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Fueling the party machine: Evidence from Greece during *Metapolitefsi*

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Abstract: The establishment of the Third Hellenic Republic in 1974 (Metapolitefsi) was characterized by an increased public demand for a less centralized political system. The main political parties that emerged responded by giving priority to the development of local and regional organizations and creating a wide network of grassroots movements. This led to a gradual introduction of more decentralized political institutions and a significant increase of expenses to prefectures and subsidies to municipalities. Building on two novel hand-collected datasets at the prefectural and municipal levels, our analysis provides empirical evidence of party favoritism in the spatial allocation of intergovernmental transfers during the first two decades of Metapolitefsi. We argue that governing parties diverted intergovernmental transfers towards their political strongholds and politically aligned mayors, as local authorities played the role of the focal points in the process of party building.

JEL classification: H1; H4; D7

Keywords: intergovernmental transfers; clientelistic networks; party machine

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1. Introduction

Since Portugal's "Carnation Revolution" of 1974, numerous countries around the world have undergone some form of democratic transition in a political phenomenon that has been identified by Huntington (1993) as the "third wave" of democratization. Although the outcome was consolidated for many of these "new democracies", significant challenges have arisen due to the large structural changes accompanying the political regime change. One such challenge is the absence of strong checks and balances that allow political actors to influence how the bureaucratic apparatus functions. Consequently, many studies examine the possibility of policy manipulation by the incumbent for political economy reasons.[1] To get re-elected, political actors may engage in political favoritism in the geographical allocation of intergovernmental transfers, which is a popular form of manipulation in developing countries and nations in transition.

Political favoritism in the allocation of intergovernmental transfers takes several forms (see, e.g., Golden and Min, 2013). Principal, among others, is the so-called party favoritism, according to which officials affiliated with the incumbent party attract disproportionate benefits from the public budget (see, e.g., Curto-Grau et al., 2018). Using US data, Grossman (1994), Larcinese et al., (2006), and Berry et al., (2010) suggest that states aligned with the federal government receive more grants than unaligned states. Several studies have provided analogous evidence of political bias in the subnational allocation of state resources. These include, among others, Brazil (Brollo and Nannicini, 2012), Chile (Lara and Toro, 2019),

[1] Brender and Drazen (2005) find that incumbents in "new democracies" tend to increase the overall level of public spending in election years. Moreover, starting from Linz and Stepan (1996), a parallel literature suggests that fiscal manipulation has often been employed in order to consolidate the pro-democratic institutions (see Brender and Drazen 2007; Brender and Drazen 2009; Kammas and Sarantides, 2016). In addition, more recent studies investigate the association of more decentralized institutions in new democracies with clientelistic ties, political corruption, and the allocation of intergovernmental transfers (see, e.g., Borcan, 2020; Gainza et al., 2021; Stoecker, 2022).

Germany (Baskaran and Hessami, 2017), India (Arulampalam et al., 2009), Italy (Migueis, 2013; Bracco et al., 2015), and Spain (Solé-Ollé and Sorribas-Navarro, 2008; Curto-Grau et al., 2018). Central governments mainly allocate transfers to aligned local governments for two reasons. First, aligned candidates, once elected, are important political allies for voter mobilization in future national elections (see, e.g., Brollo and Nannicini, 2012; Lara and Toro, 2019). Second, when voters cannot distinguish the source of transfers, political credit received from a grant usually leaks from the central to the local governments. Therefore, the ruling party directs disproportionately larger resources to politically aligned local authorities to avoid spillovers of electoral gains toward the opposition party (see, e.g., Arulampalam et al., 2009).

This study explores the possibility of party favoritism in the allocation of intergovernmental transfers to prefectures and municipalities in Greece after the restoration of democracy in 1974 and the establishment of the Third Hellenic Republic; hereafter referred to as the *Metapolitefsi* (i.e., change of regime). During *Metapolitefsi*, Greece was a nascent democracy trying to decentralize political institutions and mobilize voters on a democratic basis.[2] According to Alogoskoufis (2019), *Metapolitefsi* was perceived by the majority of the electorate "*[…] as an opportunity of a less centralized political system and redistribution of power among the country's regions and social groups*." This public demand unavoidably affected the organizational structure of the two newborn political parties that dominated the landscape (*New Democracy* and *Panhellenic Socialist Movement*) leading them to gradually develop a new type of organizational structure. Greek literature classifies this structure as *bureaucratic clientelism* (Mavrogordatos 1983; 1997; Lyrintzis, 1984), and international

[2] The relevant literature usually defines four distinct periods in post-war Greek economic history: (i) 1944–1952, the period of International Aid and Reconstruction; (ii) 1953–1973, the economic transformation and catching up period; (iii) 1974–1993, the restoration of democracy and redistribution period; and (iv) 1994–2008, the last period before the sovereign debt crisis that is characterized by a further expansion (along with some rationalization) of the welfare state, fast growth rates and EMU entry (see, e.g., Moutos and Pechlivanos, 2015; Kostis, 2019).

literature as *machine politics* (see Chubb, 1982; Cox and McCubbins, 1986).[3] Thus, both parties prioritized the development of local and regional organizations, creating a wide network of grassroots movements. Therefore, we seek to illuminate whether the rise of *bureaucratic clientelism* during the first two decades of *Metapolitefsi* is associated with the evolution of local public finances in Greece. We mainly argue that local authorities were focal points for the incumbent party to support the development of the party machine.

Between 1974 and 1993, local administration in Greece was assigned to prefecture (NUTS-3) and municipal authorities. The prefectural field of administration divided the country into 52 geographical units headed by prefects appointed by the central government. Appointed prefects were allocated their budgets by the central government to finance mainly operational expenses (e.g., wages and salaries) and health and educational services, whereas a significant portion was transferred to municipalities through (discretionary) subsidies. Municipalities operated under strict prefectural supervision and uniform fiscal rules and were "financially dependent" on intergovernmental transfers distributed directly by the central government as well as the budget allocated to the prefecture (see Tatsos, 1988). From 1974 to 1993, the central government budget allocated to prefectures expanded significantly, peaking

[3] Although clientelistic ties were a widespread phenomenon even before *Metapolitefsi*, according to scholars after 1974 we observe their transformation from *traditional clientelism* to *machine politics*. The typical structure of *traditional clientelism* is patron-client relationships that form pyramids with members of parliament (MPs) or other politicians at the top, local party bosses (kommatarches) in the middle and individual voters (typically peasants) at the base. In this case, the clientelistic ties are interpersonal and the networks of local bosses and middlemen belong personally to the MPs. It is obvious that, in such context, the MPs are the ultimate center of political power and, consequently, parties were built structurally around these networks of local notables. The absence of effective party organization and mass membership constituted the party's parliamentary group to be extremely powerful (this is often described as vouleftokratia, "rule of the MPs"). Since *Metapolitefsi*, the dominant political parties competed to build strong party machines, i.e., *bureaucratic clientelism*, where clientelistic linkages are impersonal and belong to the party rather than to individual politicians. In such a context, the collective bodies replaced the "rule of the MPs" as the party bureaucracies become the actual centers of political power.

at 7.6% of the total governmental budget (see Figure 1). At the same time, subsidies to municipalities also followed a similar pattern (see Figure 2). Thus, our aim is to explore if party favoritism affects the allocation of intergovernmental transfers to prefectures and municipalities in an attempt by parties to promote their new organizational structure at the local level.

To address this issue empirically, we construct two hand-collected datasets at the prefecture and municipal levels. To render evidence of political bias, we employ prefecture-level fixed effects and Difference-in-Differences (DD) models. This allows us to investigate if prefectures characterized by stronger political support for the ruling party in the national elections (i.e., political strongholds) received more state resources in the period 1975-1993. Our fixed effects results suggest that a 1%-point increase in the *victory margin* of the ruling party is associated with a 0.16% increase in the budget allocated to prefectures, consistent with a "core voter strategy" (see Cox and McCubbins, 1986). We expect a twofold role of this strategy: (i) more degrees of freedom to appointed prefects to target subsidies in aligned municipalities within the prefecture and (ii) additional resources can promote the local capacity of the governing party through benefits to voters. Considering the latter, we provide evidence of a positive correlation between the budget allocated to prefectures and prefectural Gross Domestic Product (GDP) associated with public administration. It should be noted that until 1993, ruling parties had complete discretion to appoint their local clientele in the public sector without meritocracy (Lyrintzis, 1984; Featherstone 1990; Sotiropoulos, 1996).

Furthermore, we explore the possibility of party favoritism toward politically aligned mayors by employing a regression discontinuity design (RDD) in close municipal electoral races from 1978 to 1993. Comparing municipalities in which the aligned candidates barely won to those in which they barely lost delivers a clean source of exogenous variation in the political alignment (see, Lee, 2008). Our findings reveal that in razor-close elections, municipalities

with a mayor affiliated with the ruling party receive 17% more *subsidies* than their non-affiliated counterparts. Moreover, we show that financially empowered aligned mayors are essential components of the party machine as we detect a positive impact on the future vote share of the ruling party in national elections (see, e.g., Brollo and Nannicini, 2012; Lara and Toro, 2019).

Our study contributes to the extant literature in several ways. First, we extend the literature that relates party favoritism and the allocation of intergovernmental transfers. We build on the seminal works of Larcinese (2006), Solé-Ollé and Sorribas-Navarro (2008), Arulampalam et al., (2009), and Berry et al., (2010), and adopt an RDD, as suggested by more recent empirical studies (see, e.g., Brolo and Nannicini, 2012; Migueis, 2013; Bracco et al., 2015; Baskaran and Hessami, 2017; Curto-Grau et al., 2018) to question whether party favoritism is also present in Greece during *Metapolitefsi*. Since democracy was restored in 1974, our analysis also adds to the above literature by highlighting the institutional setting of a country in transition where political parties aimed to mobilize voters through the development of a less centralized political system (see Alogoskoufis, 2019).

Under this perspective, our paper also relates to previous works investigating fiscal manipulation in new democracies (see, e.g., Brender and Drazen, 2005; 2007, Kammas and Sarantides, 2016). More recently, studies highlighted the lack of decentralization (both in terms of the institutional setting and parties' organizational structure) in nascent democracies, investigating how the gradual introduction of more decentralized institutions affects clientelistic ties, political corruption, and the allocation of intergovernmental transfers (see, e.g., Borcan, 2020; Gainza et al., 2021; Stoecker, 2022). In the case of Greece, political decentralization took place in practice through changes in the ruling parties' organizational structure, which developed an autonomous party organization for the first time in their history.

Last, this study relates to an influential body of research that explores the role of state resources on party building (see, e.g., Grindle, 2012; Kemahlıoğlu and Bayer, 2020; Sells, 2020). More precisely, by highlighting the central role of public funds in party building in Greece, our analysis complements the literature that highlights the transformation of the clientelistic ties from *traditional patronage* (see, e.g., Legg, 1969; Diamandouros, 1983) to *machine politics* (Mavrogordatos 1983; 1997; Lyrintzis, 1984).[4] To the best of our knowledge, this is the first study investigating the role of state resources (and their allocation to subnational authorities) in building a strong party organization at the local level in Greece.

2. The Greek political landscape and the evolution of local public finances

2.1. The political landscape during Metapolitefsi

The establishment of the Third Hellenic Republic came after a brief military junta (1967–1974). During this time, none of the prejunta political parties was able to survive. The new parties diverged substantially from their predecessors in structure, functioning, and program. The most impressive event of this period was the immediate rise of the *Panhellenic Socialist Movement* (*PASOK–Panellinio Socialistiko Kinima*). Andreas Papandreou founded *PASOK* on September 3, 1974, and seven years later (in the elections of 1981), it came to power by fully absorbing previous political formations (see Nicolacopoulos, 2005). During the same period, on September 26, 1974, Konstantinos Karamanlis announced the formation of the right-wing party, *New Democracy* (*ND–Nea Dimokratia*), emphasizing that *ND* was a "new political

[4] According to a number of scholars, *traditional patronage* was the result of a "political culture" (i.e., a set of attitudes and social values towards power, law, family and the state) that dates back to the era of the Ottoman dominance and persisted to affect political behavior also in contemporary Greece (see, e.g., Cambell, 1965; 1983; Legg, 1969; Diamandouros, 1983 for more details on this). Based on this theoretical rationale, attempts since 1833 to introduce western institutions onto a society whose previous experience had produced deep suspicion of all authority outside the family and a tendency to evade public responsibility (or to manipulate it for family advantage) resulted in the corruption of imported political institutions so as to serve traditional patron-client relationships (see, e.g., Diamandouros, 1983).

movement" and not simply a descendant of the prejunta right-wing party *National Radical Union (ERE–Ethniki Rizospastiki Enosis*) (see Loulis, 1981). Between 1974 and 1993, *ND* succeeded in gaining three terms in office (1974–1977, 1977–1981, and 1990–1993), whereas *PASOK* obtained the remaining two (1981–1985 and 1985–1989).

PASOK was the first noncommunist mass party in Greece.[5] Although it absorbed several personalistic patronage networks associated with the prejunta *Center Union* party, it formed an extensive national network based on local and regional branches with thousands of members (see Pappas, 2009; Kalyvas, 2015). For our analysis, it is important to note that according to Andreas Papandreou, *PASOK's* leader, the traditional organizational pyramid of the prejunta political parties failed to include the pyramid's base in their decision process. *PASOK's* strategy was to enforce the "*democratic procedures by creating grassroots organizations at the level of the village and town […] so as to promote the genuine expression of popular opinion on general development targets and on the national political options of our country*" (see, e.g., Elephantis, 1981). Thus, from its very beginning, *PASOK* prioritized the development of local and regional organizations, creating a vast network of grassroots movements and a rank-and-file organization that developed throughout the country (see, e.g., Elephantis, 1981; Lyrintzis, 1984). This "political decentralization" procedure induced a substantial increase in the mayors' relative political power and that of the party committee at the prefectural level; both became primary organizational links between the party machine and the voters (see Elephantis, 1981).

After this development in the political landscape, the *ND* made a significant effort to develop a strong party organization with many active members. This is consistent with

[5] The Greek Left has traditionally been identified with the *Communist Party of Greece (KKE-Kommounistiko Komma Ellados)*. *KKE* was characterized, from its very beginning, by a well-organized mass base and a highly centralized structure. Therefore, *KKE* was definitely the first mass party in Greece (see Elephantis, 1981; Lyrintzis, 1984, for more details on this).

Duverger's (1954) argument of "contagion from the left" that encourages the right-wing party to mirror the left for its self-defense and as a means of maintaining its positions of power and influence.[6] Therefore, in September 1975, *ND* formed 50 regional and 40 local organizations. By April 1976, the number of local organizations had risen to 233, and the party memberships reached approximately 20,000 (see Loulis, 1981). These figures highlight the considerable efforts of the party to recruit members and develop an autonomous party machine; however, the overall result was not very satisfactory. During the same period, *PASOK* already had 27,000 members (representing 4% of its vote) and a much more comprehensive network of 460 local organizations and 500 cells (i.e., a highly decentralized level of organization that was absent from the *ND*'s organizational structure).[7] This race continued for many years until both parties established a fully functioning party machine. From 1976 to 1986 the number of party members of *ND* and *PASOK* rose significantly from 47,000 (1.4% of their voters) to 520,000 (almost 10 per cent) (see Mair and van Biezen, 2001; Bosco and Morlino, 2006).[8]

[6] Although Duverger (1954) had in mind changes in: (i) party organization and (ii) ideology that the right-wing party must make to retain its competitive position, the impetus for organizational change inevitably leads to changes on the implemented policies (see Epstein, 1967, for more details on this).

[7] See Loulis (1981) and Kalyvas (2015) for further details.

[8] At this point, it is important to note that increasing party's memberships and developing an autonomous party machine is not something negative per se but in contrast is a *sine qua non* for the development of mass parties and usually indicates a higher maturity of the political landscape. In the archetypical mass-party model, the basic units of political life are pre-defined and there exist well-established social groups and networks of mass organizations (e.g., labor union, peasant leagues, and churches). Thus, politics is primarily about the competition, conflict and cooperation of these groups, whereas political parties are the agencies through which these groups and their members participate in politics and make demands on the state (see Katz and Mair, 1995, for more details on this). However, the Greek political parties founded after 1974 were not based on such collective identities. More precisely, the newly developed local networks were not representing some pre-defined sectors of the society, but in contrast, they acted as the ultimate intermediary link between the party and the society (e.g., Mavrogordatos, 1997). Under this perspective, the case of the Greek political parties during *Metapolitefsi* are much closer to the relevant literature that investigates the use of state resources for party machine building (see, e.g., Shefter, 1994; Katz and Mair, 1995; O'Dwyer, 2004; Kemahlıoğlu and Bayer, 2020; Sells, 2020).

