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

JEL Codes
H11, H77, N94

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Allocation of authority and tactical redistribution of public investments: A historical quasi-experiment

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1 Introduction

The 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 the 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 of CasMez funding.

Our paper aims to contribute to two main streams of the literature. Firstly, to the growing field of studies 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 institutional 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; Carozzi and Repetto, 2016; Bonilla-Mejía and Morales, 2021). 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; Schneider and Kunze, 2023). 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.

To conduct our analysis, we have collected and digitised 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 part of 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), containing project-level information about all CasMez investments (1950-1984), distinguishing among three main types of funds: public works, non-refundable firm grants, and concessional financing. We aggregate that information at the municipal level and focus on the time span 1960-1984. In this way, we observe a time window of twelve years before and after the reform and focus on 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 1971, i.e. right before the CasMez reform. If a municipality in 1971 was (not) ruled by the same political party that won the first regional elections, we consider it treated (control) since 1972 (i.e. after the CasMez 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 different tiers of government: after the reform, aligned municipalities (i.e. controlled by the political party in power at regional level) were assigned a higher number of CasMez projects. This evidence is consistent with a 'local capture' hypothesis, where delegated agents - assigned with wide discretionary powers - are particularly exposed to the pressures of local lobbies, in a context characterised by weak state capacity and fragile institutions. This result is robust to a number of tests, including alternative treatment definition and sample selection choices. We also find that partisan alignment is particularly effective when coupled when a graduate mayor, which is plausibly more able to negotiate with the upper tier of government to obtain public funds. Moreover, the effect seems larger in municipalities where the mayor's party has the majority in the local council, consistently with regional governments assigning more funds to municipalities where the ruling party is stronger. Finally, we detect heterogeneous impacts by municipal size, with more populated municipalities driving the effect. This is again consistent with a distributive politics explanation where regional governments are induced to assign more funds to larger aligned municipalities since there they can gain more visibility and electoral consensus.

Finally, we explore the effects on long-run economic outcomes through a TSLS 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 number of funds granted to aligned municipalities served to strengthen the local connections between elected politicians and entrepreneurs, feeding patronage and pork-barrel politics. We repeat an analogous exercise on the pre-reform period (decade 1961-1971), without instrumenting CasMez funds. Such correlation analysis highlights a positive relation between CasMez funding and local economic outcomes prior to the 1971 reform. These findings, far from being causal, do not exclude the possibility of positive economic effects of CasMez funds prior to the governance reform of 1971.

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 streams of 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 opportunities 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 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., 2023; Bucciol et al., 2013; Bosio et al., 2022). Specifically, Bosio et al. (2022) conduct 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) and foster political accountability (Bianchi et al., 2023). Specifically, the benefits of decentralisation are thought to be larger when communities are heterogeneous and project externalities are weak (Alesina and Spolaore, 1997; Lockwood, 2002). 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. This 'local capture' hypothesis is theoretically analysed in Bardhan and Mookherjee (2000) and empirically supported by the case study by Blanchard and Shleifer (2001). Bardhan and Mookherjee (2006a) also show that when local capture is severe, decentralisation can produce welfare losses since it shifts the financial burden of service expansion on the poor. 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, 2002; Bardhan and Mookherjee, 2006b); especially when national political parties are unstable and fragmented (Enikolopov and Zhuravskaya, 2007). 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 systems.[1]. 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. In the same context, Curto-Grau et al. (2018) highlight that such alignment effect vanishes when electoral competition is strong. Bracco et al. (2015) go further on this issue, and elaborate an agency model in which the central government assigns more grants to aligned municipalities as a fake signal of the expertise of the corresponding mayors. At European level, Dotti (2016) shows that structural funds are more likely directed to regions aligned with the central government throughout Europe. In the US context, Schneider and Kunze (2023) find that areas governed by presidents' copartisans receive more presidential declarations after a natural disaster, which is in

[1]For 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).

turn reflected in public spending for relief. 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 authority.[2]

3 The institutional context of the *Cassa per il Mezzogiorno*

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

[2]This 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.

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 646 approved in 1950.[3] 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 634 approved in 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 infrastructures development. The intervention of those years consisted of sustaining the Southern economy's supply side and fostering capital accumulation, in line with a policy approach defined 'Keynesianism of supply' (Saraceno, 1986). The CasMez's programme strengthened its efforts in capital-intensive sectors, such as the chemical, iron and steel industries. Many Southern localities were identified as potential growth poles, where to establish new

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

industrial plants for those sectors, and related satellite activities. Then, law 717 approved in 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*).[4]

With law 281 approved in 1970, Italian regions were created.[5] 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 (Felice and Vasta, 2015).[6] The CasMez made no exception: law 853 of 1971 put an end to the centralised and autonomous configuration of the CasMez's governance. This institutional revolution is comprehensively outlined in 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.

Southern economists saw the reform of 1971 as motivated by purely political reasons, and totally disconnected from the extraordinary intervention principles. They considered the governance shift as a transformation of the agency's activity into an *ordinary* intervention (Cafiero, 1996), and thus a failure to fulfil the ultimate scope of its creation (Saraceno, 1976). The combination of political involvement and power delegation led to a radical change in the CasMez's 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

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

[5]More 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.

[6]It is worth noticing that the CasMez distributed public resources through an exclusive channel. Since we focus on the allocation of CasMez funds, the decentralisation of other policies does not represent a confounding factor in our estimation.

not improve the economic performance of the CasMez; on the contrary, it triggered dynamics of tactical redistribution of CasMez funds and reduced the programme's overall efficacy (Trigilia, 1992; Cafiero, 1996; Sbrescia, 2014 and Felice and Lepore, 2017). Cafiero (2000) defined the fourteen years from the 1971 reform to the end of the programme (1984) as the 'long agony of extraordinary intervention', characterised by a considerable waste of opportunities and resources. As Saraceno warned in SVIMEZ (1981) and (1982), these high levels of expenditure did not favour the expansion of Southern economy into new sectors and the creation of a new workforce; on the contrary, they enforced positions of power and rent-seeking attitudes at the local level. Therefore, the creation of Italian regions and the 1971 reform represent a turning point in the CasMez experience, which radically transformed the economic intervention of the following years and worsened its performance since then.

By 1971, the CasMez sought to take the next step towards modernisation; namely, the creation of a permanent industrial structure in Southern Italy. Such an objective was never achieved and 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 country.[7] 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

[7]We 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.

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. Albanese et al. (2021) look at the long-run political outcomes of having received CasMez funds, showing that it shaped political preferences in Southern Italy towards parties advocating more state intervention. 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; Cerrato (2023) examines the role of the CasMez in promoting economic convergence between Southern Italy and the rest of the country. The study demonstrates that state intervention significantly boosted the manufacturing sector, contributing to the observed convergence. Finally, Incoronato and Lattanzio (2023) examine the lasting consequences of the CasMez industrial development zones on spatial agglomeration, demonstrating that the policy increased the demand for business services and facilitated the rise of a skilled local workforce. 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.

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. This information derive from the Register of Local Administrators (*Anagrafe degli Amministratori Locali*) of the Italian Ministry of Interior, and include name, occupation, education level, political affiliation and

position of each member of the municipal council.[8] We decided to focus on municipalities having a population of at least 10,000 inhabitants by 1971, within the regions interested by the CasMez programme.[9] This selection is motivated, firstly, by the willingness to focus on municipalities that represent important electoral constituencies for 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 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 were 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 files.[10] 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 when CasMez investments have been higher (see Figure A6 in the Appendix) and the focus of the programme has been on industrial development (see Figure A1).

Secondly, we drew data on CasMez funds from the Archives of Territorial Economic Development (ASET).[11] 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

[8]Specifically, 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*).

[9]These 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, , we excluded those regions from our analysis. We discard Molise because that region has only two municipalities with a population above 10,000 inhabitants: Isernia and Campobasso; while we need within-region variation for our analysis. Concerning Marche, the only area involved was the so-called *Consorzio di Bonifica del Tronto*, a small area in province of Ascoli Piceno, which did not have municipalities above 10,000 inhabitants.

[10]Figure A3 in the Appendix provides an example of archival file.

[11]See the online portal at https://aset.acs.beniculturali.it/aset-web/.

Italy (*Agenzia per la promozione e lo sviluppo del Mezzogiorno - AgenSud*).[12] 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 funds, 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'.

Table 1: The CasMez types of funds: 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 Census.[13] Specifically, we obtained data on population, industrial composition and geological features, which we employ in the robustness checks 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.

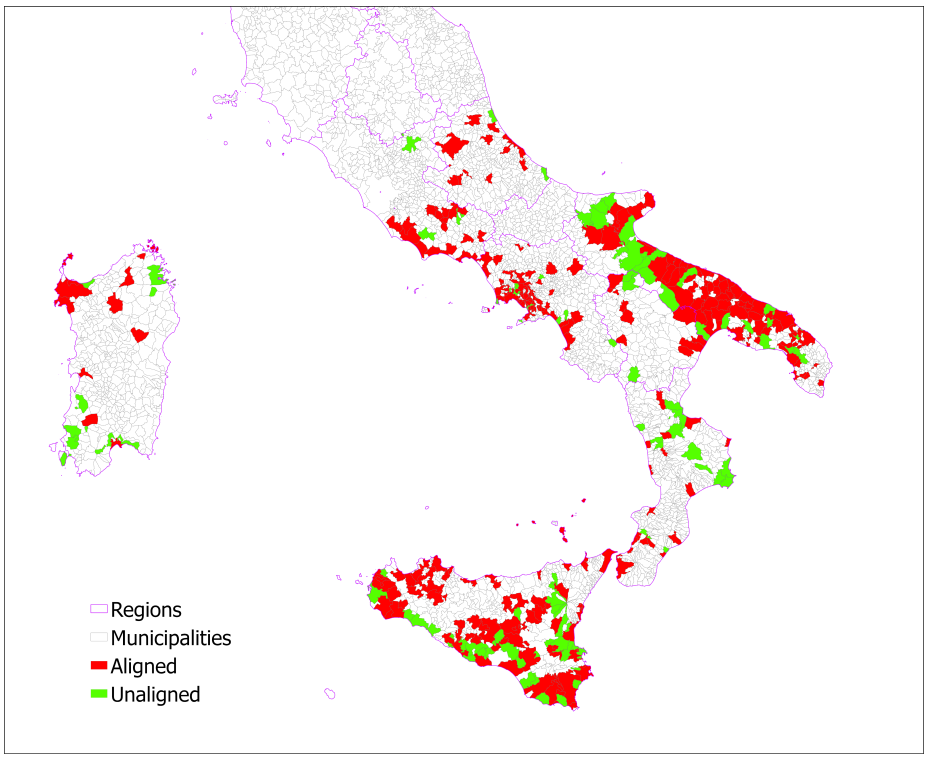
We now present some descriptive evidence of the phenomenon under study. First of all, we provide a graphical visualisation of the 374 municipalities in our sample. Figure 1 displays in red the municipalities that were aligned with the newly born regional government (i.e controlled by the same party) as of 1971, in green those that

[12] AgenSud 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.

