables date from either 2007 or 2008 and were drawn from the statistical office of the canton Zurich.

b) Econometric Model

In a first step we estimate a simple OLS model with municipal voting share of “Yes” votes as dependent variable and municipal variables (control variables and community size) as independent variables:

$$Vote_Share_i = const + b1_n M_{in} + b2 Inhab_Share_i + e_i ,$$

where *Vote_Share* represents the voting result of community *i* and *M* accounts for *n* different control variables in *i* different municipalities. *Inhab_Share* depicts the share of inhabitants to total cantonal residents of community *i*. The coefficients *b1* (due to *n* control variables) and *b2* capture the influence of the respective variables. In the basic model a constant variable *const* is included and *e* is the error term.

In a second model we estimate the same OLS model but excluding the municipalities of Zurich and Winterthur to control for the possible effect of outliers and hidden heteroskedasticity.

In a third model we estimate a robust weighted OLS model due to a heteroskedastic error term structure. In the setting of model one and two the error variance differed significantly due to municipal share of inhabitants: the greater the share of inhabitants the smaller the error variance. Furthermore we tackle the effect of outliers without excluding the important city municipalities Zurich and Winterthur. Thus the estimated error terms from simple OLS estimation served as a weight in our modified model.

c) Results

Table 1 shows the results of the three different above described model settings. As a control variable we chose the municipal financial capacity index (FCI) which is an indicator in the cantonal fiscal transfer system and represents thus a measure for the general fiscal strength of a community. Furthermore UNEMPL is the municipal

unemployment rate, ELDERLY the share of residents above 80 years and VOTE_SVP the municipal result of the SVP party in the last cantonal election.

In the first column the results of the basic OLS model with all municipalities included are displayed. As one can see, communities with more unemployed and a greater share of older residents voted in favour of the initiative and thus the abolition of the lump sum taxation. Thus in our setting communities with a greater share of unemployed and older residents tend to more cheering/expressive voting. On the other hand the partisan variable VOTE_SVP shows the expected negative sign. Communities which voted in favour of the SVP in former elections were significantly less willing to vote in favour an abolishment of the taxing privileges. As described above the SVP as the single major party argued against the abolition of the lump sum taxation for foreigners. Furthermore the financial capacity index (FCI) has also a significant positive sign. Thus citizens in wealthier communities tend to vote more in favour of a special tax treatment of non-working foreigners and thus vote instrumentally. They presumably expect a lower tax burden when wealthy foreigners immigrate into the community. Finally the share of municipal residents to total cantonal residents has a significant positive impact on the voting result. Thus our hypothesis seems to be corroborated that expressive voting prevails in larger communities as voters are confronted with a low cost decision there. As White`s Test for heteroskedasticity gives no indication for an influenced error term structure the result seems robust.

It could be criticized that the large city-communities Zurich and Winterthur could overdraw the above observed effects. For that remember that the residents of these two cities amount to a third of all residents of the canton and that they voted strongly in favour of the initiative. Thus in the second column the results of the basic OLS model excluding Zurich and Winterthur are displayed. These results may be interpreted as control results for the general hypothesis. As one can see the influence of the municipal control variables remains the same. The influence of INHAB_SHARE on the voting results is even stronger in the model excluding Winterthur and Zurich. The significance level is, however, still weak. But White`s Test gives now an indication for heteroskedasticity in the data. Thus our two outliers Zurich and Winterthur seem to conceal a general heteroskedastic error term structure in the first model. For that we have to adjust model one due to outliers and

heteroskedasticity. For that reason we apply a weighted OLS model to tackle the outlier problem and include robust standard errors to contain the heteroskedastic error term structure in the next step (third model).

In the third column the results of the robust weighted OLS model are displayed. At this point one can see that INHAB_SHARE is now even more significant as in Model 1 and Model 2. Furthermore the goodness of the model – measured through R^2 – increases. The hypothesis that community size had an influence on the voting result is thus statistically proved and robust.

Endogenous			
variable:			
VOTE_SHARE			
YES	Model 1	Model 2	Model 3
FCI	-0,1509***	-0.1496***	-0,1514***
UNEMPL	0,8842*	0.6853	0,9018*
ELDERLY	0,4650*	0.4297*	0,4643**
VOTE_SVP	-0,0821**	-0.0727*	-0,0824*
INHAB_SHARE	0,2876*	1.5862*	0,2375***
const	67,9555***	67.3672***	68,0288***
R^2	0,2426	0.2324	0,2800

Table 1: Estimation Results,

P-values: *** $p < 0.01$; ** $0.01 < p < 0.05$; * $0.05 < p < 0.1$

VI. Conclusions and Outlook

Expressive voting has been an important hypothesis in public choice since Fiorina's seminal article of 1976. But empirical tests are still lacking. In this paper we were able to measure expressive voting in the case of tax privileges for non-working foreign residents. It has been shown that rural voters who could expect a personal tax relief when additional tax payers enter the community voted for the privilege whereas urban voters who did not noticeably benefit from foreign residents' tax contributions voted No. In other words: Tax principles such as equal treatment are welcome as long as they raise no costs for the taxpayers. If special tax treatments generate benefits for other taxpayers or for the citizenship as a whole they are welcome.

This outcome raises a more fundamental question on the design of a democracy. It cannot be overlooked that the rural and the urban voters voted on two different issues. Rural voter's choice was marginal in the sense that they asked: Should we partly give up our tax principles to obtain additional revenues? Their answer was yes. Urban voters, who expected no sensible revenue effect from the tax privileges, in contrast, asked themselves: Should we give up tax privileges for merely marginal or no benefits? Their answer was no! But if so why should the urban voters in their situation impose their own values on rural voters whose situation is different? This dilemma could be overcome if urban and rural voters voted separately under a decentralized more "federalistic" design of their government.

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