2.2. The evolution of local public finances since Metapolitefsi

After the restoration of democracy in Greece in 1974, the budget allocated to prefectures expanded significantly, peaking at 7.6% of the total governmental budget (see Figure 1). Therefore, the political empowerment of parties' local organizations was accompanied by a significant increase in intergovernmental transfers. The prefectural budget, composed solely of transfers from the central government, was partly determined by the prefectures' socioeconomic and demographic characteristics (e.g., population size). This budget mainly financed operational expenses (e.g., wages and salaries) and health and educational related services, while a significant part was transferred to municipalities in the form of (discretionary) subsidies.

[Insert Figure 1 here]

Municipalities received subsidies that can be separated into two main categories. First, nondiscretionary subsidies from the state budget were decided based on a formula that considers local socioeconomic and demographic variables. Second, discretionary subsidies that were allocated without formula comprising three components: (i) subsidies allocated from the central government to municipalities via prefecture authorities, (ii) subsidies allocated from the central government to local authorities for public works to decrease local unemployment, and (iii) miscellaneous subsidies authorized from the central government. From 1974 to 1993, formula-based and discretionary subsidies increased substantially, reaching 45% of the municipal authorities' total budget (see Figure 2).[9] For our analysis, it is essential to emphasize that municipal budgets' expansion was mainly driven by state funding, not by funds raised by

[9] It should be noted that the two main components of the municipal budget of this period are wages and salaries (35%) and investment spending (25%).

local authorities; thus, over time, municipal authorities became more dependent on discretionary funding allocated by the central government or via prefecture authorities (see Tatsos, 1988).

[Insert Figure 2 here]

This pattern of fiscal decentralization is in line with what is observed in other young democracies. More precisely, in many nascent democracies, the state introduces decentralized institutions that remain under the central government's strong influence (e.g., Stoecker, 2022). This institutional setting makes young democracies, particularly Greece, a fascinating framework for analyzing intergovernmental distributive politics and center–local relations. Thus, we develop our empirical analysis along two layers: prefectures and municipalities.

In the first layer, we investigate whether the ruling parties were directing disproportionate *prefectural expenses* toward their political strongholds. Moreover, we explore the association of the prefectural budget with prefectural GDP and its various subcomponents, including the income of public employees. It should be noted that until 1993 the Greek civil service was under direct political control; hiring, transfers, and promotions of personnel tended to benefit primarily those who sided with the governing party in the complete absence of meritocracy (see, e.g., Lyrintzis, 1984; Featherstone, 1990; Sotiropoulos, 1996). Such clientelistic practices were partially curbed after 1994 with the establishment of the independent Supreme State Council for Civil Service Personnel Selection (ASEP) that was responsible for ensuring the correctness of the recruitment of tenure-track public employees. Our sample at the prefectural level ranges between 1975 and 1993; thus, it would be interesting to detect a correlation between the prefectural budget and the size of the public sector. A limitation of the empirical analysis at the prefectural level is that we cannot rule out endogeneity concerns, e.g., regressions take the dominant party as given. Therefore, the second layer of our analysis focuses on the municipal level where we employ an RDD which delivers

a clean source of exogenous variation in political alignment to identify the possibility of party favoritism. This allows us to investigate whether affiliated mayors, once elected, served as components of the party machine for voter mobilization in future national elections.

3. The prefectural level of analysis

3.1. Prefectural data

The modern Greek state consists of the central state, mainly ministries and similar national institutions, and local government agencies. During the early years of *Metapolitefsi*, local administration was divided into two levels. The first level consisted of a varying number of municipalities (LAU-1) and communities (LAU-2) with elected representatives (mayors, local councilors, etc.). The second level comprised 52 prefectures (NUTS-3) administered by officials appointed by the central government who were considered its local representatives.[10] Greece has been described as one of the most centralist states in Europe (see Hlepas, 2003), although some reform efforts were undertaken, particularly during the 1980s (see Christofilopoulou, 1991). To investigate the possibility of political bias in the allocation of financial resources to the appointed prefects (NUTS-3) and elected mayors (LAU-1), we construct two unique and hand-collected datasets from various sources ranging from 1975 to 1993 and from 1978 to 1993 for the prefectures and municipalities respectively.[11] This section describes the dataset at the prefecture level, while Section 4.2 focuses on the municipal level. Explicit definitions, descriptive statistics, and sources of the variables employed in the prefectural and municipal analysis are provided in Tables B1 and B2 in Appendix B. Kammas et al. (2023) contain all data and code needed to replicate the analyses shown in this paper.

[10] NUTS is a geocode standard of EUROSTAT, the Statistical Office of the European Union, which stands for Nomenclature of Territorial Units for Statistics. LAU denotes Local Administrative Units, which are building blocks of the NUTS, and comprise the municipalities of the European Union.

[11] The reason for limiting the sample in the municipal analysis after 1978 is due to data availability issues after the local election of 1975. We provide more detail on this in Section 4.1.

The budget allocated to prefectures varies significantly according to their size; thus, following the relevant literature (see, e.g., Ansolabehere and Snyder 2006; Kauder et al., 2016), our dependent variable, *prefectural expenses*, is expressed in real per capita terms; i.e., we divide the amount of the budget allocated to prefectures by the population of the prefecture.[12] Population statistics were taken from the 1971, 1981, 1991, and 2001 censuses, which were interpolated between census years to populate the panel. Furthermore, we use the natural logarithm of *prefectural expenses* to help account for the skewed distribution towards lower values.

Using the outcomes of legislative elections from 1974, 1977, 1981, 1985, and 1989, we construct the variable *victory margin* for 1975–1993.[13] This variable is the difference between the incumbent and the opposition share[14] relative to the entire voting-eligible population.[15] In

[12] In particular, our variable is expressed in per capita Drachmas at 1980 prices. It should be noted that we avoid dividing the budget allocated to each prefecture with the total budget allocated to all prefectures for every year of our sample, since the resulting distribution from this transformation is significantly more skewed towards lower values whereas the largest prefectures that receive by far higher amounts of funding from the central government appear as outliers.

[13] Specifically, we forward prefecture level electoral results up to (and including) the year of the next general election (see, e.g., Jablonski, 2014). For instance, we forward the election results of 1974 up to (and including) the next election year of 1977. Additionally, we restrict our dataset after 1975 because this is the first year that the incumbent party of *ND* had discretion over fiscal policy after its victory in the election held in November of 1974.

[14] The opposition share is the share of votes received by the two leading opposition parties between 1975 and 1981 (i.e., *Centre Union-New Forces* and *PASOK*), or the leading opposition party between 1982–1993 (i.e., *ND* or *PASOK*). The reason for this differentiation is that between 1982 and 1993 we have a dominant opposition party (*ND* between 1982 and 1989 and *PASOK* between 1990 and 1993), while between 1974 and 1981 the centrist party and *PASOK* alter in the second and third place with the summation of their strength close to 35%. More importantly, the vote share of the centrist party was gradually deteriorating leading within a few years to its disintegration from the political system, whereas *PASOK* absorbed the majority of its supporters in the transition of its growing influence (see Mavrogordatos, 1984).

[15] We opt for this measurement since it allows us to better account for endogenous turnout (see Spenkuch and Tillmann, 2018). However, in robustness checks reported in Appendix B, we also use voting shares relative to valid votes cast with our results remaining unaffected.

Appendix B, Figure B1 maps the *victory margin* of *ND* and *PASOK* at the prefectural level after their first electoral wins in the elections of 1974 and 1981, respectively. As shown, areas in the Peloponnese region voted strongly over time in favor of *ND*, while prefectures in Crete Island (in the southern part of the Aegean Sea) were *PASOK* political strongholds.

Finally, we include other control variables likely to influence how *prefectural expenses* are distributed or correlate with the *victory margin* (interpolated between census years[16]): the population of each prefecture (*population*), the share of the population older than 65 (*elderly*), the share of the female population (*females*), the share of illiterate individuals (*illiterates*), the share of households with access to electricity (*electricity*), the share of individuals employed in agriculture (*agriculture*), the share of individuals employed in the manufacturing sector (*manufacturing*), and the share of individuals employed in the construction sector (*construction*).[17]

Our main explanatory variable, *victory margin*, varies substantially across prefectural districts (see Figure B1 in Appendix B). Table B3 in the Appendix reports the correlation between the *victory margin* and the observable prefectural characteristics described above for the national election years 1974, 1977, 1981, 1985, and 1989. Column (1) includes observations from all five electoral campaigns, whereas columns (2) and (3) split the sample between the electoral victories of *ND* (1974, 1977, and 1989) and *PASOK* (1981 and 1985), respectively. The variable *population* positively correlates with the *victory margin* in all three

[16] We experiment in Appendix B (Table B4) with an alternative specification where we interact these prefectural characteristics set in 1971 (before the beginning of our sample in order to reduce endogeneity concerns) with year dummies.

[17]These three sectors are the most prevalent during the period of the analysis, summing up to 60 percent of the total employment. It should be noted that when we include in the regressions the remaining six sectors reported in the censuses (mining and quarrying; electricity, gas and water supply; transportation and communication; wholesale and retail trade; banking insurance and real estate; other services) our results (available upon request) remain unaffected.

specifications, indicating that the party that wins the election tends to receive more electoral support from the most populated prefectures in the Greek territory. Moreover, the three variables that capture the structure of the prefectural economy (*agriculture*, *manufacturing*, and *construction*) are all positively correlated with the *victory margin*. When we split the sample in columns (2) and (3), the statistically significant correlation of the variable *manufacturing* seems to be driven by the specification of the conservative party. In contrast, the socialist party seems to gain more votes in prefectures where *agriculture* and *construction* increase. We next control for the above variables in our empirical specifications.

3.2. Fixed effects regressions

To estimate the association between political support and *prefectural expenses*, we begin by estimating a prefecture-level fixed effects model as follows:

$$prefectural\ expenses_{it} = \alpha_1 victory\ margin_{it-1} + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \qquad (1)$$

where $prefectural\ expenses_{it}$ denotes the natural logarithm of real per capita prefectural expenses in prefecture *i* at time *t*, $victory\ margin_{it-1}$, is the victory margin of the incumbent party in prefecture *i* in the last election, and X_{it} is a vector of control variables as described above. The model also includes prefecture, δ_i, and year fixed effects, γ_t, to control for time-invariant prefecture characteristics and shocks common to all prefectures. Finally, ε_{it} is the error term clustered at the prefecture level. If ruling parties directed disproportionate *prefectural expenses* toward their political stronghold, the variable *victory margin* should have a positive sign. We also introduce a squared term of the variable *victory margin* to test for the nonlinearity of this effect.

Table 1 presents our baseline empirical results. Column (1) shows that prefectures with a higher *victory margin* tended to receive more *prefectural expenses* by the incumbent party;

this empirical finding is consistent with a "core voter strategy" (see Cox and McCubbins, 1986). Thus, appointed prefects could promote the local capacity of the governing party through benefits to voters. Along the same lines, an expanded budget allowed prefects to target subsidies in municipalities within the prefecture with higher support for the governing party. [18] Regarding the magnitude of the coefficient, a 1% point increase in the *victory margin* is associated with a 0.17% increase in *prefectural expenses*, suggesting that a one-standard-deviation increase in the *victory margin* (6.8%) corresponds to a 1.16% increase in *prefectural expenses*. Furthermore, our results in column (2) show no evidence of nonlinearities in this effect; the squared value of the *victory margin* is not statistically significant.[19]

[Insert Table 1 here]

Our next task is to examine whether the relationship between political support and *prefectural expenses* becomes stronger during electoral years. To this end, we estimate the following model:

$$prefectural\ expenses_{it} = \alpha_1 victory\ margin_{it-1} + \alpha_2 victory\ margin_{it-1} * election_t + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \quad (2)$$

[18] It should be noted that prefectures were also electoral constituencies of national elections and were considered action areas of politicians (see Christofilopoulou, 1991). Local governance during the era of decentralization offered to ambitious young politicians' posts with influence and "financial power" and were considered by MPs as a threat for their position (Hlepas and Getimis, 2011). There are numerous cases of appointed prefects who advanced in the local hierarchy of the party, got elected as MPs and were even appointed as Ministers or Deputy Ministers. However, as already mentioned, the level of *prefectural expenses* was determined by the central government and appointed prefects had discretion only after the budget was determined. Although, studying the effectiveness of party favoritism to promote the career opportunities of young politicians serving in local administration would add important insights to our understanding of the political effects of *prefectural expenses*, it falls beyond the scope of the current study and could be considered for future research.

[19] When we calculate the marginal effects at different values of the *victory margin*, the latter reaches statistical significance when its value is 5%.

Equation (2) has been augmented with the interaction term $victory\ margin_{it-1} * election_t$. National election years are constant within prefecture years; therefore, only the coefficients of *victory margin* and its interaction term with *election* are reported in columns (3) and (4) of Table 1. We use two different versions of the variable *election* in our estimates: (i) in the first version, it takes the value 1 in national election years (e.g., 1981) and 0 otherwise, (ii) whereas in the second version, it takes the value 1 both in the national election and pre-election years (e.g., 1980–1981), and 0 otherwise.

Between 1975 and 1993, all but the 1977 election took place on dates effectively predetermined, i.e., at the end of the four-year term.[20] It could be argued that when the election date is known well in advance, an opportunistic incumbent has more discretion to allocate intergovernmental transfers opportunistically for re-electoral purposes. Following prior evidence of political manipulation in new democracies like Greece (see, e.g., Lockwood et al., 2001; Skouras and Christodoulakis, 2014), especially closer to the year of the predetermined elections (Brender and Drazen, 2007; Kammas and Sarantides, 2016), the coefficient of the interaction term in column (4) is positive and statistically significant. Therefore, our empirical findings indicate party favoritism in the allocation of *prefectural expenses*, which intensifies during the electoral and pre-electoral years of national elections.

To further complement the above empirical output, we perform three robustness checks which are reported in Appendix B. First, in Table B4, we replace the X_{it} variables, which were interpolated between census years, with the value of these variables set in 1971 and interacted with year dummies to flexibly account for potential differential nonparametric trends on several prefecture characteristics (see, e.g., Bahar et al., 2021). As shown in that table, this change in

[20] These elections took place in November 1974, November 1977, October 1981, June 1985, and June 1989.

the functional form does not affect the conclusions.[21] Second, to ensure that outlier observations do not influence our findings, in Table B5, we re-estimate Equation (1) without observations with a standardized residual above 1.96 or below −1.96. The only noticeable difference is that in column (2), the coefficient on the polynomial term is positive and statistically significant, implying that *prefectural expenses* are even higher among the most supportive prefectures of the parties. Finally, in Table B6, we provide estimates as of Table 1 but expressing the victory margin as a share of valid votes cast. Again, the relationship between the *victory margin* and *prefectural expenses* remains intact.

Even though our empirical evidence is in line with our expectations, we cannot rule out possible endogeneity concerns surrounding election outcomes arising from omitted variable bias and/or reverse causality. In particular, the *victory margin* is not randomly assigned across prefectures and may be correlated with potential confounders that affect both the treatment and the outcome variables. Our estimates control for time-invariant confounding factors, though confounding factors - such as voter characteristics, the quality of appointed prefects or other unmeasured prefectural characteristics - may also vary over time. Moreover, although we examine whether incumbents commit *prefectural expenses* in response to the pre-existing distribution of the *victory margin,* we cannot rule out the possibility of the reverse causation channel biasing our estimates. An alternative way to examine the possibility of party favoritism at the prefectural level is to exploit the regime change of 1981 with the election of the socialist party by employing a DD specification between 1975-1989. This would provide a test for whether the electoral strength of PASOK in 1981 is related to differential trends in *prefectural expenses* before and after its election. More importantly, the second layer of our analysis

[21] Even though the interaction term in column (4) becomes marginally not significant, calculating the marginal effect of the *victory margin* during electoral years produces an almost identical effect to that obtained from the results reported in Table 1.

implements an RDD strategy, in the spirit of Lee (2008), and compares transfers received by mayors, aligned with the central government, who barely won with municipalities for which the aligned candidate barely lost (see, e.g., Brollo and Nannicini 2012; Brollo and Troiano, 2016; Estache et al., 2016; Beland and Oloomi, 2017; Lara and Toro, 2019; Borcan, 2020). Lee (2008) demonstrates that looking at close elections provides quasi-random variation in winners and allows for the identification of causal effects.

