In February 2007, the city of Turin hosted the 20th Winter Olympic Games. Foremost in the minds of some were the risks of environmental damage to the
surrounding mountains. These fears were indeed confirmed, but other types of damage have been mounting outside of the public eye. In order to finance the Games, the city subscribed derivatives, which by late 2007 lost it 100 million euros. As for Piedmont, the region of Turin, in the past two years its government has subscribed contracts with Merrill Lynch, Opi and Dexia, costing the region 52 million euros (Rimini, 2007).

Other local governments face similar difficulties. Down the Italian peninsula, the city of Naples has subscribed a financial contract that will allow the current administration to receive up to 59 millions between 2004 and 2011, but which will cost future administrations 100 million euros between 2012 and 2024. The government of Campania, the region of Naples, has adopted a similar strategy: against 56 million Euros in revenues from debt, it has committed the future governments of the region to pay back 126 million euros between 2015 and 2021 (Rimini, 2007).

Faced with increasing policy responsibilities and central government imposed constraints on their revenues, Italian cities and regions are resorting to debt, often in the form of highly complex instruments which the local administrators do not know how to manage (or know how to manage all too well). This paper focuses specifically on the regional level, and aims to assess the determinants of regional fiscal discipline in a federalizing country such as Italy.

In the past ten years there has been a renewed interest in federalism among political scientists, the attention focusing on the economic implications of federalism, and especially of its repercussions for fiscal governance. The new literature on fiscal federalism has been concerned especially with the overspending that federal arrangements might induce. This concern has at least in part been driven by an apparent disconnect between theory and practice. On the one hand, influential
theoretical arguments have made a case for federalism as a stimulant of economic efficiency; on the other hand, federal institutional arrangements seem to have led to sub-par economic and fiscal outcomes. This has especially been evident in developing countries, with the Argentine experience leading to cautionary tales about the “dark side of federalism,” (to quote the title of Saiegh and Tommasi’s (2000) paper). Even among OECD countries, however, federal institutions have been faulted for creating fiscal problems. This has not least been the case for Germany, a country that was deemed a paragon of fiscal and monetary probity in Europe. In fact, specifically in Europe the federal or federalizing nature of many countries compounds the concerns of free riding and moral hazard associated with the establishment of the Economic and Monetary Union.

This paper examines the fiscal federalism issue in Italy. The country was highly centralized until the mid-1990s, when it has started to develop many federal features. Since the mid-1990s the presidents of the regional governments have been directly elected, giving them greater democratic legitimacy and greater autonomy from the national party organizations. A new constitution in 2001 recognizes the regions as the constituent units of the polity and given them a large sphere of action autonomous from the national government. Connected to this development, the Constitutional Court has been called more and more frequently to adjudicate jurisdictional disputes between the regional and national governments.

The country is an especially good case for a study of incipient fiscal federalism. First, its twenty regions provide significant variation in one of the key institutional determinants of regional spending, namely vertical imbalance or the extent to which regional expenditure is funded by transfers from the central government rather than taxes raised by the regional government. In 2004, for instance,
the ratio between own taxes and transfers varied between 14% (Sardinia) and 88% (Lombardy). Second, the Italian regions were the focus of Putnam’s (1993) influential study on the effects of social capital. One can speculate that, as the regions have received greater fiscal competencies over time, the performance of the regions would diverge according to their relative level of social capital. In the empirical section, we use a dataset that covers the twenty Italian regions between 1999, the time by which many of the federal features mentioned above were in place, and 2004, the last year for which ISTAT, the national statistical office, has made regional fiscal data available to the public.¹

The rest of the paper is structured as follows. The next section describes the federalization of the Italian polity over the last decade. Section three introduces a set of hypotheses that the Italian case can test based on the relevant literature. Section four presents the empirical analysis. We find that there is almost nothing we can measure that affects the spending side of the budget. On the debt side and well as in accounting for transfers of funds from the national to the regional level, however, there are some notable political effects. In particular, when governments at the regional level have the same parties in government as at the national level, they have higher debt burdens. When there are elections, partisans on both sides of the political divide reduce debt. Finally, for transfer payments from the center to the regions, there is also a political business cycle that centers on elections, with governments from the parties in power getting more transfers than opposition-controlled regions receive.

Section five concludes.

¹ The Ministry for Economic Development provides data that at the time of writing cover the period up to 2006; however these data have been reclassified according to economic criteria with the purpose of analyzing the impact of regional and central government spending on the regional economies (Ministero dello Sviluppo Economico, 2007) and are thus not usable for studies of the financial flows across different levels of government.
The Federalization of Italy

Italy is composed of twenty regions, of which five – the so-called special statute or “autonomous” regions (Valle d’Aosta, Trentino-Alto Adige, Friuli-Venezia Giulia, Sicily and Sardinia) have special prerogatives and powers because they qualify as border regions with significant linguistic minorities or because they are islands.²

The political unification of the country, only completed after the First World War, has not erased major economic and cultural differences among different areas. Table 1 reports regional differences in terms of per capita income, unemployment rate, and a measure of corruption. The income differences between the richer center-north (Piedmont through Latium) and the south of the county are in line with those of other countries (the per capita income of the richer part of the country is about 60% higher than that of the poorer regions, with a peak difference between the richest and the poorest region of about 100%). The difference in terms of unemployment, however, is much greater than for income-the unemployment rate of the south is almost three times that of the center-north, with a peak difference of more than five times between Valle d’Aosta and Sicily.

Finally, the different incidence of corruption across the regions gives an idea of the cross-regional cultural differences regarding the use of taxpayers’ money. The corruption index – from Golden and Picci (2005) – is the ratio between stock of public investment and government financial outlays, normalized by the national average. It measures the “bang for the buck” of public investment. This means that the higher the ratio, the lower the level of corruption. Taking for instance the case of

² These prerogatives and powers vary from region to region and reflect considerations of political opportunity and – in the case of Trentino-Alto Adige – international treaties (Macciotta, 2006).
Campania, the table shows that if the public funds invested in Campania (risen to international notoriety in late 2007 for its inability to dispose of its garbage) had “leaked” by the national average, now the region would have three times the infrastructure stock it actually has, and four times that if the Neapolitan public administrators had behaved as those of Emilia-Romagna.

Although the process of devolving power to the regions has been long, difficult, and subject to hiccups (not least in the fiscal sphere), the country has come a long way from its pre-war character as a centralized state. According to the 2001 constitutional revision, the regions, alongside municipalities, provinces and metropolitan areas, constitute the fundamental political units of the country on a par with the central government. Only the regions and the central government, however, have legislative authority. The constitutional changes of 2001 have also given the regions autonomous legislative authority on all policy areas that the constitution does not explicitly assign to the central government – such as defence, international relations, and social security – or defines as the shared competence of the regions and the central government – such as relations with the European Union, education, and health. Even in the policy areas where the regional governments share competence with the central government, however, the latter can only define the general legal framework, leaving it to the regions to legislate in more detail.