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

were not. Aligned ones account for 71.66% of the sample (268 in total), while the residual 28,34% of unaligned municipalities amounts to 106 in total.

Figure 1: Sample municipalities: aligned and unaligned ones (1971)



More in detail, Figure 2 shows the political party in power at the local level by 1971, i.e. right after the creation of Italian regions (1970) and at the time of the CasMez reform. The Christian Democracy (DC) won the first electoral turn in all the regions we consider.[14] Most municipalities in our sample were also ruled by the DC in 1971, and thus classified as 'aligned' in Figure 1.[15] Further municipalities were controlled by the Communist Party (PCI) or by political forces in the 'Socialist area' (i.e. PSI, PSDI), with few exceptions governed by right-wing parties (i.e. PDIUM, PLI, PRI) or by independent mayors.[16] Not surprisingly, the Christian Democracy was the dominant political force in Southern Italy in 1971, both at the local and regional level. The DC maintained that dominant position in regional governments until 1984,

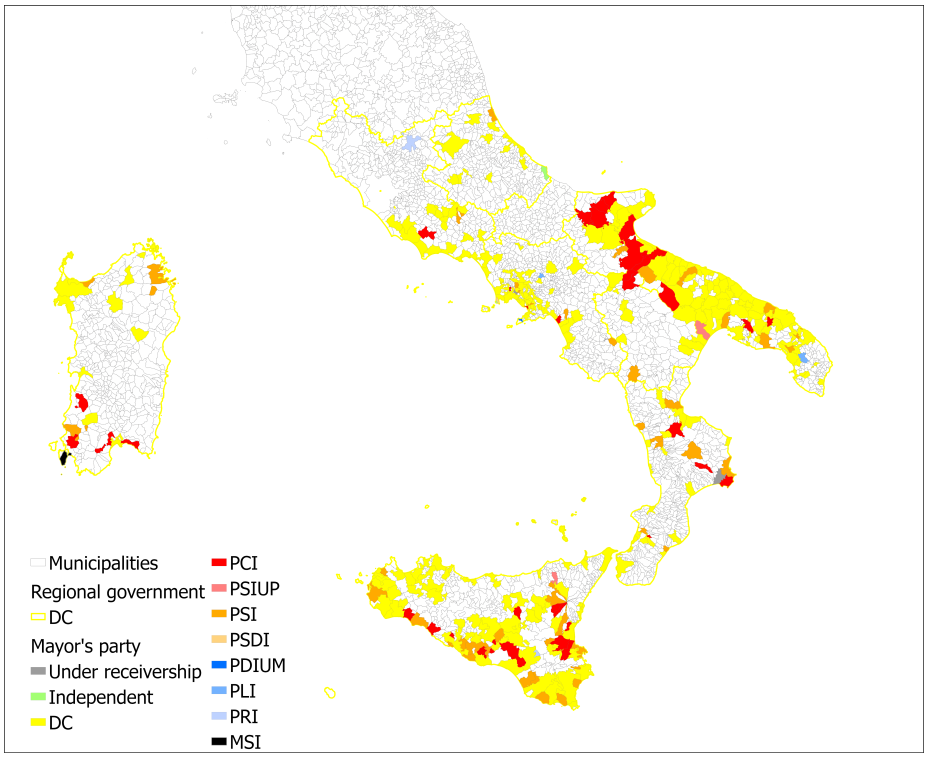
[14]The yellow borders in Figure 2 indicate that the DC was in power at regional level in 1971.

[15]Note that alignment status can change over time, due to variations in the local or regional party government. See the following section for more details on the definition of alignment status.

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

with only few regions going to the Socialist Party (PSI).[17] However, over the whole period observed, we have considerable variability in local government parties.

Figure 2: Political parties ruling sample municipalities and regions by 1971



Local administrations distribute across parties and 1971-alignment status as shown in Table 2. The Table reports, for each party, the number of municipalities-years where it was in power at the local level, distinguishing between municipalities aligned and non-aligned in 1971. For example, 460 municipalities-years were controlled by the DC *before* 1971, but were not so in that year, and thus they are not classified as aligned. Conversely, among those municipalities aligned in 1971 (i.e. ruled by the DC in that year), for 73 observations we have independent mayors governing the municipality in other years, for 73 the PCI and for 107 the PSI.[18]

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

[18] 63% of in-sample municipalities changes the party in power at the local level at least once over the period considered. Focusing on the DC, 34.49% has it in power for the whole 25 years we consider; however, 5.6% is never governed by this party, 22.19% is ruled by the DC for at most 10 years, and 43.32% for 10 to 24 years.

Table 2: Distribution of local administrations across parties and 1971 alignment status (1960-1984)

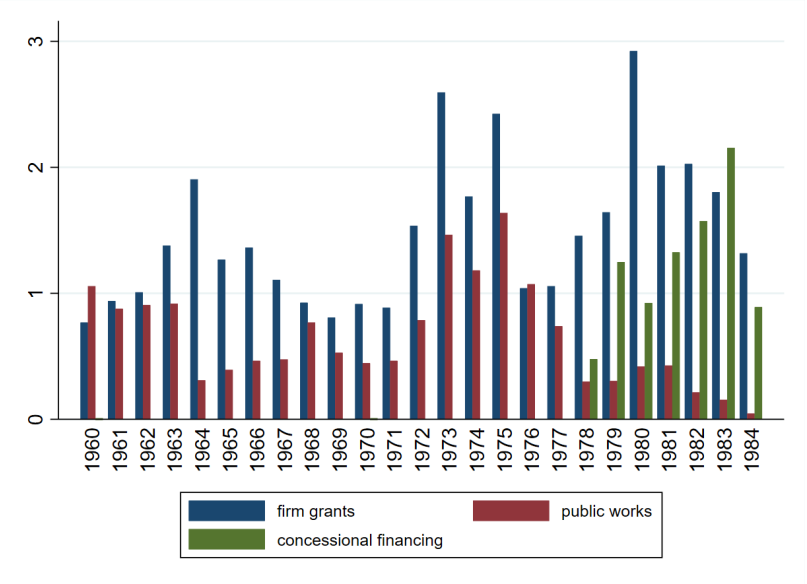
Political party	Aligned in 1971		Total
	no	yes	
Under receivership	6	2	8
DC	460	5,330	5,790
Independent mayor	33	73	106
MSI	8	8	16
PCI	712	73	785
PDIUM	17	5	22
PLI	32	24	56
PRI	46	3	49
PSDI	52	10	62
PSI	681	107	788
PSIUP	15	5	20
PSU	11	2	13
USCS	0	13	13
Total	2,073	5,655	7,728

The Table reports, for each party, the number of (in-sample)municipalities-years where it was in power at the local level over the period 1960-1984. The Table distinguishes between municipalities aligned/unaligned in 1971. 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.

We then plot the time evolution of CasMez investments over the period considered. Figure 3 reports the number of projects assigned to the municipalities in our sample, distinguishing among funds attributed for public works, non-refundable firm subsidies, and concessional financing. In Figure A7 of the Appendix we also plot the time evolution of the average amount of funding.[19]

[19]In Figure A7, the unit of measure is thousands of euros adjusted for inflation at 2011 prices. To account for inflation, we use the coefficients for currency value provided by ISTAT at https://seriestoriche.istat.it.

Figure 3: Time evolution of investments: number of project approvals



The Figure reports the average number of project approvals, across all municipalities in our sample.

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 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 average amount of funding (Figure A7). Here, we notice a significant spike in 1972, 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.

We 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 tactical redistribution dynamics 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 of funding received by the municipality in a given year. Specifically, we want to estimate whether and how, after the reform, funds allocation is affected by partisan alignment. To this purpose, the use of a TWFE strategy enable us to control for any time invariant characteristic of the municipality and for business cycle dynamics that influence all sample units. Moreover, we exploit the sharp governance reform intervened right after the creation of Italian regions to achieve treatment exogeneity.

Partisan alignment constitutes our treatment variable. It is constructed as a dummy variable which can take value one, starting from 1972, if the municipality in 1971 was ruled by the same political party as the newborn regional government. Before 1972, treatment is zero for all municipalities in our sample.[20] Recall that regions were created in 1970, while the governance reform of the CasMez was made in October 1971. More 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 focusing only on Sicily and Sardinia. In that sub-sample, regional authorities were already consolidated when the CasMez reform intervened (1971), so that the effect of the institutional shift is even more clearly identified.

[20]Note 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.

According to our definition of alignment, 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, we include a municipality in the estimation up to the first electoral turn following the reform. In this restricted span, no municipality could adjust to the institutional change through local elections.[21] 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 municipality-specific linear time trends in order to control for possible idiosyncratic trends in the outcomes which might occur contemporaneously to our treatment.[22] For example, including time trends helps account for concurrent demographic changes which may confound the treatment effect. Finally, we add 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 related to the different number of in-sample municipalities we have for the various regions.[23]

[21]Furthermore, we also repeat the main estimation over the span 1960-1975 taking out the 164 municipalities which hold elections between 1971 and 1974. By doing so, we rely on a fixed sample of municipalities for which alignment is defined at the creation of regions (1970) and that did not experience electoral variations in the observed period. In that sample, the composition of treatment and control groups is constant over time.

