

EDUCATION

FINANCE

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## EFP Takeaways

Money & Education: Effects of Intergovernmental Grants

### *Background*

Intergovernmental money transfers play an important role in education finance. In many countries, state programs provide nonmatching grants to local governments or school districts to support educational services. In Finland, some educational services at the primary and secondary levels, such as high schools, are funded via the central government and local governments. One Finnish policy was designed to provide intergovernmental grants to municipalities with small high schools and low numbers of students – as these can be very expensive. It is important to study these grants, as municipalities could offset these revenues through reductions in their own funding. Research on the effects of these grants is scarce. In vol. 15, issue 4 of *Education Finance & Policy*, Antti Saastamoinen and Mika Kortelainen examine the effects of these intergovernmental grants in Finnish high schools.

### *The Study*

This study utilized a panel of data on municipal high school education providers from 2001 to 2014. The financial data of high school grants and expenditures were paired with data on Finnish municipalities, including municipal tax rates and tax revenues, state funding transfers, and other demographic data.

In Finland, municipal high school funding is allocated through a formula-based general grant mechanism. This allows the use of a regression kink research design to examine the causal effect of high school grants on local high school education spending. The authors compare municipal high school providers that are similar in size but receive different grant amounts because of the grant formula.

### *Findings*

Analyses revealed three key findings:

- The results showed a robust positive effect of grants on local high school spending, implying the classic flypaper effect in which government grants “stick where they hit.”
- In addition, results showed that the grant effect was possibly heterogeneous among municipalities. Especially the demographic age structure of local jurisdictions seemed to be associated with the magnitude of the grant effect. In municipalities with a higher share of high school aged population, the grant effect was larger than in municipalities where the population is older.
- Overall, the results imply that the grant goes to its intended use since the grant positively affects spending. The results also suggest that, instead of tying the grant to a specific purpose, the policy of giving municipalities discretion in the allocation of the grant is warranted as local spending preferences are likely heterogeneous.

#### **For more details:**

- View the [full issue](#).
- See the full [article](#) in Education Finance and Policy.
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- Summary of:  
Saastamolnen, A., & Kortelainen, M. (2020). When does money stick in education? Evidence from a kinked grant rule. *Education Finance and Policy*, 15(4), 708-735.