3.3. Difference-in-differences estimates

We next exploit the regime change of 1981 with the election of the socialist party to employ a DD specification between 1975 and 1989 (i.e., the years before and after the political change). This model takes the following form (see, e.g., Jablonski, 2014; Anaxagorou et al., 2020):

$$prefectural\ expenses_{it} = \alpha_1 PASOK_t * victory\ margin_{1981} + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \quad (3)$$

where the variable $PASOK_t$ is an indicator variable that takes the value 1 in years greater than or equal to 1982 and 0 otherwise, and $victory\ margin_{1981}$ takes the values of the victory margin of *PASOK* in the 1981 election. Moreover, as in the previous section, our estimations include the vector X_{it} to control for critical time-variant factors that could confound our estimates and prefecture (δ_i), and year fixed effects (γ_t). Finally, ε_{it} is the error term clustered at the prefecture *i* level.

We prefer a fixed measure to capture the electoral strength after the regime change; it is less likely to be endogenous than a voting share that changes over time (see, e.g., Carruthers and Wanamaker, 2015). Given that $victory\ margin_{1981}$ is constant within prefectures and $PASOK_t$ is constant within prefecture years, only the interaction between the two remains in the model and is captured by the parameter α_1. This methodology builds on the idea that

PASOK's political support should only affect the allocation of *prefectural expenses* during 1982–1989 when the party was in power. Thus, by subtracting the effect of the *victory margin* during the *PASOK* regime from their effect during the *ND* regime, α_1 provides a reasonable estimate of how the socialist party shaped the budget allocation to prefectures within the Greek territory.[22] In other words, this empirical strategy allows us to explore the possibility that the geographic distribution of *prefectural expenses* shifts toward the new party's support base and away from supporters of the losing party.

Column (1) of Table 2 indicates that our DD coefficients $PASOK_t * victory\ margin_{1981}$ is positive and statistically significant at the 5% level, suggesting that a percentage point increase in the *victory margin* of *PASOK* is associated with a 0.581% increase in the corresponding *prefectural expenses* after 1982 relative to the pre-*PASOK* era. The DD strategy relies on one critical assumption, the common trend assumption, which requires that parallel trends would exist in *prefectural expenses* in prefectures that voted more intensively for *PASOK* had the political change never occurred. While this assumption cannot be directly tested, we augment Equation (3) with dummy variables for each year between 1977-1981 interacted with the $victory\ margin_{1981}$ to examine if there is an effect of the treatment up to five years before the political change (see, e.g., Lorentzon and Pettersson-Lidbom, 2021).[23] The results of this specification are presented in column (2). Without exception, the coefficients in the years preceding the political change are small and not statistically significant, whereas the DD coefficient retains its statistical significance. Alternatively, we restrict our sample

[22] Given that our fiscal data for *prefectural expenses* are available only after the collapse of the military regime in 1974, we can properly apply this empirical strategy only for the administration of the socialist party.

[23] It should be noted that obtained results are not affected by this choice. Using four or six years prior to the political change returns very similar results. Moreover, if we include a set of dummy variables covering all years apart from 1981 (i.e., immediately prior to the political change), so that all coefficients can be interpreted relative to this norm, again the main results remain intact (see Schmidheiny and Siegloch, 2019).

before 1982 and assess the importance of our key independent variable in determining trends in *prefectural expenses* (see, e.g., Carruthers and Wanamaker, 2015). Specifically, focusing on the fiscal years 1975–1981, we estimate the following equation:

$$prefectural\ expenses_{it} = \alpha_1 trend_t + \alpha_2 trend_t * victory\ margin_{1981} + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \quad (4)$$

where the aim is to examine whether prefectures with large *victory margin*$_{1981}$ had different trends before 1982 (i.e., $\alpha_2 \neq 0$). As can be seen, the estimated coefficient is small and not statistically significant. Therefore, both tests provide evidence that the parallel trend assumption is plausible. These results provide further support to the argument that political power is a significant determinant behind the allocation of intergovernmental transfers within the Greek territory.

[Insert Table 2 here]

3.4 Prefectural expenses and the subnational economy

If party favoritism affects the allocation of *prefectural expenses*, it would be interesting to explore if there is any association between the latter and the level and structure of the prefectural economy.[24] Although favoritism could promote local clientelistic networks, we cannot exclude the possibility that additional fiscal resources can promote regional development, e.g., through public infrastructure or higher public good provision. Thus, we use data of prefectural GDP that is also decomposed into 11 subcategories: (i) agriculture, forestry, and fishery, (ii) mining and quarrying, (iii) manufacturing, (iv) electricity, gas, and water supply, (v) construction, (vi) transportation and communication, (vii) wholesale and retail trade, (viii) banking insurance and real estate, (ix) dwelling services, (x) public administration

[24] Data limitations does not allow us to perform this analysis in the second layer at the municipal level.

and services, and (xi) miscellaneous services. This data allows us to estimate the following model:

$$prefectural\ GDP_{it} = \alpha_1 prefectural\ expenses_{it} + \beta X_{it} + \delta_i + \gamma_t + \varepsilon_{it} \qquad (5)$$

where $prefectural\ GDP_{it}$ denotes the natural logarithm of *total* real per capita regional GDP and its 11 subcategories in prefecture *i* at time *t*. The rest of the variables are the same as discussed earlier. Prefecture and year fixed effects are included in our estimates to capture idiosyncratic time-invariant differences in growth rates across prefectures and national business cycles, respectively. This is a panel fixed effects model with log GDP per capita as the dependent variable; hence, it is equivalent to a growth model.

The empirical results, reported in Table 3, indicate no statistically significant correlation of *prefectural expenses* with *total* prefectural GDP and the GDP associated with other significant industries (e.g., manufacturing, transport and communication) that could promote regional development. The only statistically significant correlation appears in column (11), where *prefectural expenses* are associated with the prefectural growth of *public administration and services GDP*. This subcategory includes the incomes of public employees that offer services in various sectors at the prefectural level (e.g., tax administration, public order, and health). This result is consistent with expectations given that the prefectural budget was used to finance operational expenses (e.g., wages and salaries) and health and educational services, while the remaining part was transferred to municipalities through subsidies.[25] Interestingly, other industries associated with government intervention (electricity, gas and water supply, and dwelling services) do not correlate with *prefectural expenses*.

[Insert Table 3 here]

[25] It should be noted that when we replace *public administration and services GDP* with a variable that measures real per capita wages and salaries of the public sector at the prefectural level, the coefficient remains positive and statistically significant at the 5% level.

Overall, the evidence indicates the presence of political economy incentives in allocating *prefectural expenses* that relate to the presence of the "party-influenced" public sector. Of course, if the latter means more public employees in productive activities, like health and education, this could be wealth enhancing for local populations. However, if party favoritism (at least partly) shapes the allocation of *prefectural expenses*, we cannot exclude the possibility that public sector presence is also driven by party machine building incentives that benefit mostly the electoral base of the governing party.

4. The municipal level of analysis

4.1. Institutional background

Municipalities in Greece operate under uniform fiscal rules and are "financially dependent" as they receive significant subsidies via the prefecture budget as well as directly from the central government (see Figure 2). Along with the development of local organizations of the two parties during *Metapolitefsi*, there was an effort to empower municipal authorities (see Christofilopoulou, 1991; Hlepas and Getmis, 2011). In particular, new forms and institutions of participation were introduced, decentralization of competencies and resources was promoted, and authorities were encouraged to establish municipal enterprises and provide a broader spectrum of social services. In this way, the local government was in position to offer posts, influence, and power to the cadres of the dominant political parties at the local level. Related to that, the number of municipal civil servants nearly doubled from 24,429 (7% of total public employment) in 1981 to 47,582 (11% of total public employment) in 1995 (Hlepas, 2005). Despite the promotion of these changes, municipal authorities' financial discretion (own tax revenue) remained extremely limited over the same period (see Tatsos, 1998). As a result, (discretionary) *subsidies* to municipalities constituted a significant political instrument for governing parties.

Local elections use electoral lists; therefore, mayoral candidates do not officially belong to any party, which, in principle, indicates independence. However, mayoral candidates, as individuals, can be directly affiliated with a political party. Furthermore, electoral lists, where the mayoral candidate is the head runner, could be endorsed or indirectly supported by a political party. Therefore, candidates in local elections may not run under the official name of any party but voters can easily recognize the candidate's political identity (see Chortareas et al., 2016). Mayoral candidates must obtain 50% plus one vote of the total valid votes to get elected. If no candidate can pass this threshold, the first two candidates are transferred to the second electoral round where the winner is the candidate with the largest vote share.

The first local elections, after the military junta, took place in 1975, four months after the national elections of 1974. The next municipal elections were held in 1978, following the 1977 national elections. During both these terms, *ND* was in power. The subsequent two local elections were held in 1982 and 1986, months after *PASOK* won the national elections of 1981 and 1985. The final election included in our sample occurred in 1990, when *ND* again came to power after the 1989 national election. Due to data availability issues, our sample does not include the 1975 local election which took place immediately after the restoration of democracy. Particularly, fiscal data at this level are not available for 1976 and 1977; also, during that time, the political affiliation of mayoral candidates was more difficult to discern.

4.2. Municipal data

We examine whether political alignment matters for the allocation of subsidies to municipalities during 1979–1993, i.e., after the local elections of 1978, 1982, 1986, and 1990. Therefore, our primary dependent variable is the real per capita discretionary

intergovernmental subsidies ($subsidies_{it}$) received by municipality *i* during term *t*.[26] Alternatively, we experiment with the central government's regular (formula-based) subsidies to municipalities, namely *nondiscretionary* $subsidies_{it}$. Greece has varying municipalities (for which fiscal data are available) during our sample period, starting from 267 in 1979 to 304 municipalities in 1993. Figure B2 in Appendix B shows the administrative boundaries of these municipalities.

Data on local electoral results were obtained from the Ministry of Interior, Directorate of Elections; however, mayoral candidates do not officially belong to any party. To trace their affiliation, we used electoral data and newspapers of that era that Professor Ilias Nicolacopoulos, the most prominent electoral analyst in Greece, shared with us from his collection. The period under consideration includes elected mayors and mayoral candidates from all political parties of *Metapolitefsi*. It should be noted that in some municipalities, the so-called "independent" candidates of the two parties do exist, who were running even though other candidates had the official endorsement. On average, around 88% of candidate mayors who obtained one of the first two places in our sample's electoral races were affiliated with *ND* or *PASOK*; 4% of these cases are linked with independent candidates of the two parties. The rest of our sample comprises candidates affiliated with the *Communist Party of Greece* (*KKE–Kommounistiko Komma Ellados*) with 6.5%, the *Coalition of the Left, of Movements and Ecology* (*Synaspismos*) with 2.4%, and the centrist *EK-ND* with 1.5%. The remaining 1.5% belongs to independent candidates or cases where affiliation is uncertain.

Our sample contains data for 1,148 electoral races. To implement the RDD, we restrict the sample to municipalities with electoral races of only two candidates with the following

[26] Thus, after the local election of 1978, the variable $subsidies_{it}$ is calculated as the average amount of subsidies received by municipality *i* between 1979 and 1981. We have decided to exclude the year of next municipal election from this calculation, as the party in power changed 2 times between 1978 and 1990 (October 1981 and October 1989) affecting the political alignment of the mayor for the average we calculate.

characteristics[27]: (i) they are official or independent candidates of *ND* and *PASOK*, (ii) they belong to *ND* and the centrist *EK-ND*, as *PASOK* absorbed the latter party in the transition of its growing influence, and (iii) the first two places belong to *ND* and *Synaspismos* candidates.[28] These restrictions are of paramount importance, as alignment (or nonalignment) has a different meaning if, for instance, the first two places belonged to candidates of the same party. Following these restrictions, we end up with 361 electoral races in 196 municipalities around Greece; Figure B3, in Appendix B, shows the spatial allocation of these municipalities. Notably, 104, 92, 42, and 123 of these 361 electoral races took place in the 1978, 1982, 1986, and 1990 local elections, respectively. Furthermore, in 155 of these races (42% of the sample), candidates of *ND* won, whereas, in the remaining 206 races, candidates of *PASOK* (191), *Synaspismos* (9), and *EK-ND* (6) won the mandate. Our forcing variable in the RDD is defined as the victory margin of the mayoral candidate aligned with the central government party in power in each municipality *i* and term *t* (VM_{it}). Consequently, the (political) alignment variable (A_{it}) equals 1 when this measure is positive and 0 when it is negative.

Finally, we control for some variables that are likely to affect the allocation of subsidies. Specifically, we use the census of 1981 to reproduce the set of covariates, X_{it}, employed in the prefectural analysis: *population*, *elderly*, *female*, *illiterates*, *electricity*, *agriculture*, *manufacturing*, and *construction*. Additionally, we use a second set of covariates (Z_{it}) to control for political characteristics of municipal elections. In particular, we calculate the share of absent voters from the electoral process (*abstention*), defined as the share of voters to the total number of registered voters. We also include two variables that capture mayoral

[27] In other words, we focus on electoral races that the mayor is elected in the first round. This is because when including electoral races with more than two candidates we find evidence of nonrandom sorting around the cutoff (see also, Brollo and Troiano, 2016).

[28] The reasoning for the latter is that in many cases *PASOK* and left-wing *Synaspismos* endorsed the same candidate in municipal elections.

characteristics: (i) the number of times a candidate has been elected as mayor since the end of the military regime (*experience*) and (ii) a dummy variable that takes a value of 1 when the winner of the last mayoral election runs as a candidate and 0 otherwise (*candidate*).

Table B7 in Appendix B summarizes the main variables of the analysis by comparing the sample means of the municipalities with a mayor who is politically aligned with the government (columns 1–2) and the municipalities with a mayor who is not aligned with the government (columns 3–4). We also report the p-value of the corresponding t-test for the equality of these means. As shown, even a simple comparison of means indicates a statistically significant positive difference in the average (discretionary) *subsidies* received by the municipalities with a politically aligned mayor. Conversely, *nondiscretionary subsidies* are at the same level for aligned and non-aligned municipalities.

4.3. Identification: regression discontinuity design

In order to identify the treatment effect of being aligned with the government on the allocation of subsidies, we employ an RDD. As already discussed, exploring the impact of election outcomes is clearly complicated by endogeneity issues. Reverse causality and omitted variable bias could be eliminated with a randomization of the assignment of a politician to office. Lee's (2008) pioneering work on RDD shows that the event of winning close to the vote threshold of 50% exhibits quasi-random variation that allows for the identification of causal effects. The intuition is that in municipalities where the ruling party candidate barely won can be a good counterfactual for those municipalities in which the opposite occurred. Following this methodology, we use the variable VM_{it} defined as in the previous section. At the threshold cutoff point ($VM_{it} = 0$), the political alignment (A_{it}) *sharply* increases from 0 to 1. Then, we employ a spline polynomial specification, which consists of running a P^{th}-order polynomial function in VM_{it}, on either side of the threshold $VM_{it} = 0$, as follows:

$$subsidies_{it} = \sum_{k=0}^{p} \alpha_k VM_{it}^k + A_{it} \sum_{k=0}^{p} \beta_k VM_{it}^k + \gamma X_i + \delta Z_{it} + m_t + \varepsilon_{it} \quad (6)$$

where $subsidies_{it}$ is the amount of subsidies received by municipality i during term t (i.e., 1979–1981, 1983–1985, 1987–1989, and 1991–1993), VM_{it}^k is the margin of victory of the mayor of municipality *i* in the last local election during the year *t* (i.e., 1978, 1982, 1986, and 1990), A_{it} takes the value 1 when the mayor is aligned with the central government and 0 otherwise. As in the analysis so far, X_i is the set of variables which track socioeconomic characteristics, Z_{it} is the set of variables which track political characteristics and m_t represents mayoral term fixed effects. Standard errors are clustered at the municipal level. In this setting, the estimated coefficient $\hat{\beta}_0$ identifies the average treatment effect at the zero threshold; therefore, $\hat{\beta}_0 > 0$ indicates a political bias of the central government towards the politically aligned mayoral candidate.