[22]Dobkin et al. (2018) refer to this approach as "parametric event study". Similar methods employing pre-treatment observations to extrapolate linear time trends have been adopted by Bhuller et al. (2013) and Goodman-Bacon (2018, 2021).

[23]In the Appendix, we report also estimation results taking out either time trends or region fixed effects from our regression model.

Formally, our main specification is:

$$y_{irt} = \alpha + \beta\, Alignment_{irt} + \gamma_i + \gamma_i\, t + \delta_{rt} + \epsilon_{irt} \tag{1}$$

where i, t, and r refer, respectively, to municipality, year, and region. $Alignment_{it}$ is the treatment dummy just described, and y_{it} stands for number of project approvals. We estimate the overall effect and also distinguish by type of funding: namely, public works and firms subsidies.[24] We cluster standard errors at municipal level.[25]

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 at the regional level. More importantly, the DC ruled the National government continuously 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 one or zero both before and after the 1971 reform. Conversely, alignment can take value one only since 1972 based on alignment status defined in 1971. The inclusion or exclusion of the DC dummy variable does not significantly alter our results, which mitigates possible concerns about multicollinearity.

[24]Recall 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.

[25]In Table A2 of the Appendix, we also report results from an analogous estimation with standard errors clustered at province level. Italian provinces are an intermediate level of government between municipalities and regions, which tend to be politically and economically homogeneous units. This robustness check is motivated by the possibility of spillovers among neighbouring municipalities, which can induce spatial correlation in the error term (Bertrand et al., 2004). The concern is especially relevant for public works, whose benefits possibly regard wider areas than the assigned municipality. 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 the province. In our estimation, we have 41 provinces, which is just below the conventional rule of thumb of minimum 50 clusters.

The augmented equation is the following:

$$y_{it} = \alpha + \beta\, Alignment_{it} + DC_{it} + \gamma_i + \gamma_i\, t + \delta_{rt} + \epsilon_{it} \tag{2}$$

Notice that, in the restricted post-treatment period, $Alignment_{it}$ coincides with being ruled by the DC after the devolution reform of 1971, since all regions were controlled by the DC in those years. This setting does not allow to disentangle a local-regional alignment effect from a dominant-party effect emerging *after* the institutional shift of 1971. However, what we are interested in are the political economy consequences of the governance reform of 1971. We aim to investigate whether the devolution of authority to regional governments triggered tactical redistribution dynamics in the allocation of CasMez funds. If tactical redistribution materialises as alignment with the regional government or with the dominant party is not key to our research question. For our purposes, what is relevant is that such distributive politics emerges as a result of the devolution process. To provide further evidence in support of this claim, we also investigate whether being ruled by the DC granted specific advantages over funds allocation before 1971. Essentially, we regress number and amount of CasMez funds on the DC_{it} dummy over the period 1960-1971 (i.e. pre-reform). We include municipality and region-year fixed effects, and municipality-specific linear time trends, and cluster standard errors at municipal level.

The specification with restricted post-treatment period - up to the first local elections following the reform - maximises internal validity. However, we are also interested in observing whether alignment effects are present over the entire post-reform period, 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 being aligned in the first electoral turn after the CasMez reform.[26] We sum the number of funds over the years going from

[26]This check has to be interpreted as an auxiliary exercise providing only suggestive evidence, while the focus of our analysis remains the estimation of the effect going from alignment to funds allocation.

1972 up to the end of the legislature, and construct a dummy for 're-alignment', taking value one if the municipality was aligned with the regional government at the first municipal electoral turn after the reform. Then, we conduct a cross-section analysis regressing the re-alignment dummy on the (cumulative) number of funds received over the span between 1972 and the following municipal elections. We also include in the specification region fixed effects. Table A3 in the Appendix reports the related results. The estimated coefficient appears non-significant, suggesting that - at least in the first years after the reform - endogeneous 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 1960-1984.

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 in 1971. If a municipality modifies its alignment status, for that municipality we exclude all years after the change in alignment status. Thus, in this specification we have post-treatment periods of different 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 state. This would imply - for example - considering aligned municipalities even when they experience changes of local or regional running party. In the robustness section, we challenge such definition of treatment. First of all, we repeat the estimation without discarding observations when municipalities change alignment status. In other words, we define alignment as of 1971 and force it to be an absorbing state afterwards. In that estimation, we rely on post-treatment period of equal length. Secondly, we use a contemporaneous definition of alignment, employing the estimation method proposed by De Chaisemartin and D'Haultfoeuille (2022), which allows treatment to switch on and off. In this way, we avoid discarding observations when municipalities change alignment status and we rely on the full sample of municipalities-years. More details on this alternative definitions 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. This would suggest that no confounding factor is inducing selection into treatment, and that no anticipation effect is present.[27] To check the validity of these 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. 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. Therefore, we estimate the following event study regression:

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

where the term $\Sigma_{m=-G}^{M} z_{i(t-m)}$ 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 reform.[28] Given our treatment definition, we do not expect any anticipation effect, and therefore assume $G = 0$. Secondly, we also implement a placebo estimation, focusing on the period before 1971 and artificially anticipate treatment status to the span 1965-1970. That placebo treatment takes value one from 1965 to 1970 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 placebo treatment before the reform was implemented.

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

[28] However, 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.

In the main analysis, we focus on mayor's party to define our measure of alignment. As an extension, we explore the possible role played by mayors' individual characteristics and municipal coalitions in funds allocation. In sub-section 6.3, we report estimates obtained from an augmented version of equation 2, where we also control for mayors' age, education and occupation. Moreover, we investigate the effect of partisan alignment distinguishing by mayors with/without a college degree and by the percentage of local council members affiliated to the mayor's party.

6 Results

6.1 Two-Way-Fixed-Effects estimation

We start by presenting results from equation 1 estimated on the restricted time span between 1960 and the first municipal elections after the CasMez reform. We regress the outcomes of interest against the alignment dummy which constitutes our treatment, together with municipality and region-year fixed effects, and municipality-specific linear time trends, and we cluster standard errors at municipal level.

We detect significantly positive effects of being aligned with the regional government on the total number of funds received (Panel a of Table 3). Looking at the coefficient's size, partisan alignment increases the number of projects approved by 0.82. Over the pre-reform period, the average number of project approvals by municipality-year is 2. Therefore, a 0.82 increase amounts to 32% growth.[29] In Panel b of Table 3, we

[29]We wonder whether this effect is due to an increased probability of receiving funds (i.e. extensive margin) or to a rise in the number of funds granted to municipalities receiving some positive amount of funds (i.e. intensive margin). Thus, we firstly estimate a linear probability model for the effect of partisan alignment on a dummy taking value one if the municipality received some grants and zero otherwise. Then, we restrict our sample to municipalities-years receiving funds and investigate whether being aligned translates into a higher number of project approvals. Table A7 in the Appendix reports the related results. It can be noticed that the effect lies on the intensive margin; namely, conditional on receiving some positive amount of funds, aligned municipalities were granted a higher number compared to unaligned ones. Looking at the intensive margin, our dependent variable is a count measure, with a right-skewed distribution. For this reason, we repeat the estimation using a Poisson model, which tests for non-normality in the distribution of standard errors.

separately investigate the effect of partisan alignment on the specific type of fund; that is, firm subsidies and public works. The overall effect on the total number of project approvals seems evenly split between the two types of funds which constituted the main tools of CasMez activity in the period observed.[30] [31]

In Table A9 of the Appendix, we report results for the same estimation focusing only on Sicily and Sardinia, where regions were established already since the second post-war. Before 1971, regional authorities had no power over the allocation of CasMez funds. However, when the reform intervened, regional governments where consolidated institutions, which makes neater the identification of the effect of the CasMez governance reform. Also in this case study, we find a similar pattern of estimated coefficients.

Taken together, 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. This distributive politics dynamics emerges with the devolution reform of 1971. Indeed, we also explore possible alignment effects in the pre-reform period, between local and National governments. Table A11 reports the related results. We do not find evidence of a significant effect

The estimated coefficient has to be interpreted as a semi-elasticity, which provides an effect of 18% increase in the number of project approvals for aligned municipalities compared to unaligned ones. We interpret this estimate as a lower bound effect, since Poisson estimation is more conservative in weighting observations on the right-tail of the outcome distribution.

[30] In Table A2 of the Appendix, we report results from analogous estimations with standard errors clustered at province level. We also repeat the main estimation over the span 1960-1975, taking out the 164 municipalities which hold elections between 1971 and 1974. In this way, we rely on a fixed sample of municipalities which did not experience electoral variations from the creation of regions (1970) to the last year observed (1975). Results are reported in Table A4 of the Appendix. Moreover, in Table A5 we provide cross-region estimates obtained from equation 1 taking out region fixed effects, and thus allowing comparisons of aligned and unaligned municipalities in different regions. Finally, in Table A6 we exclude from equation 1 municipality-specific linear time trends. Results are robust to all these changes of specification and sample choices.

[31] To gain some insights on the average size of funding received, we also re-estimate equation 1 using as dependent variable the average amount of funds received by a municipality in a given year. Note that in this estimation we focus on municipalities-years where *some* CasMez funds was granted. Table A8 in the Appendix reports the related results. We find a positive effect of partisan alignment on the average amount of CasMez funds received: being aligned with the regional government after the CasMez reform increases the average size of funding by a 35%, and the effect seems driven by firm subsidies rather than public works.

of being aligned with the National government - i.e. being ruled by the DC - prior to the CasMez reform of 1971. This result confirms that partisan alignment effects were triggered by the institutional shift of 1971 and supports our claim that distributive politics depend on the broader institutional setting; specifically - in this case - on the degree of authority centralisation. This evidence can be reconciled both with the creation of a 'competing bandits' issue (Shleifer and Vishny, 1993), where now both the National and regional governments are involved in a duplicated agency problem. It is also compatible with a 'local capture' hypothesis (Prud'Homme, 1995; Tanzi, 1996), which suggests that local authorities are more exposed to the rent-seeking pressures of local elites. More generally, it is consistent with the predictions of detrimental effects of delegation in settings characterised by low state capacity and wide discretionary power of delegated agents, who have few incentives to align with the common goal (Best et al., 2023; Bosio et al., 2022).

