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**Tancredi Buscemi
Giulia Romani**

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Regional Development:
Evidence from the Cassa per
il Mezzogiorno**

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Tancredi Buscemi

University of Siena

Giulia Romani

Ca' Foscari University of Venice

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Keywords

institutional design, distributive politics, devolution, Cassa per il Mezzogiorno

JEL Codes

H11, H77, N94

Address for correspondence:

Giulia Romani

Department of Economics
Ca' Foscari University of Venice
Cannaregio 873, Fondamenta S.Giobbe
30121 Venezia - Italy
e-mail: giulia.romani@unive.it

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The Political Economy of Regional Development: Evidence from the *Cassa per il Mezzogiorno*

Tancredi Buscemi¹ and Giulia Romani^{*2}

¹University of Siena

²Ca' Foscari University of Venice

November, 2022

Abstract

Institutional design can influence the efficacy of public investment programmes. Specifically, devolution of authority may trigger tactical redistribution between different tiers of government and facilitate patronage dynamics at local level. We test this hypothesis in the context of the *Cassa per il Mezzogiorno* (CasMez): a massive investment programme for the development of Southern Italy (1950-1984). By 1971, a radical institutional reform modified the CasMez's governance: the authority over funds allocation was transferred from a centralised and technical committee to the newborn Regional governments. This paper investigates how the reform affected the CasMez's distributive politics. We focus on the period 1960-1984 and study whether municipalities aligned with the Regional government (i.e controlled by the same party) received more funds compared to unaligned ones. We combine unique historical data on local administrators with detailed information on projects approval and financing, and implement a Two-Way-Fixed-Effects strategy. Our results suggest that aligned municipalities were assigned a higher number of projects and received larger per-capita amounts, without producing any positive impact on long-run economic outcomes. The effect is driven by subsidies to local firms. This evidence supports our claim that the institutional reform of 1971 distorted funds allocation, and possibly paved the way for rent-seeking pressures by local lobbies and patronage dynamics.

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^{*}Corresponding author: giulia.romani@unive.it

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1 Introduction

Institutional design of development programmes can largely affect their overall efficacy. Specifically, the allocation of authority over funds distribution can give rise to agency problems. These are more likely to emerge when agents are poorly equipped with governance capacity, are subject to incentives different from the common goal (e.g. electoral returns), and have wide discretionary power. In such circumstances, devolution processes that assign decision power to lower tiers of government can trigger tactical redistribution, distorting funds allocation.

In this paper, we investigate whether devolution of authority over public investments generates dynamics of distributive politics, in the form of partisan alignment effects. We exploit the quasi-natural experiment offered by the 1971 institutional reform of the *Cassa per il Mezzogiorno* (CasMez): a massive public investment programme for the economic development of Southern Italy, implemented between 1950 and 1984. The reform radically modified the CasMez governance, moving the authority over funds allocation from a central committee of technicians to Regional governments, just created in 1970. These were assigned a highly discretionary power in deciding which projects to finance within their jurisdictions, in a context of fragile institutions and characterised by rent-seeking pressures by local lobbies. Our hypothesis is that such a reform created a moral hazard incentive for Regional governments to distribute CasMez funds to achieve electoral consensus and strengthen their political power at the local level. Specifically, we ask whether - after the 1971 reform - municipalities ruled by the same political party in power at the Regional level received a higher number and amount of CasMez funding.

Our paper aims to contribute to two main streams of the literature: firstly, to the growing field on decision-making delegation in public policies; secondly, to the work on distributive politics and, specifically, to studies investigating partisan alignment effects. The first analyses the trade-off between efficiency and corruption in institu-

tional settings characterised by different levels of discretion(vs rules) and decentralisation(vs centralisation), and has mainly focused on public procurement (Bandiera et al., 2009; Decarolis et al., 2020; Bandiera et al., 2021). The second deals with the political economy of funds allocation, investigating how electoral objectives affect the distribution of resources (Golden and Min, 2013; Persson and Tabellini, 2002). In particular, some studies in this field analyse how upper tiers of government tend to favour lower tiers of government ruled by the same political party, namely the 'partisan alignment effect' (Solé-Ollé and Sorribas-Navarro, 2008; Bracco et al., 2015; Dotti, 2016). We contribute to the literature on delegation by focusing on a key area of government activity – namely, public investments -, and highlighting the political distortions that can arise from devolution processes. Moreover, we also contribute to the literature on distributive politics by investigating whether and how partisan alignment effects depend on the broader institutional setting and, specifically, on the degree of centralisation.

We collected and digitalised unique historical data on Italian local administrators for the period 1960-1984 from the Italian Ministry of Interior. We decided to focus on the 374 municipalities having a population of at least 10,000 inhabitants by 1971, within the Regions interested by the CasMez programme. We combine that information on local governments with data on CasMez projects. These derive from the Archives of Territorial Economic Development (ASET), which contain project-level information about all CasMez investments (1950-1984), distinguishing among three main types of fund: public works, non-refundable firm grants, and concessional financing. We aggregate that information at municipal level and focus on the span 1960-1984. In this way, we observe a time window of twelve years before and after the reform; moreover, this is also the period when CasMez investments have been larger.

We implement a Two-Way-Fixed-Effects (TWFE) strategy, taking the CasMez reform of 1971 as the event time for treatment. We define treated and control municipalities according to partisan alignment as for 1970, i.e. when Italian Regions were created:

if a municipality in 1970 was (not) ruled by the same political party that won the first Regional elections, we consider it treated (control) after the 1971 reform. We perform event study estimations and a placebo test on the pre-treatment period to verify that treated and control units were evolving in a comparable way prior to the reform and did not anticipate its effects.

Our findings suggest that the devolution process brought about by the 1971 CasMez reform triggered significant tactical redistribution. Specifically, the shift of authority from the central technical committee to the newborn Regional governments made relevant the partisan alignment between the local and Regional tier of government: aligned municipalities (i.e. controlled by the same political party) were assigned a higher number of projects and received larger per-capita funds. That effect is driven by subsidies to local firms. This latter finding points to possible patronage and pork-barrel politics. Compared to public works, firm subsidies can be parcelled out more flexibly and assigned in a less visible way, which make them a more suitable tool to acquire the consensus of local lobbies.

These results are robust to a number of tests, including alternative treatment definition and sample selection choices. Moreover, pre-processing data through a combination of matching algorithms prior to parametric estimation provides similar results. Similarly, including a spatial lag to capture possible cross-border spillovers does not alter our estimates.

Finally, we explore the effects on long-run economic outcomes through a 2SLS cross-section analysis, focusing on the period after the reform. we regress the long-term change in local economic outcomes between 1971 and 1991 on the predicted CasMez funds received by the municipality over the span 1972-1984. These predicted values are estimated from a first-stage equation whose main explanatory variable is alignment status in the aftermath of the 1971 reform. In this way, we indirectly test a competing interpretation of our main findings: namely, that Regional governments

favour aligned municipalities because of some information or coordination advantage. If so, there would be an economic rationale behind the tactical redistribution that we have labelled as politically biased. We do not detect any significant effect. Therefore, the devolution process did not produce any economic benefit; most likely, the larger amounts of firm subsidies granted to aligned municipalities served to strengthen the local connections between elected politicians and entrepreneurs, feeding patronage and pork-barrel politics.

The paper is organised as follows: section 2 reviews the related literature; section 3 presents the institutional context and history of the CasMez programme; section 4 describes the data we collected and shows some descriptive evidence; section 5 and 6, respectively, explains our main identification strategy and presents the related results; section 7 reports the robustness checks and related results; section 8 investigates the long-run economic effects; section 9 concludes.

2 Related literature

Our work speaks to different fields of the literature. First of all, a growing literature is focusing on the choices of rules versus discretion, and decentralisation versus centralisation in the management of public resources. These contributions investigate the trade-off between efficiency and corruption in models of delegation applied to public procurement. More specifically, this body of research addresses the economic consequences of delegating authority to lower-level tiers of government in the purchase of public goods. These works often assume the presence of some 'ex-ante constraints', such as central guidelines in the employment of resources, which reduce the discretionary power of delegated agents (e.g. Huber and Shipan, 2002 and Bendor et al., 2001). For example, Decarolis et al. (2020) focus on Italy and show how delegation and discretion in procurement auctions boost efficiency more than they foster corruption: discretion leads to greater potential efficiency and to more oppor-

tunities for extractive behaviours; however, discretionary procedures are used less in administrations suspected of corruption. Therefore, it seems plausible that a central monitor can manage the underlying trade-off by limiting discretion where the risk of corruption is higher. Bandiera et al. (2021) find similar results studying the shift of authority for public good purchases from monitors to officers in Pakistan. In that contribution, the authors underline that the overall impact depends on the monitor's type: "giving autonomy to the agent is desirable when it means taking it away from an extractive monitor" (i.e. 'bad type'), since it eliminates the 'competing bandits problem' (Shleifer and Vishny, 1993); while it has no positive effect when the monitor is 'good' (i.e. aligned with the common goal). Again on Italy, Bandiera et al. (2009) highlight that most waste of resources in decentralised public procurement is due to inefficiency ('passive waste') rather than to corruption ('active waste'). Passive waste can arise when delegated officials lack of the necessary skills or incentives to minimise costs, or when the regulatory burden is too heavy. Therefore, to the extent that increased autonomy reduces inefficiency without excessively rising corruption, it would decrease the overall public waste. Along this line, other works highlight that limiting decentralisation is convenient when the skills of the delegated public officers are not adequate (Best et al., 2017; Buccioli et al., 2013; Bosio and Shleifer, 2020). Specifically, Bosio and Shleifer (2020) conduce a cross-country analysis and get to the conclusion that reducing discretion in public procurement produces substantial benefits only in countries where public sector capacity is low.

All in all, these studies seem to conclude that delegation is a more efficient agency model as long as agents are well-equipped with governance capacity and relatively aligned with the common goal.

That view is supported by a long standing argument in the economic literature on federalism, which claims that decentralising public choices is a driver of efficiency, since it moves decision making closer to the needs of the local communities (Oates, 1993, 2005). On the other hand, a large body of research takes the opposite view,

arguing that decentralisation can negatively affect economic efficiency. Persson and Tabellini (1994) maintain that decentralisation could obstacle economic growth by making more difficult redistribution among regions. Prud’Homme (1995) and Tanzi (1996) highlight that decentralised settings are more exposed to the risk of corruption, since local governments are more susceptible to the pressures of local interest groups. In the context of place-based policies, D’Amico (2021) develops and tests a theoretical model showing that investment decisions of Regions tend to favour the dominant skill-group of workers; while centralised management seems more independent of the local workforce composition. Moreover, devolution seems to produce detrimental consequences in developing countries, because it exacerbates the weak accountability capacity of institutions (Bardhan and Mookherjee, 2006). Nevertheless, the inefficacy of devolution has recently been highlighted also for developed countries. For example, Rodríguez-Pose and Ezcurra (2010) find a negative effect of decentralisation on economic growth for OECD countries, a result recently confirmed by Gemmell et al. (2013).

Our paper also relates to the literature on distributive politics. Contributions in this field have largely explored different distorting mechanisms that politics can induce in the allocation of public resources under democratic systems¹. Within the several branches of this literature, the one most closely related to our work focuses on the distributive effects of partisan alignment between different tiers of government. This alignment emerges when an upper layer of government is more likely to assign public resources to lower-level districts that are ruled by the same political party, despite other socio-economic considerations. For example, Solé-Ollé and Sorribas-Navarro (2008) show that intergovernmental transfers in Spain favour local governments ruled by the same political party that is in power at the National level. Bracco et al. (2015) go further on this issue, and elaborate an agency model in which the central govern-

¹For a comprehensive overview of the literature on distributive politics, see Golden and Min (2013) and Persson and Tabellini (2002). Many works in this literature focus on Italy: relevant references are Sapienza (2004); Golden and Picci (2008); Bracco et al. (2015); Carozzi and Repetto (2016).

ment assigns more grants to aligned municipalities as a fake signal of the expertise of the corresponding mayors. Finally, Dotti (2016) shows that structural funds are more likely directed to regions aligned with the central government throughout Europe. Despite the widespread evidence of alignment effects, the link between these latter and the underlying institutional design has been so far overlooked.

Our article fills a gap at the intersection of these fields of the literature. Indeed, we investigate whether devolution of authority can give rise to partisan alignment effects in the allocation of public investments. Therefore, we contribute to the discussion on decentralisation versus centralisation in the management of public resources by focusing on a key area of government activity – namely, public investments for regional development -, and highlighting the possible political distortions that can arise from devolution processes. This relates to the debate about the economic consequences of delegation, tackling the issue from a development policy perspective. In our setting, we hypothesise that the discretionary power attributed to the newborn Regional governments created a moral hazard incentive to extract political rents from the distribution of CasMez funds. Moreover, we also contribute to the literature on distributive politics by investigating whether and how partisan alignment effects depend on the broader institutional setting and, specifically, on the degree of centralisation. This provides a different perspective on distributive politics, showing that - in a given analytical context - tactical redistribution can emerge as a consequence of institutional shifts in the allocation of authority².

²This aspect has not been investigated yet by the economic literature. Searching into other fields, few contributions suggest that decentralised systems are more exposed to partisan alignment effects. See, for example, Nunes (2013) and Carlitz (2017) in the literature of political and development studies.

