

The Economics and Politics of Government Aid

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- Do place-based policies have long-lasting economic effects?
- Focus on one of the most ambitious post-WWII local development policies in Western Europe: the Italian *Cassa per il Mezzogiorno* (CasMez), 1950-1992
- Digitalize geo-referenced micro data on the universe of interventions
- Combine with measures of local development and electoral outcomes across around 8K municipalities, 1911-2018
- Identification strategy based on the politics of program targeting
- Focus on both CasMez (short-term:1950-1992) and post-CasMez (long term:1993-2018) periods

Preview of results

- CasMez led to significant local economic gains in the short term
- **Economic reversal** in the long term
- **Possible mechanism:** weaker state capacity
- We **can rule out** possible alternatives:
 - ✓ change in the employment structure
 - ✓ “political resource curse”

- **Place-based policies and foreign aid** [Becker et al. (2010, 2012, 2013, 2018), Burnside and Dollar (2000), Criscuolo et al. (2019), Easterly (2003), Kline and Moretti (2014), Moretti (2011)]
- **Italian post-war economic development and politics** [Albanese et al. (2024), Bianchi and Giorcelli (2019), Cerrato and Filippucci (2024), D'Adda and De Blasio (2017), Felice and Lepore (2017), Incoronato and Lattanzio (2024)]
- **Rent capture by local elites** [Brollo et al (2013), Djankov et al (2008), Ferraz et al (2024), Nunn and Qian (2014), Svensson (2000)]
- **Political returns to transfers** [Caprettini et al (2019), Faye and Niehaus (2012), Manacorda et al (2011), Voigtländer and Voth (2018)]
- **State capacity** [Acemoglu et al (2015), Dell et al (2017)]

The Political and Economic Background

- After WWII, high poverty and unemployment – especially in the South
 - ✓ North-South gap long-standing issue (*Questione Meridionale*)
- Cold war: US feared that Italy drawn into Soviet Union's sphere of influence
- 1948: elections of the First Republican Parliament
- Two main coalitions (proportional system):
 - ✓ right-centrist Christian Democratic party
 - ✓ left leaning Popular Democratic Front (Communists+ Socialists)
- Christian Democrats won absolute majority in both chambers
- The left enjoyed significant and unexpected rise in electoral support
 - ✓ land occupations by peasants and violent confrontations with police
- Christian Democrats in power for 45 years until end of First Republic (1994)

The *Cassa per il Mezzogiorno* (CasMez)

- Newly elected government turned to address economic backwardness of South as a matter of urgency
- CasMez established in 1950 initially for 10 years but continuously extended until 1992
- Over 40+ years > (2017) €140 billion, 3% of annual GDP
- First period (1950s/1960s):
 - ✓ infrastructures (roads, aqueducts, sewage, schools..), land reclamation + subsidies/subsidized loans to agriculture and manufacturing
 - ✓ program under direct control of central government but highly technocratic (virtuous)
- Second period (1970s/1980s):
 - ✓ direct investment in industrial plants
 - ✓ gradually appropriated by national and local politicians (vicious)

Aqueduct of Procida and Ischia (1957)