The constitutional position of the regions after 2001 represents a significant break with the past. Although the 1948 democratic constitution provided for the creation of regions, ordinary statute regions (namely all aside from the five special
statute regions mentioned above) were only established in 1970, due to the moderates’ fear that this would consign a number of regions to the Italian Communist Party (Dente, 2007). Even after their creation, until the mid-1990s their decision-making role was rather marginal and their financial autonomy was minimal. Although the central government gave the regions important policy areas to manage (in particular the provision of health services), the areas where they had legislative power were very limited: the central government had competence on all policy areas aside from a well-circumscribed list assigned to the regions and covering issues such as inland navigation, hunting, agriculture and forestry, and mining. Fiscally, the regions almost entirely depended on (mostly earmarked) transfers from the central government (Hine, 1993).

In sum, David Hine could describe the pre-reform position of the regions as follows (Hine, 1993, p. 269):

The affairs of regional government have thus tended to divide into two categories – a modest sector of real regional responsibility, and a much larger sector in which grandiose regional budgets and policy plans are a fiction, because spending is determined by, and ultimately covered by, national taxpayers.

Politically, the regional system of government was modelled on the national one. The government was “parliamentary,” in that voters would vote for the regional assembly, which then elected the regional government. Just as in the national electoral system, the regional electoral system was based on an extremely proportional electoral formula. In short, the regions replicated the features of the national government: fragmented party systems, weak executives and little connection between the voters’ choices and government formation, since government coalitions were agreed by the parties after the elections. By the late 1980s, however, pressure from political movements advocating greater regional autonomy if not outright secession began to
mount (Dente, 2007), and this affected the political, fiscal, administrative and eventually constitutional position of the regions.

Politically, after the upheaval of the early 1990s – when a wave of scandals wiped out all government parties (Ginsborg, 2003) – the demand for greater political relevance of the regions combined with the widespread popular demand for parties to take a step back from public life. Law 43/1995 and Constitutional law 1/1999 scrapped the old regime of the regions. Law 43/1995 has mandated the creation of pre-electoral coalitions and introduced a seat premium for the winning coalition. Constitutional law 1/1999 has mandated that the presidents of the regions are directly elected and the electoral coalition supporting them receives 60% of the seats in the regional assembly. This has increased the cohesiveness of the regional executives and given the regional president new political relief in the voters’ eyes (the presidents are now popularly known as “governors,” following the terminology used in the United States). However, like in many established federations, the regional elections largely remain a referendum on the current national government. For instance, in the last years of the center-left government coalition (1996-2001), regional elections went to the center-right; similarly, the widespread disappointment with the Berlusconi center-right government (2001-2006) translated into a significant shift of regional governments from the center-right to the center-left.

Fiscally, from the early 1990s on the regions have increased their financial autonomy from the central government. At first (1992-1995), the regions simply increased the share of non-earmarked funds at their disposal as they were given direct control of the funds generated by certain taxes raised on their territory (ISAE, 2003, p. 22). Crucially, however, these were still central government taxes, and thus these reforms did not yet give regions the ability to set tax rates or define their tax base.
It may indeed be argued – and this is also the position adopted by this paper – that it is only when local governments can decide how much to tax, and indeed who to tax, that they can be held politically responsible by local voters for how they use locally raised taxes (Rodden, 2002; Rodden & Wibbels, 2002). In this vein, it was in 1997 that regional financial autonomy made a qualitatively significant break from the past. Since that year regions have been given a measure of control over the tax rate through their control of a regional tax on productive activities and a regional additional rate applied to the national income tax. The close of the 1990s (law 113/99 and legislative decree 50/2000) also saw a turnaround in the approach to transfers from the center to the regions, from a majority of ear-marked grants to a majority of general grants (Bordignon & Emiliani, 2001).

This greater regional financial autonomy accompanied an extension in the administrative tasks assigned to the regions, under the terms of a reform that aimed to devolve administrative functions from the center to the local administrations based on the subsidiarity principle\(^3\). Law 59/97 also greatly increased the scope of the State-Region Conference (\textit{Conferenza Stato-Regioni}). This Conference, originally set up in 1983, brings together the central government (the Prime Minister or another minister delegated by him) and the presidents of the regions and of the two autonomous provinces that make up the Trentino Alto-Adige region. The law stipulates that the regions must be consulted on all central government decisions that affect them. Even though the government can eventually decide against the opinion of the Conference, it must – as per a decision of the Constitutional Court (ISAE, 2004) – justify why it did not take into account the position of the regions. The Conference is also the

\(^3\) The reform is law 59/97 and the implementation decrees based on it; see ISAE, 2003, pp. 19-20.
institutional locus where the regions and the government negotiate the distribution of fiscal resources among the regions (ISAE, 2003, pp. 138-139).

Returning to the 2001 constitutional reform, it dramatically increased the decision-making powers of the regions, effectively giving them all the legislative powers that are not explicitly reserved for the central government. The reform also explicitly addressed the issue of the regions’ financial autonomy. Giving constitutional backing to the 1997 reform, it now gives regions the power to set and levy their own taxes within limits set by the central government.

Finally, although the 1948 Constitution had already given the Constitutional Court the role of arbiter between the regions and the central government, the administrative and constitutional reforms affected the extent of the regions’ and government’s recourse to the Court. The administrative devolution was immediately cause for appeals to the Constitutional Court from regions that felt their administrative role was encroached upon by the central government (ISAE, 2004, p. 70). With the 2001 constitutional reform, moreover, the regions have been put on a par with the central government in their ability to access the Court (ISAE, 2004, p. 74); and according to some sources in the immediate aftermath of the reform the number of government appeals increased by 500%, and that of the regions by 460% (ISAE, 2004, p. 77).

Despite the major steps taken towards political federalism, it would however be wrong to conclude that fiscal federalism has moved in parallel with political federalism. In spite of the measures introduced to reform regional funding, in reality the system is no longer fully centralized, but not yet federalized.

One of the sources of friction between the regions and the center has indeed been the extent of the regions’ financial autonomy (ISAE, 2005). Legislative decree
56/2000 was supposed to set up a transparent mechanism for the distribution of fiscal resources among the regions based on solidaristic federalism (as in the case of Germany). Regional funding was to be based on their” needs, “defined in terms of the functions they are called to perform, among which the most important is the health service, and of equalization of tax revenues. Regional revenues would thus flow into a central fund, with a small fraction of regional revenues to be retained by the regions so as to stimulate efficiency and competition among the regions. However, in reality decree 56/2000 has never been implemented due to the opposition in particular of the poorer regions of the South (Macciotta & Zanardi, 2006; Zanardi, 2006), and the distribution of funds has continued to be decided based on the past levels of regional expenditure and ad-hoc and non-transparent deals between the government and the regions.

