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Abstract

Decentralization is in vogue, and the need to control government finances acute. Therefore, the link between these two issues is regarded as a useful research topic. More specifically, this thesis studies the impact of decentralization and the existence of multi-tiered governments on the size and indebtedness of a general government. Hence, the study belongs to the field of fiscal federalism – a sub-field of public finance. Importantly, no conclusion on the research problem in question has been reached in the academic literature, either from theoretical or empirical basis.

The research problem of the study is approached in two different ways. First, a collection of theories possibly contributing to the issue is presented. Results, interconnections, and evident incongruities of the theories examined are further evaluated. Second, a case study on Switzerland – one of the most decentralized countries in the world – is conducted. Quantitative data on the Swiss record regarding variables reflecting decentralization and government size and indebtedness is empirically studied and described comparing against the corresponding data of the EU-15 countries.

Theories studied do not offer a conclusive hypothesis for the link between size and indebtedness of a government: some hypothesize a positive and some a negative relationship. However, from the empirical analysis it becomes clear, that decentralized decision making in Switzerland has not resulted in expanded government size and indebtedness as predicted by some of the theories examined – at least when compared to the EU-15. Instead, indebtedness and especially the size of the Swiss government seem to undercut the levels of the reference group. To some extent institutional factors may explain these results: three special institutional characteristics of the Swiss system are described, namely elements of direct democracy, great revenue autonomy of sub-national units, and efficient fiscal rules. For decentralized countries that wish to limit government budgets and deficits these institutions might serve as a useful model.

Key words	decentralization, fiscal federalism, government debt, government size, Switzerland
Further information	