We employ various models based on the generic specification described in Equation (6). Particularly, we adopt a linear regression model with $p = 1$ as well as second, third, and fourth-order polynomials. We consider these models without additional covariates and also including the set of covariates mentioned above. As an alternative, we apply a local linear regression, which restricts the sample to municipalities in the interval $VM_{it} \in [-h, +h]$ and estimates the following model:

$$subsidies_{it} = \alpha_0 + \alpha_1 VM_{it} + \beta_0 A_{it} + \beta_1 A_{it} VM_{it} + \gamma X_i + \delta Z_{it} + m_t + \varepsilon_{it} \quad (7)$$

where the optimal bandwidth *h* is computed as described by Calonico et al. (2014). As mentioned above, the coefficient of interest is $\hat{\beta}_0$.

Internal validity of the RDD strategy requires that potential outcomes must be a continuous function of the forcing variable at the threshold (i.e., $VM_{it} = 0$). A fundamental consideration stemming from this assumption is that in very close electoral races, ruling party

mayoral candidates do not have the ability to selectively push themselves across the win margin. We follow the McCrary (2008) methodology to test if the density of our running variable, VM_{it}, is smooth around the cut-off point. As can be seen in Figure B4 in Appendix B, there is no evidence of discontinuity in the margin of victory. This result increases the plausibility of the assertion that there is no evidence of strategic sorting in close electoral races. Furthermore, we must ensure that municipalities just below and above the cut-off are similar. Though this is not directly testable, a common approach in the literature is to ensure that our control variables are "balanced" close to the cut-off. Table 4 presents the empirical results showing that all variables are balanced across the cut-off. These results are corroborated by visual inspection of Figure B5 in Appendix B. Although both tests support the validity of our empirical strategy, Section 4.5 provides numerous robustness checks to increase our confidence that party allegiance of mayors does indeed play a role in the allocation of *subsidies*.

[Insert Table 4 here]

4.4. Baseline results

This section describes our RDD results, as reported in Table 5. Our baseline estimates include simple OLS regressions (columns 1–3), RDD regressions described in Equation (6) using a third-order spline polynomial specification (columns 4–5), and local linear regressions described in Equation (7) with optimal bandwidth calculated according to Calonico et al. (2014) (columns 6-7). We report specifications with no covariates (columns 1, 3, and 5) and specifications that include the complete set of our controls discussed earlier (columns 2, 4, and 6). In line with the empirical evidence from existing studies, we have positive and statistically significant estimates across all specifications, indicating that mayors politically aligned with the government indeed receive more (discretionary) *subsidies* (see, also, Brolo and Nannicini, 2012; Curto-Grau et al., 2018). This result also supports recent evidence which identifies the gradual introduction of more decentralized institutions in "new democracies" for political

economy reasons (see, e.g., Stoecker, 2022). According to the spline polynomial regression with the complete set of covariates, mayors affiliated with the central government that barely won the election received 17% more *subsidies* than their non-affiliated counterparts. A visual inspection of Figure 3 shows clearly that the effect at zero is driven by a sizeable increase in *subsidies* to aligned municipalities – not by a cut in transfers to unaligned municipalities (see Brollo and Nannicini, 2012). At the same time, more (discretionary) *subsidies* seem to flow to strongholds (where VM_{it} is large). Although this is consistent to the "core voter strategy", observed also at the prefecture level, we do not know whether endogenous characteristics of these municipalities drive this result away from the cut-off. Interestingly, there is no cut in *subsidies* as we move to higher negative values of the victory margin. Overall, this pattern suggests political bias in expanding the fiscal account of (discretionary) *subsidies* observed along an overall expansion of the public sector between 1975 and 1993. After the restoration of democracy in 1974, the Greek state was expanding persistently, simultaneously growing the primary public deficits. Figure B6 in Appendix B shows that this pattern applies to *ND* (1974–1981 and 1990–1993) and *PASOK* (1975–1989) parties that dominated the political landscape between 1974 and 1993. Subsidies are a small component of total governmental expenses and it is difficult to connect our estimates to aggregate effects at the national level; however, these results relate to a parallel literature that portrays the institutional and political setting of *Metapolitefsi* as the driving force behind the prolonged cycle of the Greek state's financial destabilization (see Meghir et al., 2017; Kostis, 2019).

[Insert Table 5 and Figure 3 here]

4.5. Robustness checks

Our first robustness check in Table B8 in Appendix B is to experiment with additional specifications. In particular, the first four columns present results of polynomial estimations for all orders from 1 to 4 (each column corresponds to a specific order). Furthermore, columns

(5)-(7) show the results of local linear regressions for the optimal bandwidth defined by Calonico et al. (2014), as well as half and a quarter of the bandwidth. Due to space limitations, we omitted the corresponding specifications that exclude the covariates since the results are qualitatively similar. As it can be seen, with the exception of column (7) that the bandwidth choice reduces our sample to 53 observations making estimates noisier, our overall conclusion is robust to alternative specifications.

Second, we re-estimate the empirical specifications presented in Table 6 using *nondiscretionary subsidies* as a dependent variable. As discussed, discretionary and *nondiscretionary subsidies* to municipalities increased substantially between 1975 and 1993 (see Figure 2); however, *nondiscretionary subsidies* were allocated according to a formula-based method. Therefore, we do not expect to detect traces of political bias in this specific spending category. Indeed, Table 6 shows that the coefficient on the political alignment variable, A_{it}, is not statistically significant in any specification. This result is confirmed by a visual inspection of Figure B7 in Appendix B.

[Insert Table 6 here]

Our empirical strategy is valid for municipalities with a close election of two candidates affiliated with the two parties that dominated the political landscape during *Metapolitefsi*. Table B9 in Appendix B compares the municipalities of our sample to the rest of the Greek municipalities, indicating that municipalities in our sample are smaller and poorer than other Greek municipalities. Although the RDD can mimic a randomized experiment around the cutoff, improving internal validity, it comes at the price of lower external validity (see, also Brollo and Troiano, 2016). Having said that, we would expect a lower tendency of authorities to allocate opportunistically discretionary *subsidies* within this sample of municipalities. Moreover, Tables B10, B11, and Figure B8, in Appendix B present two additional robustness checks of the RDD estimates: (i) we investigate whether political alignment has a differentiated

effect on *subsidies* along five dimensions (e.g., the population size of a municipality), and (ii) we perform a placebo test using alternative cutoff points. Additional discussions of these tests are provided in Appendix A. Overall, our findings concerning the effect of political alignment on discretionary *subsidies* remain unaffected.

Finally, we examine the efficacy of discretionary *subsidies* as a political tool for incumbent mayors. Table B12 in Appendix B reports estimates of OLS specifications where the primary independent variable is discretionary *subsidies* as allocated in the municipality during the mayor's term in office. The dependent variable takes the value 1 if the mayor is re-elected in the next local election (and 0 otherwise).[29] Column (1) reports estimates including all 1,148 electoral races available during our sample's time range. In column (2), we restrict the sample to the 361 two-candidate races used in the RDD analysis, and column (3) includes our covariates and term fixed effects in this specification. Although our estimates do not allow us to identify an effect credibly, the results are consistent with expectations showing a positive correlation between discretionary *subsidies* and the re-election prospects of mayors.

4.6. Affiliated mayors as components of the party machine

Our final exercise is to examine whether politically aligned mayors did have any effect on the future electoral outcomes of the governing party (see, also, Brollo and Nannicini, 2012; Lara and Toro, 2019). In particular, if financially empowered affiliated mayors are essential components of the party machine, this should be reflected in the municipal vote share of the governing party in the next national election. To explore this, we repeat our RDD estimations by employing the governing party's municipal vote share as a dependent variable in the next national election. For instance, we associate the mayor's alignment after the municipal election of 1978 with the vote share of the governing party in the most immediate national election of

[29] Our sample allows us to relate discretionary *subsidies* with re-election in the municipal elections of 1982, 1986, 1990, and 1994.

1981.[30] The results are reported in Table 7. The baseline estimates with spline polynomial approximation and covariates in column (4) point to a gain of about 5.3% points for governing parties who can count on aligned mayors. The results are not robust when we move to the local linear regression with covariates in column (6), where our sample drops significantly; however, some evidence exists of electoral returns to the governing parties associated with their political capital invested at the local level. This finding relates to an influential body of work that argues that subnational incumbency contributes to party building using state resources (see Grindle, 2012; Kemahlıoğlu and Bayer, 2020; Sells, 2020). According to this argument, consistent with our results for Greece, governing parties distribute resources in aligned subnational authorities, aiming to strengthen their organizational capacity and entice new members to join their ranks.

[Insert Table 7 here]

5. Conclusions

Fiscal manipulation for political economy reasons is a widely observed phenomenon in newly established democracies (see, e.g., Brender and Drazen, 2005; 2007). Many recent studies investigate how demand for political decentralization in nascent democracies and the consequent introduction of less centralized institutions may affect clientelist ties and the allocation of intergovernmental transfers (see, e.g., Borcan, 2020; Gainza et al., 2021; Stoecker, 2022). This paper focuses on Greece after the restoration of democracy in 1974 to examine (i) the possibility of party favoritism in the allocation of intergovernmental transfers and (ii) the role of state resources in local party building.

We provide empirical evidence in line with both hypotheses using hand-collected data from various sources at the prefecture and municipal levels that extend during the first two decades of *Metapolitefsi*. In particular, at the prefecture level, evidence from fixed effects and

[30] We also associate the political alignment after the municipal elections of 1982, 1986, and 1990 with the electoral outcome of the governing party in the elections of 1985, 1989, and 1993, respectively.

DD models suggests that ruling parties were directing disproportionate amounts of *prefectural expenses* toward their political strongholds, specifically during electoral and pre-electoral years. Related to that we show that the prefectural budget positively correlates with the prefectural growth of the "party-influenced" public sector.

Furthermore, RDD estimates at the municipal level reveal that (i) in razor-close elections, municipalities with a mayor affiliated with the governing party receive significantly larger amounts of discretionary *subsidies*, (ii) financially empowered aligned mayors are essential components of the party machine as we detect a positive impact on the future vote share of the ruling party. Overall, these findings support the notion that party favoritism affected the allocation of intergovernmental transfers to prefectures and municipalities during *Metapolitefsi* in an attempt of governing parties to support their new organizational structure that required an autonomous party machine at the local level. Throughout this process, prefects and aligned mayors were treated as components of party bureaucracy at the grassroots level; thus, public resources were directed to them for political economy reasons.

These empirical findings could potentially indicate a parallel literature investigating *Metapolitefsi* as the starting point of a prolonged cycle of fiscal destabilization (see, e.g., Alogoskoufis, 2019). The expansion of the Greek state over the analysis period and the rising primary public deficits (Figure B6 in Appendix B) resulted in the explosion of public debt from 17.5% of GDP in 1974 to 97.6% in 1993. According to the extant literature, *Metapolitefsi* produced an economic environment that discouraged private investment and prioritized politically motivated redistributive policies (see Meghir et al., 2017; Kostis, 2019). Social groups at the margin of society and politics in the pre-*Metapolitefsi* era (e.g., small business owners and small farmers) gained significant political power, and the elected governments were striving to satisfy their "fiscal demands." Consistent with this argument, our findings at the municipal level suggest that when governing parties had discretion over public funds in the

new era of *Metapolitefsi*, bias arose for political economy reasons. Nonetheless, the observed expansion of the fiscal account of (discretionary) *subsidies* is merely a small component of the overall expansion, whereas within-country comparisons are difficult to link to aggregate dynamics. Therefore, future research could explore whether the aforementioned changes in the organizational structure of the Greek parties were also the driving force behind the redistributive policies and the fiscal derailment during that period. Finally, it would be interesting to investigate if public policies during the first two decades of *Metapolitefsi* were a major contributing factor that entangled Greece in its current malaise.

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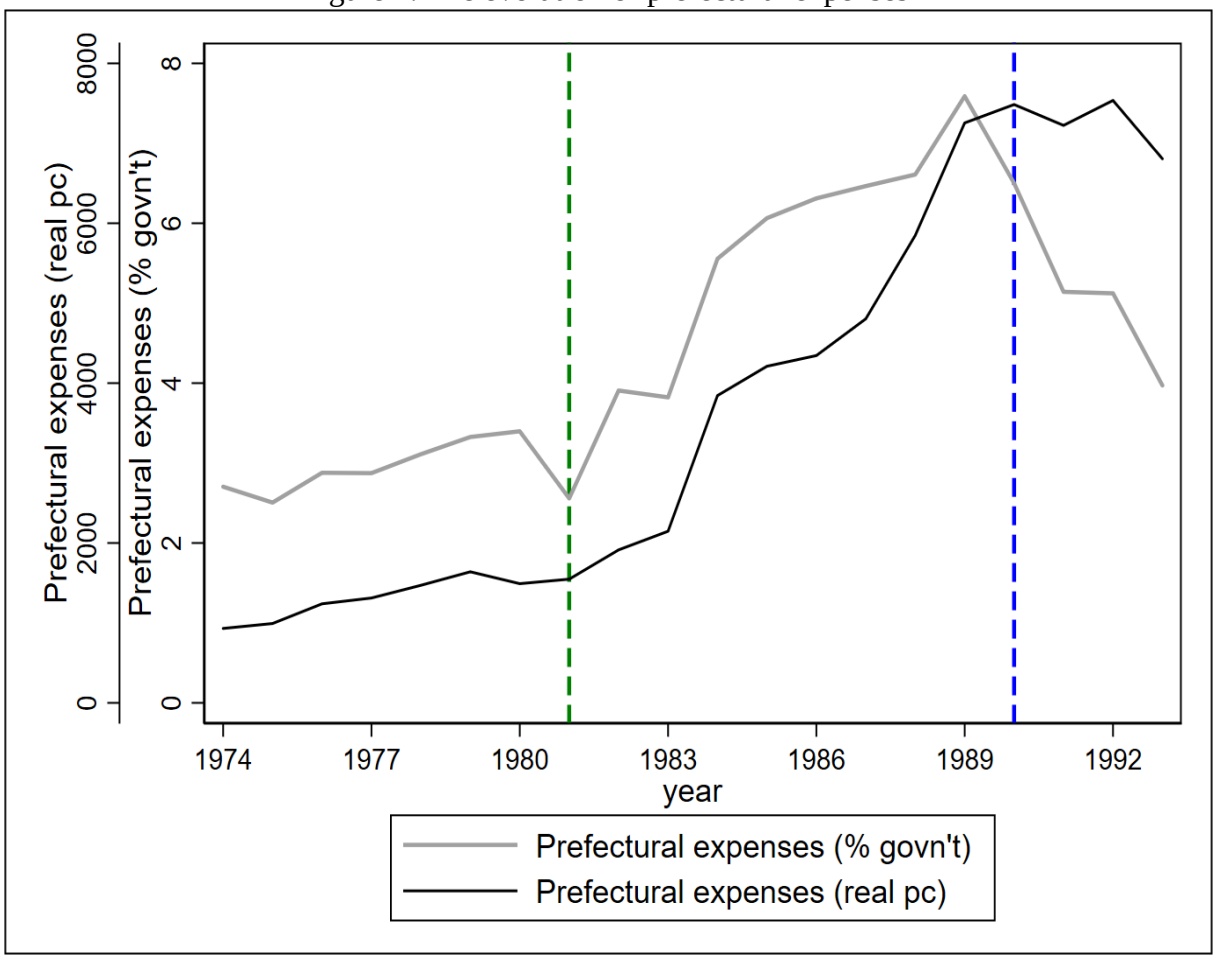
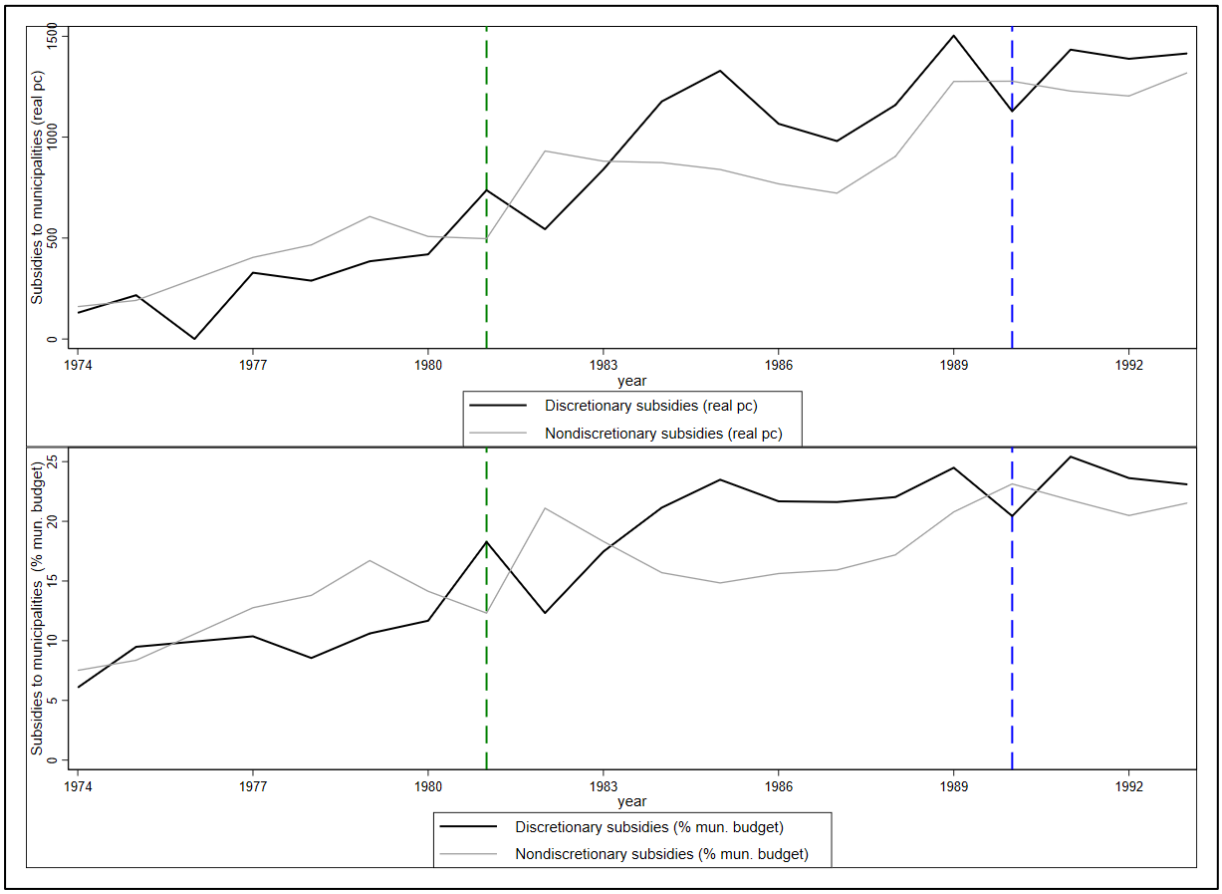
Figure 1. The evolution of prefectural expenses