Starting in 1999 the central government has also introduced a Domestic Stability Pact (DSP) to keep regional spending under control, first in terms of budget balance and later – with the center-right government (2001-2006) – of spending limits. In particular, the imposition of spending limits constituted a significant interference in the regions’ budgetary autonomy, which was compounded by the limits the central government also imposed on their ability to adjust the rates of the regional taxes (ISAE, 2004, p. 55), the government’s purpose being to force the regional governments to cut their spending by first cutting their revenues (Bordignon, 2002).

In terms of outcomes, Graph 1 presents information on the average debt levels in the regions both in absolute numbers and as a percent of GDP. The figures indicate that the debt burden has been increasing over the period we study.
Theories of Fiscal Federalism: Hypotheses

As several scholars note, there exists a large gap between the actual behaviour of federations and the expectations of economic efficiency and fiscal prudence raised by much work on federalism (Wibbels 2000, 2006; Oates, 1972; Tiebout, 1956; Weingast, 1995). In fact this work was mostly based on the experience of the United States, one of the countries (along with Switzerland) whose federal arrangements come the closest to the ideal “market-preserving federalism,” such as limited vertical imbalance and hard budget constraints that do not allow bailouts for fiscally imprudent states (Weingast, 1995).

As scholars have expanded the scope of their research, they have been able to identify a number of institutional and political factors that might not be relevant in the US case, but that can have a significant effect on the fiscal behaviour of sub-national and national actors. A first and widespread finding is that the fiscal profligacy of regional governments tends to increase with the extent to which their expenditure is funded through grants rather than own revenues, namely with the extent of vertical imbalance (Jones et al., 2000; Rodden, 2005; Rodden & Wibbels, 2002). The basic rationale for this is the operation of the common resource pool problem (Weingast, Shepsle, & Johnsen, 1981): while spending benefits a certain territorially defined constituency, the costs are not entirely borne by it but are spread nationally. Since politicians are elected from territorially defined constituencies (this is the case of regional governments but also applies to the members of national legislatures), they will tend to support more spending for their constituency than what they would if the
constituency had to finance regional expenditure in its entirety through their region’s own taxes and fees.

Moreover, this tendency to overspend is reinforced by the fact that the more a region is dependent on grants, the weaker is the intertemporal constraint on how much it spends. This is because regions that are largely dependent on intergovernmental transfers have stronger expectations of a bailout – in the form of further transfers, arrangements for access to bank credit and so on – from the central government (Rodden, 2005; Rodden & Wibbels, 2002).

Hence, a first hypothesis is that regions with lower financial autonomy (namely a lower ratio of own revenues to grants from other levels of government) will have less fiscal discipline (i.e. they will spend more, have greater deficits or incur in more debt) than regions with higher financial autonomy:

**H1: The lower the financial autonomy of a region, the lower its fiscal discipline**

Even in the presence of a common resource pool problem, actors might face political incentives to internalize the costs of their constituency’s fiscal choices. First, a national party system might lead national legislators to internalize the costs of district spending (Inman & Fitts, 1990). However, proper testing of this hypothesis requires variation in the degree of party discipline within the country being studied, and as such cannot be tested with the short time series (six years) used in this paper.⁴

A second political factor is co-partisanship between regional and national governments, since co-partisanship might affect the incentives of regional political actors. Inasmuch as the success of politicians competing for regional elections

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⁴ For similar reasons (the composition of the center-left and center-right coalitions remained stable over the period) this paper does not test for the possible impact of regional government fragmentation on fiscal discipline (Alesina & Drazen, 1991; Franzese, 2002).
depends in part on the voters’ assessment of their party’s policies at the national level – the coattails effect – regional politicians might have an incentive to minimize the macroeconomic “bads” – such as inflation or high central government debt – that might result from regional overspending and central government’s bailouts (Rodden, 2005, pp. 125-126; Wibbels, 2006, pp. 175-176). Hence, regional governments with the same party composition as the national government can be expected to be more fiscally conservative than those regional governments that have a different partisan make-up, an expectation substantiated by findings from Argentina (Jones et al., 2000).

However, in order for coattails effects to tighten regional fiscal discipline it is necessary that there be awareness in the national discourse of the negative macro-economic impact of regional fiscal indiscipline (Rodden, 2005, p. 170). If the connection between regional overspending and macro-economic performance is not recognized then regional governments might be tempted to be more fiscally profligate precisely if they have a co-partisan central government, since they might expect easier access to bailouts from the central government, and in fact empirical work on India (Khemani, 2007) and Germany (Rodden, 2005) shows that those regional governments that are co-partisan of the central government tend to run higher deficits. Italy potentially falls in this case; an empirical study of regional health expenditure shows that co-partisanship only increased fiscal discipline when there was a major national political goal at stake, namely in the run-up to the EMU (Bordignon & Turati, 2005). This leads us to formulate the following hypothesis:

**H2: Fiscal discipline will be lower for regional governments that are copartisan of the central government than for those that are not.**
A third potential factor is the role of elections. Regional governments are elected like national ones, and, as their fiscal autonomy increases, one would expect that they would be more likely to use spending and taxation to improve the lots of their voters in the run-up to elections. In Brazil, for example, personnel spending has traditionally increased prior to provincial elections in a phenomenon that was common even when the national government was a dictatorship (Ames, Hiroi and Renno 2005).

H3: Fiscal discipline will deteriorate in election years.

We would also like to examine one variable that does not generally appear in empirical tests of fiscal federalism, namely social capital. Although the fiscal federalism literature assumes that regional governments have strong incentives not to be good stewards of the taxpayers’ money, it has limited its analysis to the impact of institutional and political factors. In regions with higher levels of social capital, local administrators might pursue more transparent and less corrupt practices, with positive effects on regional finances. The concept of social capital refers to the prevailing system of expectations individuals hold about other people’s and their own behaviour. On the one hand, it refers to the trust people put in others; on the other hand it refers to the goals individuals pursue. In particular individuals should not only be after their

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5 We also investigated a straight partisanship argument in the very first draft of the paper. The political economy literature has long studied the spending preferences of the left and the right (Hibbs, 1977), mostly with regard to national governments but also with regard to sub-national governments (Alt & Lowry, 1994). There is however no consensus view as to the impact of partisanship on the government’s fiscal stance. In contrast with an earlier view that left-wing governments are more fiscally profligate than conservative ones (Buchanan & Wagner, 1977), later work has argued that left-wing governments might actually be more fiscally prudent than conservative ones (Cameron, 1985; Cusack, 1999) We did include a measure for “Left” regional governments in first analyses, but it was never significant.
own personal and short-term interest, but have among their ends the broader good of their community, namely have “civicness” or “civic virtue“ (Putnam, 1993, p. 88).