3 The institutional context of the CasMez

After World War II, the newborn Republic’s ruling class saw the Southern Italy development as a priority to reduce the wide regional divide between the North and South of Italy. Alternative development strategies were debated among Italian economists and politicians (Costabile, 2021). This led to the foundation of a *Cassa* for extraordinary works of public interest in Southern Italy, instituted by the Italian parliament with law no. 646 of August 10th, 1950³. The law provided legal autonomy to the newborn CasMez, with the task of implementing top-down extraordinary interventions for all Southern Regions: Abruzzo, Apulia, Molise, Campania, Basilicata, Calabria, Sicily, Sardinia, and few Provinces of Lazio and Marche. The agency’s innovation was the board’s autonomy: the Italian Prime Minister appointed technicians (e.g., economists and engineers) with a 4-year charge, and external authorities could not remove the board’s members, which granted complete autonomy in policy making. The CasMez activity focused on mid-term goals to foster modernisation, with the sole criterion of economic development (Lepore, 2013; Felice and Lepore, 2017). These institutional features mitigated the risk of misleading exploitation of CasMez’s resources for political purposes.

Until 1957, the agency’s activity mainly focused on the development of agricultural techniques and infrastructures. The aim of that strategy was to create the initial conditions to induce a take-off in the modernisation and industrialisation processes. Therefore, most funding was devoted to increase agricultural productivity, and to build road and railway networks. A first relevant change occurred with law no. 634 of July 29th, 1957, which extended the CasMez’s lifespan until 1965, opening the ‘second half’ of the extraordinary intervention, in which policy efforts were directed towards bolstering industrialisation and infrastructure development. The CasMez’s programme strengthened its efforts in capital-intensive sectors, such as the chemical,

³The complete timeline of the CasMez experience is reported in Figure A1.

iron and steel industries. Then, law no. 717 of June 26th, 1965 further extended the extraordinary intervention until 1980, linked it to the national planning programme and created a Ministry of extraordinary intervention (*Ministero per gli interventi straordinari del Mezzogiorno*), maintaining the same institutional setting⁴.

With law no. 281 of May 16th, 1970, Italian Regions were created⁵. These represent an intermediate level of governance between central government and municipalities. This institutional reform triggered a decentralisation process in several development and social policies. The CasMez made no exception: law no. 853 of October 6th of 1971 put an end to the centralised and autonomous configuration of the CasMez's governance. This institutional revolution is comprehensively outlined in the article 4 of the 1971 law, which assigned full control over all projects to Regional governments, leaving only an advisory role to the CasMez technicians.

The combination of political involvement and power delegation led to a radical change in the CasMez history. Trigilia (1992) highlights that local elites' involvement spoiled the experience of the CasMez, opening the way to patronage dynamics and rent-seeking behaviours. Organised crime, which is firmly rooted in the economic system of Southern Italy (Barone and Narciso, 2015; Pinotti, 2015) used the newly created political connections at the local level to strengthen its influence over local businesses. Several authors highlight that decentralisation did not improve the economic performance of the CasMez; on the contrary, it triggered a relevant waste of resources and reduced the programme's efficacy (Cafiero, 1996; Sbrescia, 2014 and Felice and Lepore, 2017). In sum, the creation of Italian Regions and the 1971 reform represent a turning point in the CasMez experience and radically transformed the economic intervention of the following years.

⁴The national planning programme was an attempt by the Italian government to create an inter-ministerial committee to plan the national development of the country. However, this national programme was never effectively implemented (Lavista, 2010).

⁵More precisely, the special status Regions of Sicily and Sardinia had Regional governments already since the '50s. However, before 1971, they had no authority over the allocation of CasMez funds. For completeness, we also report estimated results excluding those two Regions.

Afterwards, Southern Italy started to lose the recovery reached between 1950 and 1970. Buscemi (2022) shows the macroeconomic consequence of the CasMez reform, and argues that the devolution process of the '70s brought a persistent regional divergence with the rest of the country⁶. Currently, the North-South gap is the same of 1950 (Svimez, 2019). Moreover, D'Adda and De Blasio (2016) find that - after the '70s - the combination of low levels of social capital and reduced government quality negatively affected the outcomes of the CasMez programme. The authors maintain that the historical legacy of social capital resurged with the decentralisation process of the '70s, undermining the efficacy of the CasMez programme.

Since 1984, the end year of the CasMez, several types of decentralised cohesion policies have been implemented in Southern Italy, and plenty of studies highlight their limited efficacy (e.g. Barone et al., 2016; De Angelis et al., 2020). The common ground of this literature is that none of the subsequent policies managed to reduce the wide Italian regional divide, which remerged after the '70s.

Recently, the CasMez programme has attracted new attention in the economic literature. For example, Albanese et al. (2021) look at the long-run political outcomes of having received CasMez funds; while Colussi et al. (2022) study how the exposure to CasMez funding increased support for the majority party, even long after the end of the programme. Our work also contributes to this new evidence on the CasMez, which is *per-se* worthy of interest. This programme has been one of the most important public interventions to promote regional development, second only to the US Tennessee Valley Authority. Therefore, it seems crucial to understand the strengths and weaknesses of its institutional design. In this paper, we exploit the quasi-experiment offered by the 1971 reform to investigate the effect of that institutional shift on the political economy of the programme.

⁶We report in Figure A2 the graph by Buscemi (2022), where he shows the evolution of Southern GDP and the difference in growth rates between Southern Italy and the rest of the country.

4 Data and Descriptives

Our dataset combines information from a variety of sources. First of all, we collected unique historical data on local administrators for 374 Italian municipalities of Southern Italy, covering the period 1960-1984. These information derive from the Register of Local Administrators (*Anagrafe degli Amministratori Locali*) of the Italian Ministry of Interior⁷, and include name, occupation, education level, political affiliation and position of each member of the municipal council. We decided to focus on municipalities having a population of at least 10,000 inhabitants by 1971, within the Regions interested by the CasMez programme⁸. This selection is motivated, firstly, by the willingness to focus on municipalities that represent important electoral constituencies for the political competition. Moreover, these denser municipalities received - on average - more funding than out-of-sample ones (see Figure A4 in the Appendix). In-sample municipalities attracted the 69% of CasMez funds granted over the pre-reform period. This is consistent with the industrial composition of in- and out-of-sample municipalities: those with less than 10,000 inhabitants (i.e. out-of-sample) display higher percentages of agricultural employment (see Figure A5), suggesting that they are mostly rural places and thus not the main target of CasMez industrial investments. Finally, that sample choice is constrained by the big effort of collecting archival evidence, which consists of 8,986 observations retrieved from more than 5,600 archival files⁹. As for the time span, we decided to focus on the period 1960-1984 to observe a time window of at least ten years before and after the governance reform of 1971. In addition, this is also the time span where CasMez investments have been higher (see Figure A6 in the Appendix).

⁷Specifically, data were kindly provided by the Microfilm Office of the Central Directorate of Electoral Services (*Ufficio Microfilm della Direzione Centrale dei Servizi Elettorali, Dipartimento Affari Interni e Territoriali*).

⁸These are Abruzzi, Apulia, Basilicata, Calabria, Campania, Molise, Sardinia, Sicily, the Province of Ascoli Piceno (Marche) and two Provinces of Lazio, namely, Frosinone and Latina. As for Molise and Marche, there was no municipality with at least 10,000 inhabitants; therefore, we excluded those Regions from our analysis.

⁹Figure A3 in the Appendix provides an example of archival file.

Secondly, we drew data on CasMez funds from the Archives of Territorial Economic Development (ASET)¹⁰. Those archives contain historical sources and datasets on the extraordinary interventions for the development of Southern Italy; namely, the CasMez and the subsequent Agency for the Promotion and Development of Southern Italy (*Agenzia per la promozione e lo sviluppo del Mezzogiorno - AgenSud*)¹¹. In the ASET dataset we have project-level information on the timing, location, amount, type and purpose of each fund granted by the CasMez over the period 1950-1984. We consider three types of fund: public works (*opere pubbliche*), non-refundable firm grants (*fondo perduto*), and concessional financing (*finanziamenti agevolati*). Table 1 displays a brief description of these types of fund, and the related time spans. Over the period considered, these were the key instruments of the CasMez activity. More precisely, concessional financing started to be distributed in 1978. Since this tool was intended as a further government aid to firms, when we distinguish by type of fund we sum non-refundable firm grants and concessional financing, and name them 'firm subsidies'¹².

Table 1: The CasMez types of fund: description and time span

Type of fund	Description	Time span
Public works	Infrastructure investments	1950-1984
Firm grants	Non-refundable contributions for firms' investments	1950-1984
Concessional financing	Loans with interests below the market rate for firms' investments	1978-1984

Finally, we collected information on key municipal characteristics from the 1971 Italian Census¹³. Specifically, we obtained data on population, industrial composition

¹⁰See the online portal at <https://aset.acs.beniculturali.it/aset-web/>.

¹¹AgenSud was created in 1986, in substitution of the suppressed CasMez. The aim of the programme was to finance projects, support agreements with local authorities, and manage the completion of previously approved works. In the present paper, we do not deal with the AgenSud programme.

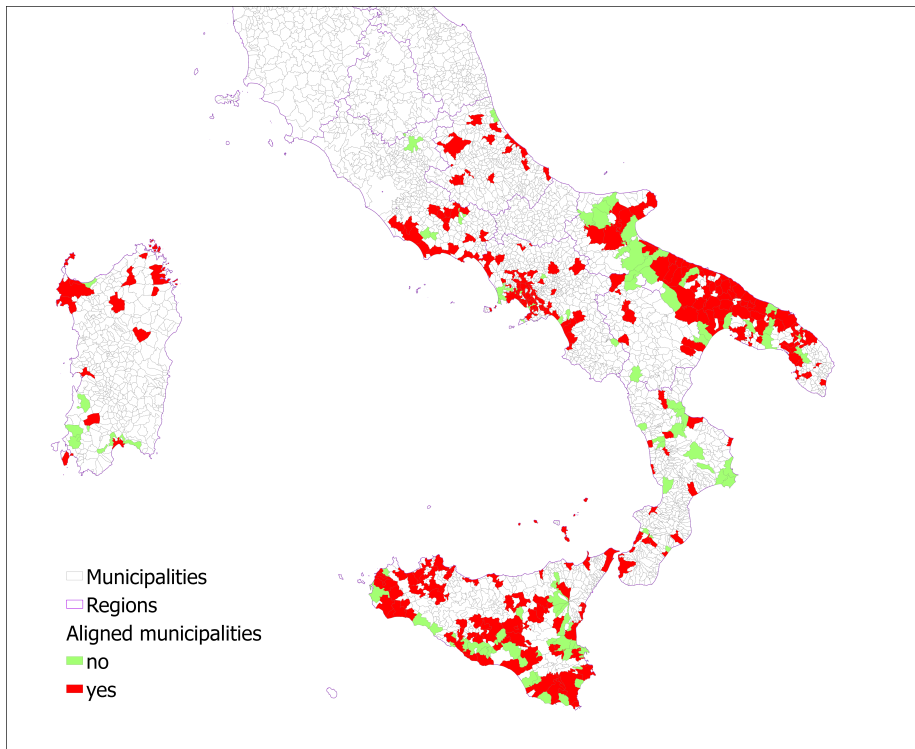
¹²Firms could apply at any time to ask for subsidies. These were allocated until the exhaustion of the overall budget decided by law every five years (see the timeline in Figure A1). Until 1971, the CasMez itself decided over the allocation of subsidies; afterwards, Regional governments became in charge of grants distribution. Similarly, until 1971 public works were carried out with a top-down approach directly by the CasMez, which decided where to locate them; then, this authority was transferred to Regional governments. Even after the 1971 reform, there was no fixed distribution of the CasMez budget among Regions; the limit being only the overall amount established by law.

¹³That information is publicly available at the Statistical Atlas of Italian Municipalities (<http://asc.istat.it/ASC/>).

and geological features, which we employ in the robustness strategy and in the analysis of the long-run economic effects. The combination of those information sources provides us with a unique and detailed dataset to study the issue at hand.

We now present some descriptive evidence of the phenomenon under study. First of all, we provide a graphical visualisation of the 374 municipalities in our sample. Figure 1 displays in red the municipalities that were aligned with the newly born Regional government (i.e controlled by the same party) as of 1970; whereas in green those that were not. The aligned ones account for the 72% of the sample (271 in total), while the residual 28% of unaligned municipalities amounts to 104 in total.

Figure 1: Sample municipalities: aligned vs unaligned ones (1970)



More in details, Figure 2 shows the political party in power by 1970, i.e. at the creation of Italian Regions. The Christian Democracy (DC) won the first electoral turn in all the Regions we consider¹⁴. Most municipalities in our sample were also ruled by the DC in 1970, and thus classified as 'aligned' in Figure 1¹⁵. The rest of sample

¹⁴The yellow borders indicate that the DC was in power at Regional level in 1970.

¹⁵Note that alignment status can change over time, due to variations in the local or Regional

municipalities were largely controlled by the Communist Party (PCI) or by political forces in the 'Socialist area' (i.e. PSI, PSDI, PSU), with few exceptions governed by right-wing parties (i.e. PDIUM, PLI, PRI) or by independent mayors¹⁶. Not surprisingly, the Christian Democracy was the dominant political force in Southern Italy in 1970, both at local and Regional level. The DC maintained that dominant position in Regional governments until 1984, with just few Regions going to the Socialist Party (PSI)¹⁷. However, over the whole period observed, we have considerable variability in local government parties. Local administrations distribute across parties and alignment status in 1970 as shown in Table 4. The Table reports, for each party, the number of municipalities-years where it was in power at the local level, distinguishing between municipalities aligned/unaligned in 1970. For example, 440 municipalities-years were controlled by the DC *before* 1970, but were not so in that year, and thus they are not classified as aligned. Conversely, among those municipalities aligned in 1970 (i.e. ruled by the DC in that year), for 90 observations we have independent mayors governing the municipality, for 95 the PSI, and for 75 the PCI. Therefore, despite the large dominance of the DC, we have significant variability across municipalities and over time in the party governing the local councils¹⁸.