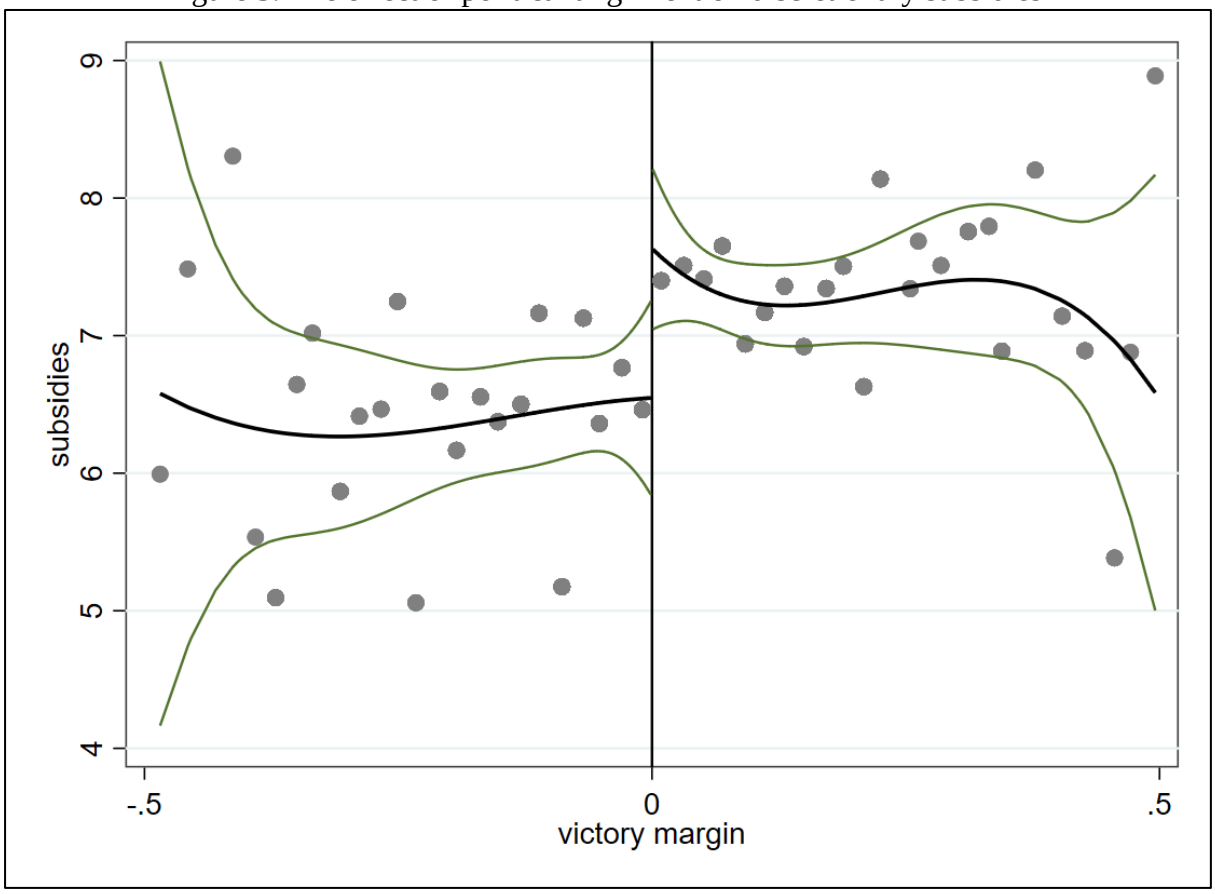
Notes: The green dashed line indicates the year that the socialist party *PASOK* came to power after the election of 1981 up to 1989. The blue dashed line indicates the year that *ND* came back to power in 1990. Fiscal data are obtained by the annual volumes of the final fiscal accounts of the Greek state available at the Bank of Greece (BoG).

Figure 2. The evolution of subsidies to municipalities



Notes: The green dashed line indicates the year that the socialist party *PASOK* came to power after the election of 1981 up to 1989. The blue dashed line indicates the year that *ND* came back to power in 1990. Fiscal data are obtained by the annual volumes of the final fiscal accounts of the Greek municipalities available in the Digital Library of the Hellenic Statistical Authority (ELSTAT).

Figure 3. The effect of political alignment on discretionary subsidies



Notes: The black line is a split third-order polynomial in victory margin of the aligned mayor candidate, fitted separately on each side of the victory margin thresholds at zero – i.e., $VM_{it} > 0$ ($VM_{it} < 0$) when the winner candidate in the municipality i and mandate t is aligned (non-aligned) with the central government. The grey lines are the 95% confidence interval of the polynomial. Scatter points are averaged over 2% intervals.

Table 1. Political support and the allocation of prefectural expenses

election variable:	*No interaction*	*No interaction*	*election years*	*election and pre-election years*
	(1)	(2)	(3)	(4)
victory margin	0.158**	0.101	0.149*	0.100
	(0.078)	(0.097)	(0.081)	(0.082)
victory margin^2		0.564		
		(0.947)		
*victory margin * election*			0.030	0.101*
			(0.060)	(0.058)
Observations	988	988	988	988
R^2	0.946	0.946	0.946	0.946

Notes: The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. Column (1) reports estimates of Equation (1). In column (2), Equation (1) has been augmented with square term of *victory margin*. Columns (3) and (4) report estimates of Equation (2). Prefecture and year fixed effects are included. All models control for the variables *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing* and *construction* but these coefficients are not reported due to space limitations. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 2. Political support and the allocation of prefectural expenses (DD)

	(1)	(2)	(3)
*PASOK * victory margin$_{1981}$*	0.581**	0.641*	
	(0.281)	(0.353)	
*year 1981 * victory margin$_{1981}$*		0.015	
		(0.289)	
*year 1980 * victory margin$_{1981}$*		-0.104	
		(0.258)	
*year 1979 * victory margin$_{1981}$*		0.155	
		(0.189)	
*year 1978 * victory margin$_{1981}$*		0.193	
		(0.151)	
*year 1977 * victory margin$_{1981}$*		0.167	
		(0.116)	
trend			0.036
			(0.047)
*trend * victory margin$_{1981}$*			0.053
			(0.051)
Observations	780	780	364
R^2	0.936	0.936	0.655

Notes: The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. In column (1) we report the DD coefficient estimate of Equation (3). Column (2) augments Equation (3) with dummy variables for each year between 1981-1977 interacted with the treatment variable *victory margin$_{1981}$*. Column (3) lists selected results from Equation (4), a pre-1982 model of *prefectural expenses* and *victory margin*. Prefecture and year fixed effects are included in columns (1) and (2), whereas column (3) includes only prefecture fixed effects. All models control for the variables *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing* and *construction* but these coefficients are not reported due to space limitations. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 3. Prefectural expenses and income

dep. variable:	*total*	*agriculture forestry, and fishery*	*mining and quarrying*	*manufacturing*	*electricity, gas and water supply*	*construction*	*transportation and communication*	*wholesale and retail trade*	*banking insurance and real estate*	*dwelling services*	*Public administration and services*	*miscellaneous services*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
prefectural expenses	-0.041	-0.076	-0.324	0.044	-0.007	-0.004	-0.020	0.012	-0.014	0.044	0.068*	0.032
	(0.031)	(0.051)	(0.300)	(0.076)	(0.071)	(0.066)	(0.021)	(0.023)	(0.099)	(0.057)	(0.034)	(0.069)
Observations	988	988	988	988	988	988	988	988	988	988	988	988
R^2	0.566	0.365	0.231	0.541	0.628	0.453	0.643	0.303	0.738	0.511	0.827	0.631

Notes: Column titles refer to the dependent variable. For instance, the dependent variable in column (1) is the natural logarithm of the real per capita *total* prefectural GDP. The table reports estimates of Equation (5). Prefecture and year fixed effects are included. All models control for the variables *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing* and *construction* but these coefficients are not reported due to space limitations. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 4. Discontinuities of main covariates in close races (RDD)

dep. variable:	*abstention*	*experience*	*candidate*	*population*	*elderly*	*females*	*electricity*	*illiterates*	*agriculture*	*manufacturing*	*construction*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
alignment	0.010	-0.212	-0.027	0.759	-0.000	0.006	-0.004	-0.014	-0.034	-0.014	0.000
	(0.033)	(0.183)	(0.147)	(6.201)	(0.011)	(0.007)	(0.020)	(0.013)	(0.028)	(0.013)	(0.004)
Observations	361	361	361	361	361	361	361	361	361	361	361
R^2	0.046	0.091	0.008	0.036	0.047	0.011	0.031	0.046	0.041	0.049	0.024

Notes: Column titles refer to the dependent variable. This table shows RDD estimates of Equation (6) using the controls described in Section 4.2 as dependent variables (instead of *subsidies*) and a third-order spline polynomial specification. Robust standard errors clustered at the municipality level are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 5. Political alignment and (discretionary) subsidies

specification:	*OLS*		*Spline Polynomial*		*LLR*	
covariates:	*No*	*Yes*	*No*	*Yes*	*No*	*Yes*
	(1)	(2)	(3)	(4)	(5)	(6)
alignment	0.861***	0.679***	1.132***	1.023***	0.948**	0.766**
	(0.144)	(0.120)	(0.405)	(0.337)	(0.373)	(0.336)
Observations	361	361	361	361	207	194
R^2	0.071	0.377	0.081	0.383	0.076	0.343
Optimal h					0.129	0.119

Notes: The dependent variable is the natural logarithm of the real per capita (discretionary) *subsidies*. This table shows results for OLS, RDD third-order spline polynomial and local linear regressions (with optimal bandwidth calculated as in Calonico et al., 2014). RDD specifications with split polynomial and local linear regressions follow Equations (6) and (7), respectively. h denotes the interval of our running variable. For instance, h=0.129 represents races where margin of victory is between -12.9% and 12.9%. Columns (2), (4) and (6) control for the *abstention, experience, candidate, population, elderly, females, illiterates, electricity, agriculture, manufacturing, construction*, and term fixed effects but these coefficients are not reported due to space limitations. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 6. Political alignment and nondiscretionary subsidies

specification:	*OLS*		*Spline Polynomial*		*LLR*	
covariates:	*No*	*Yes*	*No*	*Yes*	*No*	*Yes*
	(1)	(2)	(3)	(4)	(5)	(6)
alignment	0.034	0.016	0.027	-0.012	0.069	-0.003
	(0.047)	(0.029)	(0.135)	(0.079)	(0.114)	(0.104)
Observations	361	361	361	361	241	142
R^2	0.001	0.658	0.017	0.665	0.020	0.678
Optimal h					0.154	0.084

Notes: The dependent variable is the natural logarithm of the real per capita *nondiscretionary subsidies*. Columns (1)-(6) follow the structure of Table 5. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table 7. Political alignment and future electoral strength

specification:	*OLS*		*Spline Polynomial*		*LLR*	
covariates:	*No*	*Yes*	*No*	*Yes*	*No*	*Yes*
	(1)	(2)	(3)	(4)	(5)	(6)
alignment	0.085***	0.073***	0.057***	0.055***	0.034*	0.034
	(0.008)	(0.009)	(0.018)	(0.017)	(0.018)	(0.023)
Observations	361	361	361	361	195	154
R^2	0.221	0.321	0.318	0.405	0.134	0.224
Optimal h					0.121	0.093

Notes: The dependent variable is the incumbent party's *vote share* in each municipality in the next national election. Columns (1)-(6) follow the structure of Table 5. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Appendix

Fueling the party machine: Evidence from Greece during Metapolitefsi

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Appendix A. Robustness checks of the RDD specification

In Table B10, we investigate the potential heterogeneity of the impact of political alignment on discretionary subsidies. To do so, we conduct an RDD analysis allowing the discontinuity to be different along five dimensions. That is, we estimate Equation (6) augmented with an additional term and the interaction between the political alignment variable and this term for five different cases. First, we distinguish the periods that *ND* (1978-1981 and 1990-1993) and *PASOK* (1982-1985 and 1986-1989) were in power. It would be interesting to investigate whether one of the two parties drives the political alignment effect. To this end, we use the variable *ND* that takes the value 1 when *ND* is in power and 0 otherwise. Second, we examine if the municipality size is an important factor which affects the way governments allocate *subsidies*. If larger municipalities receive higher amounts of *subsidies*, it could be argued that this may not be the effect of political bias. To perform this test, we construct the variable *population above the median* that takes the value 1 if a municipality has population above 4,000 citizens, and 0 otherwise. Third, we use the variable *candidate* to distinguish cases that the mayor runs for re-election or not. It would be interesting to observe whether the central government differentiates its behavior along this dimension. Fourth, we focus on the issue of political strongholds. We define *political strongholds* as municipalities that voted in favor of the political party in power with a margin of victory greater than 20% (upper quarter of the distribution) in the last national elections. In that way, we can check if the political alignment matters, but only in the political strongholds of the incumbent. Fifth, we check whether our result is driven by the level of voter turnout. In other words, we examine if higher voter turnout affects the behavior of the central government to allocate subsidies in aligned mayors at the threshold. To do so, we construct the variable *turnout above median* that takes the value 1 for municipalities with abstention rate below 23.84% and 0 otherwise. As can be seen in columns (1)-(5) of Table B10, our results on political alignment do not seem to be affected significantly by a specific political party, municipality size, lame ducks, political strongholds and high turnout levels.