Going back to the debt practices that opened this paper, in Emilia-Romagna – one of the foremost examples of a highly civic region according to Putnam – a number of cities have joined together in a consortium to negotiate better deals with the banks, while the province of Treviso in Veneto (another highly civic region) has created a financial task force which assesses all the proposals made by the banks and is able to ensure that the financial risk is not borne by the provincial administration (Rimini, 2007). In contrast, the above-mentioned financial contract subscribed by the region Campania – an uncivic region in Putnam’s work – was negotiated by the son of the region’s president, who is responsible for relations with the Italian public sector for UBS, and who made a 28 million Euro profit for UBS from the deal (Rimini, 2007). To generalize from these anecdotes, which are consistent with Putnam’s argument, the paper posits the following:

**H4: regions with greater social capital will have more fiscal discipline**

Finally, politics might have significant implications for regional fiscal policy through its potential impact on the extent of transfers to the regions. Specifically, the amount of transfers from the central government to the regions might be influenced by the lobbying activity of the regional governments. Rune Sorensen, for instance, finds that in Norway regional governments that engage in more lobbying of the central government receive a proportionally higher fraction of intergovernmental grants (Sorensen, 2003). In our case, we are interested in the frequency with which regional governments meet with the national governments in the State-Region Conference. Consistently with the Norwegian case, we in fact find that the regions
that engage in more frequent meetings with the central government receive more
transfers from the government

**H5: The more frequent a regional government attends the State-Region
Conference, the larger the transfers from the central government.**

**Empirical analysis**

With Hypothesis 5 to be examined later in the paper because it requires a different
empirical model, Hypotheses H1-H4 will be tested together based on the following
model:

\[
\text{FISCAL DISCIPLINE} = \alpha + \beta_1(\text{FINANCIAL AUTONOMY}) + \\
\beta_2(\text{COPARTISANSHIP}) + \beta_3(\text{ELECTION}) + \beta_4(\text{SOCIAL CAPITAL}) + \\
\sum \beta_i(\text{CONTROLS}_i) + \varepsilon
\]

We perform a cross-section time-series analysis across the twenty Italian
regions for the 1999-2001 period. We use four different operationalizations for
FISCAL DISCIPLINE: per capita expenditure (net of interest payments to control for
the size of debt pre-existing our period of analysis), per capita personnel expenditure,\(^6\)
new debt, and new debt as a share of total expenditure. Until the constitutional
revision of 2001 regional debt was regulated by an ordinary law which allowed it for
“development” purposes (Giarda, 2001). The constitutional reform of 2001 has
restrained the regions’ access to debt by limiting it to the funding of capital spending
and has mandated that the central government cannot guarantee regional debt.
Increases in the stock of debt may in fact be the most precise gauge of fiscal
discipline, however, since the other measures are more easily the object of accounting

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\(^6\) We focus on personnel expenditure as a typical form of clientelistic spending (Wibbels, 2005b, p. 164-165)
tricks (Hallerberg, Strauch, & von Hagen, Forthcoming). The data are from the regional budgets (ISTAT, Various years-b).

The variables that follow from our hypotheses are as follows. FINANCIAL AUTONOMY is operationalized as own taxes/(own taxes + transfers). Taxes are considered part of a region’s “own taxes” only if a region has at least some control over the relevant tax rate. Following Rodden (2002), taxes that are levied by the central government and automatically transferred to the region – based on a tax-sharing mechanism – are not considered own taxes and are counted as transfers. The coefficient’s sign is expected to be negative. COPARTISANSHIP is a dummy variable with a value of 1 if the regional and central governments are copartisan and 0 otherwise. In the period under analysis the bipolarization of the national party system also operated locally, so that the party composition of the regional governments coincided with that of the national government (the only exceptions where some of the autonomous regions, where regional parties were in government that were not in the central government; these case have been coded as 1, namely as copartisan). The coefficient’s sign is expected to be positive. ELECTION measures the number of electoral campaign months in a given region for each year (Rodden, 2005, p. 172).

The measure of SOCIAL CAPITAL updates to the period of analysis one of the indices of government performance used by Putnam in his original study on social capital: lateness in the approval of the regional budget. We thus operationalize social capital indirectly, namely through a measure of government performance – although

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7 We also caution that the classification of what is capital and what is current spending is notoriously flexible (Rodden, 2005).
8 Given the special nature of Trentino Alto-Adige, which is composed of two autonomous provinces that carry out most of the region’s functions, the data for this region are the sum of the values for the regional and provincial governments.
9 We have used the Tributi Propri (“own taxes”) section of the Title I of the regional budgets. The only exception is Sicily, where revenues from tax-sharing are budgeted as own taxes (Bordignon, 2002). For this region we have therefore detracted the income tax revenues from the own taxes.
correlated to social capital (Putnam, 1993) – rather than through a measure of social
capital. The original connection Putnam made between the civility of a
community and government performance has been criticized for the lack of a clear
mechanism linking trust within the community and the efficiency of the government
(Levi, 1996). We try to overcome this problem by using a concept that taps into the
actual behaviour of the administrators, namely the importance they attribute to
respecting a legally mandated deadline.

LATE is measured as the number of days between the legal deadline for the
approval of the regional budget (December 31) and the actual approval date (the
approval dates are taken from the regional laws approving the budget). If the budget is
approved on or before December 31 the variable is coded as 0. The expectation is that
in regions with low social capital the regional administrators will reflect this lack of
civility (Boix & Posner, 1998) and will tend to use public money in a non-
transparent manner, thus leading to less fiscal discipline. Thus, the coefficient’s sign
is expected to be positive.

As for the controls, we use per capita income (both as a level and a first
difference measure), age structure (proportion of population above 65),
unemployment rate, and population size (in terms of logged population). Wealthier
regions may have different spending needs than poorer regions, while more elderly
populations may use more state services, such as the region’s hospitals. In terms of

10 We do not use the Golden and Picci (2005) index of corruption shown in table 1 as it does not have a
longitudinal dimension.
11 We also included a dummy variable for the autonomous regions origins. Their funding is
overwhelmingly based on transfers and not on own taxes. For historical reasons, they have
also been provided with funding “in excess” of the functions that they are called to perform,
and thus have more funds to spend per capita than the other regions (Giarda, 2001). This
variable was never significant in the cross section regressions, however, and, because it does
not vary, it could not be included in the GMM specifications that follow.
economic factors, we include the unemployment rate. Finally, we consider the population size of the regions for the following reasons. First, it is one of the determinants of the distribution of government grants. Second, a region’s size might affect how efficient it is in fulfilling its policy mandates due to economies of scale. Moreover, the population size of a region might affect the leeway it has in its spending: on the one hand, certain regions might be “too big to fail,” so that they might expect to be bailed out by the central government if they overspend; on the other hand, especially small regions might also be able to overspend because their small size limits the negative macro-economic effects their behavior might have on the national economy (Rodden, 2005).