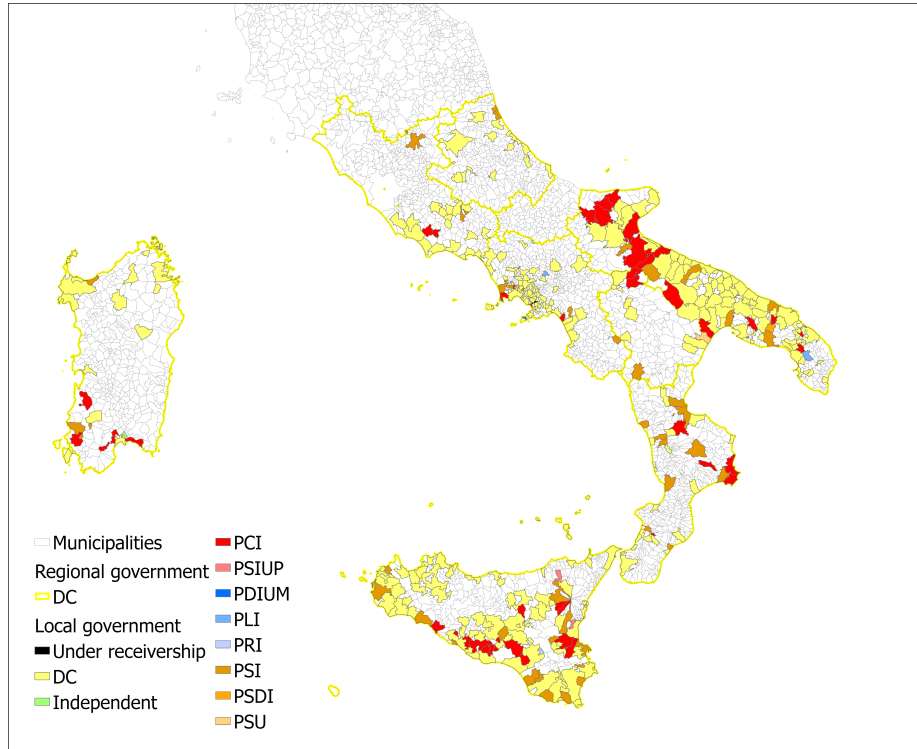
party government. See the following section for more details on the definition of alignment status.

¹⁶See Table A1 in the Appendix for the full list of Parties' acronyms and names.

¹⁷Specifically, Lazio passed to the PSI by 1975, while Calabria by 1980.

¹⁸The 55% of in-sample municipalities changes the party in power at local level at least once over the period considered. Specifically, a 23% changes ruling party twice and a 13% three or four times. Focusing on the DC, a 7% is never governed by this party, a 17% is ruled by the DC for at most 10 years, and a 33% has it in power for 15-20 years (over the 25 years we consider).

Figure 2: Political parties ruling sample municipalities and Regions by 1970



We then plot the time evolution of CasMez investments over the period considered. Figure 3 reports in Panel a) and b), respectively, the number of projects and the per-capita amount of funds assigned on average to the municipalities in our sample, distinguishing among funds attributed for public works, non-refundable firm subsidies, and concessional financing. It is worth clarifying that per-capita amounts are computed using resident population in 1971¹⁹. Moreover, we express the amount of funds in (log) thousands of liras and adjust for inflation at 2011 prices²⁰.

Looking at the number of projects (Panel a), it can be noticed that non-refundable firm grants and - in the last seven years - concessional financing progressively increased their relative importance compared to public works. This finding is consistent with a development strategy which proceeds by first building infrastructures and then

¹⁹This choice is constrained by data availability. In addition, we choose to employ the information at 1971 (i.e. prior to the institutional change) not to introduce endogeneity in subsequent estimations.

²⁰To do so, we use the coefficients for currency value provided by ISTAT at <https://seriestoriche.istat.it>.

Table 2: Distribution of local administrations across parties and 1970 alignment status (1960-1984)

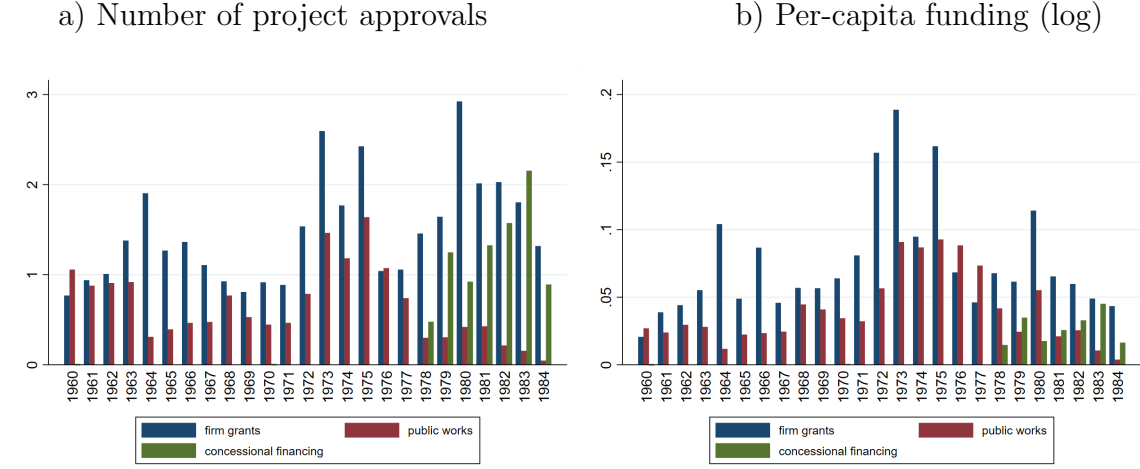
Political party	Aligned in 1970		Total
	no	yes	
Under receivership	10	0	10
DC	440	5,535	5,975
Independent mayor	30	90	120
MSI	0	15	15
PCI	795	75	870
PDIUM	15	0	15
PLI	30	25	55
PRI	45	10	55
PSDI	55	15	70
PSI	675	95	770
PSIUP	15	0	15
PSU	15	0	15
USCS	0	10	10
Total	2,125	5,870	7,995

Note: The Table reports, for each party, the number of (in-sample)municipalities-years where it was in power at the local level. The Table distinguishes between municipalities aligned/unaligned in 1970. Note that we are not including in the computation those municipalities-years for which alignment is missing; that is, those municipalities that change alignment status over the post-reform period, for the years after the change.

supporting local entrepreneurs through direct financing. However, from 1971 onward, an overall higher number of projects has been approved. That boost is even clearer when we look at per-capita amounts (Panel b). Here, we notice significant spikes between 1972-1975, mostly concerning non-refundable firm grants. Afterwards, the amount of funds gradually shrinks as we approach the end of the programme (i.e. 1984), suggesting a progressive fragmentation of investments.

Finally, we report the time evolution of investments comparing aligned and unaligned municipalities. We compute the average number of project approvals and per-capita funding by year, across aligned and unaligned municipalities. Figure A7 reports the corresponding graph. Before the 1971 reform, the two groups of municipalities follow similar trends. Afterwards, we can notice a generalised increase in investments, with aligned municipalities receiving systematically more funds than unaligned ones. We

Figure 3: Time evolution of investments



Note: The Figures report the average number of project approvals and per-capita funding by year, across all municipalities in our sample. In Panel a, the unit of measure is the number of projects approvals. In Panel b, instead, the per-capita amount of funds received is expressed in log millions of liras, adjusted for inflation (at 2011 prices).

now move to the empirical strategy to causally estimate the effect of interest.

5 Empirical strategy

Our aim is to estimate how the institutional shift in the CasMez governance affected the distributive politics of the programme. In particular, we want to investigate whether the devolution process determined the emergence of an alignment effect between the local and Regional tier of government. To this aim, we exploit the longitudinal nature of our data and the governance reform of 1971, and implement a Two-Way-Fixed-Effects (TWFE) estimation strategy. Our unit of analysis is the municipality, over the period 1960-1984. The main outcomes of interest are the number and amount of funding received by the municipality in a given year. Specifically, we want to estimate whether and how funds allocation is affected by partisan alignment.

This latter constitutes our treatment variable, which can take value one starting from 1972, if the municipality in 1970 was ruled by the same political party as the newborn Regional government. Before 1972, treatment is zero for all municipalities

in our sample. Recall that Regions were created in 1970, while the governance reform of the CasMez intervened in October of 1971²¹. Therefore, assignment to treatment is based on political conditions prior to the CasMez governance reform, which mitigates possible concerns about selection bias. To make the quasi-experiment as clear as possible, in the main estimation we restrict the post-treatment period to the first legislature after the CasMez reform, namely to 1974. In this restricted span, no municipality could adjust to the institutional change through local elections. In this way, we avoid the possibility that endogenous re-election probability confounds our results. Indeed, if the chance of remaining (un)aligned is influenced by the CasMez funds received in the previous legislature, we would have an issue of reverse causality when considering the entire post-reform period.

We also include in our model Region-time fixed effects, so to clean our estimates from any contemporaneous change at the Regional level. Note that these changes can also include electoral shifts in the Regional government. Thus, in the within-Region analysis, we leverage treatment variation only deriving from municipal governments. Moreover, comparing aligned and unaligned municipalities within the same Region mitigates possible concerns due to the different number of in-sample municipalities we have for the various Regions.

Formally, our main specification is:

$$y_{irt} = \alpha + \beta \text{Alignment}_{irt} + \gamma_i + \delta_{rt} + \epsilon_{irt} \quad (1)$$

where i , t , and r refer, respectively, to municipality, year, and Region²². Alignment_{it} is the treatment dummy just described, and y_{it} stands for number of project approvals

²¹More precisely, the special status Regions of Sicily and Sardinia had Regional governments already since the '50s. However, before 1971, they had no authority over the allocation of CasMez funds. In the following, we also report estimation results excluding Sicily and Sardinia.

²²Note that, according to our definition of treatment, there is no staggered adoption in this setting. Consequently, we should not be concerned about possible bias due to treatment effect heterogeneity across cohorts (Goodman-Bacon, 2021). Therefore, we stick to the traditional Two-Way-Fixed-Effects (TWFE) estimator

or (log) per-capita amount of funds received. For these outcome variables, we estimate the overall effect and also distinguish by type of funding: namely, public works and firms subsidies²³.

We cluster standard errors at Province level²⁴. This choice is motivated by the likely spillovers among neighbouring municipalities, which can induce spatial correlation in the error term (Bertrand et al., 2004). This concern is especially relevant for public works, whose benefits possibly regard wider areas than the assigned municipality²⁵. Moreover, spatial correlation across neighbouring municipalities can also derive from geographical concentration in voting patterns and funds distribution. Province-level clustering of standard errors should clean our estimates from any source of spatial correlation within Province²⁶.

In most of our analysis, we also include an indicator for the municipality being ruled by the Christian Democracy (DC). That party was dominant in Southern Italy over the period considered, both at the local and Regional level. More importantly, the DC ruled the National government over the decades observed. Therefore, controlling for the DC being in power at municipal level also accounts for possible alignment effects between the local and National government. Note that the DC dummy is a time-varying indicator, which can take value both before and after the 1971 reform. Formally, we estimate the following equation:

$$y_{it} = \alpha + \beta Alignment_{it} + DC_{it} + \gamma_i + \delta_{rt} + \epsilon_{it} \quad (2)$$

²³Recall that firm subsidies include both firm grants and concessional financing. The first are non-refundable contributions to firms, while the second are firm loans at a favourable interest rate. However, concessional financing has been introduced only in 1978; therefore, they do not enter our dependent variable in the specification with restricted post-treatment period.

²⁴Italian Provinces are an intermediate level of government between municipalities and Regions, which tend to be politically and economically homogeneous units.

²⁵We repeated the estimations for public works excluding interventions on road infrastructures, and results are not affected by such correction. Estimates are available upon request. However, most public works - roads, but also aqueducts, land decontamination and recovery - are likely to spill-over neighbouring municipalities, so that we opt for Province-level clustering.

²⁶For completeness, in Table A3 of the Appendix we also report estimates with standard errors clustered at municipal level.

The specification with restricted post-treatment period maximises internal validity. However, we are also interested in observing whether alignment effects are present over the entire post-reform period, up until the end of the CasMez (i.e. 1984). To gain some insights on the possible role for endogenous re-election probability, we check if the funds received in the years following the reform influence the chances of remaining (un)aligned in the first electoral turn, namely in 1975. We sum the number and amount of funds over the years 1972-1974, and construct a dummy for 're-alignment', taking value one if the municipality remains aligned with the Regional government in 1975. Then, we conduct a cross-section analysis regressing the re-alignment dummy separately on the (cumulative) number and amount of funds received over the span 1972-1974. We also include in the specification Region fixed effects. Table A2 in the Appendix reports the related results. Both the estimated coefficients appear non-significant, suggesting that - at least in the first years after the reform - endogenous re-election probability should not represent a major concern. Therefore, we relax the above requirements and check if our results hold for the whole period 1960-1984²⁷.

In the full-period specification, $Alignment_{it}$ is defined as before, with the difference that here we follow the municipality as long as it does not change its treatment status with respect to the situation of 1970. Whenever a municipality modifies its alignment status, we set it to missing and discard that observation. Thus, we have post-treatment periods of variable length in our sample, depending on the duration of the (un)alignment between local and Regional governments. By doing so, we avoid forcing our treatment to be an absorbing status. This would imply - for example - considering aligned municipalities even when they experience changes of local or Regional running party. Moreover, that treatment definition allows to indirectly capture the strength of the political ties between the different layers of government: it is plausible that political favouritism consolidates with time. As a robustness, we employ the estimation method proposed by De Chaisemartin and D'Haultfoeuille

²⁷We further estimate cross-Region specifications, so to check which source of variation we leverage. We compare and discuss cross- versus within-Region estimates in the results section.