Our last robustness check is to perform a placebo test following Imbens and Lemieux (2008). More specifically, we estimate the political alignment effect at false thresholds where no effect should exist. To this end, we use as alternative cut-off points the median on the left and right side of the zero threshold. The values which correspond to these alternative thresholds are -0.116 and 0.112 respectively. Table B11 presents the results of a third-order spline

polynomial for the new threshold on the left (columns 1-2), the true threshold (columns 3-4), and the new threshold on the right (columns 5-6). As it can be seen, our empirical evidence suggests that discontinuities do not exist at these alternative cut-off points. This indicates that our results are valid due to a causal relationship and not because of pure randomness. Figure B8 provides a visual illustration comparing results at the true and false cut-off points.

Appendix B. Additional Figures and Tables

Figure B1. Political influence of *ND* and *PASOK* at the prefecture level (NUTS-3)

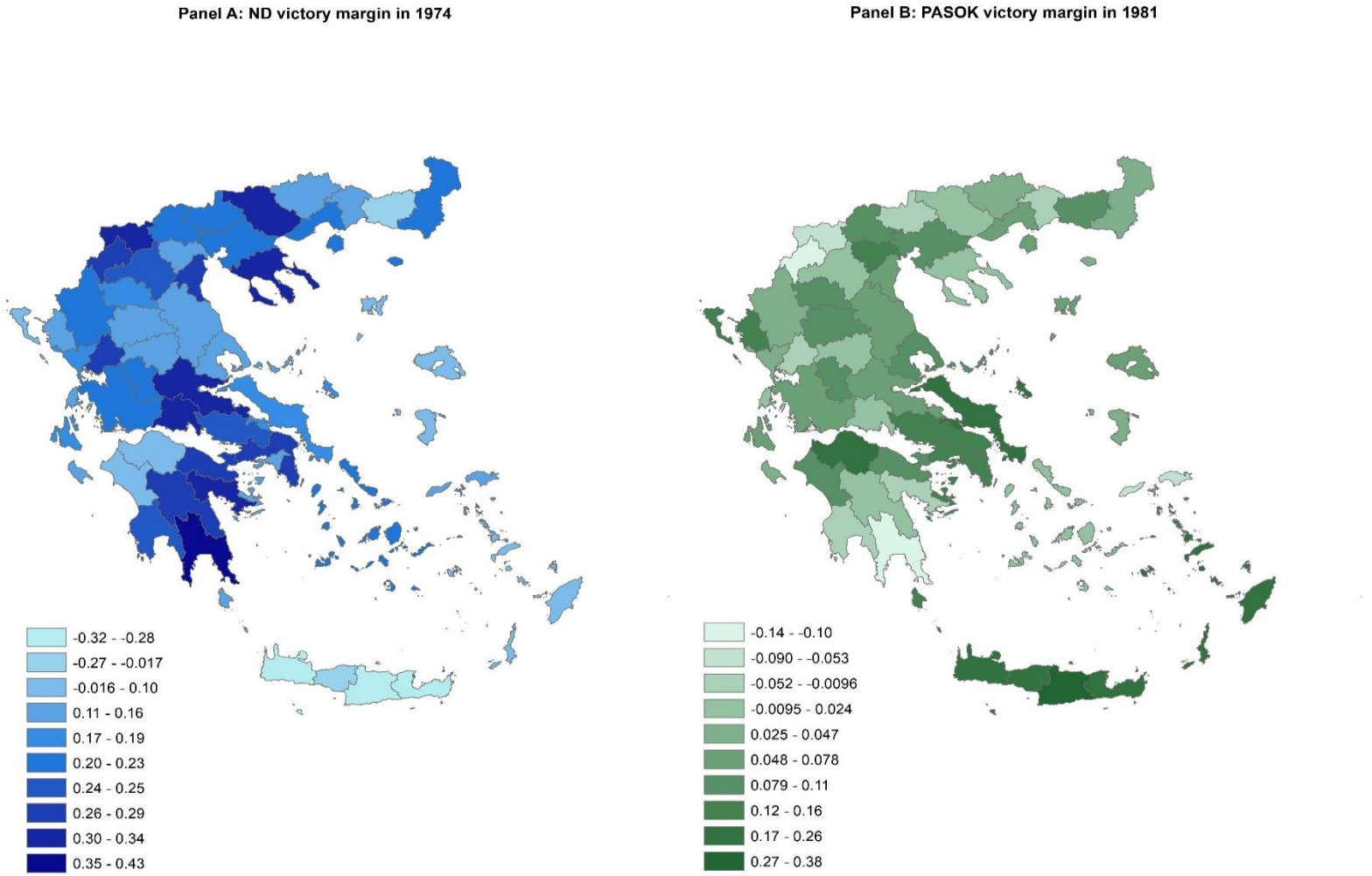
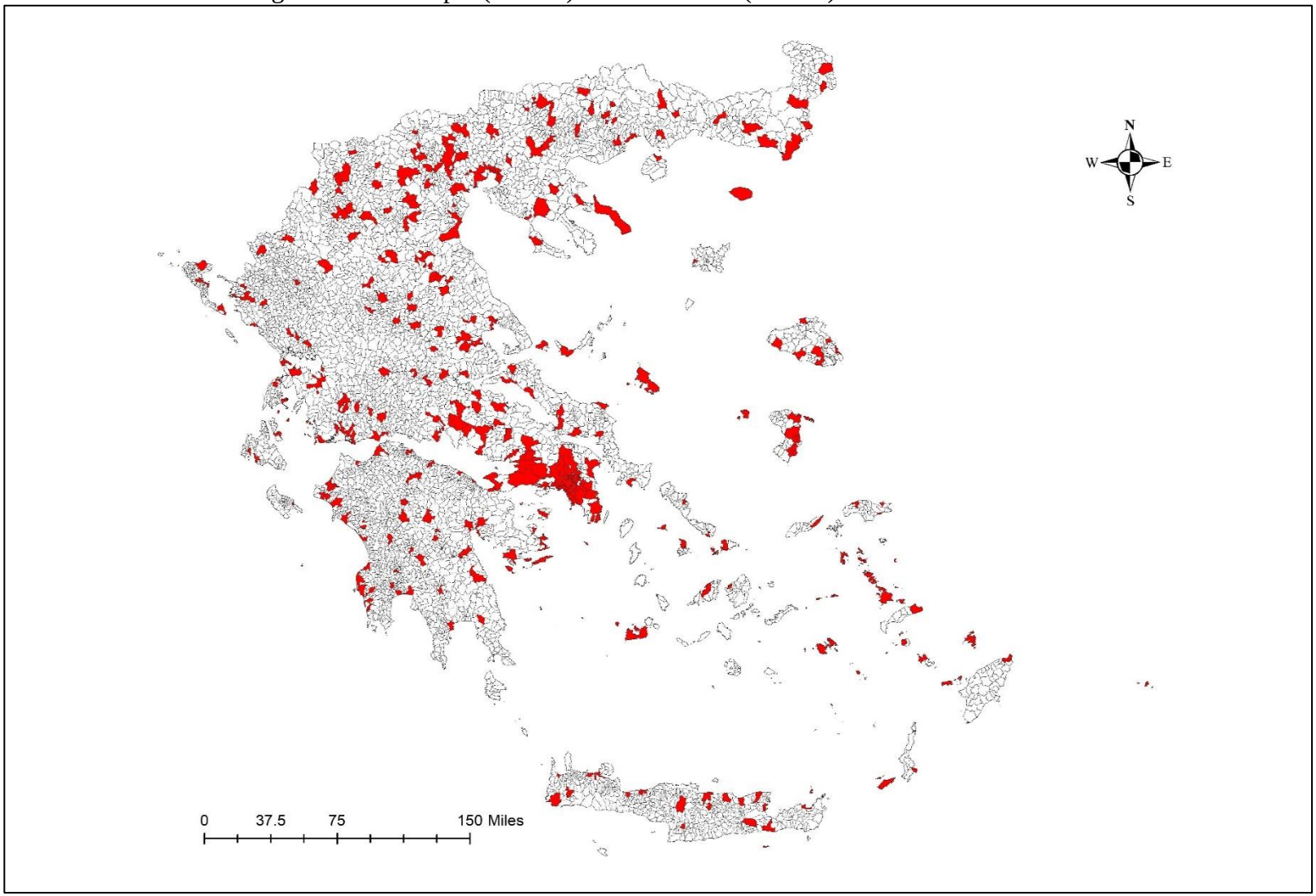
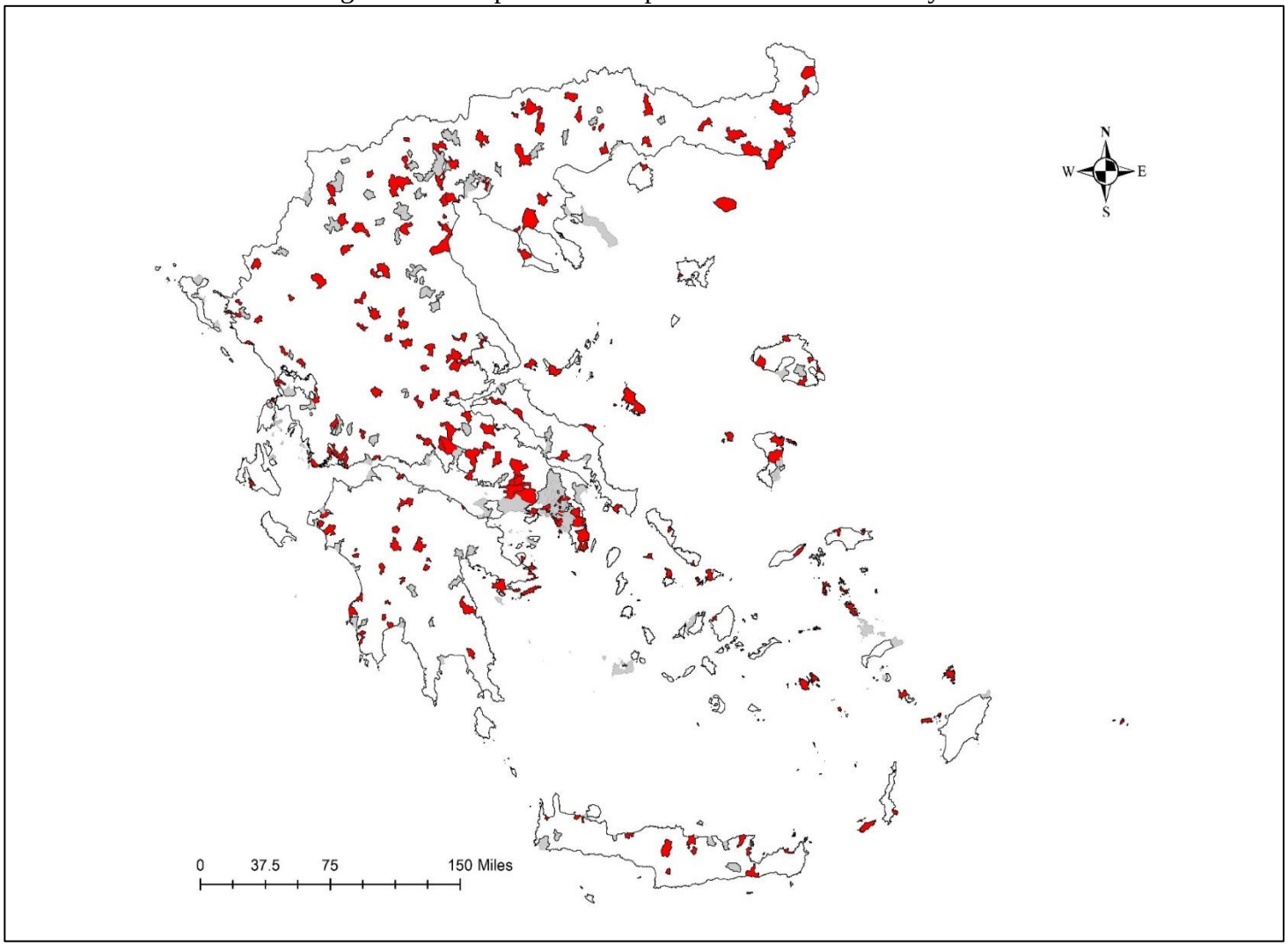


Figure B2. Municipal (LAU-1) and communal (LAU-2) boundaries of Greece



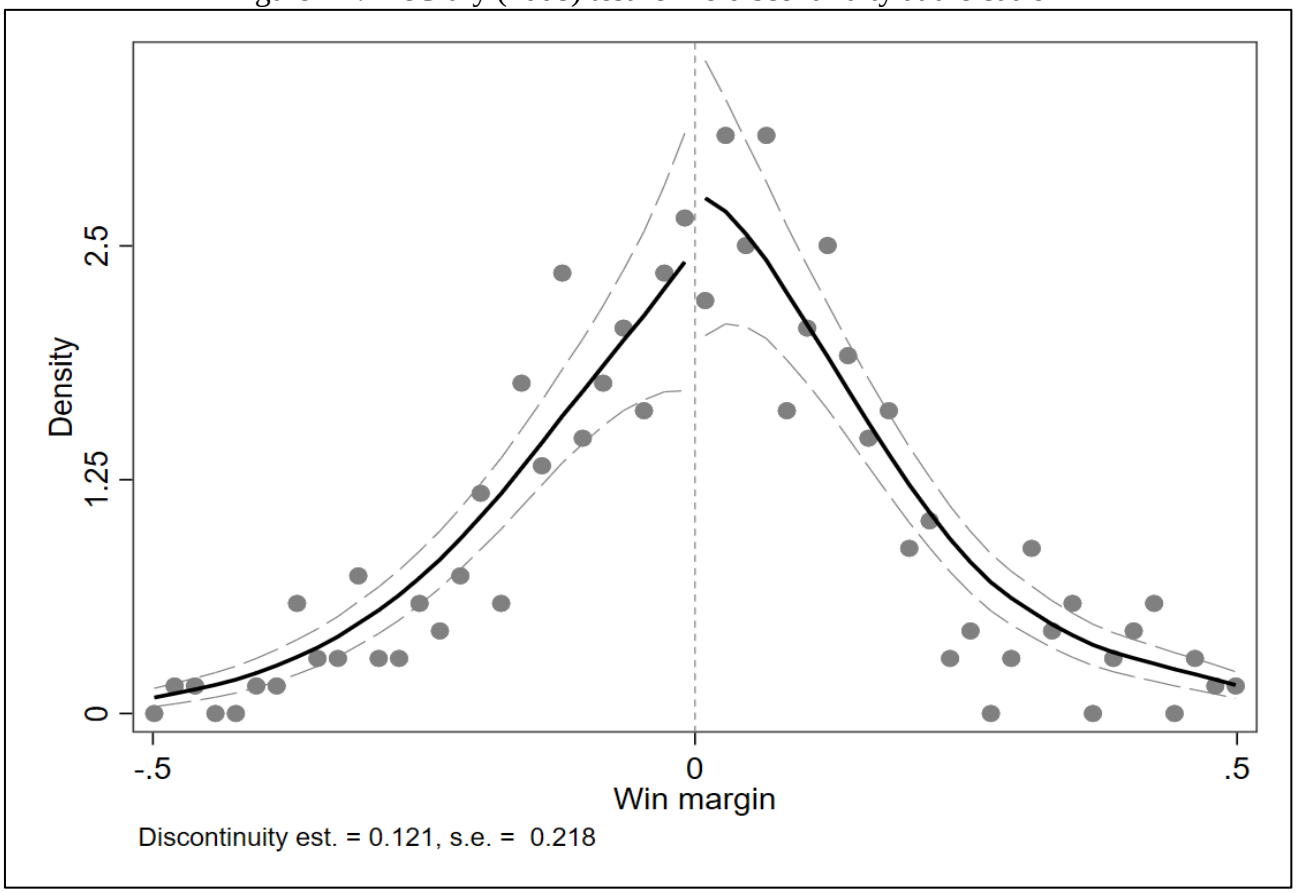
Notes: Red polygons indicate all the municipalities of our sample. The light grey lines indicate boundaries of smaller administrative divisions such as communities.

