HOW DO ELECTORAL SYSTEMS AFFECT FISCAL POLICY? EVIDENCE FROM CANTONAL PARLIAMENTS, 1890–2000

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Abstract
Using a new data set on Swiss cantons since 1890, we analyze how the adoption of proportional representation affects fiscal policy. In line with economic theory, we show that proportional systems shift spending toward broad goods (like education and welfare benefits) but decrease spending on geographically targetable goods (like roads). We find little evidence that proportional representation increases the overall size of government. An analysis of the underlying theoretical mechanisms reveals that proportional representation increases electoral turnout, left-wing representation and political fragmentation. These changes in political representation explain a substantial share of the rise in education spending, but a small share of the rise in welfare spending or the decline in road expenditures. (JEL: H4, H11, I38)