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1. Introduction

In this short essay, I refrain from discussing “sovereignty” at great length and in abstract normative terms. I take it for granted that the primary holders of sovereignty should be individuals possessing equal rights to life, liberty, and property. To find, define and enforce these equal rights, some form of collective decision-making power is necessary. But then again, the question of sovereignty arises: who is (representing) the sovereign politically, and how? And once the question of domestic political sovereignty is settled, the next question arises: how is this jurisdiction’s domestic sovereignty externally defended, shared, pooled with other sovereign jurisdictions?

I here concentrate on a few important elements of political sovereignty in Liechtenstein. The principality is unusual in terms of both internal and external sovereignty. Internally, Liechtenstein is the only country I know in which ultimate sovereignty is both monarchical and direct-democratic. But also externally, the country has found a unique niche: via the European Economic Area (EEA), it has (together with only Norway and Iceland) full access to the European Union’s single market without being an EU member; at the same time it has a customs union and currency union with Switzerland (which is neither member of the EU nor the EEA).

For all its uniqueness and “niceness”, Liechtenstein may also offer some universalizable messages. I here offer the variable of (institutional) trust. The principality can be shown to be an extraordinary “high-trust society”. Hence, I also address the natural intimateness of a small state that leads to interpersonal trust, and the constitutional division of powers that fosters the self-confidence of the sovereign (the people) and supports institutional trust.

2. Introducing Liechtenstein

In 2019 Liechtenstein celebrated its 300th birthday. Back in 1719 the Holy Roman Empire counted over 340 territories. The small principality on the Rhine is the only member that still retains both its name and original borders. It also survived Napoleon’s radical re-drafting of the map of Europe by becoming the sixteenth member of the Confederation of the Rhine (“Rheinbund”) and thus a fully sovereign state in 1806. In 1815, the Congress of Vienna allowed Liechtenstein to become the smallest member of the German Federation (“Deutscher Bund”) with hardly more than 6.000 inhabitants.

Liechtenstein’s last military engagement happened in 1866 when the principality helped defend Tyrol against Italy. “Eighty men set out. Eighty-one returned ... to general rejoicing, having been joined by an Austrian soldier who was looking for work” (Beattie 2012: 33). Two years later, Liechtenstein disbanded the army and pursued a policy of “unarmed neutrality” ever since. Still, the small principality retained its sovereignty after Bismarck’s foundation of the German Reich, the First World War, the collapse of the Austrian-Hungarian Empire, the Nazi power-grab of Austria (to which Liechtenstein was closely related), and the Second World War.

Neutrality, diplomatic skill, but also the fact of being too small (and economically unimportant at that stage) to be worth a fight kept Liechtenstein from sovereignty- threatening foreign

interference and covetousness. Meanwhile, foreign envy or rapacity may have increased as Liechtenstein has become one of the richest countries of the world in terms of GNP per capita; but the geo-political threats to the principality's sovereignty have decreased even more.

Liechtenstein today¹ counts 38.747 inhabitants living in eleven municipalities on a territory covering 160 square kilometers. Whereas the territory remained basically unchanged for 300 years, population has increased remarkably. In 1901 the country counted not much more than 7.500 inhabitants. This population increase is due to migration, mostly from Switzerland, Austria, and Germany. The foreign population is around 34 percent of total inhabitants.

40.000 people work here, which is more than the number of inhabitants. More than half of the jobs are done by inward commuters most of whom live in neighboring Switzerland or Austria. Since GDP does not reflect the income of residents, one should refer to the Gross National Income (of firms, state, and inhabitants in the country). Adjusted for purchasing power, GNI is around 150.000 USD per capita. That makes Liechtenstein the second richest country in the world – right after Monaco.

But much more than Monaco, Liechtenstein is also a truly sovereign state and an important location for industry and services. Against widespread belief, Liechtenstein is no longer just banks, stamps, and casinos. It is one the most industrialized countries of Europe with 43 percent of value-added coming from an industry that invests over 5 percent of GDP in research and development. But also the growing financial sector is highly innovative and solid. The country uses the Swiss Franc and has a customs union with Switzerland. This implies an “export” or loss of sovereignty in monetary and trade policy; but that is more than compensated by an “import” of stability and openness.

