

Essays in Political Economy and Misgovernment: Abstracts

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1 Exposition to Corruption and Political Participation: Evidence from Italian Municipalities

The aim of this paper is to study the effect of local corruption on political participation which is mediated by the press. Focusing on Italy for the period 1997-2014, we generate a daily measure of exposition to local corruption screening newspaper articles of the main Italian press agency. We concentrate on local elections and, in an event-study analysis, we find two main results. On the one hand, corruption exposition affects *citizens* participation: voter turnout decreases, and the effect is stronger for cities that are large, located in the centre-north and with higher newspaper circulation levels, past participation and electoral competition; then, it does not lead to selection of better politicians; on the other hand, it impacts *politicians* participation: number of candidates reduces and this is associated with a reinforcement of old local political class as freshmen leave the competition. These results suggest that corruption exposition produces resignation rather than retaliation in terms of political participation.

2 The Dark Side of Tax Progressivity: the Impact of Fiscal Flexibility on Tax Manipulation

The goal of this paper is to study the impact of tax progressivity on the practice of political budget cycle, at the municipal level. In particular, we explore whether an increase in fiscal flexibility, *i.e.* the capacity of decision-maker to set different tax rates to distinct groups of tax-payers, leads to higher levels of tax manipulation. We exploit an Italian reform of the local personal income tax (PIT), flat before the intervention, allowing mayors to introduce different tax rates for distinct groups. We take advantage of the staggered timing of local elections to estimate a Diff-in-Diff model and we find that the reform consistently amplifies political budget cycle of local PIT: average pre-electoral tax rate declines by around 10% compared to tax mean. Furthermore, we estimate a Triple-Diff analysis where we use (pre-determined) income concentration level as a reform mediator and main results are confirmed. In terms of mechanisms, it emerges that flexibility plays a crucial role as mayors strategically increase it before elections and that politicians seem to *play different strategies* with diverse wage groups as high income rates are subject to larger manipulation than moderate ones. These results reveal a negative side of fiscal flexibility as it may lead to higher level of tax manipulation with larger amount of diverted public resources.

3 The Role of Personal Interests in Tax Manipulation

Do politicians manipulate fiscal instruments for personal interests? The goal of this paper is to explore whether a conflict of interest emerges in fiscal decision, at the local level. We focus on local personal income tax (PIT), annually decided by Italian mayors, which is a progressive instrument that allows administrators to set different tax rates to diverse wage groups. We exploit discontinuities in mayors income levels, based on population thresholds, that determine their wage brackets, and we study, in an RDD setting, whether mayors systematically apply lower rates to their own tax bracket. The empirical analysis focuses on 5,000 inhabitants threshold, where mayors' income sharply moves from the second to the third wage bracket. Preliminary results suggest that mayors whose income ends up in the third bracket tend to tax less third group, compared to mayors of similar cities that, instead, are subject to second bracket tax rate. The effect is significant and sizeable as it amounts between 39% and 65% of dependent variable mean. These preliminary results suggest that electoral incentives are not the unique source of strategic behaviour and that personal interests can play a role in fiscal manipulation.