(2022), which allows for treatment switching on and off. In this way, we avoid discarding observations when municipalities change alignment status. More details on this alternative definition of treatment are reported in the robustness section.

The key assumption underlying TWFE estimations is the existence of a parallel trend in outcome evolution between treated and control units prior to the treatment event. Such an evidence suggests that no confounding factor is influencing selection into treatment, and that no anticipation effect is present²⁸. To check the validity of those assumptions in our setting, we perform two complementary exercises. First of all, we conform to the practice of estimating event studies to inspect the pre-event coefficients of the related event study plots, and verify the absence of pre-trends. Indeed, the non-significance of pre-treatment coefficients can be interpreted as evidence of no systematic difference in outcome evolution between treated and controls prior to treatment. Alternatively, it can be read as a confirmation of validity of the parallel trend assumption. Therefore, we estimate the following event study regression:

$$y_{it} = \alpha + \sum_{m=-G}^M \beta_m z_{i(t-m)} + DC_{it} + \gamma_i + \delta_{rt} + \epsilon_{it}, \quad (3)$$

where the term $\sum_{m=-G}^M z_{i(t-m)}$ refers to the set of dummy variables indicating leads and lags with respect to the event of treatment. Recall that, in our setting, the 'event' coincides with 1972, when the governance reform of the CasMez becomes effective. According to Equation 3, the reform can affect the outcome up until M periods after and G periods before (if one can date known anticipation effects). In our specification of Equation 3, we include all the available pre/post-reform periods from 1960 to 1984, i.e. twelve years before and after the reform²⁹. Moreover, given our treatment definition, we do not expect any anticipation effect, and therefore we

²⁸For a discussion of these assumptions and related verification strategies, see as a reference Freyaldenhoven et al. (2021).

²⁹However, due to the reduced number of post-treatment observations, we group time periods 1980-1984 and - symmetrically - 1960-1964. Therefore, our event study plots display time windows of 8 years before and after the reform. See the next section for more details.

assume $G = 0$. Secondly, we also implement a placebo estimation: we focus on the period before 1971 and artificially anticipate treatment status to the span 1965-1970. That fake treatment takes value one if the municipality is effectively treated starting from 1972. If our main estimates are truly capturing the effect of the reform, we should not detect any significance of that fake treatment before the reform was implemented.

6 Main results

We start by presenting results from Equation 1 estimated on the restricted time span 1960-1974. We regress the outcomes of interest against the alignment dummy which constitutes our treatment, together with municipality and Region-year fixed effects (i.e. TWFE estimation), and we cluster standard errors at Province-level³⁰. Table 3 reports the estimated coefficients.

We detect significantly positive effects for the total number of projects approved and the (log) per-capita amount of funding received. The effect is driven by firm subsidies rather than public works. Indeed, if we distinguish by type of funding, the coefficients on firm subsidies are significant and comparable in size to the overall effect, while those on public works are not. Looking at coefficients' magnitude, partisan alignment increases the number of projects approved by 0.64 and the per-capita funding received by a 5.3%³¹. These findings suggest that the devolution of authority brought about by the 1971 reform fostered dynamics of tactical redistribution, which favoured municipalities ruled by the party in power at Regional level. The effect is mostly due to firm subsidies, rather than public works. This result points to possible patronage

³⁰In Table A3 of the Appendix, we report results from an analogous estimation with standard errors clustered at municipal level. Moreover, Table A4 presents the same estimation excluding Sicily and Sardinia. These two special status Regions had Regional governments already since the '50s. However, before 1971, they had no authority over the allocation of CasMez funds.

³¹Over the pre-reform period, the average number of project approvals by municipality-year is 2. Therefore, a 0.64 increase amounts to a 32% growth.

Table 3: TWFE estimation (1960-1974)

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignement	0.639*** (0.1742)	0.462*** (0.1255)	0.177 (0.1354)	0.053** (0.0229)	0.039** (0.0180)	0.015 (0.0139)
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.660	0.601	0.441	0.317	0.304	0.185
N	5610	5610	5610	5610	5610	5610

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and Region-year fixed effects. Here we restrict the post-treatment period to the first legislature after the CasMez reform, up until 1974.

and pork-barrel politics, triggered by the institutional shift. Indeed, compared to public works, firm subsidies can be more easily distributed to acquire the consensus of local lobbies. Moreover, they can also be parcelled out more flexibly and assigned in a less visible way.

We then repeat the estimation adding the indicator for the Christian Democracy (DC) ruling the local government. Recall that this is a time-varying dummy taking value one in the years when the DC was in power at local level, before and after the CasMez reform. Note also that the DC_{it} indicator controls for possible alignment effects between the local and National tier of government, since in the whole period observed the National government was ruled by the Christian Democracy. Table 4 reports the estimated coefficients.

Results are not substantially affected by the addition of that control. Notice also that the coefficient for the DC_{it} indicator is never significant. Despite its dominant position, being governed by the DC seems not to play a prominent role in funds distribution once we control for partisan alignment. In other words, it was not the

Table 4: TWFE estimation (1960-1974): controlling for Christian Democracy ruling the municipality

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.631*** (0.1761)	0.442*** (0.1185)	0.189 (0.1461)	0.050** (0.0247)	0.034* (0.0202)	0.018 (0.0134)
DC	0.019 (0.0785)	0.044 (0.0694)	-0.025 (0.0550)	0.006 (0.0117)	0.010 (0.0114)	-0.008 (0.0069)
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.660	0.601	0.441	0.317	0.304	0.185
N	5610	5610	5610	5610	5610	5610

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for the DC being in power at the local level and for municipality and Region-year fixed effects.

party *per se* to affect funds allocation, but rather its alignment with the upper-tier of government. Moreover, this result is also informative of the fact that being aligned with the National government did not grant significant advantages over the span 1960-1974. In other words, looking at the CasMez experience before and after the 1971 reform, it seems that the National tier of government did not engage in significant tactical redistribution.

Then, we investigate whether our results hold over the entire span 1960-1984; namely, up to the end of the CasMez programme. Recall that in this full-period specification, we follow the municipality as long as it does not change its alignment status with respect to the situation of 1970. Whenever a municipality modifies its alignment status, we set it to missing and discard that observation. Therefore, we have post-treatment periods of variable length in our sample, depending on the duration of the (un)alignment between the local and Regional government. Table 5 reports the

related coefficients. Results are largely comparable to those obtained for the restricted time period. The effect on total amount of per-capita funding becomes slightly non-significant. However, our key finding that tactical redistribution is driven by firms subsidies is confirmed.

Table 5: TWFE estimation (1960-1984)

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.519*** (0.1838)	0.451** (0.1790)	0.068 (0.0838)	0.027 (0.0163)	0.020* (0.0120)	0.010 (0.0085)
<i>DC</i>	✓	✓	✓	✓	✓	✓
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.656	0.622	0.416	0.313	0.308	0.165
N	8005	8005	8005	8005	8005	8005

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for the DC being in power at the local level and for municipality and Region-year fixed effects.

Finally, in Table A5 of the Appendix, we report estimates for the corresponding cross-Region analysis. In that specification, we exploit treatment variation coming both from the local and Regional tier of government, whereas in our main estimations Regional electoral shifts are cleaned out by Region-year fixed effects. Estimated coefficients are stable across the two specifications (i.e. cross- versus within-Region). This pattern of results suggests that we mostly leverage within-Region variation in alignment status, consistently with the little variability we observe in the parties ruling Regional governments over the period considered.

6.1 Event studies and Placebo

To check the validity of the assumptions underlying our estimation, we run event study regressions (Equation 3) for all our outcomes, so to inspect the possible presence of pre-trends. Moreover, we also focus on the period 1960-1970 (i.e. pre-reform), and assign to later-treated municipalities a 'placebo alignment' status. That anticipated treatment takes value one from 1965 to 1970 for municipalities that - at the creation of Regions in 1970 - were effectively aligned with the newborn Regional government.

We report in the Appendix (Figures from A8 to A11) the event study plots corresponding to separate estimations of Equation 3. Recall that the event time coincides with 1972, when the governance reform becomes effective. We report a symmetric time window of eight periods before and after 1972. We group coefficients corresponding to years 1960-1964 and 1980-1984, because - due to our definition of treatment - we just have a 1.79% of treated observations contributing to 1980-1984 estimates (see Table A6 in the Appendix). If we inspect the estimated coefficients in the pre-reform period, they are almost never significant at 90% confidence levels. More generally, no relevant pre-trend can be observed in the years preceding the reform. As for the post-reform period, it can be noticed a clear rise in the number of projects approved (Figures A8 and A9), mostly due to firm subsidies and concentrated in the first years following the reform. Looking at per-capita funding (Figures A10 and A11), we detect considerable variance in our estimates, which enlarges confidence intervals. That broad variance is due to the high variability in the amount of subsidies granted to firms, consistently with the flexibility of the instrument. However, post-reform coefficients appear generally larger than pre-reform ones, with a marked increase in the very first year from its implementation (i.e. 1972). These findings apply to the total amount of per-capita funding and firms subsidies, while almost no dynamics is detected for public works.

In Table 6, instead, we show the estimated coefficients for the placebo exercise we

perform on the pre-reform period (1960-1970).

Table 6: TWFE estimation (1960-1970): Placebo alignment

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Placebo alignment	-0.053 (0.1192)	0.096 (0.1123)	-0.149** (0.0603)	0.007 (0.0145)	0.010 (0.0106)	-0.001 (0.0066)
DC	✓	✓	✓	✓	✓	✓
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.654	0.562	0.455	0.333	0.329	0.198
N	3740	3740	3740	3740	3740	3740

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of *placebo* alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Placebo alignment takes value one from 1965 to 1970 if the municipality was aligned with the Regional government by 1970. We also control for the DC being in power at the local level and for municipality and Region-year fixed effects.

The placebo treatment appears to be non-significant for all our outcomes, with the exception of number of public works approvals. This evidence provides some confidence in that our main estimation is indeed capturing the effect produced by the governance reform of 1971 and not some pre-existing dynamics, including anticipation effects. Concerning the number of public works approvals, the negative coefficient could suggest - at most - a possible downward bias in our main estimates for this outcome.

7 Robustness

In this section we do a number of robustness tests. First of all, we challenge our definition of alignment employing the estimation method by De Chaisemartin and D'Haultfoeuille (2022), which allows treatment to switch on and off. Secondly, we further restrict our sample to municipalities with at least 12,000 residents in 1971

to check the sensitivity of our results to alternative threshold choices. Thirdly, we pre-process data through a combination of matching algorithms, so to run parametric estimations on a more balanced sample. Finally, we investigate the possible role for cross-border spillovers by adding a spatial lag to our specification.

7.1 Alternative alignment definition

We take advantage of the estimation method suggested by De Chaisemartin and D’Haultfoeuille (2022) and re-estimate event study specifications using their proposed STATA command `did_multiplegt`. This estimation strategy does not only control for possible treatment effect heterogeneity in settings with staggered adoption, but it also allows treatment to switch on and off. Therefore, we can employ a raw measure of alignment, which takes value one - starting from 1972 - whenever local and Regional government are ruled by the same party. In this way, we avoid discarding observations when the municipality changes alignment status and exploit all the available information in our data.

We re-estimate the specification of Equation 3 employing the method of De Chaisemartin and D’Haultfoeuille (2022) and obtain the event study plots reported in Figures from A12 to A15³². These Figures plot the effect of first treatment change (i.e. becoming aligned for the first time) after t period³³. On the horizontal axis, it is reported the relative time to the year when treatment first changes (i.e. $t = 0$).

The event studies validate our research design. As for the number of project approvals, it is clearly visible an increase associated to the switch to alignment status. When distinguishing by type of funds, we get the confirmation that the increase is mostly due to firm subsidies; while the event study plot for public works is rather

³²To be precise, in this estimation we include Region-specific non-parametric trends and not Region-year fixed effects, which dramatically slow down the computation. The interpretation of coefficients should be equivalent.

³³Over the span considered, switchers are the 70% of the entire sample.

flat. Concerning, instead, per-capita funding, estimates are highly fuzzy, due to the high variability in the amount of firm subsidies. Nevertheless, we can still detect a rise in firm subsidies in coincidence with the switch into alignment; while we do not observe much variation for public works. In all these event study plots, the possible presence of pre-trends seems soundly ruled out³⁴.

It is worth clarifying that the estimated coefficients have to be interpreted as 'intention-to-treat' effects of having received a weakly higher amount of treatment for t periods. However, they do not account for the number of switches into(out of) alignment that occur after the first one. To get an easy-to-interpret parameter, De Chaisemartin and D'Haultfoeuille (2022) propose to average these intention-to-treat estimates and divide them by the average of the corresponding first-stage estimates, obtained from an analogous regression where the outcome is replaced with the treatment itself. This first-stage regression reports the fraction of aligned municipalities when a group becomes aligned for the first time and in the following years³⁵. That ratio can be interpreted as the average total effect per unit of treatment, where 'total' refers to the sum of instantaneous and dynamic effects. Alternatively, it gives us the difference between municipalities actual outcomes (i.e. funds received) and those they would have obtained if they had remained unaligned throughout 10 years after the first switch. These average total effects are 0.870, for the overall number of project approvals, and 0.031, for the total amount of per-capita funding, which seem largely comparable to our main estimates of Table 4³⁶.

³⁴Note that we are not normalising period -1 to zero. Post-treatment coefficients are still estimated in long-differences with respect to -1; while pre-treatment coefficients compare outcome evolution over pairs of consecutive periods, t periods before switchers switch. Such first-difference placebos are useful to investigate more closely the presence of pre-trends and possible anticipation effects.