The following two tables summarize our variables:

TABLE 2 ABOUT HERE

TABLE 3 ABOUT HERE

A brief perusal of these tables already prompts some observations. Valle d’Aosta is the largest spender in general and on personnel and has started the largest amount on debt per capita, consistently with its status of autonomous region. It is also the smallest region, suggesting that size might indeed matter, in the sense that smaller regions might be freer to pursue a looser fiscal policy. Lombardy has the highest level of financial autonomy, and it is the region that spends the least per capita on personnel, consistent with the expectations of the impact of financial autonomy on

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12 Using first difference unemployment leads to similar, generally statistically insignificant, results and are not reported here.
regional spending decisions, and also with the hypothesis that larger regions (Lombardy is the largest region) might be more efficient. Lombardy is also the richest region (in terms of mean per capita income between 1999 and 2001), suggesting a point that has so far not been emphasized, but which has significant political relevance in Italy, namely that richer regions have greater financial autonomy than poorer ones. Among other things, this entails greater latitude of choice: in the face of cuts on grants or of insufficient central government grants to perform all the regional functions, richer regions have the choice of raising more local revenues rather than reducing the level of services.

In fact, income might also increase regional flexibility by affecting the ability of regions to resort to debt: the least new debt was started by Calabria, the poorest region, while Valle d’Aosta (with a per capita income only a few euros below that of Lombardy) had the largest new per capita debt in the period of this study. On the other hand, Sardinia, one of the poorest regions, had the largest new debt as a share of regional expenditure, suggesting that income may also affect debt in another way: poorer regions might see debt as the only way to fund their functions. Finally, it is interesting to note that Campania, one of the uncivic regions in Putnam’s study, is also the one that has the worst measure of government performance in our study: on average, its budget was approved in August of the fiscal year of reference, making it a dubious instrument for the choice of regional spending priorities.

**Analysis**

More precise conclusions, of course, can only be drawn through a more systematic analysis of the data, to which we now turn. We have reliable data for the period 1999, or from the time that the regions have increased powers, to 2004. As we have noted, the constitutional regime changed in 2001, but there is some uncertainty
about the exact year this would affect regional outcomes, so we include year effects. The twenty regions vary on many possible dimensions, and our goal is to identify everything that makes a particular region “unique” (Przeworski and Teune 1970). Our first battery of regression results is a panel regression. As Plümper and Troeger (2005, 8) succinctly note, “unit fixed effects are a vector of the mean effect of omitted variables,” and the question is whether the remaining omitted variables reduce the relevance of the variables that we include. We therefore run a Hausman test on our first set of results, and in most (though not all) the Hausman suggests that the fixed effects should be included. For consistency across results, and because we are worried that we are missing one or more ways that these regions vary that could be correlated with the other variables, we include fixed effects across the specifications. The results of the fixed effects panel regressions for the four measurements of fiscal discipline appear in Table 4. Before moving on, we have reason to doubt this empirical specification. It includes a lagged dependent variable with a small number of periods, and in this case the estimator should be biased. To get at this, we use the generalized method-of-moments estimator (Arellano and Bond 1991).

One of the results is a non-result--little seems to affect either per capita spending or per capital personnel spending in these regions. None of the political

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13 The dependent variable appears in level, instead of first difference, terms in this specification. Graph 1 presented earlier indicated that debt appears to be non-stationary, as it increases every year. Note, however, that our measurement for debt is “new debt,” so it is by definition a first difference. There is no similar pattern for the four dependent variables we care about here with the exception of transfer payments; see more about that analysis below.

14 See Scheve and Slaughter (2004) for an example of an empirical application.
variables matter. In fact, standard control variables that one would expect to have an impact on expenditures, such as the age of the population and economic indicators like income and unemployment, do not impact expenditures either. This suggests that Rome continues to play a dominant role in deciding upon any increases in spending regardless of local conditions.

Across the specifications, there are no significant findings for either fiscal autonomy or for our measure of social capital (namely the lateness of the budget). We would like to be careful about what we read into this result. If one does a specification without fixed effects, fiscal autonomy is significant in the expenditure and personnel regressions. This suggests that there may be another variable correlated with the level of autonomy. As we note elsewhere, wealthier regions tend to have more autonomy. We have already included wealth as one independent variable, however, and once one uses fixed effects the standard error on fiscal autonomy increases. Similarly, our result for social capital does not preclude the possibility that social capital might have an impact on fiscal discipline. Our result, that is, might be due to the proxy we chose for social capital, namely a measure of government – and in particular procedural – performance. While this is consistent with Putnam’s original work, more recent work has shown that the connection between social capital and government performance might be more complex than what Putnam thought; in particular, work done on Germany and the United States shows that social capital is indeed connected with government activism (namely its promptness to respond to citizens’ demands), but not with measures of procedural performance such as the one used in this paper (Tavits, 2006).

Technically, copartisanship is significant at the p<.1 level, but it has an unexpectedly negative sign. We suspect this is random noise.
The most interesting findings come from the analysis of new debt across the regions. While larger regions have more debt as expected, it is also clear that regional governments that have partisan allies in Rome generate more debt, or, to interpret the regression coefficient from the GMM analysis, 354,000,000 euros more of it per year than in places where the national opposition controls the regional government. At the same time, regional governments seem to want to avoid generating more debt prior to regional elections. New debt drops 457,000,000 euros below what it would have been in non-electoral years. The idea that Italian voters would be sensitive to, and react with punishment for, incumbents who dare to increase debt does not seem, on the face of it, to be accurate--at the national level, Italy has one of the highest debt levels as a percent of GDP in the European Union. Yet the ability of local governments to do anything with debt was a new phenomenon, and local voters may have been sensitive to this measure because it was a clear way to evaluate the performance of a given regional government.\(^{16}\)

Hypotheses H5 – that the transfers to the regions in part depend on the extent of they lobbying activities – is tested separately, since it focuses on a different dependent variable – transfers per capita – than the other hypotheses. Moreover, it is tested on a shorter dataset (2001-2004) based on the availability of data for the most important independent variable (attendance at the meetings of the Conferenza Stato-Regioni). The hypothesis is tested based on the following model:

\[
\text{TRANSFER PER CAPITA} = \alpha + \beta_1(ATTENDANCE) + \beta_2(\text{COPARTISANSHIP}) + \beta_3(\text{ELECTIONS}) + \beta_4(\text{LATEELECTION}) + \Sigma \beta_i(\text{CONTROLS}_i) + \varepsilon
\]

\(^{16}\) We will need more micro-level data before we can be confident in a story here.
Compared to the model used to test Hypotheses H1 through H4, this equation uses a variable (ATTENDANCE) that measures the number of times in a year representatives of the region attended the *Conferenza Stato-Regioni*, the institutional locus where the regions and the government negotiate the distribution of fiscal resources among the regions (ISAE, 2003, pp. 138-139). The idea is to measure the extent of regional lobbying through their participation in the main forum where the central government and the regional governments meet. Participation in *Conferenza* is voluntary, so it offers the opportunity to directly observe the behaviour of the regional governments, while other work done on the effect of regional lobbying on transfers from the central gov is based on surveys (Sorensen, 2003).