Table 3: Alignment effect on project approvals after devolution (1960-first electoral turn after the reform)

Panel a. Total numb. of project approvals	
Alignment	0.823***
	(0.2799)
Municipality fixed effects	✓
Municipality time trends	✓
Region-year fixed effects	✓
R-squared	0.709
N	5311

Panel b. Numb. of project approvals by type of funds		
	Firm subsidies	Public works
Alignment	0.409**	0.414**
	(0.1936)	(0.1783)
Municipality fixed effects	✓	✓
Municipality time trends	✓	✓
Region-Year fixed effects	✓	✓
R-squared	0.652	0.484
N	5311	5311

Standard errors in parentheses clustered at municipal level * p<0.10, ** p<0.05, *** p<0.01. The Table reports in Panel a the effect of partisan alignment on the total number of CasMez funds received by a given municipality. In Panel b, it distinguishes by type of fund; namely, firm subsidies or public works. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and region-year fixed effects, and municipality-specific linear time trends. We restrict the post-treatment period to the first legislature after the CasMez reform.

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.

Table 4: Alignment effect on project approvals after devolution, controlling for DC ruling the municipality (1960-first electoral turn after the reform)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	0.817***	0.388**	0.429**
	(0.2781)	(0.1958)	(0.1824)
DC	0.051	0.190	-0.139
	(0.1275)	(0.1920)	(0.1082)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.709	0.652	0.484
N	5311	5311	5311

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 of CasMez funds received by a given municipality. Partisan alignment is defined as of 1971, 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, municipality and region-year fixed effects, and municipality-specific linear time trends. We restrict the post-treatment period to the first legislature after the CasMez reform.

Results are not substantially affected by the addition of that control. Moreover, 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 Table A10 of the Appendix, we also report results from an analogous estimation where we only include DC_{it} as explanatory variable, without controlling for partisan alignment. These further estimates confirm that being governed by the DC did not grant particular advantages in funds distribution over the span considered. In addition, the non-significance of the DC_{it} coefficient is also informative of the fact that being aligned with the National government did not grant specific advantages over the whole period observed. These findings suggest that it was not the party *per se* to affect funds allocation, but rather its combination with the institutional shift. In this restricted post-treatment period, alignment coincides with being ruled by the DC *after* the reform. Hence, we cannot disentangle whether

the observed effect is attributable to alignment with the dominant party following devolution or to alignment with the regional government. In both cases, the key result is that tactical redistribution emerged with the institutional reform of 1971. Therefore, the fundamental message remains unchanged: in institutionally-fragile settings, the devolution of authority over funds allocation can trigger dynamics of political favouritism between different tiers of government.

Next, we investigate whether our results hold over the entire span 1960-1984, 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 1971. If a municipality experiences a change in alignment status, for that municipality we exclude all years after the change. Table 5 reports the related coefficients. Results are largely comparable to those obtained for the restricted time period. If anything, estimates are slightly smaller in size, which might suggest that the effect is stronger in the very first years following the reform.

Table 5: Alignment effect on project approvals after devolution (1960-1984)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	0.604***	0.331**	0.273*
	(0.2280)	(0.1516)	(0.1458)
DC	✓	✓	✓
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.702	0.692	0.437
N	7728	7728	7728

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 of CasMez funds received by a given municipality. Partisan alignment is defined as of 1971, 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, municipality and region-year fixed effects, and municipality-specific linear time trends.

6.2 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, in order to inspect the possible presence of pre-trends. Moreover, we also focus on the period 1960-1971 (i.e. pre-reform), and assign to later-treated municipalities a 'placebo alignment' status. That anticipated treatment takes value one from 1965 to 1971 for municipalities that in 1971 were effectively aligned with the newborn regional government.

We report in Figure 4 the event study plot corresponding to the estimation of equation 3 for the total number of project approvals. In FigureA8 of the Appendix, we provide analogous event studies for specific type of funds. 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 1.63% (or less) treated observations contributing to 1980-1984 estimates (see Table A12 in the Appendix). If we inspect the estimated coefficients in the pre-reform period, they are 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 total number of projects approved (Figure 4), mostly concentrated in the first years following the reform.[32]

[32]In the years 1972-75, the CasMez activity was particularly intense, as highlighted in Figure 3. The dip of 1976 could be explained by the renewal of the programme, which was extended up to 1980 by law no. 183/1976.

Figure 4: Event study plot: number of project approvals (total)

The Figure shows the event study estimates corresponding to equation 3. It reports the dynamic effect of partisan alignment as of 1971, 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 and 95 % level confidence intervals.

As robustness, we re-estimate and plot the event study specification of 3 using alternative definitions of alignment. Specifically, we either force alignment to be an absorbing state or we employ contemporaneous alignment using the estimator proposed by De Chaisemartin and D'Haultfoeuille (2022). More details on these alternative estimations are provided in the robustness section. The related event study plots are reported in Figures A9 and A10 of the Appendix.

In Table A13, instead, we show the estimated coefficients for the placebo exercise we perform on the pre-reform period (1960-1971). Placebo alignment appears to be non-significant for all our outcomes. This evidence provides some confidence in that our main estimation is capturing the effect produced by the governance reform of 1971 and not some pre-existing dynamics, including anticipation effects.

6.3 The role of mayor characteristics and coalitions

One could argue that the treatment effect we observe captures some specific ability of mayors to bargain and attract CasMez funds. As further exploration, we check whether individual capabilities of mayors play a role in the allocation of CasMez funds. In the data we collected on local administrators, we have information on the age, education level, and prior occupation of the mayor. We employ these variables as complementary proxies for ability and check whether their simultaneous inclusion in equation 2 affects our results.[33] Table 6 reports the corresponding estimates, for the extended period 1960-1984. It can be noticed that coefficients for alignment are very much comparable to the main results of Table 5. Moreover, no significant effect is detected for mayor's age, education, and occupation, with the only exception of architect mayors attracting more public works.[34]

[33]We use age as a continuous measure, whose mean is 46.6 years and standard deviation is 9.74 (minimun age 22, maximum 88). Education is a categorical variable, whose categories are: primary school (5.89%), lower secondary school (7.05%), higher secondary school (27.7%), college degree or above (59.36%). As for occupation, see the classification and distribution in Table A14 of the Appendix. We include in the estimation occupation-specific dummies.

[34]In Table A15 of the Appendix we report the full list of estimated coefficients for mayor characteristics.

Table 6: Alignment effect on project approvals after devolution, controlling for mayor's characteristics (1960-1984)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	0.552**	0.310**	0.242*
	(0.2335)	(0.1537)	(0.1434)
Mayor's characteristics:			
Age	✓	✓	✓
Education	✓	✓	✓
Occupation	✓	✓	✓
DC	✓	✓	✓
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.702	0.703	0.453
N	7426	7426	7426

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 of CasMez funds received by a given municipality. Partisan alignment is defined as of 1971, 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, municipality and region-year fixed effects, municipality-specific linear time trends, and for mayor's characteristics: namely, age, education, and occupation.

To further investigate the role of mayor's ability in attracting CasMez funds, we also estimate equation 2 interacting our treatment dummy with two indicators taking value one if the municipality is run by a mayor holding a college degree or not. By doing so, we specifically focus on the role of mayor's education, which can be thought as the more direct proxy for individual ability. As it can be seen from Table 7, the effect is mostly driven by municipalities whose mayor has a college degree. We interpret these findings as suggestive of the fact that partisan alignment is especially effective when coupled with skilled local authorities, who are plausible more able to negotiate with upper tiers of government to attract public funds.

Table 7: Alignment effect on project approvals after devolution, distinguishing by mayors with/without a college degree (1960-1984)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment*[college degree]	0.701***	0.427***	0.274*
	(0.2191)	(0.1435)	(0.1451)
Alignment*[non college degree]	0.394*	0.226	0.167
	(0.2103)	(0.1525)	(0.1282)
DC	✓	✓	✓
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.702	0.692	0.437
N	7728	7728	7728

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 of CasMez funds received by a given municipality, distinguishing by municipality ruled by mayors holding or not a college degree. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We interact alignment with two indicators respectively taking value one if the municipality is ruled by a mayor with or without a college degree. We also control for the DC being in power at the local level, municipality and region-year fixed effects, and municipality-specific linear time trends.

So far, we have measured alignment considering only mayor's party. However, it is plausible that his bargaining power is higher the larger the fraction of the local council controlled by his own party. In other words, municipal coalitions may play a role in funds allocation by influencing the intensity of partisan alignment. To shed some light on this aspect, we employ the information on partisan affiliation of council members and distinguish by the percentage of council members belonging to the same party of the mayor. Specifically, we create two dummies respectively taking value one if the percentage is below or above 50.[35] Then, we multiply our alignment variable by each of those dummies and check whether the alignment effect varies depending on the strength of the ruling party. As it can be noticed, the effect is driven by municipalities where the mayor's party has the absolute majority in the local council. This finding is consistent with the alignment-effect interpretation: that is, the allocation of funds

[35]In 1971, the major's party has the absolute majority in the local council in around 65% of sample municipalities.

favoured municipalities where the party in power at regional level was stronger.

Table 8: Alignment effect on project approvals after devolution, distinguishing by the percentage of council members belonging to mayor's party (1960-1984)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment*[$\leq$ 50%]	0.050	-0.039	0.089
	(0.3023)	(0.2140)	(0.1674)
Alignment*[$>$ 50%]	0.78***	0.453***	0.334**
	(0.2535)	(0.1612)	(0.1689)
DC	✓	✓	✓
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.702	0.703	0.453
N	7426	7426	7426

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 of CasMez funds received by a given municipality, distinguishing by the percentage of council members of the same party of the mayor. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). Here, we multiply the alignment variable by two dummies taking value one if the percentage of council members is below or above 50. We also control for the DC being in power at the local level, municipality and region-year fixed effects, and municipality-specific linear time trends.