Whereas Standard&Poor's has lowered the rating of many states (like the USA, UK, or France) over the last years, Liechtenstein's AAA rating has been renewed in June 2020, which holds for only ten other countries in the world. This is also a recognition of the country's highly unusual sound government budgets. Liechtenstein not only has no public debt, but public reserves that amount to a multiple of yearly expenditures – be it on the state level, in all municipalities and even social insurance.

These reserves are a reflection of cautiousness rather than avarice. Per capita Liechtenstein's government spends around 33.000 USD per year – which is slightly above OECD average. Still, with 20 percent, the share of government expenditure to GDP is less than half of EU average. This is obviously a consequence of an enormously high GDP (or GNI) per capita. Comparable to Switzerland, Liechtenstein proves that with low taxes, but high protection of private property and good incentives for private entrepreneurship, a country can be very successful in the global competition for capital and talents (Wohlgemuth 2020).

3. “Prince and People”

Monetary, fiscal, and economic solidity are certainly basic underpinnings of sovereignty – especially for a small state that overwhelmingly depends on access to foreign markets for goods, capital, and labor. Before I turn to this external dimension of sovereignty of a very small state, I like to sketch the internal structure of how sovereignty is exercised within the state. This

¹ For the following figures see <https://www.llv.li/inhalt/11443/amtsstellen/liechtenstein-in-figures>

internal political stability in turn is an important factor in the international institutional competition and thus relevant for the external sovereignty of a country, especially a small one.

Since its constitution of 1921, Liechtenstein is a “constitutional, hereditary monarchy on a democratic and parliamentary basis” in which „the power of the State is inherent in and issues from the Prince Regnant and the People and shall be exercised by both in accordance with the provisions of the present Constitution“².

This is again a uniqueness. No other state shares sovereignty between a Princely family and the people in such a way. The Prince Regnant of Liechtenstein has more constitutional powers than all other monarchs in Europe: no law is valid without the Prince’s sanction, he appoints judges, he can dismiss the government or dissolve parliament and initiate new elections, and he can exercise emergency powers. At the same time (except for Switzerland), no other country offers as many options for direct democracy as Liechtenstein does. Since 1921, Liechtenstein citizens can push through laws or changes of the constitution using their rights of popular initiatives; and by ways of referenda they can effectively oppose laws, international treaties or state expenditures proposed by parliament (Wohlgemuth 2021).

The right of the Sovereign Prince to veto any new law (even if adopted by popular vote) still holds in most cases. A constitutional popular initiative to change that was rejected by the peoples themselves with a great majority! So who is the sovereign? In the sense of absolute power, there is none in Liechtenstein. Neither the Prince as head of state, nor the people (both recognized as equal bearers of “the power of the state” or principals in the constitution), nor their “agents” – parliament, government, or courts – can claim absolute sovereignty (Winkler 2001).

There has been an extensive constitutional debate in Liechtenstein from 1992 to 2003. In the end, an overwhelming majority of the people preferred the constitutional amendment proposed by the Princely House which as one of its most striking elements included the people’s right to have a decisive vote with simple majority to abandon monarchy itself³. Prince Hans-Adam II “must be the first monarch in history to have proposed the means for the legal abolition of the institution that he represents” (Beattie 2012: 212).

This dual sovereignty combining hereditary monarchy and direct democracy is often seen as a contradiction (and led to protests or at least raised eyebrows in many political bodies across Europe). However, as Vanberg (2019) or Winkler (2001) show from a constitutional economics or constitutional law perspective, that very combination may be unique but not in any way contradictory to basic principles of democracy or the rule of law. After all, “normal politics” is still conducted according to the division of powers between a representative parliament and democratic government (as well as an independent court system). But they clearly act as “agents” who have to take the views of two key veto-players (Prince and People) into account, even if both use their veto power with caution and not very often (Wohlgemuth 2021). As Beattie (2012: 190) summarizes: “The careful constitutional balance and the pressure for consensus give the system strength, continuity and underlying stability”.