As with the previous analysis, we use both panel regressions with fixed effects as well as a GMM estimator. Table 5 gives a summary description of the dependent variable and of the main theoretical variable; table 6 provides the results of the regression analysis. Note that attendance is weighted by regional population. While this makes the coefficient somewhat awkward to interpret (as it represents the change in per capita transfers for one “attendance per capita”), it does capture that intuition that the presidents of larger regions might be more able to attend the meetings simply because the regional government is larger and thus can devote more time to contacts with the central government. The results show that the extent to which regions participate in the regular meetings with the central government does have an impact on the amount of transfers they receive from the government.  

Once again, there are also interesting findings regarding copartisanship and debt. At first glance, it would appear that all regions get a big dollop of transfers per

---

17 based on the minutes of the meetings, available at [http://www.governo.it/Conferenze/Conferenza_Stato_Regioni/index.html](http://www.governo.it/Conferenze/Conferenza_Stato_Regioni/index.html)

18 Beside the number of times, weighted by regional population, a region attended the *Conferenza* meetings, we also ran a regression using the number of regional representatives attending the meetings, also weighted by regional population. The results are very similar to those presented in the text.
capita whenever there is a regional election. It could be that national governments cannot target specific regions when it gives out transfers, but to be sure we ran another analysis that includes interaction terms for co-partisanship and election. Table 7 presents the conditional coefficients for election given co-partisanship. The results are not consistent across the panel model with fixed effects and the GMM estimator. Assuming that the GMM estimator is the more conservative of the two, however, the results indicate that regions with co-partisans in Rome get an average of 346 euros more per capita in electoral years than regions that have opposition parties up for re-election.

TABLE 5-7 HERE

Conclusions

The purpose of this paper was to test some of the most significant hypotheses of the fiscal federalism literature on a federalizing country like Italy, namely a country that has many but not all of the political and fiscal features of a full-blown federation. The regions have a much broader policy role than in the past, but they still lack direct representation in Parliament.

As regards the fiscal arrangements, the country’s constituent units – the regions – have since the late 1990s moved towards much great fiscal autonomy, both in consideration of the shift of regional funding from earmarked to block grants and – more importantly based on the premises of is paper – of the introduction of regional taxes, namely taxes over which regions have some significant control (in particular through their ability to set or partially set the tax rates). At the same time, however,
the move toward fiscal federalism has also suffered setbacks, in particular with the central government-imposed limits on regional spending and regional tax rates, and with the non-implementation of a transparent mechanism for the redistribution of funds among the regions.

Combining the different analyses, the following picture emerges. Regional expenditure does not depend on regional-level factors, which probably reflects the persisting importance – in spite of the attempts to set up a more transparent mechanism with law 56/2000 – of past levels of expenditure as determinants of intergovernmental transfers and thus of future expenditure. There is, however, an interesting debt dynamic. Debt drops in electoral years, and this happens regardless of which party controls the regional government. At the same time, assuming we put more confidence in the GMM results, transfers increase in electoral years if the regional government is from the same coalition as the one in Rome.

There is another result from the analysis of transfers per capita that should receive more attention. While it stands to reason that lobbying might matter, for obvious reasons it is difficult to measure it. This paper takes a new approach to this problem by making use of the actual attendance records at the meetings between the regional and central governments in the 2001-2004 period. The results confirm the expectation that lobbying – or at least attending meetings with the government – pays off: the more assiduous participants receive more transfers from the government.
Graph 1: Local Government Debt (Million Euros and Share of GDP, 1999-2006)

Source: Banca d’Italia, *Relazione Annuale*, various years
Table 1: Income, Unemployment and Corruption across Regions

<table>
<thead>
<tr>
<th>Regions</th>
<th>Per Capita Income, 2004 (Euros)</th>
<th>Unemployment Rate, 2004</th>
<th>Corruption Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piemonte (Piedmont)</td>
<td>26340.8</td>
<td>5.25</td>
<td>1.638</td>
</tr>
<tr>
<td>Valle d'Aosta</td>
<td>31379.5</td>
<td>3</td>
<td>0.855</td>
</tr>
<tr>
<td>Lombardia (Lombardy)</td>
<td>31044.8</td>
<td>5.76</td>
<td>1.161</td>
</tr>
<tr>
<td>Trentino-Alto Adige</td>
<td>29846.54</td>
<td>4.05</td>
<td>1.236</td>
</tr>
<tr>
<td>Veneto</td>
<td>27982.2</td>
<td>3.19</td>
<td>1.22</td>
</tr>
<tr>
<td>Friuli-Venezia Giulia</td>
<td>26143.4</td>
<td>4.24</td>
<td>1.077</td>
</tr>
<tr>
<td>Liguria</td>
<td>24382.7</td>
<td>3.92</td>
<td>0.669</td>
</tr>
<tr>
<td>Emilia-Romagna</td>
<td>29287.5</td>
<td>3.7</td>
<td>1.611</td>
</tr>
<tr>
<td>Toscana (Tuscany)</td>
<td>26177.1</td>
<td>5.32</td>
<td>1.613</td>
</tr>
<tr>
<td>Umbria</td>
<td>22563.4</td>
<td>5.2</td>
<td>1.783</td>
</tr>
<tr>
<td>Marche</td>
<td>23925.7</td>
<td>5.69</td>
<td>1.312</td>
</tr>
<tr>
<td>Lazio (Latium)</td>
<td>28756.1</td>
<td>7.94</td>
<td>0.817</td>
</tr>
<tr>
<td>Abruzzo</td>
<td>19297</td>
<td>15.64</td>
<td>0.956</td>
</tr>
<tr>
<td>Molise</td>
<td>17290</td>
<td>7.92</td>
<td>0.583</td>
</tr>
<tr>
<td>Campania</td>
<td>15531.7</td>
<td>11.34</td>
<td>0.362</td>
</tr>
<tr>
<td>Puglia (Apulia)</td>
<td>15694.4</td>
<td>15.48</td>
<td>0.722</td>
</tr>
<tr>
<td>Basilicata</td>
<td>16668.1</td>
<td>12.85</td>
<td>0.533</td>
</tr>
<tr>
<td>Calabria</td>
<td>15457</td>
<td>14.29</td>
<td>0.409</td>
</tr>
<tr>
<td>Sicilia (Sicily)</td>
<td>15440.1</td>
<td>17.24</td>
<td>0.607</td>
</tr>
<tr>
<td>Sardegna (Sardinia)</td>
<td>18581</td>
<td>13.9</td>
<td>0.838</td>
</tr>
</tbody>
</table>