Industrial development

Italsider (ILVA) - Taranto (1964): €6 billion

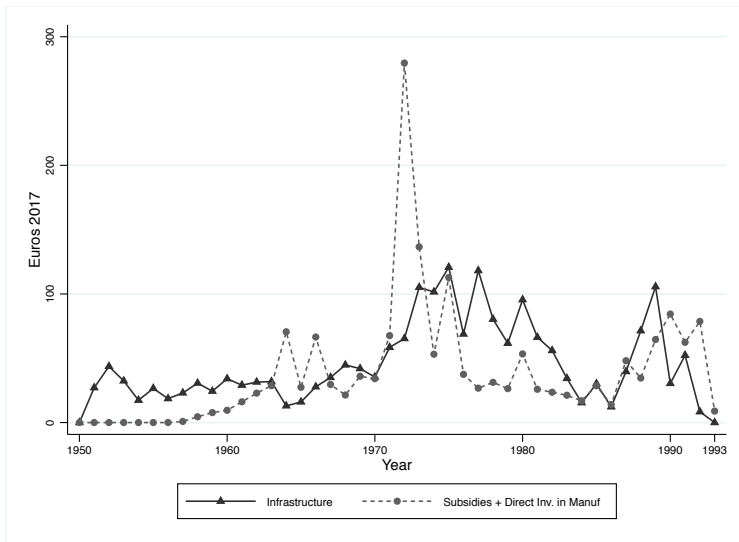






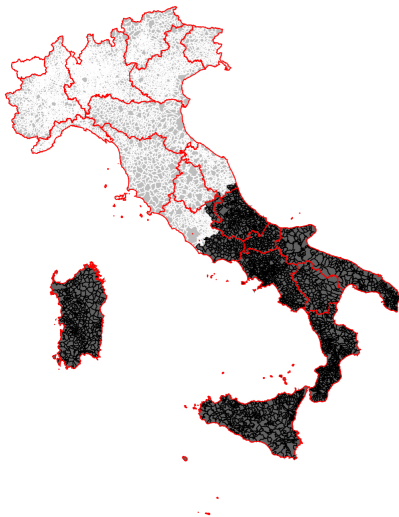
- Micro data on CasMez interventions: 1950 -1992
 - ✓ Information on beneficiary municipalities, category, amount, date of approval, date of completion and - if applicable - beneficiary individual/firm
- Municipalities political and socio-economic characteristics/outcomes:
 - ✓ decennial Population Census: 1911-2011
 - ✓ decennial Industrial Census: 1951-2011
 - ✓ national electoral results: 1948-2018
 - ✓ geographical characteristics
 - ✓ income declarations (IRPEF): 2005-2018
 - ✓ municipal finances (AIDA PA): 2001-2018
 - ✓ local administrators (Interior Department): 1985-2018

Per capita spending over time and by type



► Validation

Program targeting

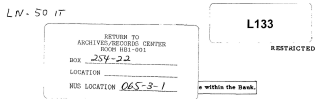


Descriptive statistics - Municipalities

	Eligible (1)	Non-Eligible (2)
Observations	2,624	5,054
Ever received CasMez	2,619	69
Years positive spending	17.7	0.157
Total spending (million €2017)	307.56	3.22
Annual spending per capita (2017)	172.44	2.12
<u>Baseline characteristics - 1911</u>		
Population	5,277	4,212
% Illiterates	63.44	23.24
<u>Baseline characteristics - 1921</u>		
Population	4,879	3,924
% Illiterates	51.29	14.92
<u>Baseline characteristics - 1936</u>		
Population	6,510	5,599
Employment to pop rate	37.69	46.53
% Workers Agriculture	55.65	33.71
% Workers Manufacturing	27.36	37.32
% Workers Services	1.80	2.68
% Workers Retail	7.42	8.96
% Workers Public	4.34	4.68
<u>Baseline characteristics - 1948</u>		
Turnout	90.89	93.50
% Valid	97.28	97.55
% Christian Democrats	53.03	54.09
% Left	19.24	29.63

Empirical Strategy: Political motives in program allocation

- Anecdotal evidence that CasMez used to fight ghost of Communism
- In early years US influence and external funds provided by the IBRD



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AN APPRAISAL OF THE DEVELOPMENT PROGRAM
FOR
SOUTH ITALY

July 31, 1951

Loan Department

II. General Features of the Development Program

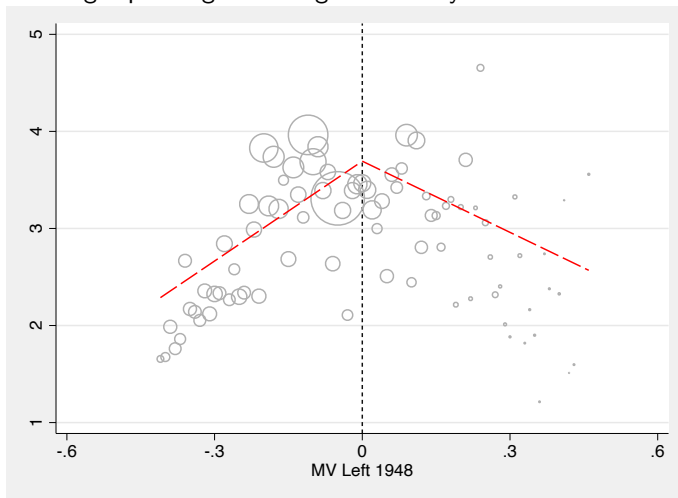
Prior to the elections of 1946, the people of southern Italy and the islands were strong monarchists and politically showed a majority in the Christian Democrat Party. The voting in the election of 1946 on the issue of creating a republic showed a large majority in favor of maintaining the monarchy. The left-wing parties at this time were able to show only a small minority vote. Following the defeat on the issue of the republic in 1946, however, and as a result of an intensive campaign by the Communist Party (based largely on promises of a distribution of land to small farmers by breaking up large estates), a significant shift in large areas of the South and on the islands to sympathy with the Communist Party occurred during the interval between 1946 and 1948 elections. An aggressive campaign for land reform and other means of obtaining increased employment was started which the Government could not ignore and on which, in fact, it was required to

Empirical Strategy: Political motives in program allocation

take some action. The need for action was, in fact, forced upon the Government as a result of forceful confiscation of some lands in the South of Italy by members of the Communist Party following the 1948 elections. While the development of the south is an old issue in Italy, it is against this background that the current development program for South Italy was authorized in an effort to counter the plans proposed by the Communists and to increase, if possible, the political prestige of the Government in these areas.

