

Long-Term Fiscal Policy Analysis: Time Series Evidence from the Canton of Fribourg

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Abstract

In this study, we contribute to the flourishing literature on the impact of personal characteristics of policy makers on fiscal policy. Using a newly collected dataset from the canton of Fribourg in Switzerland over the period 1848-2012, we conduct a time series analysis to estimate the effect of the ideology of the finance minister on fiscal outcomes as well as the corresponding projections. Further, we probe the short- and long-run relationship between revenue and expenditure by estimating an Error Correction Model and test the sustainability of the cantonal budget deficit by performing cointegration tests between the two aforementioned variables. Our findings suggest that the budget deficit in the canton of Fribourg has been sustainable over the analyzed period and that a relatively more right-wing finance minister obtains lower budget surpluses, spends more, and also seems to collect more revenue than his/her left-wing counterpart. We do not find evidence that the ideology of the finance minister has an effect on revenue and expenditure projections.

Keywords: Fiscal policy · Finance minister · Forecasting errors · Budget sustainability

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