³⁵The corresponding graph is shown in Figure A16 of the Appendix. As it can be noticed, a 20% of municipalities turns unaligned three years after the first alignment and, apparently, re-switching into treatment is not substantial in this setting. That switching off can possibly explain the drop in estimates observed in Figure A12 and in Panel a of Figure A13.

³⁶These estimates are automatically reported by the STATA command `did_multiplegt`. Distinguishing by type of funds, firm subsidies estimates are 0.688 - number of project approvals - and 0.038 - per-capita funding; whereas, for public works, respectively, 0.182 and -0.007. This pattern of coefficients largely resembles the one of the main analysis.

7.2 Sample selection

In the main analysis, we focus on the 374 municipalities - among those interested by the CasMez - that in 1971 had at least 10,000 inhabitants. The choice is motivated, firstly, by the willingness to focus on electoral districts of a certain relevance, and by the fact that these larger municipalities received the 69% of CasMez funding in the pre-reform period. This is consistent with the industrial composition of in- versus out-of-sample municipalities: those with less than 10,000 inhabitants display higher percentages of agricultural employment (see Figure A5). Out-of-sample municipalities were most likely rural places and thus represent a less suitable target for CasMez investments. Secondly, the considerable effort of collecting and digitalising a large amount of historical data (see an example of archival file in Figure A3) forced us to restrict the sample of analysis.

In the period we focus on, municipalities with less than 10,000 residents followed a majoritarian rule for mayor's election; while those with more than 10,000 residents elected - through proportional representation - the municipal council, which then expressed the mayor³⁷. Our dataset consists only of municipalities in this second group, so that no differential electoral rule applies within the sample. For this group of municipalities, the municipal council effectively reflects parties vote shares, and therefore their actual electoral consensus at local level. Nevertheless, to verify that our results are robust to alternative population thresholds, we repeat our most complete specification (Equation 2) focusing only on municipalities with more than 12,000 or 15,000 inhabitants in 1971.

We report in Table A7 the estimated coefficients for the sample of municipalities with at least 12,000 residents in 1971; those referring to the threshold of 15,000 inhabitants display an analogous pattern and are available upon request. If anything, coefficients are larger in size compared to our main estimates. More importantly, in

³⁷These differential electoral rules were established by the Presidential Decree of May 16 1960, n. 570.

this restricted sample, we find a significant and positive effect also on public works. We may interpret these findings as evidence of more relevant dynamics of distributive politics in more populated municipalities. This interpretation would not contradict our main results, but simply highlight heterogeneous effects by municipality size. However, we should also consider the possibility of a residual selection bias concern behind this pattern of results. It is possible that municipalities more populated in 1971 displayed a greater economic potential and were also more politically attractive than smaller ones. Therefore, they could have higher chances of attracting CasMez funds and, at the same time, higher probability of being aligned with the Regional government. This would create an omitted variable bias which is not fully accounted for by municipality fixed effects nor by the verification of parallel trends assumption in the pre-reform period.

To rule out this possibility, we develop a robustness estimation procedure, which consists of matching aligned and unaligned municipalities based on a set of 1971 characteristics (including population), and then run TWFE regressions on the matched sample. The next paragraph describes in more details this estimation strategy and reports the related results.

7.3 Matching + TWFE

As a robustness strategy, we pre-process data prior to parametric estimation through a combination of matching algorithms³⁸. This is done to improve the balancing between treated and control municipalities with respect to some key covariates, mainly regarding population and industrial composition. Indeed, a possible residual concern from our main estimation is that - after the reform - political parties could be more interested in controlling municipalities that were growing faster in terms of popula-

³⁸According to Ho et al. (2007), pre-processing data can help to solve issues of model dependence, while extending matching to parametric estimation makes the identification more precise in case covariates balancing were not perfect. Therefore, the combination of non-parametric and parametric methods reduces the concerns arising from the separate application of each specific technique.

tion and economic performance. If this were the case, we could have a selection bias that is not fully accounted for by municipal fixed effects. Note that the verification of parallel trends prior to the reform should already exclude the possibility of selection bias before the institutional change. However, similar dynamics could also emerge in the post-reform period, influencing the probability of re-election. More specifically, our estimates could be *upward* biased if aligned municipalities were also those with highest industrial potential and thus, more likely to receive funds from the CasMez for development purposes. In addition, population growth could also positively affect both political attractiveness and funds allocation. Conversely, we could have a *downward* bias if most of the aligned municipalities were already dynamic centres and/or urban areas largely specialised in the services sector. These were not the targeted areas of the CasMez programme, whose main goal was to foster industrial growth in less developed territories.³⁹

Matching treated and control units on pre-reform covariates can help to mitigate those concerns. For this reason, we select a set of variables from the 1971 Italian census, which provide information on population and industrial composition. Our maintained assumption is that matching treated and control municipalities on 1971 characteristics can also account for possible differential trends in those covariates. In other words, matching on the selected set of variables should control for possible differences in the economic potential and population growth of treated and control municipalities. To implement our matching strategy, we proceed as follows. First of all, we divide our sample by 1971 population range (25th, 50th, and 75th percentiles), and impose exact matching on population class⁴⁰. Then, within each population group, we compute the propensity score according to a list of key covariates, all measured in 1971. These are: population and firm density; share of employment in industry, construction and mining, and services; percentage of population with a high

³⁹For more details on the objectives and strategies of the CasMez, see section 3.

⁴⁰This matching method is also known as Coarsened Exact Matching (CEM). As a reference, see Iacus et al. (2012).

school degree; and an indicator for coastal municipality⁴¹. We run a Propensity Score Matching (PSM) with replacement, imposing a caliper of 0.035 standard deviations⁴². In this way, we match each treated municipality to one control unit in its same population class and with a propensity score which differs by no more than 0.035 standard deviations. Alternatively, we perform a nearest-neighbour-matching with replacement and caliper. By doing so, our sample is substantially restricted: we are left with 271 municipalities, among which only 66 controls⁴³.

To check for the quality of the match, we inspect the *pstest* on balancing covariates. The matching procedure corrects for any significant misalignment in means. Moreover, looking at overall measures of covariates imbalance, both Rubins' B and Rubins' R are within the ranges prescribed⁴⁴. Figure 4 reports the related graph for a visual intuition:

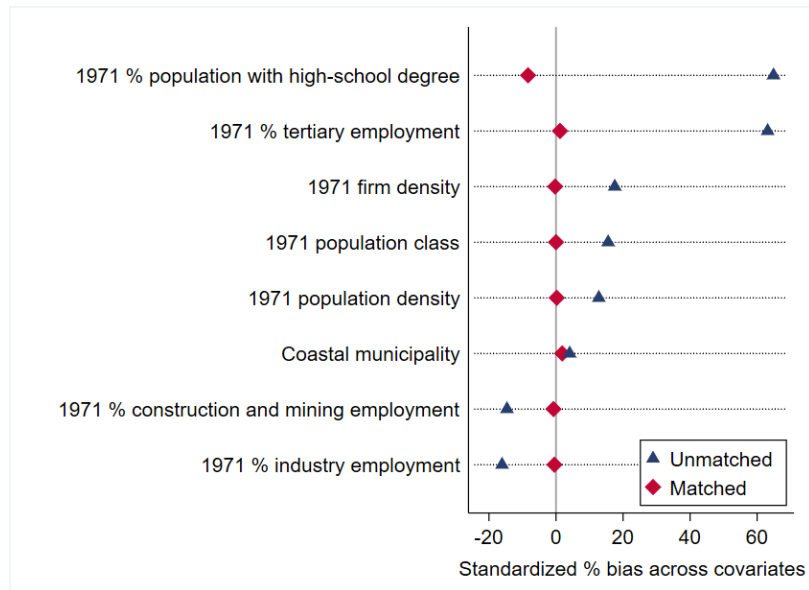
⁴¹We include the percentage of population with a high school degree as a proxy for the local endowments of skilled labour force. Moreover, the indicator for coastal municipality serves to account for the possible presence of the petrochemical sector, which constitutes an important component of CasMez investments.

⁴²In order to achieve a good match, Dehejia and Wahba (1999) suggest to allow for replacement whenever the researcher has few control units in the sample, as in our case. At the same time, we also impose a caliper, so to fix a maximum difference in the propensity scores of matched units. By doing so, we employ the same municipality as a control for different treated units at most 18 times (see Table A8 in the Appendix). This combined choice is motivated by the need to achieve a good balance without excessively restricting the sample, which would decrease estimates efficiency (Ho et al., 2007).

⁴³For further details on sample restriction, see in the Appendix Table A8 and the *psgraph* of Figure A17.

⁴⁴Those measures correspond, respectively, to the absolute standardised difference of the means of the linear index of the propensity score in the treated and (matched) non-treated group, and to the ratio of treated to (matched) non-treated variances of the propensity score index. For further details, see Rubin (2001).

Figure 4: Nearest-neighbour-matching: ptest graph



Note: The Figure shows the degree of mean misalignment (standard % bias) in the distributions of key variables for treated and control municipalities, before and after the matching procedure.

For all covariates, we obtain a significant reduction in the standardised percentage bias. It is also worth underlining that - before matching - there existed a positive bias for the share of tertiary employment and population with high school degree; while a negative one for the employment share in industry, construction and mining. Connecting to the discussion above, this evidence suggests a possible downward bias in our main estimates. Indeed, according to the CasMez goals, funding should not be directed to areas already specialised in services and well equipped with educated labour force. At the same time, we can also observe a positive bias in population and population density. Following the above discussion, this could result in an upward bias for our previous estimates.

Therefore, we turn to parametric estimation on matched data. Table 7 reports the results for the TWFE estimation on the balanced sample, which includes matching weights in addition to the full list of regressors of our complete specification (Equation 2)⁴⁵. These results are largely comparable with those presented in Table 5, suggesting

⁴⁵All treated municipalities in the balanced sample have weight equal to one. Control units, instead, can have weight from one to 18, depending on how many times they have been selected as

that our findings are robust to the selection of a more balanced sample.

In conclusion, our robustness estimation confirm that being politically aligned with the Regional government increases the probability of obtaining funds and the per-capita amount received. The effect is driven by firm subsidies, which points to possible patronage and pork-barrel dynamics. This further evidence provides additional support to our claim that the devolution of power to Regional governments made relevant the political alignment between the local and Regional government, fostering dynamics of tactical redistribution of CasMez investments.

Table 7: Robustness: TWFE estimation on matched data (1960-1984)

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.448** (0.1907)	0.420** (0.1821)	0.028 (0.0930)	0.038 (0.0227)	0.032* (0.0178)	0.007 (0.0087)
<i>DC</i>	✓	✓	✓	✓	✓	✓
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
<i>Matching weights</i>	✓	✓	✓	✓	✓	✓
R-squared	0.574	0.583	0.384	0.316	0.299	0.211
N	6170	6170	6170	6170	6170	6170

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for the DC being in power at the local level and for municipality and Region-year fixed effects. The sample is restricted to those municipalities selected by the matching procedure. We further include matching weights to account for replacement.

7.4 Spatial correlation

In all our analysis we cluster standard errors at Province level, so to control for possible serial correlation in the error term induced by cross-border spillovers or by controls by the matching algorithm (see Table A8 in the Appendix).

possible geographical concentration in voting patterns and funds allocation.

As an alternative check, we also include in the most complete specification (Equation 2) a spatial lag for treatment. Essentially, we consider all the adjacent municipalities we have in our sample and sum their alignment indicators. In this way, the spatial lag captures the number of aligned municipalities surrounding a given unit in a given year⁴⁶. Note that for the 39 municipalities for which we do not have neighbours in our sample, the spatial lag is always zero. Table A9 reports the related results. Estimates are robust to the inclusion of the spatial lag, while this latter is mostly non-significant. We interpret these findings as evidence of negligible cross-border effects. This check also helps to mitigate possible concerns related to sample selection, since it indirectly accounts for the spatial distribution of in-sample municipalities.

8 Long-run Economic Outcomes

We are also interested in observing whether the amount of CasMez funds granted in the aftermath of the 1971 reform produced any positive impact on local economic outcomes in the long run. In fact, the alignment effect we find may be compatible with the existence of some information or coordination advantage between tiers of government ruled by the same party. In other words, it is possible that Regional governments favour politically aligned municipalities because they are more willing to provide useful information on local economic conditions or to collaborate with Regional authorities in the realisation of projects. If so, there would be an economic rationale behind the mechanism of funds allocation that we label 'politically biased'.

To indirectly test this alternative explanation, we look at the impact on long-run economic outcomes of funds granted after 1971, as they are predicted by the alignment status of the municipality. Specifically, we focus on the period following the reform

⁴⁶We also tried with a dichotomous spatial lag, taking value one whenever at least one neighbour is aligned. Results are substantially the same and are available upon request.

and collapse our dataset to a cross-section. Then, we estimate a 2SLS model, where - in the first stage - we regress the funds received by a given municipality over the span 1972-1984 on a dummy taking value one if the local council has ever been aligned with the Regional government over that period⁴⁷. Moreover, we add to the specification municipal controls and Region fixed effects⁴⁸. In the second stage, we employ the predicted funds from the first stage as the main explanatory variable and investigate their effect on the change in local economic outcomes between 1971 and 1991. Formally, the first stage equation is:

$$\sum_{72-84} Funds_i = \alpha + Ever\ aligned_i + Municipal\ controls_i + \delta_r + \epsilon_i \quad (4)$$

while the second stage:

$$y_{i,91} - y_{i,71} = \alpha + \sum_{72-84} \hat{Funds}_i + Municipal\ controls_i + \delta_r + \epsilon_i \quad (5)$$

The variable $Funds_i$ refers either to the overall number of project approvals or to the total amount of per-capita funding (log), cumulated over the years 1972-1984. As local economic outcomes, we select a number of variables from the Italian censuses of 1971 and 1991. In the following, we report results for the following economic outcomes: percentage of industrial employment, number of local firms, the resident population, and percentage of tertiary employment. We argue that the percentage of industrial employment and the number of local firms are the most natural performance indicators, given the industrial development purpose of the programme. Moreover, looking at tertiary employment, we capture possible cross-sector spillovers; while resident population proxies for municipality's attractiveness as a whole. Figure 5 plots the estimated coefficients from the second stage Equation 5. In Panel a, we use as measure of $Funds_i$ the number of project approvals; while in Panel b the

⁴⁷These represent the 70% of our entire sample.

