
The Flypaper Effect in Municipal Finance: A Regression Kink Design

Gabriel Loumeau*¹ and Marko Köthenbürger²

¹ETH Zürich – Leonhardst. 21, 8092 Zürich, Switzerland

²ETH Zürich – Leonhardstr. 21, 8092 Zürich, Switzerland

Abstract

We analyze the existence of a flypaper effect in local public finance. Kinks in the transfer schedule in the Canton of Vaud in Switzerland allow us to apply a Regression Kink Design and to estimate the causal impact of transfers on municipal expenditures and tax rates. Consistent with the literature, we find robust evidence that “money sticks where it lands” i.e. transfers have a positive local average treatment effect (LATE) on municipal expenditures, while leaving the revenue side unchanged. Moreover, by studying the heterogeneity of policy responses to transfers, we observe a “double” flypaper effect. It appears that money sticks even more where it used to land in the past. The second layer of the effect can be used to explain the flypaper effect described in the literature.

Keywords: both

*Speaker