

# Government accountability and fiscal discipline: A panel analysis using Swiss data

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## Abstract

Government accountability through electoral engagement, involvement and participation in the political debate can affect government performance. Using data for the full sample of Swiss cantons over the 1981–2001 period, this paper provides empirical evidence that government accountability is crucial for fiscal discipline. Specifically, in cantons with high levels of government accountability, the level of indebtedness is significantly lower, indicating that accountability supports fiscal discipline. To obtain a useful approximation for government accountability between citizens and their representatives, we use information from direct voter participation in political decisions (initiatives and public referenda) in Swiss state (cantonal) governments. Electoral support of government proposals reveals an important aspect of accountability in a real world setting.

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## 1. Introduction

Over the last 30 years, the governments of several OECD countries have accumulated large debts, as have their sub-federal governments. Why do certain governments incur large debts but not others? One explanation emerges from examination of the institutional framework of jurisdictions, which are particularly important for fiscal policy decisions. Fiscal institutions create

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the environment, incentives, rules, regulations and constraints under which budgets are drafted, approved and implemented. Thus, if properly designed, fiscal institutions can promote fiscal discipline, whereas an institutional framework that results in soft budget constraints provides incentives for loose fiscal discipline. However, these rules vary greatly across governments, so providing a reasonable explanation for cross-sectional variations in debt levels (Alesina and Perotti, 1995; Poterba and von Hagen, 1999; Persson and Tabellini, 2001).

This paper concentrates on the relationship between public debts and government accountability for a full sample of Swiss state governments over the 1981–2001 period. We measure accountability as the ratio of concurrence between Swiss state (cantonal) government recommendations of an issue to be put to vote and the actual outcome at the ballot, while using the number of ballots per year to measure the level of citizens' opportunity to express their preferences. Ballots help increase governmental accountability, which should affect fiscal performance as the government is forced to be responsive to citizen preferences resulting in a higher level of fiscal discipline. Our hypothesis states that stronger accountability, as measured by electoral support for government decisions, is a signal of stronger social cohesion between government and the electorate, which in turn results in sounder fiscal policy decisions. Our results do indeed indicate a fairly robust negative relationship between government accountability and public debt. Therefore, we conclude that fiscal policy is strongly influenced by individuals' trust in government: a higher level of accountability leads to stronger fiscal discipline.

In addition, our paper provides some novel findings not offered, to our knowledge, in previous research. First, empirical studies in the social capital literature often use cross-country data. However, drawing conclusions from cross-cultural comparisons is difficult because institutional and cultural frameworks that typify specific countries might influence social capital: such features cannot always be controlled in a satisfactory manner. Our study, on the other hand, focuses on *within* country data at the state (cantonal) level and thus allows better isolation of the impact of accountability. Second, in the social capital literature, accountability is usually measured by *survey data* based, for example, on individual responses to questions about trust in the government and the legal system (see, e.g., Torgler, 2005). However, Glaeser et al. (2000) criticize such survey questions as interesting but “also vague, abstract, and hard to interpret” (p. 812). Moreover, it cannot be granted that attitudinal questions predict observable behaviour. Even Putnam (1995) stressed that it would be desirable to have behavioural indicators of social capital. Thus, in this paper we search for a proxy that measures individuals' *observable behaviour* rather than their attitudes or statements. Our findings indicate our behavioural variable that measures accountability to be highly correlated with trust measured at the attitudinal level by survey data. Finally, in contrast to the large number of studies using cross-sectional data, our panel analysis, encompassing over 20 years, allows exploitation of the time variation in governments' accountability.

The remainder of the paper is organised as follows. The next section provides a quick overview of the literature on government accountability and trust in politics. Section 3 develops a concept of accountability in a real world setting and presents evidence for the level of accountability among Swiss cantons over the last 20 years. Section 4 then outlines the empirical implementation of the impact of accountability on fiscal discipline, after which Section 5 offers some concluding remarks.

## 2. Social capital and government accountability

According to Knack (1999) “holding governments accountable is arguably the most important means by which social capital influences performance” (p. 7), as policy decisions must be

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