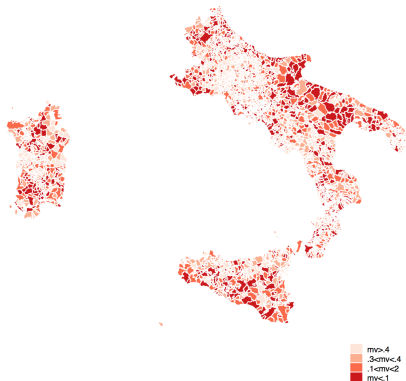
Empirical Strategy: Political motives in program allocation

Average spending and margin of victory of the left in 1948

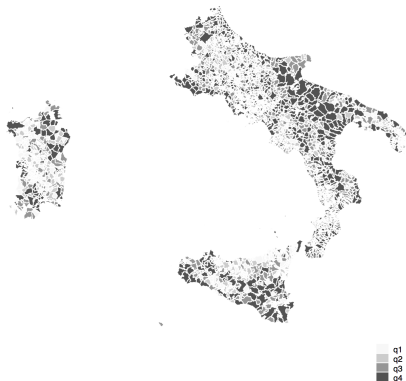


Empirical Strategy: Political motives in program allocation

Left margin of victory in 1948 (abs.)



Average spending



Empirical Strategy: Political motives in program allocation

- Exploit differential intensity of the program across municipalities with different baseline margin of victory for the left
- Two different specifications to estimate CasMez effect during the program and after it ended
- Focus on CasMez area only but we can further differentiate w.r.t. non CasMez areas (as in a triple diff in diff)

Empirical Strategy: Estimating the short-term effect of CasMez

Estimated equation:

$$y_{it} = \theta_0 + \theta_1 T_{it} + d_t + \epsilon_{it} \quad (1)$$

- y_{it} : outcome of municipality i in census year t
- T_{it} : average yearly per capita transfers in the previous 10 years

We instrument T_{it} as follows:

$$T_{it} = \lambda_0 + \lambda_1 K_i \times MV_i + \lambda_2 K_i \times MV_i T_t + f_t + \mu_{it} \quad (2)$$

- $MV_i = \text{abs}\left\{\frac{V_{LEFT,i}}{V_{LEFT,i} + V_{Chr.Dem,i}} - 0.4\right\}$: absolute value of 1948 left margin of victory
- T_t : aggregate spending in the previous 10 years
- K is a dummy=1 when i is to the right of the kink
- We add controls and province fixed effects

Empirical Strategy: Estimating the long term effect of CasMez

Estimated equation:

$$y_{it} = \theta_0 + \theta_1 T_i + \epsilon_{it} \quad (3)$$

- y_{it} : outcome of municipality i in year t
- T_i : the cumulative average per capita transfers over the whole CasMez period

We instrument T_i as follows:

$$T_i = \lambda_0 + \lambda_1 K_i \times MV_i + \mu_{it} \quad (4)$$

- K is a dummy=1 when i is to the right of the kink
- We add controls and province fixed effects

- Large array of baseline controls interacted with time effects
- Including province fixed effects interacted with time effects
- Weighted by population
- S.E. clustered by province

Table: EFFECT ON LABOUR MARKET OUTCOMES (SHORT-TERM)

	U Rate		E Rate (log)		LFP Rate (log)	
	CasMez (1)	All (2)	CasMez (3)	All (4)	CasMez (5)	All (6)
Transfers pc (log)	-0.027* (0.015)	-0.030* (0.016)	0.128** (0.054)	0.190*** (0.065)	0.091* (0.047)	0.150** (0.058)
Observations	10,465	28,180	10,465	28,180	10,465	28,180
F-test	12.29	12.59	12.29	12.59	12.29	12.59

Table: EFFECT ON LABOUR MARKET OUTCOMES (LONG TERM)

	U Rate		E Rate (log)		LFP Rate (log)	
	CasMez (1)	All (2)	CasMez (3)	All (4)	CasMez (5)	All (6)
Transfers pc (log)	0.054* (0.030)	0.048* (0.028)	0.063 (0.065)	0.074 (0.069)	0.130*** (0.040)	0.134*** (0.046)
Observations	4,186	11,274	4,186	11,274	4,186	11,274
F-test	10.33	10.44	10.33	10.44	10.33	10.44

Table: EFFECT ON INCOME (LONG TERM)

	Earners		Income pc		RdC	
	CasMez (1)	All (2)	CasMez (3)	All (4)	CasMez (5)	All (6)
Transfers pc (log)	-0.055* (0.027)	-0.057* (0.030)	-0.086 (0.051)	-0.057 (0.072)	0.444* (0.250)	0.225 (0.253)
Observations	25,348	70,257	25,348	70,257	2,093	5,636
F-test	10.39	10.54	10.39	10.54	11.23	11.40