Figure B3. Sample of municipalities for the RDD analysis



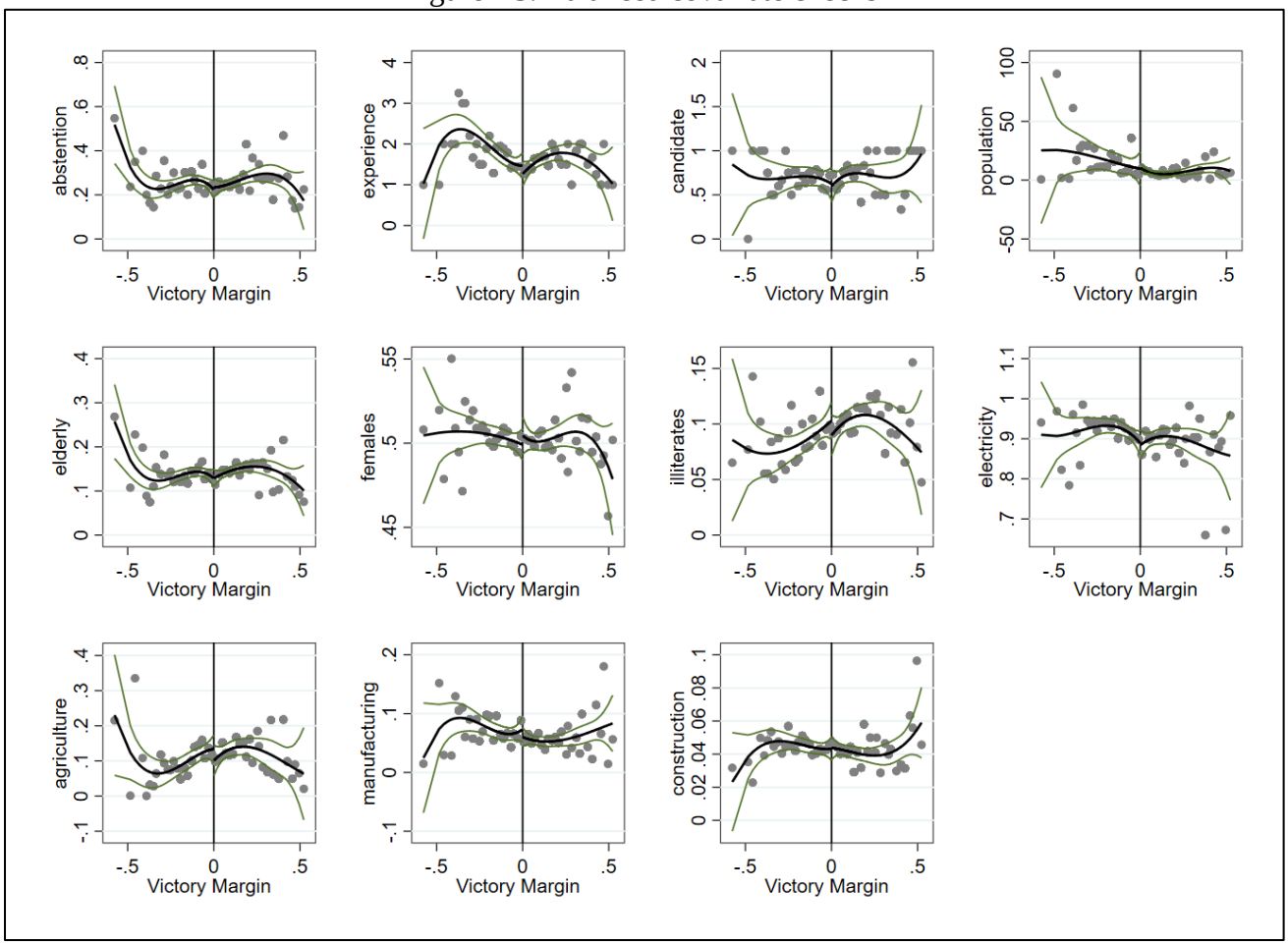
Notes: Red polygons indicate the 196 municipalities of our sample in the RDD analysis. Grey polygons indicate municipalities that do not appear in the sample.

Figure B4. McCrary (2008) test for no discontinuity at the cut-off



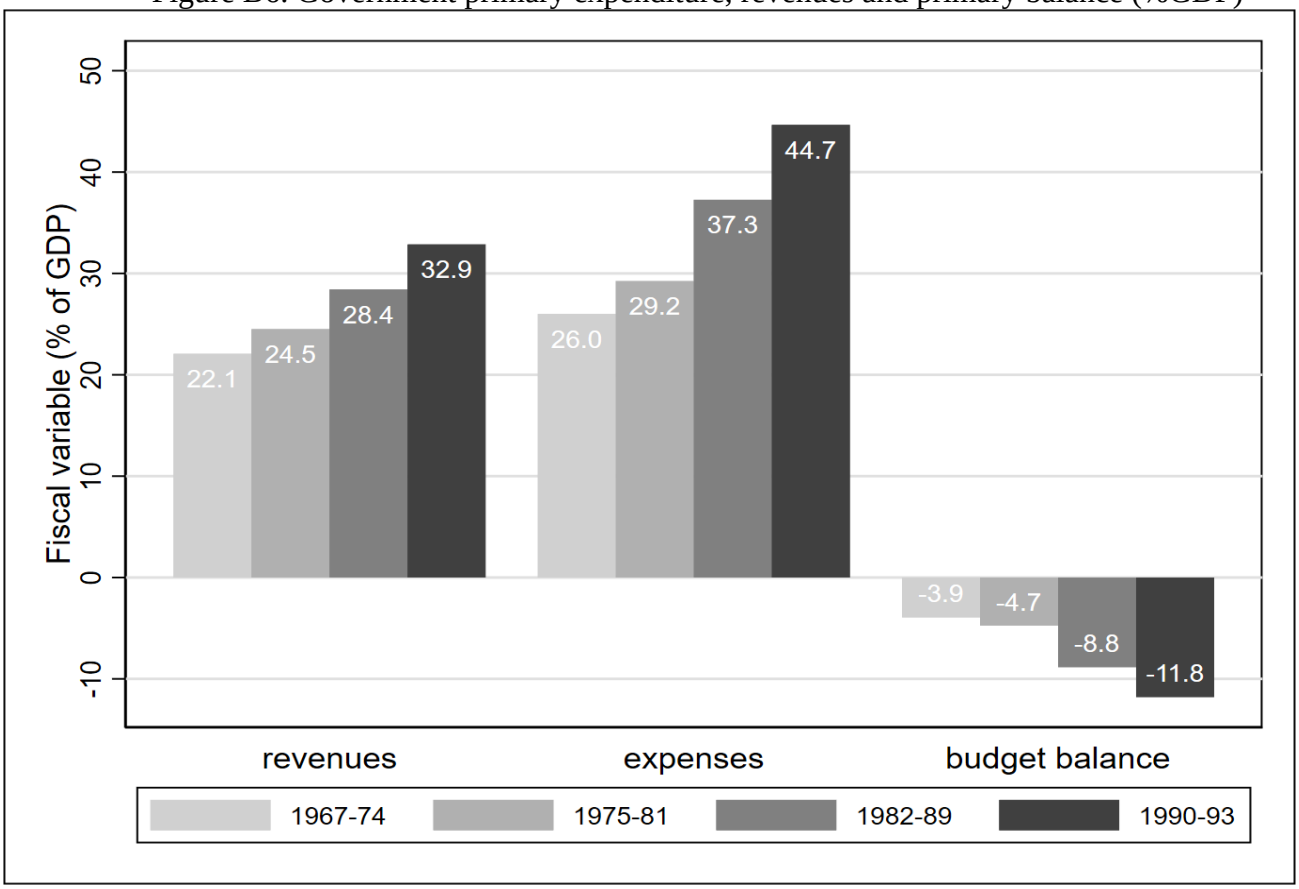
Notes: This figure shows the estimated density of the victory margin of aligned mayors in municipal elections and the test for no discontinuity at the cut-off point. The point estimate for the discontinuity is 0.121, with a standard error of 0.218.

Figure B5. Balanced covariate checks



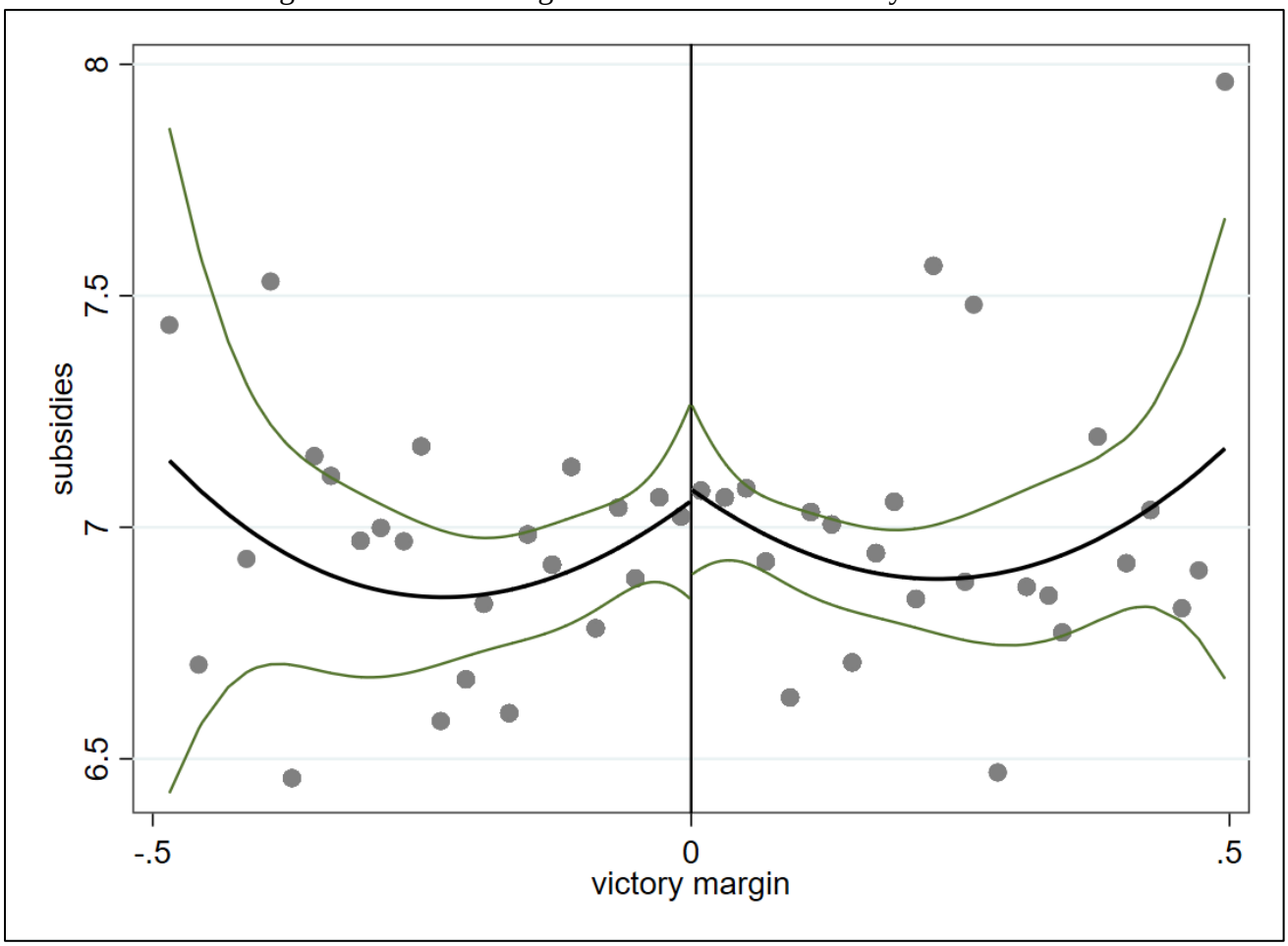
Notes: The black line is a split third-order polynomial in victory margin of the aligned mayor candidate, fitted separately on each side of the victory margin thresholds at zero – i.e., $VM_{it} > 0$ ($VM_{it} < 0$) when the winner candidate in the municipality i and mandate t is aligned (non-aligned) with the central government. The grey lines are the 95% confidence interval of the polynomial. Scatter points are averaged over 2% intervals.

Figure B6. Government primary expenditure, revenues and primary balance (%GDP)



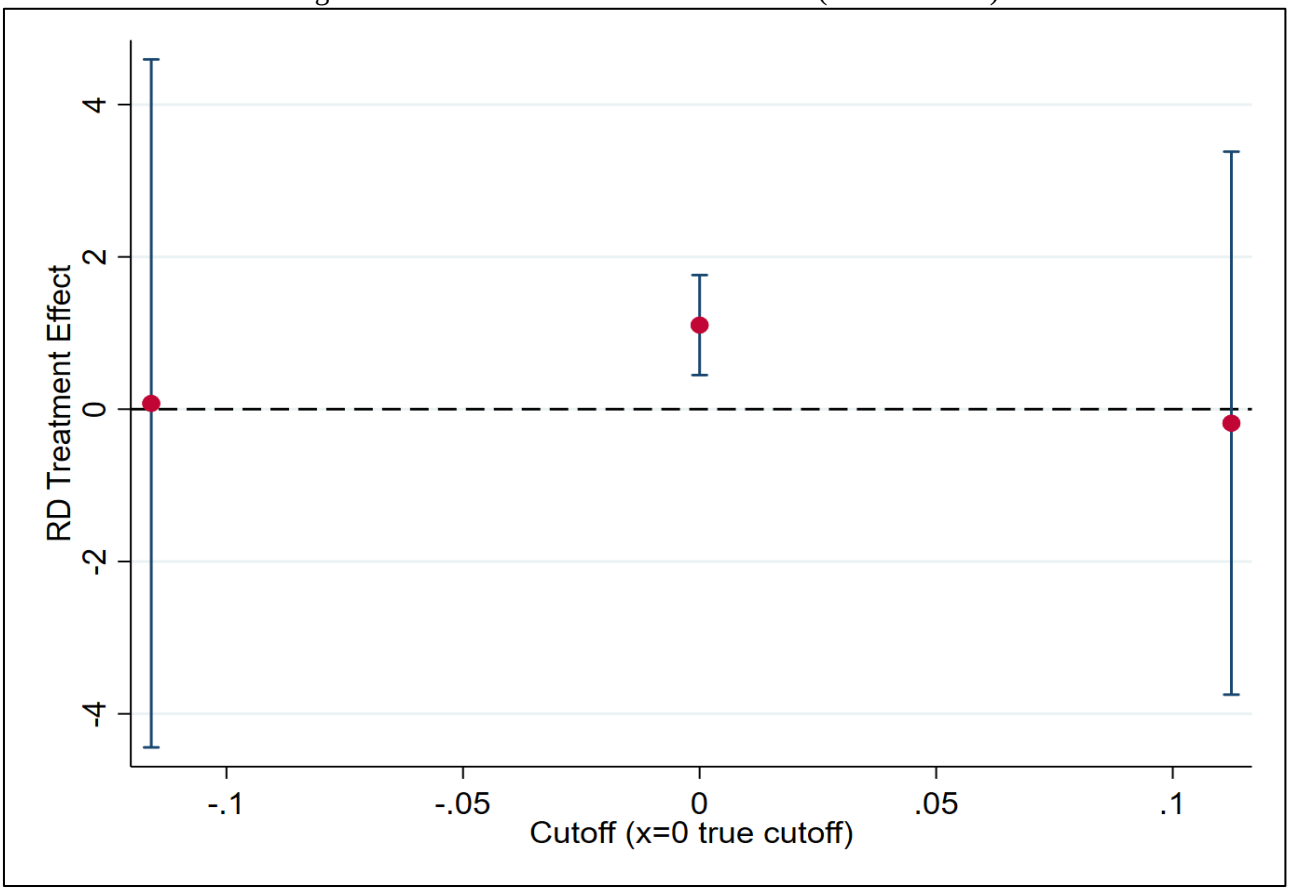
Notes: Fiscal data are obtained by the Historical Public Finance Database (Mauro et al., 2015).