7 Robustness

In this section we do a number of robustness tests. First, we challenge our definition of alignment in two different ways. We start by defining alignment in 1971 - as in our main empirical strategy -, and then treat it as an absorbing state. As an alternative, we use a contemporaneous definition of alignment, employing the estimation method by De Chaisemartin and D'Haultfoeuille (2022), which allows treatment to switch on and off. Finally, we inspect the sensitivity of our results to alternative sample choices, distinguishing by municipalities above or below the median population as of 1971.

This exercise also allows to investigate heterogeneous treatment effects by municipal size.

7.1 Alternative alignment definitions

7.1.1 Alignment as an absorbing state

First of all, we employ our main definition of alignment, but we avoid discarding observations when municipalities change alignment status. In other words, we define alignment as of 1971, i.e. prior to the implementation of the CasMez reform, and then we force treatment to be constant afterwards (i.e. an absorbing state). By doing so, we consider aligned (therefore, 'treated') municipalities that were so in 1971, but then lost such status because of local or regional elections. The same is true for municipalities unaligned as of 1971; therefore, 'control' municipalities.

The estimated coefficients capture the dynamic effect of being aligned in 1971. These estimates also include the effect of future (un)alignment, potentially diluting or enhancing the estimated impact. For this reason, in the main empirical strategy, we prefer to discard observations when municipalities change alignment status. However, the advantage of this alternative definition of treatment is that it keeps constant the composition of treated and control groups and relies on post-treatment periods of equal length.[36]

We repeat the event study estimation of equation 3 using this definition of alignment. In Figure A9 of the Appendix, we report the corresponding event study plot. The estimated coefficients largely resemble the main estimates of Figure 4. If anything, post-treatment coefficients are larger, which suggests that our main definition of treatment is a more conservative choice.

[36]We have 268 treated municipalities in every period, differently from what reported in Table A12 for the event study in Figure 4.

7.1.2 Contemporaneous alignment using the estimator by De Chaisemartin and D'Haultfoeuille (2022)

Then, we take advantage of the estimation method suggested by De Chaisemartin and D'Haultfoeuille (2022) and re-estimate the event study specification of equation 3 using their proposed STATA command *did_multiplegt*. This estimation strategy not only controls 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 (i.e. contemporaneous alignment). 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 plot reported in Figure A10.[37] The Figure plots the effect of first treatment change (i.e. becoming aligned for the first time) after t period.[38] On the horizontal axis, it is reported the relative time to the year when treatment first changes (i.e. $t = 0$).[39]

The result of the event study validate our research design. In Figure A10, it is clearly visible an increase associated to the switch into alignment, while the possible presence of pre-trends seems soundly ruled out.

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. Alternatively, this event study plot shows the dynamic effect of first switch into treatment after t years. However, the coefficients reported in Figure A10 do not account for the number of switches into (out of) alignment that occur after the first one.

[37] To be precise, in this estimation we include region-specific non-parametric trends and not region-year fixed effects, which dramatically slow down the computation.

[38] Over the span considered, switchers are the 43% of the entire sample.

[39] Notice that with this definition of alignment, treatment can start at different points in time; namely, in this setting we have staggered treatment adoption.

To get an easier-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 years.[40] 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. That average total effect amounts to 0.70, which seems largely comparable to our main estimate of Table 4.[41]

7.2 Sample selection and heterogeneity by municipal size

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[42], and by the fact that these larger municipalities received 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 municipali-

[40]The corresponding graph is shown in Figure A11 of the Appendix. As it can be noticed, 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 A10.

[41]That estimate is automatically reported by the STATA command *did_multiplegt*.

[42]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 mayor. These differential electoral rules were established by the Presidential Decree of May 16 1960, n. 570. 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.

ties were most likely rural places and thus represent a less suitable target for CasMez investments. Secondly, the considerable effort of collecting and digitising a large amount of historical data (see an example of archival file in Figure A3) forced us to restrict the sample of analysis.

To verify that our results are robust to alternative population thresholds, we repeat the estimation of equation 2 interacting our treatment dummy with indicators for whether a municipality was below or above the median population as of 1971 (17,523 inhabitants). In this way, we also investigate the existence of heterogeneous treatment effects by municipal size.

We report in Table A16 the estimated coefficients. We notice that the effect is mostly driven by more populated municipalities. On this sub-sample, the effect seems larger than our main estimates in Table 4. These findings point to more relevant dynamics of distributive politics in larger municipalities. This evidence is consistent with greater electoral returns from investing in bigger constituencies. In other words, regional governments are induced to assign more CasMez funds to larger aligned municipalities, since there they can gain more visibility and electoral consensus. Moreover, this result supports our prior that municipalities with less than 10,000 inhabitants represented a less suitable target for CasMez investments and thus, they were not plausibly interested by the tactical redistribution dynamics we aim to study.

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 and collapse our dataset to a cross-section. Then, we estimate a TSLS 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 period.[43] Moreover, we add to the specification municipal controls and region fixed effects[44]. 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:

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

while the second stage:

$$y_{i,91} - y_{i,71} = \zeta + \eta \sum_{72-84} \hat{Funds}_i + \theta Municipal\,controls_i + \phi_r + \psi_i \qquad (5)$$

The variable $Funds_i$ refers to the overall number of project approvals 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: growth rate of industrial employment, number of local firms, and resident population. We argue that industrial employment and

[43] These represent 70% of our entire sample.

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

the number of local firms are the most natural performance indicators, given the industrial development purpose of the programme. Moreover, resident population proxies for municipality's attractiveness as a whole.

Panel a of Figure 5 plots the estimated coefficients from the second stage equation 5. We do not detect any positive effect. For these 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 number of funds granted to aligned municipalities served to strengthen the local connections between elected politicians and entrepreneurs, feeding patronage and pork-barrel politics.

We cannot repeat an analogous exercise for the pre-reform period, since we do not have an equivalent instrument for that time span. However, we can inspect the correlation between the number of funds received prior to the reform and local economic outcomes. This is just a correlation analysis, but it may be helpful for a comparison with the results in Panel a of Figure 5. We estimate the following regression:

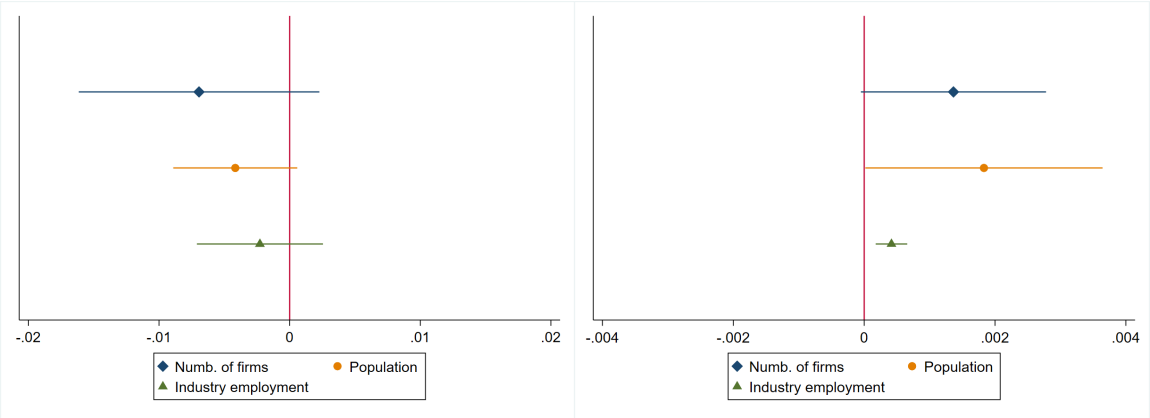
$$y_{i,71} - y_{i,61} = \zeta + \eta \sum_{61-69} Funds_i + \theta Municipal\, controls_i + \phi_r + \psi_i \qquad (6)$$

As for local economic outcomes, we are constrained to census years; therefore, we look at the growth rate over the decade 1961-1971. Regarding CasMez funds, we start summing from census year 1961 and stop in 1969, i.e. the year before the creation of Italian regions. Panel b of Figure 5 plots the related coefficients, employing as dependent variable the growth rate in number of local firms, industrial employment, and resident population. Compared to zero estimates of Panel a, here we find positive correlations between CasMez funds and local economic outcomes. There findings

cannot be causally interpreted, but they do not exclude positive economic impacts of CasMez funding prior to the governance reform of 1971.

Figure 5: Long-run economic effects of funds allocation

a. Post-reform (1971-1991) b. Pre-reform (1961-1971)



Panel a shows the second stage results of the TSLS estimates corresponding to equation 5. It reports the long-run correlation - over the period 1971-1991 - between predicted CasMez funds and the growth rate of industrial employment, number of local firms, and resident population. CasMez funds are estimated from a first stage regression having as explanatory variable the number of project approvals. Panel b shows estimates from equation 6. It reports the long-run correlation - over the period 1961-1971 - between the number of CasMez funds and the growth rate of industrial employment, number of local firms, and resident population.

9 Concluding remarks

In this paper we investigate whether devolution of authority over public investments can generate distributive politics dynamics, in the form of tactical redistribution of public funds between different tiers of government. We focus on the Italian *Cassa per il Mezzogiorno* (1950-1984), one the largest regional development programme ever implemented, 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.

Our main results support the hypothesis of tactical redistribution dynamics 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 obtained a higher number funds, compared to unaligned ones. This finding points to patronage and pork-barrel politics, triggered by the institutional shift, in a setting characterised by wide discretionary power of delegated agents and low state capacity. The robustness analysis confirms that our estimates are not substantially affected by alternative treatment definition or sample selection choices. The effect is driven by more populated aligned municipalities, ruled by educated mayors, who have the majority in the local council. These further results are all consistent with a distributive politics interpretation in which regional governments favour municipalities where the ruling party is stronger, mayors are more able to exert pressures, and funds allocation can gain more visibility and electoral consensus.