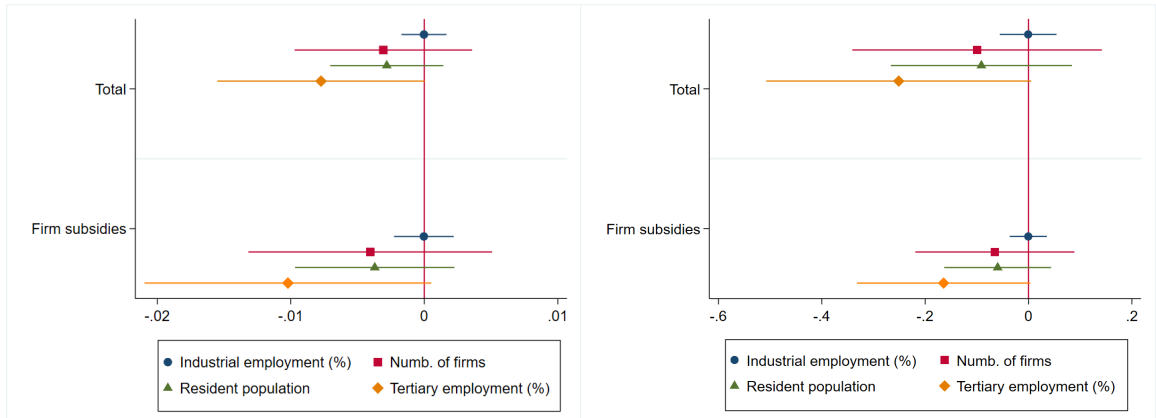
⁴⁸Among municipal controls, we include land area, elevation, mountain land area, and two indicators for whether the municipality is a coastal or island one.

amount of per-capita funding (log). In both panels, we report the estimated effect looking at the overall number of projects or per-capita funding (i.e. 'Total') and the one focusing specifically on firm subsidies. In no case we detect any positive effect. For this results, we do not make any claim of causality. However, we interpret these findings are suggestive of purely political reasons motivating the tactical redistribution of funds we observe in the second-half of the CasMez programme. Alternatively, the devolution process brought about by the 1971 reform triggered dynamics of distributive politics which did not produce any economic benefit; most likely, the larger amounts of firm subsidies granted to aligned municipalities served to strengthen the local connections between elected politicians and entrepreneurs, feeding patronage and pork-barrel politics.

Figure 5: Long-run economic effects of distorted funds allocation

a. Number of project approvals

b. Per-capita funding (log)



Note: The Figure shows the second stage results of the 2SLS estimates corresponding to Equation 5. It reports the long-run effect - over the period 1971-1991 - of predicted CasMez funds on industrial and tertiary employment (%), number of local firms, and resident population. CasMez funds are estimated from the first stage regression, and refer either to the number of project approvals (Panel a) or to the (log) amounts of per-capita funding (Panel b).

9 Conclusions

In this paper we investigate whether devolution of authority over public investment can generate distributive politics dynamics, in the form of partisan alignment effects

between different tiers of government. We focus on the Italian *Cassa per il Mezzogiorno*, a massive regional development programme implemented between 1950 and 1984, and exploit the quasi-experiment offered by the governance reform of 1971. We implement a Two-Way-Fixed-Effects estimation, employing as main explanatory variable an indicator taking value one since 1972 if the municipality was ruled by the same political party as the new born Regional government.

First of all, we find that CasMez expenditure rose in the '70s, both in terms of number of projects approvals and amount of funding. Secondly, our main results support the hypothesis of tactical redistribution emerging from the devolution process brought about by the 1971 reform. After that institutional shift, municipalities ruled by the political party in power at the Regional level received a higher number and amount of funds, compared to unaligned ones. The effect is driven by firm subsidies, rather than public works. This finding points to possible patronage and pork-barrel politics, triggered by the institutional shift. Indeed, compared to public works, firm subsidies can be more easily distributed to acquire the consensus of local lobbies.

The robustness analysis confirms that our estimates are not substantially affected by alternative treatment definition or sample selection choices. Moreover, pre-processing data through a combination of matching algorithms provides similar results. Similarly, the inclusion of a spatial lag to capture possible cross-border spillovers does not alter our estimates.

Finally, we explore the long-run economic effects of distorted funds allocation. We do not find any positive effect on industrial and tertiary employment share, number of local firms, and resident population. We interpret these findings as suggestive of purely political reasons motivating the tactical redistribution of funds we observe in the second-half of the CasMez programme. That biased allocation of funds did not produce any economic benefit, ruling out competing interpretations based on some economic rationale of political favouritism. Most likely, the larger amounts

of firm subsidies granted to aligned municipalities served to strengthen the local connections between elected politicians and entrepreneurs, feeding patronage and pork-barrel politics.

In conclusion, our findings suggest that - in institutionally fragile settings - the devolution of authority can induce agency problems in the allocation of public investments. Specifically, intermediate tiers of governments can have the incentive to distribute public funds to achieve electoral consensus and consolidate their political power at the local level.

This evidence contributes to the literature on the trade-off between efficiency and corruption in delegation. Looking at public investments, we verify that intermediate tiers of government can be more exposed to the rent-seeking pressures of local lobbies. Thus, if assigned discretionary power over funds allocation, they can be induced to distribute government money to acquire electoral consensus. These political distortions may divert public resources from the declared goal of economic development, worsening programme's efficacy. Our findings speak also to the literature on distributive politics, showing that - in a given context - institutional design largely affects the political economy of public investment programmes. Specifically, our results suggest that tactical redistribution can be fostered by processes of devolution.

These considerations entail relevant policy implications for the design of regional development programmes and, more generally, of public investment projects. In institutional contexts characterised by weak local authorities and significant pressures by local lobbies, centralised management of public funds seems less exposed to the risk of resources misallocation, and thus it better safeguards the scope of the programme. Alternatively, rules should be preferred over discretion, so to mitigate the incentives of intermediate tiers of government to allocate funds for their electoral returns, diverting them from the programme's goals.

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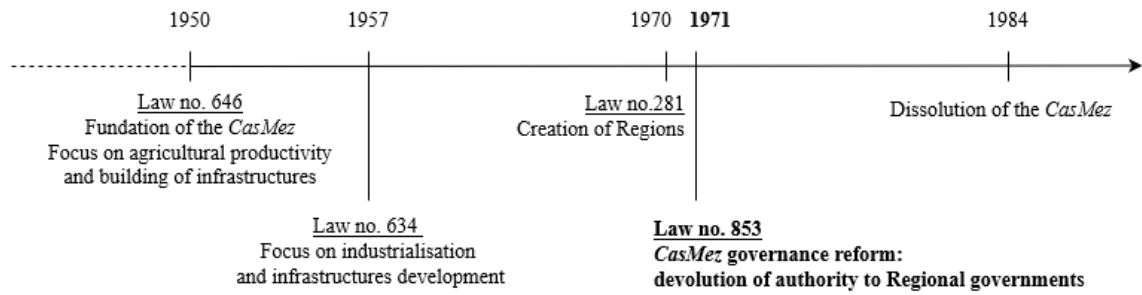
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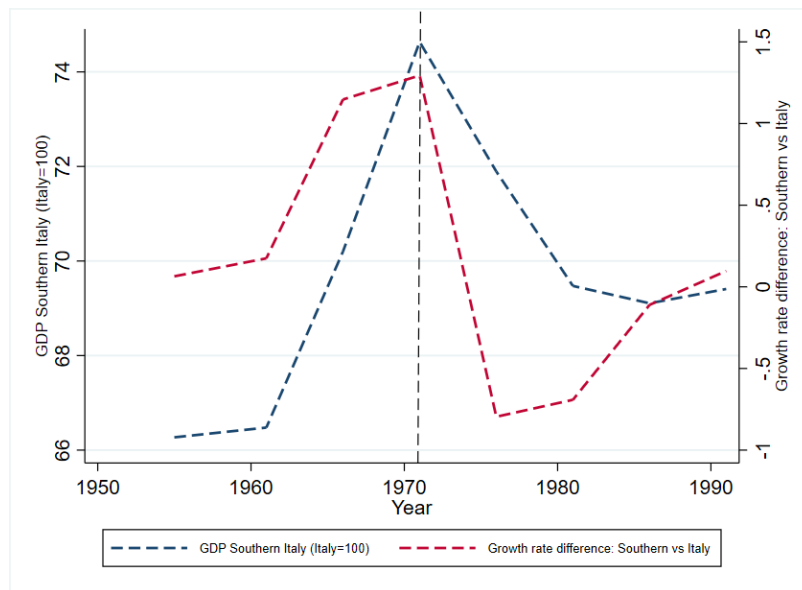
Appendix

Figure A1: Timeline of the CasMez programme



Note: The Figure reports the key events and reforms of the CasMez programme.

Figure A2: The evolution of North-South divide in Italy (1950-1990)



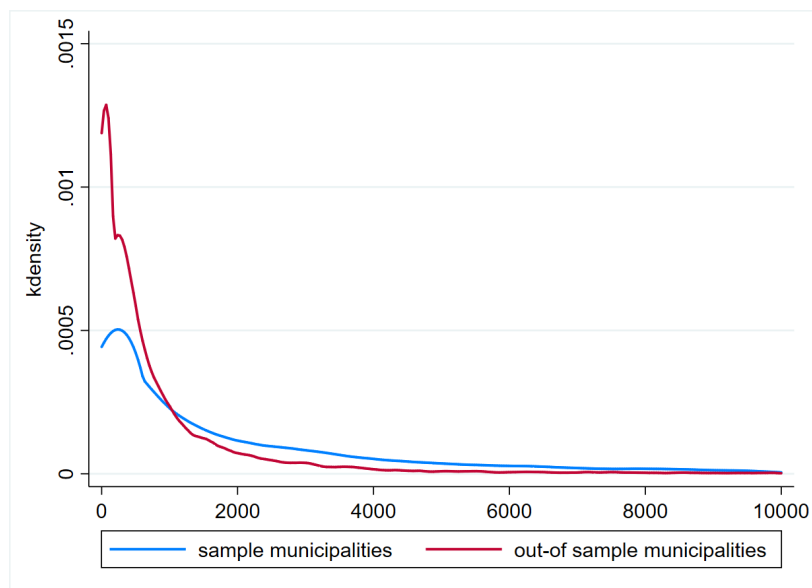
Note: Source Buscemi (2022). The figure shows the evolution of Southern GDP and the difference in growth rates of Southern Italy and the rest of the country.

Figure A3: Example of archival file

Amministrazione Comunale di PALESTRA															Foglio N. 4	
Numero Circolo	CATEGORIA	Cognome e Nome	LIEPO DI NASCITA		DATA DI NASCITA	SESSO	SCUOLA	ANNO DI NASCITA	TITOLO DI STUDIO	CORSO DI STUDIO	PROFESSIONE	DATA ASSERIZIONE DI GUIDA				
			Cognome	Precedente								Data di nascita	Data di morte			
73	Comunità	6	Leisana Leonardo	Risparmio	AR	1.1.1931	M	1951	diplomato	70	insegnante	1.1.75				
74	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
75	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
76	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
77	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
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79	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
80	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
81	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
82	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
83	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
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88	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
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90	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
91	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
92	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
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97	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
98	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
99	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				
100	id.	6	Lund Edoardo	Chitane	PA	1.1.1930	M	1950	diplomato	70	insegnante	1.1.75				

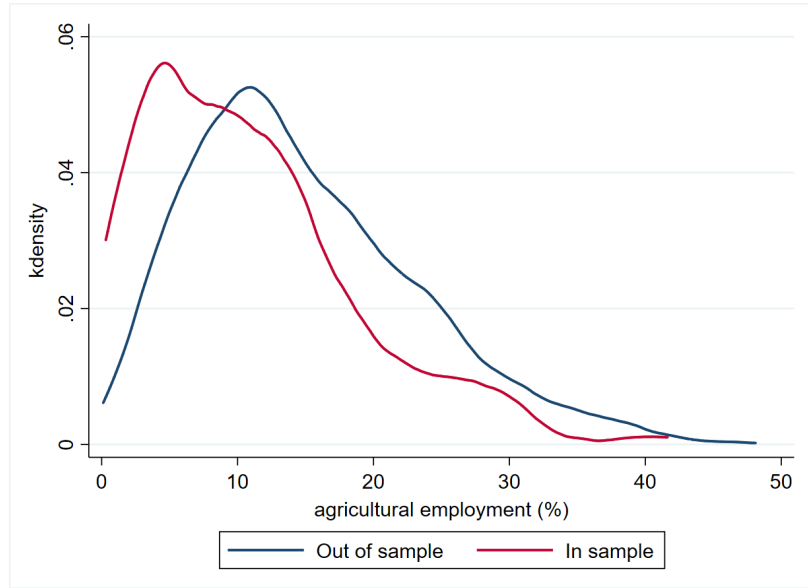
Note: The Figure reports an example of original file with information on local administrators (municipality of Palermo) that we collected and digitalised.

