

Do Fiscal Rules Cause Lower Debt? A Case Study of Switzerland

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Abstract

This paper studies the causal effect of a specific fiscal rule for the federal budget in Switzerland using a synthetic control approach. Our findings provide evidence that the rule has significantly reduced public debt. We argue that the positive impact of the fiscal rule is based on its precise but cyclically adjusted target, the comprehensive scope to prevent budget loopholes and the strict political enforcement mechanism. Moreover, we discuss potential limitations regarding the generalizability of our findings to other countries, such as differences in culture, enforceability, and political institutions.

JEL Classification: E62, H41, H62, H63

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