² Full text of Liechtenstein’s constitution here: <http://hrlibrary.umn.edu/research/liechtenstein-constitution.pdf>

³ Another constitutional curiosity is that in 2003 the Liechtenstein constitution was amended by the right of secession for each of the eleven municipalities. In principle, even the 472 citizens of Planken could declare themselves independent (or join Switzerland) by popular vote.

Various opinion polls (Wohlgemuth 2019) show that the Sovereign Prince is highly respected and trusted as a guarantor of political stability and long-term common interests beyond the short-term tactics of vote-maximizing political parties. Our poll (ibid.: 48) shows that 70 percent of Liechtenstein residents think it is “good” that the country is a monarchy; only 15 percent would prefer a republic. And with 89 percent the Prince ranks highest amongst political institutions when it comes to people’s trust (see below).

4. Openness and Sovereignty

Precisely because of its smallness, Liechtenstein hardly ever saw its sovereignty seriously challenged by neighboring states. But for the same reason it had to struggle to see it internationally acknowledged and taken seriously. It has been the Princely House that very much pushed for a political and economic opening of the country via international treaties and membership of international organizations. That implied diplomatic challenges, since in matters of foreign and economic policy the Principality was first strongly attached to the Habsburg Empire, and since 1919 to Switzerland.

Still, modern day Liechtenstein managed to become a full member of the UN in 1990 and the European Economic Area (EEA) in 1995 without following the Swiss example (Switzerland joined the UN later; and never joined the EEA). Consequently, the Principality retained a very useful currency and customs alignment with its most important neighbor Switzerland, but in addition full and free access to the EU single market of some 500 million customers and investors.

At the same time, the EEA does not oblige its non-EU members to follow the rules of EU agricultural policy, monetary policy, trade policy, or legal initiatives in areas such as taxation, justice and home affairs, social affairs, or foreign and security policy. As part of the Schengen agreement area, Liechtenstein also takes part of free movement of people across its borders (since neighboring Switzerland and Austria are also members). By ways of membership of EFTA (the European Free Trade Association) and the customs treaty with Switzerland, Liechtenstein not only enjoys free trade with the EU (and EEA partners Norway and Iceland), but also 39 countries (including the UK) outside the EEA. Overall, the country handles by far the greatest part of its foreign trade in goods and services under Free Trade Agreements.

Most Liechtensteiners see all this as a great enhancement not only of their economic freedom, but also their individual and political sovereignty. This might seem surprising, since the EEA goes far beyond a mere free-trade arrangement. Under the flag “single market” tons of regulations and directives are issued from Brussels which have to be quite automatically implemented as national law by non-EU EEA members without really having a say. Therefore, the sovereignty of Liechtenstein (or Norway and Iceland) is of course qualified in important areas of economic policy as the country has to burden its entrepreneurs and public servants with regulations and compliance costs that in some cases it would not deem adequate for a small, competitive nation.

However, most citizens and entrepreneurs in the country see this as a price worth paying. And the EU also acknowledged the special circumstances of a very small state in some key areas also regarding state sovereignty. Most importantly, the EU via the EEA Council (decision 1/1995) granted Liechtenstein exceptions from the free movement principle in view of “the

very small inhabitable area of rural character”, “the unusually high percentage of non-national residents and employees” and “Liechtenstein’s vital interest in maintaining its own national identity”. The principality must ensure equal treatment for EEA citizens, but it can effectively manage the numbers of foreign residents. Each year, around 70 EEA foreigners are given a right to reside, half of which are drawn by lot.