Figure A4: Distribution of funds across in/out-of-sample municipalities



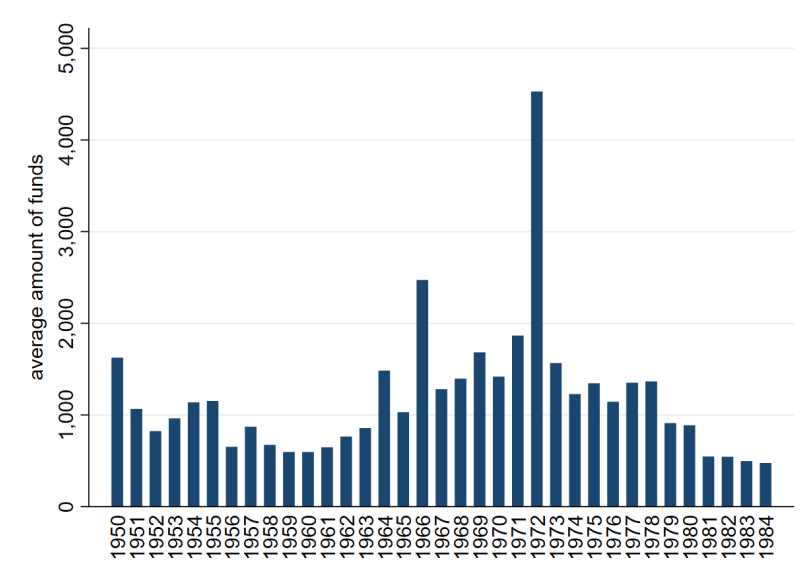
Note: The horizontal axis reports the total amount of funds received by municipalities. That amount is expressed in thousands of liras and adjusted for inflation (at 2011 prices). We include in the computation funds for public works, non-refundable firm grants and concessional financing.

Figure A5: Agricultural employment (%) across in/out-of-sample municipalities



Note: The Figure reports the distribution of agricultural employment (%) as of 1971 across in- and out-of-sample municipalities.

Figure A6: Time distribution of funds (1950-1984)



Note: The (average) amount of funds is expressed in thousands of liras, adjusted for inflation (at 2011 prices). We include in the computation funds for public works, non-refundable grants and concessional financing.

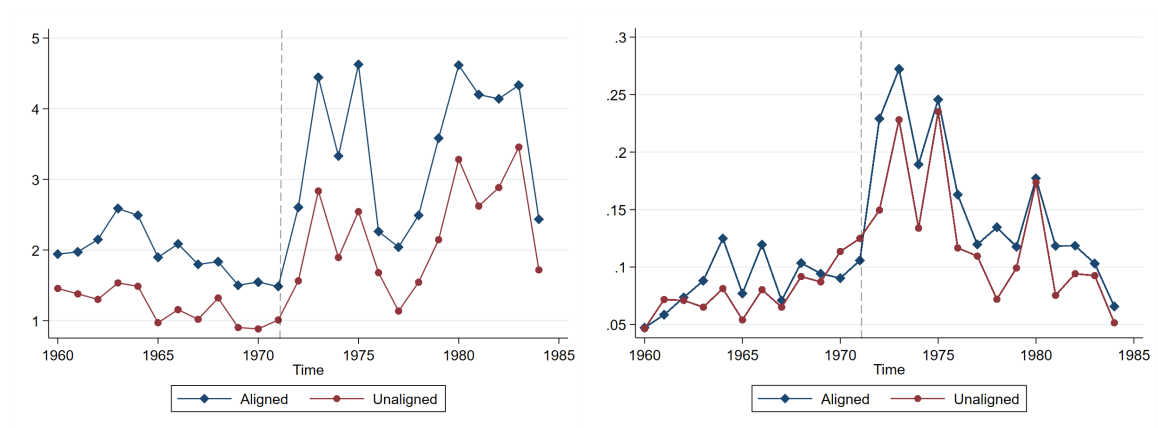
Table A1: Italian parties acronyms and full names

Acronym	Full Name
DC	Christian Democracy
MSI	Social Italian Movement
PCI	Italian Communist Party
PDIUM	Italian Democratic Party of Monarchical Unity
PLI	Liberal Italian Party
PRI	Republican Italian Party
PSDI	Italian Democratic Socialist Party
PSI	Italian Socialist Party
PSIUP	Italian Socialist Party of Proletarian Unity
PSU	Socialist Unitarian Party
USCS	Sicilian Christian Social Union

Figure A7: Average funding by year: aligned and unaligned municipalities

a) Number of project approvals

b) Per-capita funding (log)



Note: The Figure shows the average number of project approvals and per-capita funding by year, across aligned and unaligned municipalities. In Panel a, the unit of measure is the number of projects approvals. In Panel b, instead, the per-capita amount of funds received is expressed in log millions of liras, adjusted for inflation (at 2011 prices).

Table A2: Re-alignment probability and funds received: cross-section analysis (1975)

	Re-alignment probability (1975)	
Numb. of project approvals (1972-1974)	-0.001 (0.0025)	
Per-capita funding (log) (1972-1974)		-0.001 (0.0546)
<i>Region fe</i>	✓	✓
R-squared	0.135	0.134
N	271	271

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports results from the cross-section analysis of the effect on re-alignment probability of the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Re-alignment refers to the first electoral turn after the CasMez reform, namely to year 1975; and it takes value one if the municipality maintains its alignment status. The number and amount of funds report the sums received by a given municipality over the span 1972-1974. We also include Region fixed effects.

Table A3: TWFE estimation (1960-1974): municipality-clustered standard errors

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.639*** (0.2211)	0.462*** (0.1733)	0.177 (0.1263)	0.053** (0.0257)	0.039* (0.0212)	0.015 (0.0133)
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.660	0.601	0.441	0.317	0.304	0.185
N	5610	5610	5610	5610	5610	5610

Note: Standard errors in parentheses clustered at municipal level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and Region-year fixed effects.

Table A4: TWFE estimation (1960-1974): excluding Sicily and Sardinia

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.617*** (0.2136)	0.375** (0.1514)	0.242 (0.1923)	0.079*** (0.0180)	0.061*** (0.0163)	0.020 (0.0152)
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.695	0.645	0.469	0.250	0.259	0.163
N	3840	3840	3840	3840	3840	3840

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and Region-year fixed effects.

Table A5: TWFE estimation (1960-1984): cross-Region analysis

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.457** (0.1814)	0.389** (0.1791)	0.067 (0.0823)	0.029* (0.0153)	0.024** (0.0107)	0.010 (0.0085)
<i>DC</i>	✓	✓	✓	✓	✓	✓
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.649	0.613	0.404	0.302	0.298	0.165
N	8005	8005	8005	8005	8005	8005

Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for the DC being in power at the local level and for municipality and year fixed effects.

Table A6: Number of treated observations by period

Relative time period	Year	Numb. of Treated obs.	%	% among non-missing	
Valid	-12	1960	271	2.90	4.60
	-11	1961	271	2.90	4.60
	-10	1962	271	2.90	4.60
	-9	1963	271	2.90	4.60
	-8	1964	271	2.90	4.60
	-7	1965	271	2.90	4.60
	-6	1966	271	2.90	4.60
	-5	1967	271	2.90	4.60
	-4	1968	271	2.90	4.60
	-3	1969	271	2.90	4.60
	-2	1970	271	2.90	4.60
	-1	1971	271	2.90	4.60
	0	1972	271	2.90	4.60
	1	1973	271	2.90	4.60
	2	1974	271	2.90	4.60
	3	1975	197	2.11	3.35
	4	1976	197	2.11	3.35
	5	1977	197	2.11	3.35
	6	1978	197	2.11	3.35
	7	1979	197	2.11	3.35
	8	1980	167	1.79	2.84
	9	1981	167	1.79	2.84
	10	1982	167	1.79	2.84
	11	1983	167	1.79	2.84
	12	1984	167	1.79	2.84
Total		5885	62.94	100.00	
Missing	.	3465	37.06		
Total		9350	100.00		

Note: The Table reports, for each year, the number and percentage of treated municipalities employed in the TWFE estimation over the period 1960-1984 (see Table 5).

Figure A8: Event study plot: number of project approvals (total)

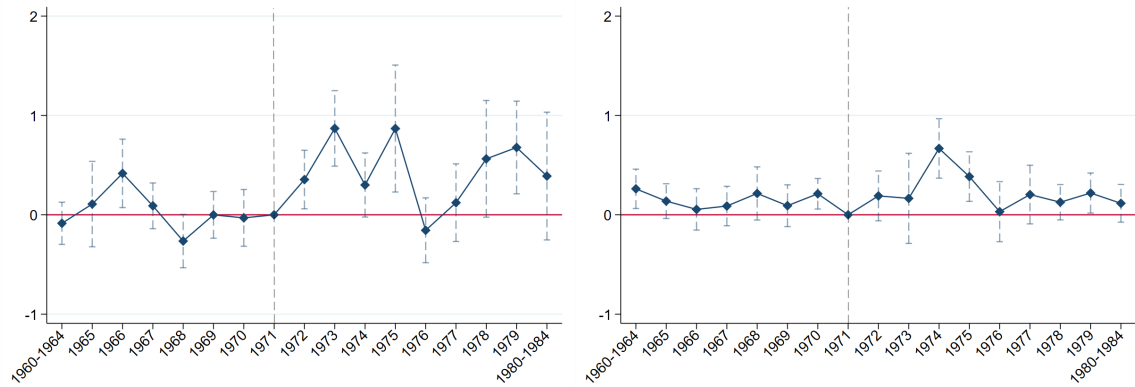


Note: The Figure shows the event study estimates corresponding to Equation 3. It reports the dynamic effect of partisan alignment as of 1970, provided that the municipality has not changed alignment status afterwards. We take as reference year 1971, when the CasMez reform was implemented. The outcome is the total number of project approvals. Due to the limited number of observations between 1980-1984, we estimate the average effect across those years, and - symmetrically - across 1960-1964. We report 90% level confidence intervals.

Figure A9: Event study plot: number of project approvals

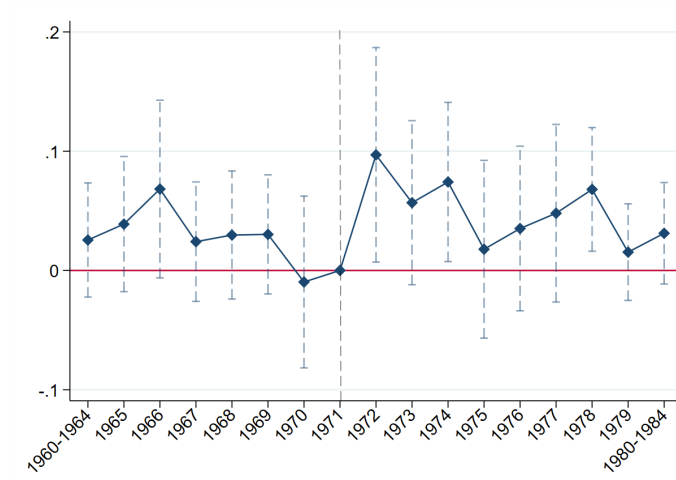
a. Firm subsidies

b. Public works



Note: The Figure shows the event study estimates corresponding to Equation 3. It reports the dynamic effect of partisan alignment as of 1970, provided that the municipality has not changed alignment status afterwards. We take as reference year 1971, when the CasMez reform was implemented. The outcome is the number of project approvals, respectively focusing on firm subsidies (Panel a) and on public works (Panel b). Due to the limited number of observations between 1980-1984, we estimate the average effect across those years, and - symmetrically - across 1960-1964. We report 90% level confidence intervals.

Figure A10: Event study plot: per-capita funding (total)

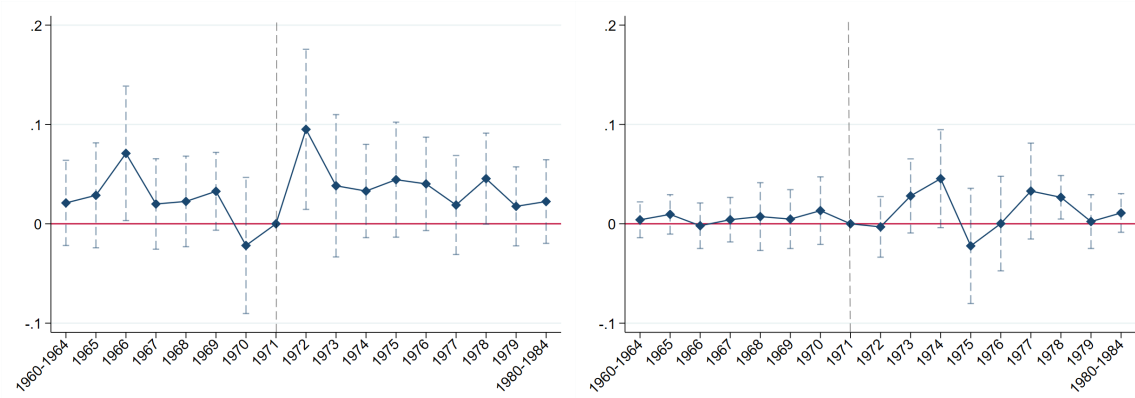


Note: The Figure shows the event study estimates corresponding to Equation 3. It reports the dynamic effect of partisan alignment as of 1970, provided that the municipality has not changed alignment status afterwards. We take as reference year 1971, when the CasMez reform was implemented. The outcome is the total (log) amounts of per-capita funding received, expressed in millions of liras at 2011 prices. Due to the limited number of observations between 1980-1984, we estimate the average effect across those years, and - symmetrically - across 1960-1964. We report 90% level confidence intervals.