Sources:  
Income: ISTAT. Various years. *Conti economici regionali.* ISTAT: Rome  
Unemployment rate: ISTAT. 2007. *Health for All.* ISTAT: Rome  
### Table 2: Summary of Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure per capita (DV)</td>
<td>6100</td>
<td>3217</td>
<td>2128</td>
<td>21497</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Campania 1999)</td>
<td>(Valle d'Aosta 2001)</td>
</tr>
<tr>
<td>Personnel expenditure per capita (DV)</td>
<td>214</td>
<td>445</td>
<td>22</td>
<td>1881</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Veneto 1999)</td>
<td>(Valle d'Aosta 2004)</td>
</tr>
<tr>
<td>New debt per capita (DV)</td>
<td>479</td>
<td>721</td>
<td>0</td>
<td>5346</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Calabria 2001)</td>
<td>(Valle d'Aosta 2001)</td>
</tr>
<tr>
<td>New debt as a share of total expenditure (DV)</td>
<td>0.078</td>
<td>0.092</td>
<td>0</td>
<td>0.462</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Calabria 2001)</td>
<td>(Sardinia 2002)</td>
</tr>
<tr>
<td>Financial Autonomy</td>
<td>0.364</td>
<td>0.205</td>
<td>0.009</td>
<td>0.876</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Valle d'Aosta 2003)</td>
<td>(Lombardy 2004)</td>
</tr>
<tr>
<td>Social Capital (lateness in approving the</td>
<td>85</td>
<td>66</td>
<td>0</td>
<td>336</td>
</tr>
<tr>
<td>regional budget)</td>
<td></td>
<td></td>
<td>*</td>
<td>(Campania 2000)</td>
</tr>
<tr>
<td>Income per capita</td>
<td>21300</td>
<td>5461</td>
<td>11934</td>
<td>32635</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Calabria 1999)</td>
<td>(Valle d'Aosta 2004)</td>
</tr>
<tr>
<td>Share of population over 65</td>
<td>19.4</td>
<td>2.9</td>
<td>13.6</td>
<td>26.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Campania 1999)</td>
<td>(Liguria 2004)</td>
</tr>
<tr>
<td>Population</td>
<td>2864775</td>
<td>2274905</td>
<td>118754</td>
<td>9319944</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Valle d'Aosta 1999)</td>
<td>(Lombardy 2004)</td>
</tr>
</tbody>
</table>

* Too many region-years to report
Table 3: Summary of Variables (mean values)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure per capita (DV)</td>
<td>6100</td>
<td>3072</td>
<td>3211</td>
<td>(Campania)</td>
</tr>
<tr>
<td>Personnel expenditure per capita (DV)</td>
<td>214</td>
<td>442</td>
<td>24</td>
<td>(Lombardy)</td>
</tr>
<tr>
<td>New debt per capita (DV)</td>
<td>479</td>
<td>568</td>
<td>66</td>
<td>(Calabria)</td>
</tr>
<tr>
<td>New debt as a share of total expenditure (DV)</td>
<td>0.078</td>
<td>0.078</td>
<td>.013</td>
<td>(Calabria)</td>
</tr>
<tr>
<td>Financial Autonomy</td>
<td>36.4</td>
<td>18.4</td>
<td>12.8</td>
<td>(Trentino-A.A.)</td>
</tr>
<tr>
<td>Social Capital (lateness in approving the regional budget)</td>
<td>85</td>
<td>51</td>
<td>3</td>
<td>(Valle d’Aosta)</td>
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<tr>
<td>Income per capita</td>
<td>21300</td>
<td>5320</td>
<td>14130</td>
<td>(Calabria)</td>
</tr>
<tr>
<td>Share of population over 65</td>
<td>19.4</td>
<td>2.8</td>
<td>14.4</td>
<td>(Campania)</td>
</tr>
<tr>
<td>Population</td>
<td>2864775</td>
<td>2282979</td>
<td>120689</td>
<td>(Valle d’Aosta)</td>
</tr>
</tbody>
</table>

Table 4: Determinants of Fiscal Discipline
<table>
<thead>
<tr>
<th>SPECIFICATION</th>
<th>Expenditure Per Capita</th>
<th>Personnel Expenditure Per Capita</th>
<th>Debt</th>
<th>Debt as a share of regional expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagged DV</td>
<td>Fixed Effects</td>
<td>Arellano-Bond</td>
<td>Fixed Effects</td>
<td>Arellano-Bover/Blundell-Bond</td>
</tr>
<tr>
<td></td>
<td>.35 (.10)**</td>
<td>-.10 (.21)</td>
<td>.25 (.10)**</td>
<td>.08 (1.10)</td>
</tr>
<tr>
<td>Financial Autonomy</td>
<td>-.1545.45 (1057.69)</td>
<td>-.1339.09 (4065.48)</td>
<td>-.43.50 (42.47)</td>
<td>-.86.94 (490.66)</td>
</tr>
<tr>
<td>Copartisanship</td>
<td>-.263.72 (245.26)</td>
<td>-.448.29 (257.80)</td>
<td>4.78 (9.01)</td>
<td>1.29 (24.40)</td>
</tr>
<tr>
<td>Election</td>
<td>-.181.91 (402.84)</td>
<td>-.325.39 (410.84)</td>
<td>2.52 (15.95)</td>
<td>7.08 (66.90)</td>
</tr>
<tr>
<td>Late Budget Approval Income</td>
<td>-.22 (.34)</td>
<td>-.079 (.40)</td>
<td>.05 (9.11)</td>
<td>.07 (21.00)</td>
</tr>
<tr>
<td>Age structure</td>
<td>1033.96 (1437.12)</td>
<td>1157.80 (1552.30)</td>
<td>-.100.55 (57.47)</td>
<td>-.134.30 (183.78)</td>
</tr>
<tr>
<td>Log of Population</td>
<td>16657.84 (30892.88)</td>
<td>-.752.12 (35417.7)</td>
<td>-.2054.44 (1224.59)</td>
<td>-.342.29 (262.05)</td>
</tr>
<tr>
<td>Unemployment Constant</td>
<td>-7.02 (63.59)</td>
<td>11.62 (71.55)</td>
<td>3.42 (2.53)</td>
<td>.45 (7.39)</td>
</tr>
<tr>
<td>F</td>
<td>2.51 (.49)</td>
<td>3.31 (.7)</td>
<td>1404.01 (1000)</td>
<td>00.00 (100)</td>
</tr>
</tbody>
</table>

