

# Fiscal Policy, Economic Performance and Institutions of Swiss Cantons

Dissertation

zur Erlangung der Würde ~~eines~~ Doktors der Staatswissenschaften

vorgelegt der Universität Basel

von Dominique Küttel

von Weggis

Basel, im Frühling 2001

# Contents

1	Introduction	15
2N	Fiscal federalism and the Swiss experience	19
2.1	Introduction	19
2.2	Origin and history of the federal idea	20
2.2.1	Survey of the Swiss federal history	22
2.3	The theory of fiscal federalism	24
2.3.1	Resource allocation	24
2.3.2	Income redistribution	20
2.3.3	Stabilization	27
2.3.4	Political economy arguments for fiscal federalism	28
2.4	Stylized facts of Swiss federalism	30
2.4.1	Structure of government	31
2.4.2	Allocation and evolution of public expenditures	32
2.4.3	Distribution and evolution of public revenue	35
2.5	Equalization policy	37
3	Emerging outcomes of fiscal policy changes	39
3.1	Introduction	39
3.2	Theory	41
3.3	Empirical literature survey	40
3.4	Empirical evidence; of tight fiscal policies	50
3.4.1	Introduction	5(1

3.4.2	Successes and failure's . . . . .	52
3.4.3	Expansions and contractions . . . . .	55
3.4.4	Size; versus composition. . . . .	57
3.5	Empirical evidence of loose; fiscal policies. . . . .	02
3.5.1	Introduction . . . . .	G2
3.5.2	Expansions and contractions . . . . .	03
3.5.3	Size versus composition . . . . .	05
3.0	Controlling for monetary stance and institutions . . . . .	07
3.7	Summary. . . . .	08
4	Determinants of bond yield spreads . . . . .	71
4.1	Introduction . . . . .	71
4.2	Importance of public entities and their legal status. . . . .	73
4.2.1	Role of government activities in the capital market. . . . .	73
4.2.2	Legal status of the cantons. . . . .	70
4.3	Empirical literature survey. . . . .	78
4.4	Preliminary data analysis. . . . .	80
4.4.1	What yield differential should be used? . . . . .	80
4.4.2	Descriptive analysis. . . . .	84
4.5	Empirical evidence. . . . .	90
4.5.1	Controlling for economic fundamentals and institutions . . . . .	92
4.5.2	Controlling for regional differences. . . . .	93
4.5.3	Controlling for selectivity bias: The Heckit estimator. . . . .	95
4G	Summary . . . . .	102
5	Effect of institutions on fiscal outcomes . . . . .	107
5.1	Introduction. . . . .	107
5.2	Theory. . . . .	110
5.3	Empirical literature survey. . . . .	114
5.4	Model and methodological issues. . . . .	110
5.4.1	Empirical model. . . . .	110

5.4.2	Methodological issues. . . . .	120
5.5	Empirical evidence; . . . . .	122
5.5.1	Pooled estimates. . . . .	122
5.5.2	Panel estimates. . . . .	125
5.0	Summary. . . . .	132
6	Conclusions	133
A	Democracy index	139
A.1	Introduction. . . . .	139
A.2	Index construction. . . . .	140
A.3	Summary. . . . .	141
B	Data description and source	143
	Bibliography	149