Table: EFFECT ON EMPLOYMENT STRUCTURE (LONG TERM)

	Agr.		Manufact.		Tertiary	
	CasMez (1)	All (2)	CasMez (3)	All (4)	CasMez (5)	All (6)
Transfers	-5.978 (5.748)	-7.746 (6.241)	3.479 (3.527)	4.300 (4.802)	2.498 (4.445)	3.446 (5.806)
Observations	4,186	11,274	4,186	11,274	4,186	11,274
F-test	10.33	10.44	10.33	10.44	10.33	10.44

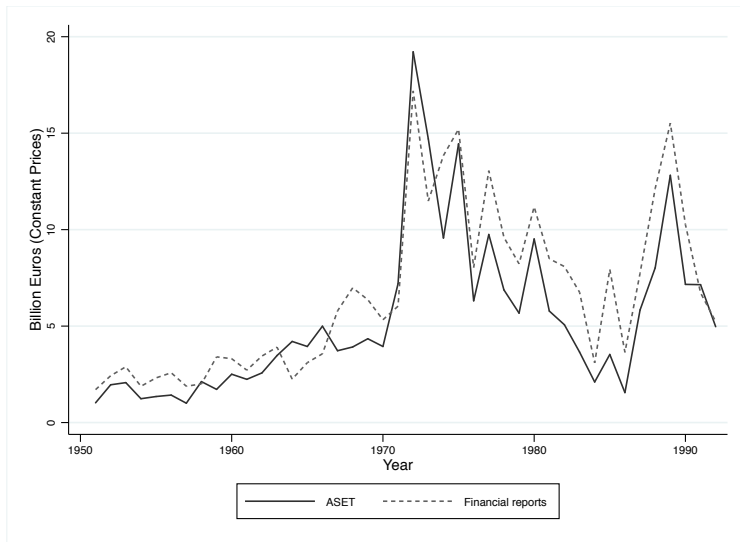
Table: EFFECT ON LOCAL STATE CAPACITY (LONG TERM)

Table: RENT APPROPRIATION AND LOCAL POLITICAL ELITES (LONG TERM)

	Predicted Wage		Herfindal-surname	
	Casmez (1)	All (2)	Casmez (3)	All (4)
Transfers	0.170 (0.102)	0.058 (0.106)	-0.047*** (0.017)	-0.048** (0.019)
Observations	58,138	162,814	62,276	170,305
F-test	15.91	16.24	16.50	16.76

- CasMez led to significant but short-lived local economic gains (no “big push”)
- Weaker state capacity at the municipal level in the long term:
 - ✓ little incentives to invest in bureaucracy given external assistance and the influx of “politically motivated” funds during the program?
 - ✓ provide additional evidence based on detailed bureaucracy data
- Next: “politically motivated” transfers also after the end of Casmez?

Validation: financial reports vs. ASET



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Empirical Strategy: Political motives in program allocation

National and municipal elections

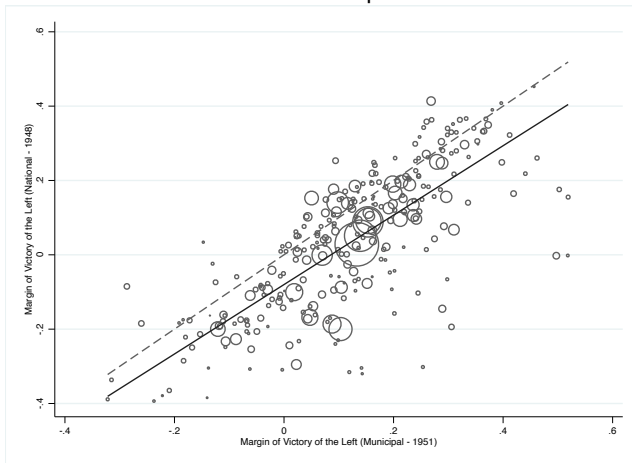


Table: EFFECT ON ORGANIZED CRIME (LONG TERM)

	Ever dismissed		Ever dismissed-Mafia		Mafia Buildings Seiz.		Mafia Firms Seiz.	
	CasMez	All	CasMez	All	CasMez	All	CasMez	All
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Transfers pc (log)	0.228 (0.152)	0.174 (0.232)	0.555 (0.380)	0.518 (0.380)	0.711*** (0.241)	0.566* (0.314)	0.545** (0.227)	0.620** (0.290)
Observations	2,093	5,636	2,093	5,636	2,093	5,636	2,093	5,636
F-test	9.915	9.964	9.915	9.964	9.915	9.964	9.915	9.964