All in all, membership of the EEA (and Schengen) brings benefits that by far outweigh the costs – also in terms in sovereignty (see Wohlgemuth 2018; Baudenbacher 2019: 58). For a very small economy to succeed, it needs to be very open and integrated. Full membership of the EU, however, is not on the agenda – neither the EU nor Liechtenstein seriously want it. After all, each member state is still officially entitled to have its own Commissioner in Brussels and at least six members in the European parliament⁴. This striking contradiction of the “one-man-one-vote”- principle could be fixed by amending the European treaties, but no one in the EU fancies opening this “Pandora’s Box” of treaty change just for the sake of a Liechtenstein accession. But also for Liechtenstein, full EU-membership seems no attractive option: it would lead to an enormous increase in political bureaucracy costs, economic compliance costs (since the whole *acquis communautaire* of the EU would have to be swallowed) and a loss of citizens’ sovereignty to take care of their own affairs by ways of direct democracy that would hardly be compensated by additional advantages of full EU-membership.

That is also how Liechtensteiners see it. 85 percent have a “positive image” of the EEA, 80 percent think EEA membership has “increased Liechtenstein’s competitiveness”, and 55 percent agree to the statement that the EEA has “increased Liechtenstein’s sovereignty”. By contrast, only 43 have a positive image of the EU and merely 14 percent would support EU-membership (see Frommelt 2015).

5. Sovereignty and trust

Both the internal and the external use of sovereignty should be normatively measured by its concurrence with the opinions and interests of the ultimate sovereign: the citizens (Vanberg 2007). This concurrence can only occasionally, incompletely, and indirectly be signaled by parliamentary elections. Referenda or popular initiatives offer more direct ways to give citizens’ sovereignty an effective and articulate voice (Wohlgemuth 2002). But in the end the principal-agent relationship between state powers acting in the name of the people and the people themselves must always be an incomplete contract and remain incomplete and fragile. What is needed to cope with this inescapable gap is a mutual attitude of trust.

Theoretical and empirical studies suggest that small jurisdictions yield better conditions for the creation of trust or “social capital” than large (and heterogenous) states or federations. Liechtenstein can provide a convincing case for this political-economic hypothesis. Our first comprehensive study of institutional trust in Liechtenstein showed that the principality is quite unique when it comes to trust in domestic organizations or institutions – even compared to other “high-trust” societies like Switzerland or the Scandinavian countries (Wohlgemuth 2019). The following table gives a summary of some of our findings.

⁴ A German member of the European parliament represents some 860.000 German citizens; one of the six MEPs for Liechtenstein would represent only around 6.000.

Trusting these institutions “very much” or “pretty much” (in percent)	
Business enterprises	93
Police	91
Prince Alois of Liechtenstein	89
Banks	86
Courts	85
Municipality administration	85
The overall political system	80
European Economic Area (EEA)	77
National Government	75
National Parliament	74
United Nations	59
Political Parties overall	58
Media	54
European Union	48

Source: Wohlgemuth (2019: 36)

By all possible comparisons, an unusual 93 percent of Liechtensteiners said they trusted domestic firms “much” or “very much”; and even 86 percent said so for banks. Anti-capitalist attitudes that dominate much of the populist attitudes, but also academic debates almost worldwide have not taken hold in Liechtenstein – a country that over the last decades prospered without really experiencing poverty, public debt, or unemployment. Wealth creates trust; trust creates wealth.

But also trust in *political* institutions is unusually high in Liechtenstein. The populist anger against political elites, procedures and institutions raging in many countries of the western world is also hard to be found. But as in other countries, closeness and familiarity can be found to support trust. That is why local political bodies enjoy more trust than national ones; and national institutions more than international ones. Liechtenstein also supports the general finding that political institutions standing above the party struggle (such as courts) command more trust than democratically controlled bodies⁵.

Liechtenstein thus confirms the wealth-breeds-trust-breeds-wealth hypothesis as well as the positive interrelation between familiarity and trust (“Vertrautheit” and “Vertrauen”, Luhmann 2014). The repeated empirical finding that the Sovereign Prince has the highest trust values (89