Figure B7. Political alignment and nondiscretionary subsidies



Notes: See Figure B5.

Figure B8. True vs false electoral thresholds (Placebo Tests)



Notes: This graph shows the effect of alignment on subsidies based on the specifications of columns (2), (4) and (6) in Table B11. Estimates are obtained using a third-order spline polynomial specification as described on Equation (6).

Table B1. Definition of variables, data sources and descriptive statistics (Prefectural Level of Analysis)

Variable name	Description	Obs.	Mean	SD	Min	Max	Source
prefectural expenses	Total prefectural expenses, expressed in real per capital terms	988	3345.209	2570.246	462.250	19888.424	Final fiscal accounts of the Greek state available in the Bank of Greece (BoG)
victory margin	The difference between the incumbent share and the opposition voting share. The former is measured as the valid votes for the incumbent party as a share of the voting-eligible population. The latter is measured as the valid votes for the opposition party (parties) as a share of the voting-eligible population. Between 1975-1981 the opposition is composed by vote shares received by the two leading opposition parties (i.e., *EK-ND* and *PASOK*), whereas between 1982-1993 by the leading opposition party ND.	988	0.063	0.111	-0.323	0.431	Ministry of Interior, Directorate of Elections
election years	=1 in years of national elections, and 0 otherwise	988	0.316	0.465	0.000	1.000	
election and prelection years	=1 in years and prelection years of national elections, and 0 otherwise	988	0.579	0.494	0.000	1.000	
PASOK	=1 in years between 1982-1989, when *PASOK* was in power, and 0 otherwise	988	0.421	0.494	0.000	1.000	
victory margin$_{1981}$	The victory margin of PASOK in the election of 1981, as a share of the voting-eligible population	988	0.072	0.093	-0.142	0.381	
population	Total population at the prefecture level expressed in millions	988	0.189	0.421	0.021	3.151	Digital library of the Hellenic Statistical Authority (ELSTAT)
elderly	The share of individuals older than 65 years old	988	0.148	0.034	0.091	0.252	
females	The share of females at the prefectural level	988	0.502	0.011	0.471	0.535	
illiterates	The share of illiterate individuals	988	0.112	0.043	0.033	0.285	
electricity	The share of households with access to electricity	988	0.951	0.056	0.505	1.000	
agriculture	Individuals employed in the agricultural sector as a share of active working age population	988	0.384	0.155	0.006	0.734	
manufacturing	Individuals employed in the industrial sector as a share of active working age population	988	0.118	0.072	0.034	0.485	
construction	Individuals employed in the construction sector as a share of active working age population	988	0.085	0.025	0.030	0.166	
total GDP	Total prefectural GDP, expressed in real per capital terms	988	1.40e+05	34721.340	61213.721	3.43e+05	Digital library of the Hellenic Statistical Authority (ELSTAT)
agriculture forestry and fishery GDP	Prefectural GDP in agriculture forestry and fishery activities, expressed in real per capital terms	988	39788.348	16557.482	2438.964	93451.634	
mining and quarrying GDP	Prefectural GDP in mining and quarrying activities, expressed in real per capital terms	988	4366.185	11111.485	0.000	1.16e+05	
manufacturing GDP	Prefectural GDP in manufacturing activities, expressed in real per capital terms	988	20531.154	20656.029	3283.580	1.77e+05	
electricity gas and water supply GDP	Prefectural GDP in electricity gas and water supply activities, expressed in real per capital terms	988	3358.644	4817.874	342.321	47444.612	
construction GDP	Prefectural GDP in construction activities, expressed in real per capital terms	988	12561.074	4149.781	4647.047	43811.781	
transportation and communication GDP	Prefectural GDP in transportation and communication activities, expressed in real per capital terms	988	8293.119	3096.589	2946.422	25894.535	
wholesale and retail trade GDP	Prefectural GDP in wholesale and retail trade activities, expressed in real per capital terms	988	15030.615	4156.740	6190.841	37138.332	
banking insurance and real estate GDP	Prefectural GDP in banking insurance and real estate activities, expressed in real per capital terms	988	2736.997	1472.893	832.483	10491.382	
dwelling services GDP	Prefectural GDP in dwelling services, expressed in real per capital terms	988	7518.177	3207.734	1019.254	23030.663	
public administration and services GDP	Prefectural GDP in public administration and services, expressed in real per capital terms	988	25658.388	11309.237	8818.878	1.03E+05	
miscellaneous services GDP	Prefectural GDP in miscellaneous services, expressed in real per capital terms	988	10511.587	8544.814	2869.876	82652.406	

Notes: *Prefectural expenses* and prefectural GDP variables are in levels, though in regressions they are expressed in logarithmic terms.

Table B2. Definition of variables, data sources and descriptive statistics (Municipal Level of Analysis)

Variable name	Description	Obs.	Mean	SD	Min	Max	
(discretionary) subsidies	Total discretionary subsidies from the central government, expressed in real per capital terms	361	2316.193	2496.349	0.000	15331.728	Digital library of the Hellenic Statistical Authority (ELSTAT)
nondiscretionary subsidies	Total nondiscretionary subsidies from the central government, expressed in real per capital terms	361	1130.900	548.147	206.795	3681.955	
alignment	= 1 if the mayor is aligned with the central government, and 0 otherwise	361	0.546	0.499	0.000	1.000	Ilias Nicolacopoulos data
VM	The difference of the vote share between the aligned and non-aligned mayor candidates	361	0.015	0.179	-0.576	0.523	Ministry of Interior, Directorate of Elections
vote share	The vote share of the incumbent party in the next national election	361	0.412	0.090	0.176	0.705	
abstention	The share of absent voters from the electoral process	361	0.256	0.107	0.018	0.808	
experience	Number of terms the mayor has served since the restoration of democracy	361	1.654	0.795	1.000	5.000	
candidate	=1 if the mayor runs for re-election, and 0 otherwise	361	0.698	0.460	0.000	1.000	
population	Total population at the municipal level expressed in thousands	361	10.369	25.676	0.189	406.413	Digital library of the Hellenic Statistical Authority (ELSTAT)
elderly	The share of individuals older than 65 years old	361	0.141	0.049	0.051	0.276	
females	The share of females at the municipal level	361	0.502	0.026	0.421	0.567	
illiterates	The share of illiterate individuals	361	0.096	0.045	0.008	0.264	
electricity	The share of households with access to electricity	361	0.907	0.086	0.340	1.000	
agriculture	Individuals employed in the agricultural sector as a share of population above 10 years old	361	0.118	0.105	0.000	0.446	
manufacturing	Individuals employed in the industrial sector as a share of population above 10 years old	361	0.063	0.047	0.006	0.301	
construction	Individuals employed in the construction sector as a share of population above 10 years old	361	0.043	0.017	0.010	0.096	

Notes: *subsidies* and *nondiscretionary subsidies* are in levels, though in regressions they are expressed in logarithmic terms.

Table B3. Correlates of victory margin

	All	ND	PASOK
	(1)	(2)	(3)
population	0.025***	0.026**	0.044***
	(0.007)	(0.011)	(0.015)
elderly	-0.152	-0.262	-0.394
	(0.198)	(0.371)	(0.432)
females	-0.207	-1.634*	0.988
	(0.453)	(0.934)	(1.061)
illiterates	-0.223	-0.335*	-0.121
	(0.172)	(0.175)	(0.325)
electricity	-0.002	0.003	-0.003
	(0.003)	(0.006)	(0.006)
agriculture	0.204***	0.150	0.374***
	(0.052)	(0.126)	(0.131)
manufacturing	0.279***	0.373***	0.260
	(0.098)	(0.116)	(0.192)
construction	0.614**	-0.166	2.499***
	(0.266)	(0.363)	(0.511)
Observations	260	156	104
R^2	0.072	0.262	0.460

Notes: 'All' refers to the victory margin of the incumbent party after the elections of 1974, 1977, 1981, 1985 and 1989; 'ND' refers to the victory margin of ND after the elections of 1974, 1977 and 1989; PASOK to the victory margin PASOK after the elections of 1981 and 1985. The table lists results of simple regressions of the victory margin against other observable features of prefectures. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B4. Political support and the allocation of prefectural expenses: Replacing interpolated controls

election variable:	*No interaction*	*No interaction*	*election years*	*election and pre-election years*
	(1)	(2)	(3)	(4)
victory margin	0.160**	0.166	0.154*	0.110
	(0.079)	(0.117)	(0.083)	(0.084)
victory margin^2		-0.057		
		(1.014)		
*victory margin * election*			0.019	0.087
			(0.061)	(0.058)
Observations	988	988	988	988
R^2	0.956	0.956	0.956	0.956

Notes: The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. The table reports OLS estimates of Equations (1) and (2). All models control for the following variables set in 1971 and interacted with year dummies: *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing* and *construction* but these coefficients are not reported due to space limitations. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B5. Political support and the allocation of prefectural expenses: Testing for outliers

election variable:	*No interaction*	*No interaction*	*election years*	*election and pre-election years*
	(1)	(2)	(3)	(4)
victory margin	0.162**	0.065	0.148**	0.081
	(0.066)	(0.068)	(0.063)	(0.067)
victory margin^2		1.019**		
		(0.498)		
*victory margin * election*			0.101	0.176***
			(0.077)	(0.058)
Observations	943	941	944	944
R^2	0.966	0.967	0.966	0.966

Notes: The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. The table reports OLS estimates of Equations (1) and (2). In all regressions, we remove observations with standardized residuals above 1.96 or below -1.96. Prefecture and year fixed effects are included. All models control for the variables *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing* and *construction* but these coefficients are not reported due to space limitations. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B6. Political support and the allocation of prefectural expenses: Political support variables as shares of valid votes cast

election variable:	*No interaction*	*No interaction*	*election years*	*election and pre-election years*
	(1)	(2)	(3)	(4)
victory margin	0.125**	0.069	0.119*	0.080
	(0.061)	(0.073)	(0.064)	(0.065)
victory margin^2		0.475		
		(0.579)		
*victory margin * election*			0.020	0.078*
			(0.048)	(0.046)
Observations	988	988	988	988
R^2	0.946	0.947	0.946	0.946

Notes: The dependent variable is the natural logarithm of the real per capita *prefectural expenses*. The table reports OLS estimates of Equations (1) and (2). Prefecture and year fixed effects are included. All models control for the variables *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing* and *construction* but these coefficients are not reported due to space limitations. Robust standard errors, clustered by prefecture, are reported in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B7. Testing for difference between means of aligned and non-aligned municipalities

	Aligned	**Obs.**	**Non-Aligned**	**Obs.**	**p-Value**
(discretionary) subsidies	7.307	197	6.445	164	0.000
nondiscretionary subsidies	6.967	197	6.934	164	0.503
abstention	0.257	197	0.255	164	0.852
experience	1.574	197	1.750	164	0.036
candidate	0.711	197	0.683	164	0.569
population	6.908	197	14.527	164	0.005
elderly	0.144	197	0.138	164	0.290
females	0.502	197	0.503	164	0.855
illiterates	0.101	197	0.090	164	0.017
electricity	0.898	197	0.918	164	0.026
agriculture	0.125	197	0.109	164	0.166
manufacturing	0.057	197	0.072	164	0.002
construction	0.042	197	0.045	164	0.148

Table B8. Political alignment and (discretionary) subsidies: Alternative RDD specifications

specification:	*Spline Polynomial*				*LLR*		
polynomial:	*p(1)*	*p(2)*	*p(3)*	*p(4)*	*p(1)*	*p(1)*	*p(1)*
bandwidth:	*Global*	*Global*	*Global*	*Global*	$\hat{h}$	$\hat{h}/2$	$\hat{h}/4$
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
alignment	0.717***	0.685***	1.023***	0.958**	0.766**	0.873*	1.297
	(0.197)	(0.246)	(0.337)	(0.454)	(0.336)	(0.502)	(0.806)
Observations	361	361	361	361	194	106	53
R^2	0.377	0.379	0.383	0.384	0.343	0.518	0.630
Optimal h					0.119	0.059	0.029

Notes: The dependent variable is the natural logarithm of the real per capita (discretionary) *subsidies*. Columns (1)-(4) show results for first, second, third and fourth-order spline polynomial specifications as described in Equation (6). Column (5) shows local linear regressions as described in Equation (7) with optimal bandwidth calculated as in Calonico et al. (2014). h denotes the interval of our running variable. For instance, h=0.119 represents races where the margin of victory is between −11.9% and 11.9%. Columns (6)-(7) show estimates for half and quarter of the optimal bandwidth defined by Calonico et al. (2014). All models control for the variables *abstention, experience, candidate, population, elderly, females, illiterates, electricity, agriculture, manufacturing, construction,* and term fixed effects but these coefficients are not reported due to space limitations. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B9. Testing for difference between means of included and excluded races

	included	**Obs.**	**excluded**	**Obs.**	**p-Value**
(discretionary) subsidies	7.148	361	6.832	787	0.000
nondiscretionary subsidies	6.952	361	6.918	787	0.234
abstention	1.654	361	1.710	787	0.302
experience	0.698	361	0.738	787	0.157
candidate	0.256	361	0.234	787	0.000
population	0.090	361	0.097	787	0.520
elderly	10.369	361	26.638	787	0.000
females	0.141	361	0.122	787	0.000
illiterates	0.502	361	0.505	787	0.063
electricity	0.096	361	0.080	787	0.000
agriculture	0.907	361	0.928	787	0.000
manufacturing	0.118	361	0.077	787	0.000
construction	0.063	361	0.081	787	0.000

Table B10. Political alignment and (discretionary) subsidies: RDD heterogeneity

variable:	*ND*	*population above the median*	*candidate*	*political strongholds*	*turnout above median*
	(1)	(2)	(3)	(4)	(5)
alignment	0.566	1.277**	1.569**	1.133***	0.866
	(0.516)	(0.544)	(0.611)	(0.369)	(0.555)
variable	-2.079***	-0.361	0.582	0.682	-0.407
	(0.551)	(0.581)	(0.571)	(0.854)	(0.580)
*alignment * variable*	0.658	-0.500	-0.823	0.334	0.384
	(0.631)	(0.740)	(0.695)	(0.999)	(0.741)
Observations	361	361	361	361	361
R^2	0.396	0.417	0.392	0.405	0.399

Notes: The dependent variable is the natural logarithm of the real per capita (discretionary) *subsidies*. Column titles refer to the variable that is interacted with the variable *alignment*. This table shows RDD estimates of Equation (6) using a third-order spline polynomial specification. All models control for the variables *abstention*, *experience*, *candidate*, *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing*, *construction*, and term fixed effects but these coefficients are not reported due to space limitations. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B11. True vs false electoral thresholds (Placebo Tests)

covariates:	*No*	*Yes*	*No*	*Yes*	*No*	*Yes*
	(1)	(2)	(3)	(4)	(5)	(6)
alignment	-0.331	-0.414	1.048***	1.021***	-0.977	-0.204
	(2.558)	(2.297)	(0.337)	(0.337)	(1.830)	(1.800)
Observations	164	164	361	361	197	197
R^2	0.308	0.458	0.302	0.384	0.229	0.275
cut-off	-0.116	-0.116	0	0	0.112	0.112

Notes: The dependent variable is the natural logarithm of the real per capita (discretionary) *subsidies*. This table shows RDD estimates of Equation (6) using a third-order spline polynomial specification. Columns (2), (4) and (6) control for the variables *abstention*, *experience*, *candidate*, *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing*, *construction*, and term fixed effects but these coefficients are not reported due to space limitations. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

Table B12. Discretionary subsidies and re-election prospects

covariates:	*No*	*No*	*Yes*
	(1)	(2)	(3)
subsidies	0.019**	0.051***	0.045**
	(0.009)	(0.014)	(0.018)
Observations	1148	361	361
R^2	0.004	0.027	0.424

Notes: The dependent variable *re-election* takes the value of 1 if the mayor gets re-elected, and 0 otherwise. This table shows OLS estimates that correlate re-election and *subsidies*. Column (3) controls for the variables *abstention*, *experience*, *candidate*, *population*, *elderly*, *females*, *illiterates*, *electricity*, *agriculture*, *manufacturing*, *construction*, and term fixed effects but these coefficients are not reported due to space limitations. Robust standard errors, clustered at the municipality level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, 1% level respectively.

References

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