Finally, we explore the long-run economic effects of distorted funds allocation. We do not find any positive effect on the growth rate of industrial, number of local firms, and resident population. We interpret these findings as suggestive that the tactical redistribution of funds observed in the 1972-1984 period of the CasMez programme is driven by purely political, not economic, reasons. 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 number of funds granted to aligned municipalities served to strengthen the local connections between elected politicians and entrepreneurs, feeding patronage and pork-barrel politics. Conversely, in the decade prior to the 1971 reform, we find positive correlations between CasMez funds and local economic outcomes. This evidence does not exclude the possibility of positive economic impacts of CasMez interventions before the governance reform of 1971.

A clarification should be made in interpreting these findings. We detect evidence of distributive politics emerging in the aftermath of the 1971 reform. The devolution process created an incentive for regional governments to allocate more resources to

municipalities ruled by the same political party, i.e. aligned municipalities. However, in our sample we have little variability in the parties in power at the regional level, and we can not exclude that the tactical redistribution observed is actually due to the Christian Democracy governing the municipality after the reform. In other words, the estimated effect might be attributable to alignment with the dominant party, rather than to alignment with the regional government. Even in that case, the key finding is that tactical redistribution emerges with the institutional shift produced by the CasMez reform of 1971. Therefore, the bottom line message of the paper remains the same. 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.

Our findings contribute 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 programmes' efficacy. Our results 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, the evidence suggests that tactical redistribution can be fostered by devolution processes. Therefore, our study bridges the gap between these two streams of the literature, showing that the analytical framework of delegation models can help the understanding of distributive politics dynamics.

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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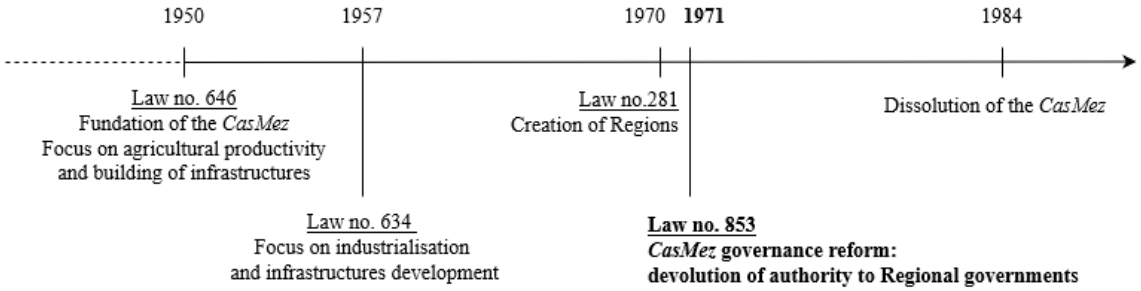
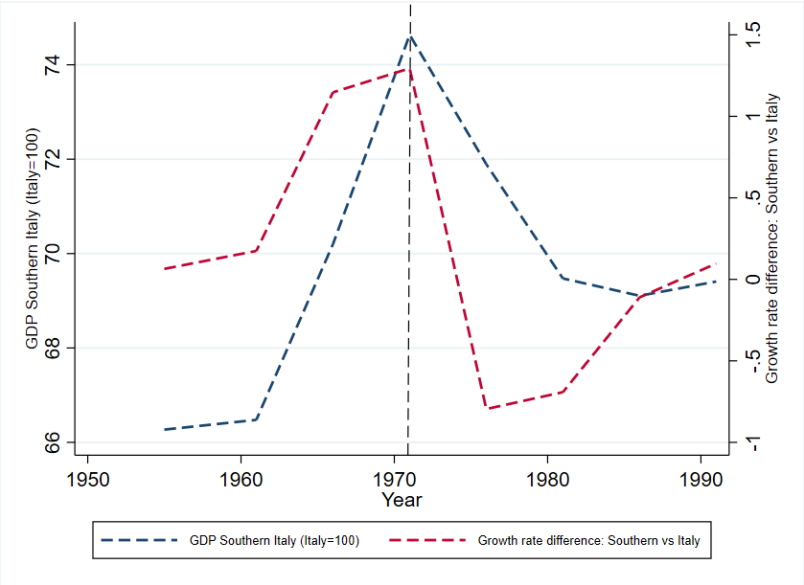
Appendix

Figure A1: Timeline of the CasMez programme



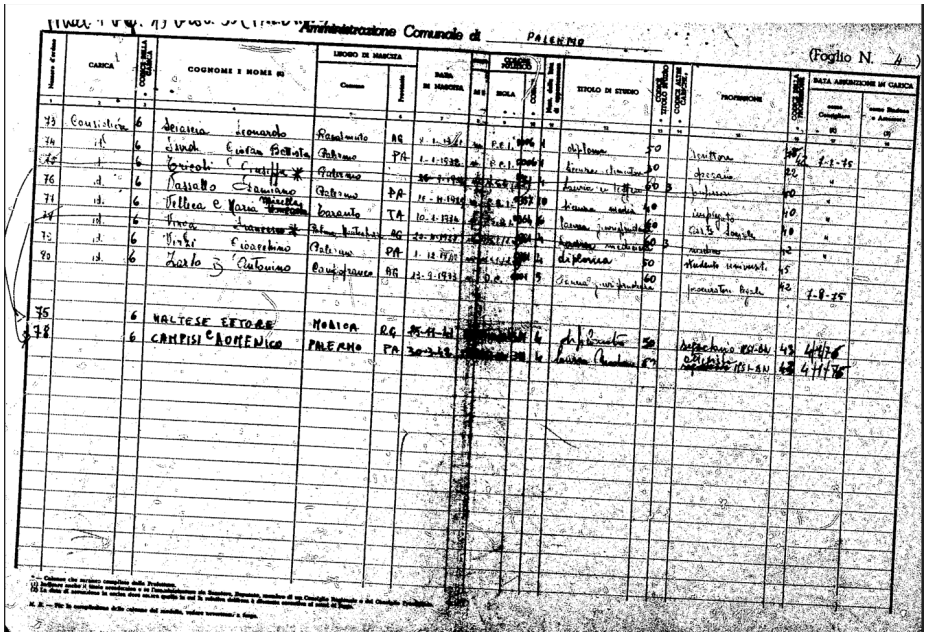
The Figure reports the key events and reforms of the CasMez programme.

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



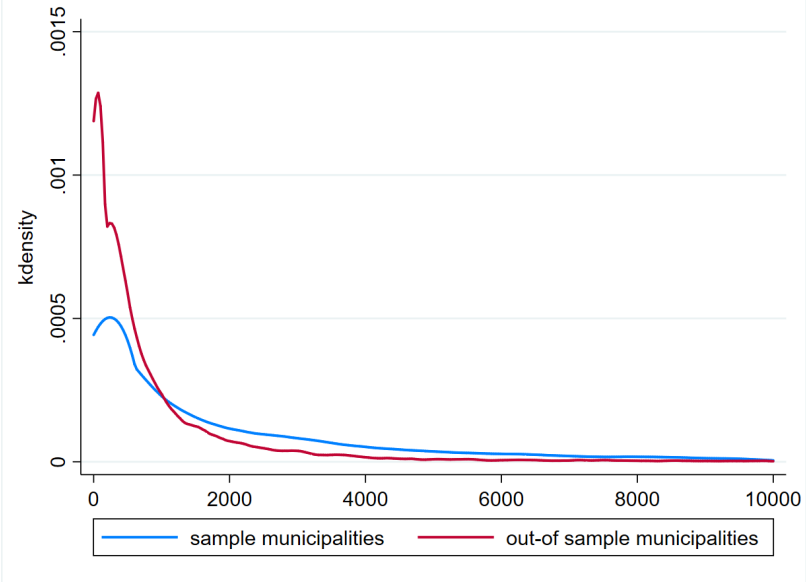
Source Buscemi (2022). The figure shows the evolution of Southern GDP and the difference in growth rates of Southern Italy and the rest of the country.

Figure A3: Example of archival file



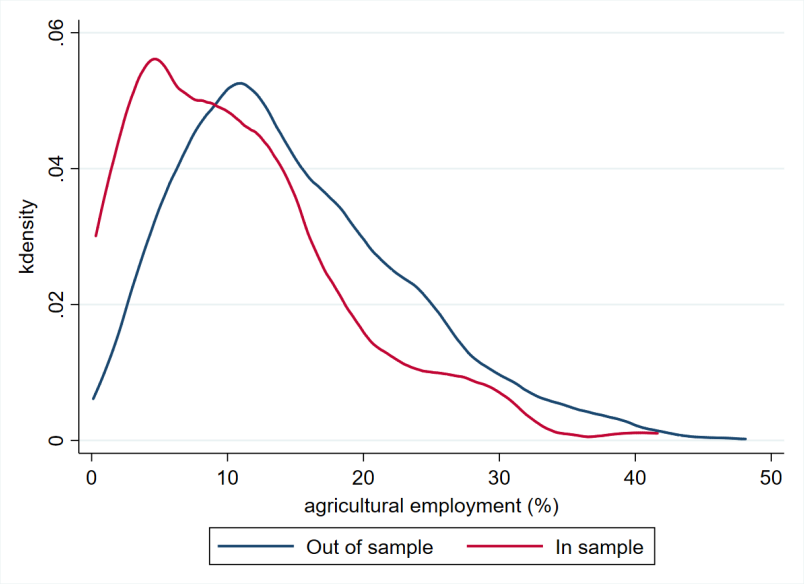
The Figure reports an example of original file with information on local administrators (municipality of Palermo) that we collected and digitalised.