Figure A11: Event study plot: per-capita funding

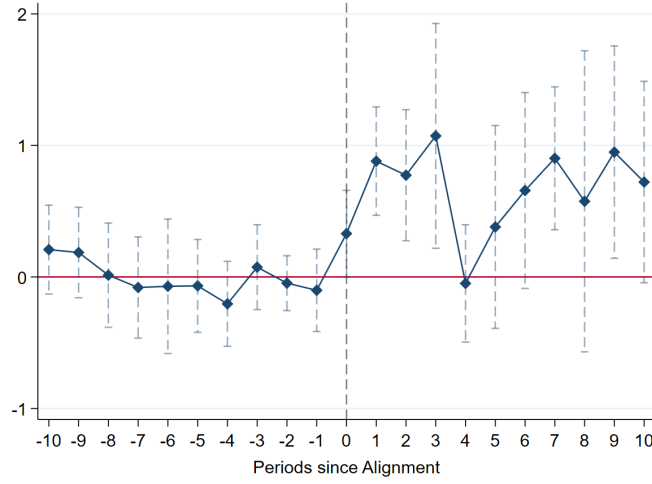
a. Firm subsidies

b. Public works



Note: The Figure shows the event study estimates corresponding to Equation 3. It reports the dynamic effect of partisan alignment as of 1970, provided that the municipality has not changed alignment status afterwards. We take as reference year 1971, when the CasMez reform was implemented. The outcome is the (log) amounts of per-capita funding received (millions of liras at 2011 prices), respectively focusing on firm subsidies (Panel a) and on public works (Panel b). Due to the limited number of observations between 1980-1984, we estimate the average effect across those years, and - symmetrically - across 1960-1964. We report 90% level confidence intervals.

Figure A12: Event study plot: number of project approvals (total)

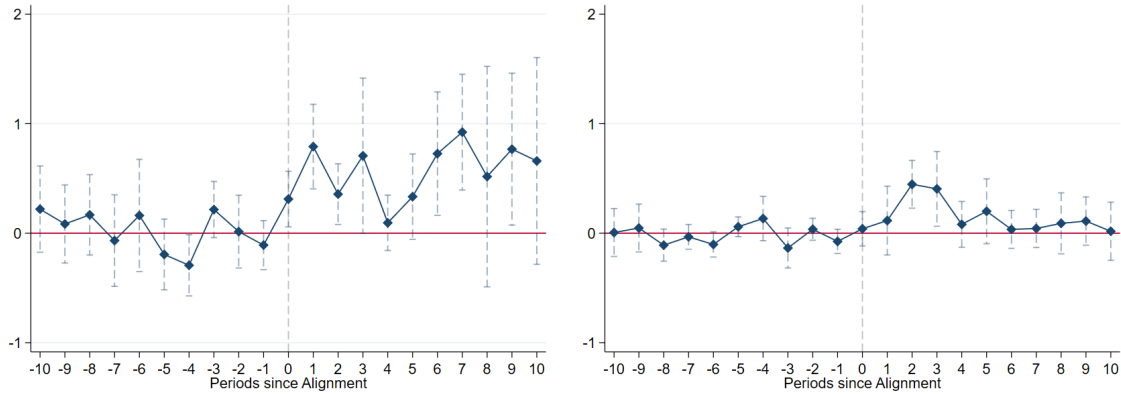


Note: The Figure shows the event study coefficients estimated using the method by De Chaisemartin and D'Haultfoeuille (2022). It reports the dynamic effect of first partisan alignment 10 years before and after its start. Here, alignment takes value one - starting from 1972 - whenever local and Regional government are ruled by the same party. In this way, we avoid discarding observations when the municipality changes alignment status and exploit all the available information in our data. The outcome is the total number of project approvals. We report 90% level confidence intervals.

Figure A13: Event study plot: number of project approvals

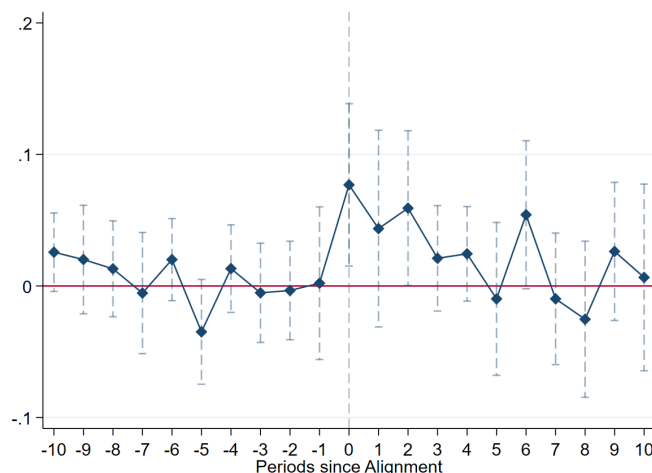
a. Firm subsidies

b. Public works



Note: The Figure shows the event study coefficients estimated using the method by De Chaisemartin and D'Haultfoeuille (2022). It reports the dynamic effect of first partisan alignment 10 years before and after its start. Here, alignment takes value one - starting from 1972 - whenever local and Regional government are ruled by the same party. In this way, we avoid discarding observations when the municipality changes alignment status and exploit all the available information in our data. The outcome is the number of project approvals, respectively focusing on firm subsidies (Panel a) and on public works (Panel b). We report 90% level confidence intervals.

Figure A14: Event study plot: per-capita funding (total)

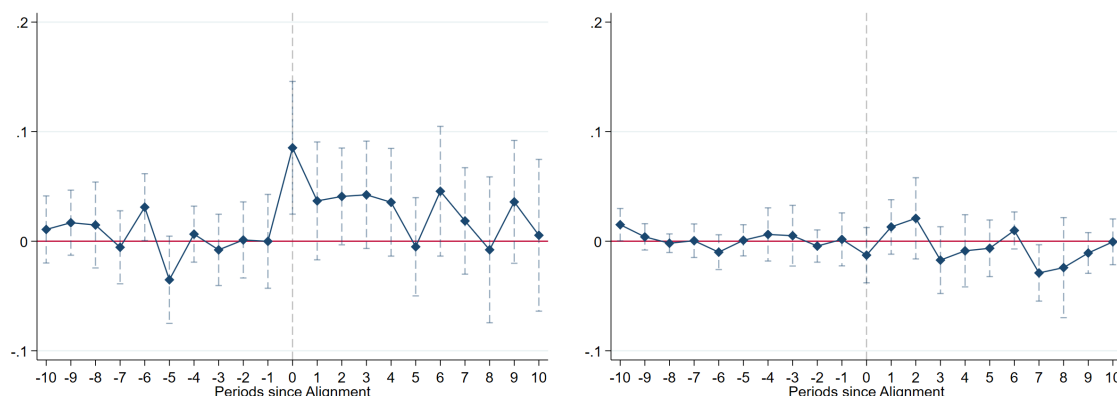


Note: The Figure shows the event study coefficients estimated using the method by De Chaisemartin and D'Haultfoeuille (2022). It reports the dynamic effect of first partisan alignment 10 years before and after its start. Here, alignment takes value one - starting from 1972 - whenever local and Regional government are ruled by the same party. In this way, we avoid discarding observations when the municipality changes alignment status and exploit all the available information in our data. The outcome is the total (log) amounts of per-capita funding received, expressed in millions of liras at 2011 prices. We report 90% level confidence intervals.

Figure A15: Event study plot: per-capita funding

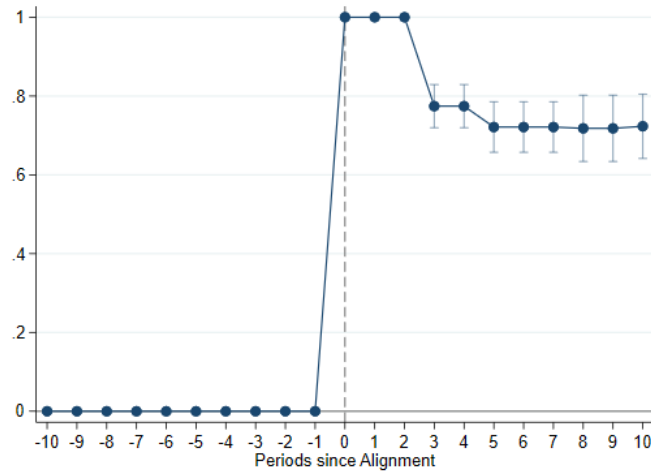
a. Firm subsidies

b. Public works



Note: The Figure shows the event study coefficients estimated using the method by De Chaisemartin and D'Haultfoeuille (2022). It reports the dynamic effect of first partisan alignment 10 years before and after its start. Here, alignment takes value one - starting from 1972 - whenever local and Regional government are ruled by the same party. In this way, we avoid discarding observations when the municipality changes alignment status and exploit all the available information in our data. The outcome is the (log) amounts of per-capita funding received (millions of liras at 2011 prices), respectively focusing on firm subsidies (Panel a) and on public works (Panel b). We report 90% level confidence intervals.

Figure A16: Event study plot: alignment status before and after first alignment



Note: The Figure shows the event study coefficients estimated using the method by De Chaisemartin and D'Haultfoeuille (2022) and employing as dependent variable the dummy for alignment (referred to as 'first-stage'). It reports the dynamic effect of first partisan alignment 10 years before and after its start, on the treatment itself. Alternatively, it gives the fraction of municipalities that are aligned t periods before and after first alignment. Here, alignment takes value one - starting from 1972 - whenever local and Regional government are ruled by the same party. In this way, we avoid discarding observations when the municipality changes alignment status and exploit all the available information in our data. We report 90% level confidence intervals.

Table A7: TWFE estimation: sample of municipalities with at least 12,000 residents in 1971

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.946*** (0.2503)	0.763*** (0.2413)	0.183* (0.0911)	0.052*** (0.0183)	0.033** (0.0131)	0.023** (0.0104)
<i>DC</i>	✓	✓	✓	✓	✓	✓
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.665	0.630	0.432	0.322	0.305	0.177
N	6220	6220	6220	6220	6220	6220

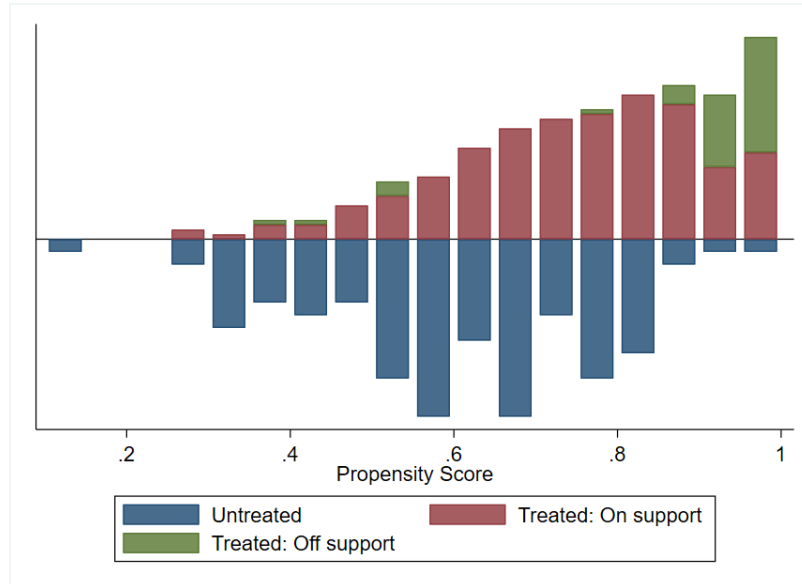
Note: Standard errors in parentheses clustered at Province level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for the DC being in power at the local level and for municipality and Region-year fixed effects. Here we restrict the sample to municipalities with at least 12,000 residents as for 1971.

Table A8: Weights of matched controls

Weights of matched controls	Controls	Treated	Total
1	26	222	248
2	7	0	7
3	12	0	12
4	7	0	7
5	4	0	4
6	2	0	2
7	1	0	1
8	3	0	3
12	2	0	2
13	1	0	1
18	1	0	1
Total	66	222	288

Note: The Table reports the weights assigned to control municipalities by the matching procedure. The maximum is 18, meaning that one municipality serves as control for 18 treated units based on nearest-neighbour-matching with a caliper of 0.035 standard deviations.

Figure A17: Nearest-neighbour-matching: psgraph



Note: The Figure shows the psgraph corresponding to the matching (with replacement) procedure implemented. In green colour are depicted the treated municipalities for which we could not find an appropriate control (based on the propensity score value), and therefore excluded from the sample.

Table A9: Robustness: TWFE estimation with spatial lag (1960-1984)

	Numb. of project approvals			Per-capita funding (log)		
	Total	Firm subsidies	Public works	Total	Firm subsidies	Public works
Alignment	0.493** (0.2264)	0.428** (0.2106)	0.065 (0.0761)	0.027* (0.0150)	0.020* (0.0118)	0.010 (0.0089)
Spatial lag	0.154 (0.1018)	0.134* (0.0720)	0.019 (0.0506)	-0.002 (0.0063)	0.001 (0.0053)	-0.001 (0.0028)
<i>DC</i>	✓	✓	✓	✓	✓	✓
<i>Municipality fe</i>	✓	✓	✓	✓	✓	✓
<i>Region-Year fe</i>	✓	✓	✓	✓	✓	✓
R-squared	0.657	0.623	0.416	0.313	0.308	0.165
N	8005	8005	8005	8005	8005	8005

Note: Standard errors in parentheses clustered at municipality level * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The Table reports the effect of partisan alignment on the number and (log) per-capita amount (millions of liras at 2011 prices) of CasMez funds received by a given municipality. Partisan alignment is defined as of 1970, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for the DC being in power at the local level and for municipality and Region-year fixed effects. We further include a spatial lag for the number of adjacent aligned municipalities.