⁵ An interesting case is that of courts and judges. Liechtenstein has a mixed judiciary consisting of Liechtensteiners, Austrian and Swiss judges. In other countries that would lead to increased distrust if not outrage and a feeling of diminished sovereignty. That includes Switzerland where the idea that „foreign judges“ such as those from the European Court of Justice could have a final say on the bilateral agreements between the country and the EU is a major source of irritation and worry. Liechtenstein, in turn, has appointed a Swiss judge – Carl Baudenbacher – to represent the principality on the European stage in the EFTA Court presiding over EEA legal disputes (from 1995 to 2018). Domestic courts in Liechtenstein also include Swiss or Austrian judges. Baudenbacher (2019: 59) observes: “A lot of people said ... that Liechtenstein has all these foreign judges because they don’t have enough manpower. But that is only half the truth. The leading heads of the country understood early on that if all the judges were Liechtensteiners, it would, in view of the size of the country, be difficult to guarantee judicial independence. Furthermore, an additional factor that pleads in favour of having judges from Austria and Switzerland is the fact that Liechtenstein law has taken over elements from both Austrian and Swiss law.” Trust in the judiciary and its independence from party politics and interest groups may also be a consequence of the special constitutional procedures for appointing judges. Here, the specific form of sharing domestic sovereignty between Prince and People again play a role. Judges are appointed by a committee that represents members appointed by the Prince and parliament. In case of a stalemate, the Prince has a decisive vote but not the final word. In case that parliament rejects the committee’s decision, a referendum must be called in which the people (who can add its own candidate to the ballot) have the final say (see Winkler 2003: 216ff).

percent) amongst all political institutions in Liechtenstein is certainly a unique feature of Liechtenstein. The shared exercise of ultimate sovereignty by “Prince and People” (see above) seems to rely on a strong foundation of mutual trust that has grown over the last hundred years.

6. Summary: “fortunate and faithful, united and free”

“Long live Liechtenstein / Blossoming on the German Rhine / Fortunate and faithful! / Long live the Prince of the Land / Long live our fatherland / Through bonds of brotherly love / United and free!”. Such goes the national anthem of the world’s sixth smallest sovereign country sharing the same melody with “God Save the Queen”. I have tried to sketch a few aspects of the longevity, fortune (wealth), faith and unity (trust), and freedom (sovereignty) of this remarkable country.

Internally, Liechtenstein found a unique way to combine and share sovereignty between Prince and People in a way that neither can claim absolute power – but with the people having the ultimate right to change the constitution and abandon monarchy. At the same time, both sovereign powers have good reasons not only to trust each other but also to generally trust national political institutions acting in their name: parliament, government, and courts to manage normal politics and jurisprudence on their behalf with a great deal of responsibility, pragmatism or at least a strong will to find reasonable consensus.

Externally, Liechtenstein has also found a unique way to safeguard its sovereignty. By ways of outsourcing, sharing and pooling sovereignty both bilaterally (first with the Habsburg Empire, then with Switzerland) and multilaterally (EFTA, EEA), the small principality may have lost some of its internal political sovereignty. But it gained much more in terms of international freedom to act – a freedom highly useful for the ultimate sovereign: the people.

Especially for a very small country, the protection of this individual sovereignty was and remains a remarkable task. Initially, Liechtenstein was “too small, too poor and too much off the beaten track for most predators to find it worth to devour it” (Beattie 2012: xi). Now it is still small, but one of the most successful countries in the world (in per capita terms), which must provoke envy amongst some rivals who are much less successful. Hence, there remain challenges for Liechtenstein and its unique model of sovereignty. The internally shared sovereignty of “Prince and People” keeps being questioned by some within the country and many more outside observers who would trust neither direct democracy nor an active monarchy to play any important role in politics. The external sovereignty of Liechtenstein has also occasionally been challenged by foreign governments and organizations, especially in areas like tax policy and conditions for foreign direct investment.

Far too often, Liechtenstein is compared to some “one-size-fits all” ideal standard of “the” one European social, economic or political model which is not only a very dubious construct in itself, but also historically a rather “un-European” idea. After all, Europe developed its liberal institutions in an environment of institutional competition, subsidiarity and mutual learning. It will have to keep up that spirit of evolutionary adaptation and learning amongst jurisdictions (Wohlgemuth 2008). So far, Liechtenstein “succeeded by trial and error, by doggedness and application, in asserting its sovereign identity at the international level” (Beattie 2012: xi). The principality should keep that spirit.

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