Standard Errors in parentheses; year dummies omitted
***p < .01; **p < .05; *p < .10

Results based on either a panel regression with fixed effects or on an Arellano-Bond GMM estimator for all but the estimation for personnel costs per capita, where a Sargan test indicated that a Arellano-Bover/Blundell-Bond estimator was more appropriate. Standard Errors in parentheses. GMM results report coefficients for first differences.
Table 5: Transfers per capita and Attendance of the *Conferenza Stato-Regioni* (mean values)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers per capita (DV)</td>
<td>1879.18</td>
<td>1744.09</td>
<td>493.07</td>
<td>7445.88</td>
</tr>
<tr>
<td>(Lombardy)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Valle d’Aosta)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attendance</td>
<td>10.1</td>
<td>4.2</td>
<td>2.4</td>
<td>17.2</td>
</tr>
<tr>
<td>(Campania)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Emilia-Romagna)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6: Determinants of Change in Per Capita Transfers

<table>
<thead>
<tr>
<th></th>
<th>Non-Interactive Model</th>
<th>Interactive Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed Effects</td>
<td>Arellano-Bover/Blundell-Bond</td>
</tr>
<tr>
<td>Lagged DV</td>
<td>-.33 (.11)***</td>
<td>.53 (.14)***</td>
</tr>
<tr>
<td>Attendance</td>
<td>1.51e+07 (6982790)**</td>
<td>1.45e+07 (4735806)**</td>
</tr>
<tr>
<td></td>
<td>(102.15)</td>
<td>(369.50)</td>
</tr>
<tr>
<td>Copartisanship</td>
<td>-27.95 (183.38)**</td>
<td>-316.30 (369.50)</td>
</tr>
<tr>
<td></td>
<td>(1021.5)</td>
<td>(369.50)</td>
</tr>
<tr>
<td>Election</td>
<td>392.57 (279.86)</td>
<td>441.08 (169.95)***</td>
</tr>
<tr>
<td></td>
<td>(183.38)**</td>
<td>(369.50)</td>
</tr>
<tr>
<td>Copartisanship*Election</td>
<td>-.87 (.89)</td>
<td>-.34 (.89)</td>
</tr>
<tr>
<td>Income</td>
<td>-.01 (.01)</td>
<td>.13 (.17)</td>
</tr>
<tr>
<td>Late</td>
<td>-.87 (.89)</td>
<td>-.34 (.89)</td>
</tr>
<tr>
<td>Age structure</td>
<td>-17.32 (18.01)</td>
<td>-380.49 (280.82)</td>
</tr>
<tr>
<td></td>
<td>(.17)</td>
<td>(.89)</td>
</tr>
<tr>
<td>Log of Population</td>
<td>45.28 (78.71)</td>
<td>606.21 (425.34)</td>
</tr>
<tr>
<td></td>
<td>(1299.96)</td>
<td>(7512.58)</td>
</tr>
<tr>
<td>Constant</td>
<td>28.56 (1268.56)</td>
<td>1435.51</td>
</tr>
<tr>
<td>Wald</td>
<td>0.0008</td>
<td>0.0010</td>
</tr>
<tr>
<td>p</td>
<td>0.00006</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Results based on an Arellano-Bover/Blundell-Bond (1998) linear dynamic panel-data estimation with robust standard errors (xtgls in Stata 10.0). Note that the coefficients are differences. Standard Errors in parentheses. (More Notes: A Sargan test under a standard GMM estimator indicated that the overidentifying restrictions were not valid; our guess is the reason is that the variance between the panel-level effect and the idiosyncratic error was too large. This modified technique uses moment conditions of lagged differences in addition to the usual lagged levels for the differenced equation, and a Sargan test (without robust standard errors—this test does not work with robust errors) indicated one could not reject the hypothesis that the overidentifying restrictions were valid. There is no evidence of problems with autocorrelation based on an Arellano-Bond test for zero autocorrelation at t=2.)
Table 7: Conditional Coefficients For the Effect of Elections given Copartisanship

<table>
<thead>
<tr>
<th>Election</th>
<th>Copartisanship=0</th>
<th>Fixed Effects</th>
<th>Arellano-Bover/Blundell-Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>565.30**</td>
<td>485.96</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(279.86)</td>
<td>(297.78)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Election</th>
<th>Copartisanship=1</th>
<th>Fixed Effects</th>
<th>Arellano-Bover/Blundell-Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>193.98</td>
<td>346.10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(225.19)</td>
<td>(170.90)**</td>
</tr>
</tbody>
</table>

***p< .01; **p< .05; *p< .10, two-tailed tests.
References


Plümper, Thomas, and Vera Troeger. 2005. [same title, but presented at the Midwest?]


Appendix: Data Sources

Budget

Unit: euros
Source: ISTAT. Various years. *I bilanci consuntivi delle regioni e province autonome*. ISTAT: Rome

Unit: euros
Source: ISTAT. Various years. *I bilanci consuntivi delle regioni e province autonome*. ISTAT: Rome

[Debt] = New debt
Unit: euros
Source: ISTAT. Various years. *I bilanci consuntivi delle regioni e province autonome*. ISTAT: Rome

[DebtShare] = New debt as a fraction of expenditure
Source: ISTAT. Various years. *I bilanci consuntivi delle regioni e province autonome*. ISTAT: Rome

[Debtpc] = New debt per capita
Unit: euros
Source: ISTAT. Various years. *I bilanci consuntivi delle regioni e province autonome*. ISTAT: Rome

Demographic Variables

[Pop]: Regional population (1999-2005)
Available at [http://www.istat.it/sanita/Health/](http://www.istat.it/sanita/Health/)

[over65]: Share of the regional population over 65 (1999-2005)
Available at [http://www.istat.it/sanita/Health/](http://www.istat.it/sanita/Health/)

Income

[Income]: Per capita income (1999-2005)
Unit: euros
Source: ISTAT. Various years. *Conti economici regionali*. ISTAT: Rome
Institutional variables

[Aut]: Autonomous region

[Attendance]: Attendance at meetings of the Conferenza Stato Regioni (2001-2005)
Source:
http://www.regioni.it/

[People]: Attendees at meetings of the Conferenza Stato Regioni (2001-2005)
Source:
http://www.regioni.it/

Social capital variables

[Late]: Late approval of the regional budget (1999-2005)
Unit: days
Source: regional budget laws

[Corruption1] : Ratio between stock of public investment and government financial outlays (NB: the higher the ratio, the lower the level of corruption)
Source: Golden and Picci 2005