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



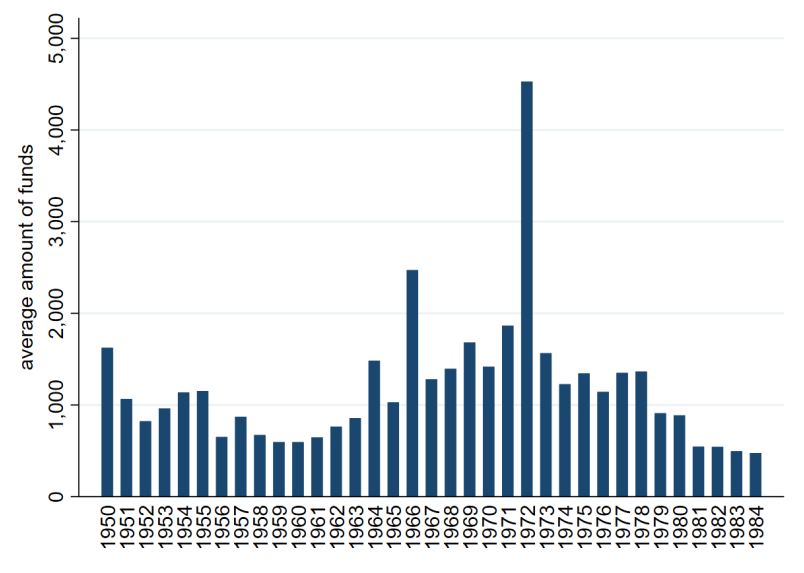
The horizontal axis reports the total amount of funds received by municipalities. That amount is expressed in thousands of euros and adjusted for inflation (at 2011 prices). We include in the computation funds for public works, non-refundable firm grants and concessional financing.

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



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)

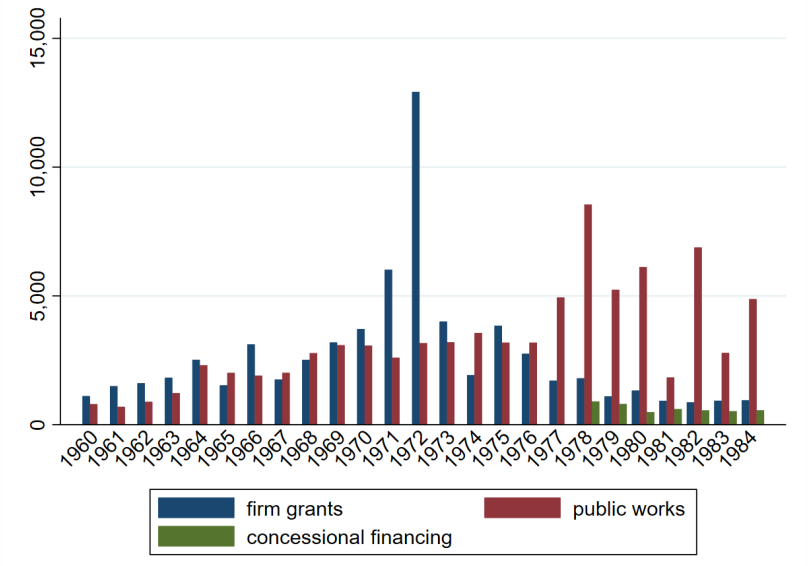


The (average) amount of funds is expressed in thousands of euros, adjusted for inflation (at 2011 prices). We include in the computation funds for public works, non-refundable grants and concessional financing.

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: Time evolution of investments: average amount of funding



The Figure reports the average amount of funding funding by year, across all municipalities in our sample. The unit of measure is millions of euros, adjusted for inflation (at 2011 prices).

Table A2: Alignment effect on project approvals after devolution, province-clustered standard errors (1960-first electoral turn after the reform)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	0.823***	0.409*	0.414**
	(0.2263)	(0.2124)	(0.1788)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.709	0.652	0.484
N	5311	5311	5311

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 of CasMez funds received by a given municipality. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and region-year fixed effects, and for municipality-specific linear time trends. We restrict the post-treatment period to the first legislature after the CasMez reform.

Table A3: Alignment probability and funds received: cross-section analysis

	Alignment probability
Numb. of project approvals	0.002
(1972-first electoral turn)	(0.0020)
Region fixed effects	✓
R-squared	0.037
N	310

Standard errors in parentheses clustered at municipal 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 of CasMez funds received by a given municipality. Re-alignment refers to the first electoral turn after the CasMez reform; and it takes value one if the municipality is aligned with the regional government after local elections. The number of funds refer to the span going from 1972 to the first municipal electoral turn. We also include region fixed effects.

Table A4: Alignment effect on project approvals after devolution (1960-1975), excluding municipalities holding local elections in 1971-1974

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	1.117***	0.677***	0.440*
	(0.3464)	(0.2333)	(0.2297)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.741	0.700	0.488
N	3141	3141	3141

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 of CasMez funds received by a given municipality. We focus on the period 1960-1975 and exclude municipalities which hold elections between 1971 and 1974. Doing so, we rely on a fixed sample of municipalities for which alignment is defined at the creation of regions (1970) and that did not experience electoral variations in the observed span. We also control for municipality and region-year fixed effects, and for municipality-specific linear time trends.

Table A5: Alignment effect on project approvals after devolution, cross-region analysis (1960-first electoral turn after the reform)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	0.807***	0.459**	0.348**
	(0.2692)	(0.1852)	(0.1729)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Year fixed effects	✓	✓	✓
R-squared	0.704	0.645	0.483
N	5313	5313	5313

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 of CasMez funds received by a given municipality. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and year fixed effects, and for municipality-specific linear time trends. We restrict the post-treatment period to the first legislature after the CasMez reform.

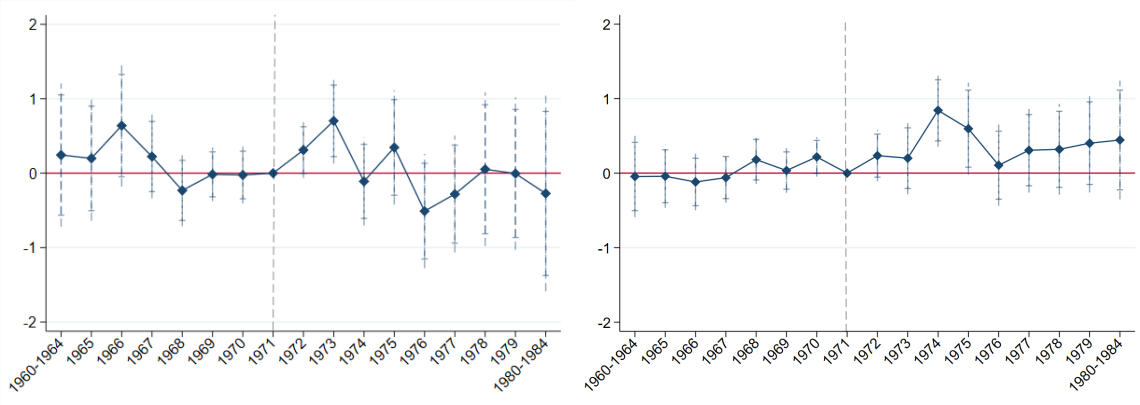
Table A6: Alignment effect on project approvals after devolution, not controlling for municipality-specific linear time trends (1960-first electoral turn after the reform)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	0.748**	0.479**	0.270
	(0.3050)	(0.2320)	(0.1687)
Municipality fixed effects	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.667	0.606	0.440
N	5311	5311	5311

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 of CasMez funds received by a given municipality. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and region-year fixed effects. We restrict the post-treatment period to the first legislature after the CasMez reform.

Figure A8: Event study plot: number of project approvals

a. Firm subsidies b. Public works



The Figure shows the event study estimates corresponding to equation 3. It reports the dynamic effect of partisan alignment as of 1971, 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 and 95% level confidence intervals.

Table A7: Alignment effect on project approvals after devolution, extensive and intensive margin (1960-first electoral turn after the reform)

	Extensive margin	Intensive margin	
	LPM	OLS	Poisson
Alignment	-0.056	1.491***	0.183**
	(0.0550)	(0.4289)	(0.0802)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.310	0.671	0.414
N	5311	3323	3323

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 probability that a given municipality receive some grants (extensive margin - Column 1), and on the number of funds received conditional on obtaining some (intensive margin - Columns 2 and 3). Column 1 reports the estimated coefficient from a linear probability model (LPM), where the dependent variable is a dummy taking value one if the municipality received any positive amount of funds and zero otherwise. Columns 2 and 3 coefficients refer to estimates from 1, where the dependent variable is the total number of project approvals and the sample is restricted to municipalities receiving some Casmez funds. The effect on the intensive margin is estimated both with OLS regression (Column 2) and Poisson (Column 3). Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and region-year fixed effects, and municipality-specific linear time trends. We restrict the post-treatment period to the first legislature after the CasMez reform.

Table A8: Alignment effect on average size of funds after devolution (1960-first electoral turn after the reform)

	Average size of funds		
	Total	Firm subsidies	Public works
Alignment	0.352*	0.426*	-0.297
	(0.2069)	(0.2575)	(0.3417)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.307	0.364	0.227
N	3323	2309	1875

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 average size of CasMez funds received by a given municipality (log). Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and region-year fixed effects, and municipality-specific linear time trends. We restrict the post-treatment period to the first legislature after the CasMez reform.

Table A9: Alignment effect on project approvals after devolution, Sicily and Sardinia (1960-first electoral turn after the reform)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	1.420***	0.831**	0.589**
	(0.4704)	(0.3317)	(0.2301)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.648	0.599	0.399
N	1674	1674	1674

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 of CasMez funds received by a given municipality, focusing on the regions of Sicily and Sardinia. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for municipality and region-year fixed effects, and for municipality-specific linear time trends. We restrict the post-treatment period to the first legislature after the CasMez reform.

Table A10: DC effect on project approvals (1960-first electoral turn after the reform)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
DC	0.105	0.217	-0.111
	(0.1255)	(0.1871)	(0.1045)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.709	0.652	0.483
N	5321	5321	5321

Standard errors in parentheses clustered at municipal level * p<0.10, ** p<0.05, *** p<0.01. The Table reports the effect of being ruled by a Christian Democracy (DC) mayor on the number of CasMez funds received by a given municipality, over the period going from 1960 to the first legislature after the CasMez reform. We also control for municipality and region-year fixed effects, and municipality-specific linear time trends.

Table A11: Pre-reform alignment between local and National government (1960-1971)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
DC	0.245	0.324	-0.079
	(0.1782)	(0.2169)	(0.0747)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.654	0.575	0.484
N	4488	4488	4488

Standard errors in parentheses clustered at municipal level * p<0.10, ** p<0.05, *** p<0.01. The Table reports the effect of being ruled by a Christian Democracy (DC) mayor on the number of CasMez funds received by a given municipality, over pre-reform years 1960-1971. Since the National government was ruled by DC in that period, the DC coefficient captures alignment effects between local and National government prior to the reform. We also control for municipality and region-year fixed effects, and municipality-specific linear time trends.

Table A12: Number of treated observations by period

Relative time period		Year	Numb. of Treated obs.	%	% among non-missing
Valid	-12	1960	268	2.87	4.74
	-11	1961	268	2.87	4.74
	-10	1962	268	2.87	4.74
	-9	1963	268	2.87	4.74
	-8	1964	268	2.87	4.74
	-7	1965	268	2.87	4.74
	-6	1966	268	2.87	4.74
	-5	1967	268	2.87	4.74
	-4	1968	268	2.87	4.74
	-3	1969	268	2.87	4.74
	-2	1970	268	2.87	4.74
	-1	1971	268	2.87	4.74
	0	1972	268	2.87	4.74
	1	1973	257	2.75	4.54
	2	1974	254	2.72	4.49
	3	1975	197	2.11	3.48
	4	1976	190	2.03	3.36
	5	1977	183	1.96	3.24
	6	1978	177	1.89	3.13
	7	1979	174	1.86	3.08
	8	1980	152	1.63	2.69
	9	1981	149	1.59	2.63
	10	1982	149	1.59	2.63
	11	1983	146	1.56	2.58
	12	1984	143	1.53	2.53
	Total		5655	60.48	100.00
Missing	.		3695	39.52	
Total			9350	100.00	

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).

Table A13: Placebo alignment prior to the reform (1960-1971)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Placebo alignment	-0.010	0.076	-0.086
	(0.1980)	(0.1886)	(0.0937)
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.654	0.574	0.484
N	4488	4488	4488

Standard errors in parentheses clustered at municipal level * p<0.10, ** p<0.05, *** p<0.01. The Table reports the effect of *placebo* alignment on the number of CasMez funds received by a given municipality. Placebo alignment takes value one from 1965 to 1971 if the municipality was aligned with the regional government by 1971. We also control for municipality and region-year fixed effects, and municipality-specific linear time trends.

Figure A9: Event study plot: number of project approvals (total), alignment as an absorbing state

The Figure shows the event study estimates corresponding to equation 3. It reports the dynamic effect of partisan alignment as of 1971, assuming treatment remains constant afterwards (i.e. forcing it to be an absorbing state). We take as reference year 1971, when the CasMez reform was implemented. The outcome is the total number of project approvals. We report 90 and 95 % level confidence intervals.

Table A14: Mayor's occupations

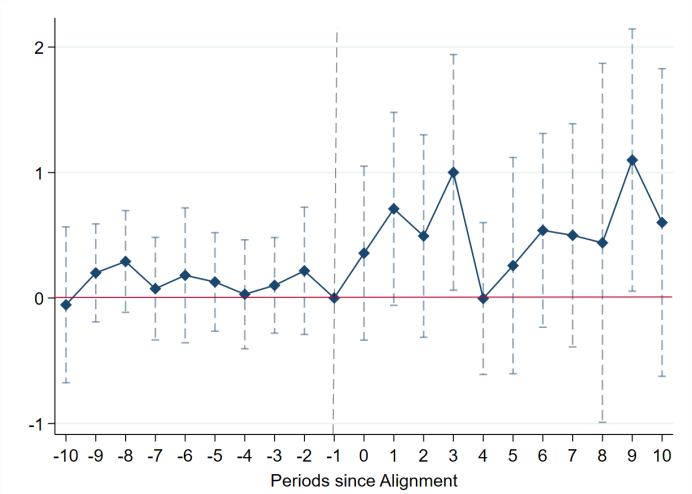
Occupation	Numb.	%
Agricultural worker	143	1.53
Architect	7	0.07
Artisan	112	1.20
Clerk	3,611	38.62
Doctor	714	7.64
Entrepreneur	425	4.55
Journalist	20	0.21
Lawyer	1,001	10.71
Magistrate	44	0.47
Manager	145	1.55
Notary	33	0.35
Other	356	3.81
Politician	100	1.07
Professor	17	0.18
Rentier	62	0.66
Retailer	180	1.93
Retired	243	2.60
Self-employed	1,070	11.44
Student	135	1.44
Teacher	860	9.20
Technician	14	0.15
Worker	58	0.62
Total	9,350	100.00

Table A15: Alignment effect on project approvals after devolution, controlling for mayor's characteristics (1960-1984)

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment	0.544**	0.294*	0.249*
	(0.2350)	(0.1529)	(0.1441)
Mayor's characteristics:			
Age	-0.002	-0.000	-0.002
	(0.0047)	(0.0038)	(0.0028)
Education	0.021	0.012	0.009
	(0.0805)	(0.0611)	(0.0452)
Agricultural worker	-0.143	-0.181	0.038
	(0.3039)	(0.2332)	(0.1875)
Architect	0.582	0.027	0.555**
	(0.3655)	(0.3111)	(0.2194)
Artisan	-0.151	-0.113	-0.038
	(0.2847)	(0.2077)	(0.1829)
Clerk	-0.193	-0.136	-0.057
	(0.2253)	(0.1965)	(0.1406)
Doctor	-0.163	-0.119	-0.044
	(0.2695)	(0.2290)	(0.1747)
Entrepreneur	-0.293	-0.201	-0.092
	(0.2515)	(0.2165)	(0.1550)
Journalist	0.295	-0.006	0.301
	(0.3930)	(0.3299)	(0.1984)
Lawyer	-0.291	-0.128	-0.162
	(0.3086)	(0.2496)	(0.1741)
Magistrate	-0.099	-0.047	-0.053
	(0.3936)	(0.3888)	(0.2262)
Manager	-0.078	-0.013	-0.065
	(0.3810)	(0.3120)	(0.1883)
Notary	-0.221	-0.259	0.038
	(0.3275)	(0.2879)	(0.2216)
Other	0.382	0.417	-0.035
	(0.3461)	(0.2965)	(0.2283)
Politician	0.717	0.547	0.170
	(0.9081)	(0.3753)	(0.7352)
Professor	-0.075	0.062	-0.137
	(0.3645)	(0.3068)	(0.1962)
Rentier	0.769	0.573	0.196
	(0.6423)	(0.5069)	(0.2772)
Retired	0.152	0.220	-0.068
	(0.2960)	(0.2454)	(0.1824)
Self-employed	-0.154	-0.122	-0.032
	(0.3071)	(0.2398)	(0.1812)
Teacher	-0.107	0.180	-0.287
	(0.4093)	(0.3411)	(0.2007)
Technician	-0.003	0.008	-0.011
	(0.2567)	(0.2236)	(0.1436)
Worker	-0.797	-0.876	0.079
	(0.6159)	(0.6618)	(0.1850)
DC	✓	✓	✓
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.702	0.703	0.453
N	7419	7419	7419

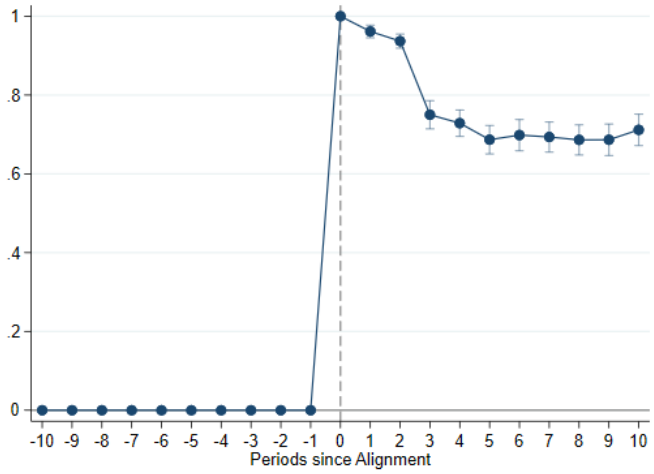
Standard errors in parentheses clustered at municipal level * p<0.10, ** p<0.05, *** p<0.01. The Table reports the effect of partisan alignment on the number of CasMez funds received by a given municipality. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We also control for the DC being in power at the local level, municipality and region-year fixed effects, municipality-specific linear time trends, and for mayor's characteristics: namely, age, education, and occupation.

Figure A10: Event study plot: number of project approvals (total)



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 95% level confidence intervals.

Figure A11: Event study plot: alignment status before and after first alignment



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 95% level confidence intervals.

Table A16: Heterogeneity analysis by municipal size

	Numb. of project approvals		
	Total	Firm subsidies	Public works
Alignment*[≤ median]	-0.297	-0.240	-0.057
	(0.2127)	(0.1497)	(0.1312)
Alignment*[> median]	1.469***	0.879***	0.590***
	(0.3133)	(0.1961)	(0.2076)
DC	✓	✓	✓
Municipality fixed effects	✓	✓	✓
Municipality time trends	✓	✓	✓
Region-year fixed effects	✓	✓	✓
R-squared	0.705	0.693	0.440
N	7728	7728	7728

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 of CasMez funds received by a given municipality, distinguishing by municipality population as of 1971. Partisan alignment is defined as of 1971, and can take value one starting from 1972 (i.e. after the CasMez reform). We interact alignment with two indicators respectively taking value one if the municipality in 1971 was below or above the median population. We also control for the DC being in power at the local level, municipality and region-year fixed effects, and municipality-specific linear time trends.