

Appendix Table A1. Descriptive statistics of key variables

Variable	Mean	Standard Deviation	Minimum	Maximum
Def	-1.99	5.01	-36.60*	9.34**
Taut	40.72	26.34	0.00	94.24
Tas	14.99	27.55	0.00	100.00
Depend	49.35	4.00	41.00	63.00
Gap	0.56	1.62	-4.00	7.20
Gdp	29.54	9.77	9.60	73.90
Transf	37.20	18.12	0.00	75.20

*: Slovak Republic (local governments): 1995-1998.

** : Korea (local governments): 2002.

Appendix Table A2. Correlation matrix of time-varying variables

	Def	Taut	Tas	Gap	Depend	Transf	Gdp
Def	1.000						
Taut	0.124	1.000					
Tas	-0.183	-0.485	1.000				
Gdp	-0.203	-0.095	-0.041	1.000			
Depend	-0.159	0.294	-0.217	-0.115	1.000		
Transf	0.274	-0.204	-0.036	0.042	-0.042	1.000	
Gap	0.236	0.308	-0.254	0.226	0.046	-0.049	1.000

Appendix Table A3. Definition and source of variables

Variable	Definition	Data source
(a) Time-varying variables		
Def	Ratio of state and local deficits to their respective expenditure; 5-year averages (1995-2009).	OECD Fiscal Decentralization Database (2012)
Gap	5-year averages (1995-2009) of the annual output gap.	OECD Economic Outlook
Depend	Share of population aged 0-14 and 65 and over to the 15-64 aged population; 5-year averages (1995-2009).	World Bank
Transf	Share of transfers received in total revenue of state and local governments, 5-year averages (1995-2009).	OECD Fiscal Decentralization Database (2012)
Gdp	Real GDP per head, 5-year averages (1995-2009).	OECD Economic Outlook
Taut	Share of autonomous taxes in consolidated own revenue of state and local governments (averages 1995-2002,02-05,05-08)	OECD Fiscal Decentralization Database (2012)- Table A1
Tas	Ratio of shared taxes to consolidated own revenue of state and local governments (averages 1995-2002,02-05,05-08).	idem
Tax	Ratio of shared and autonomous taxes to consolidated own revenue of state and local governments (averages 1995-2002,02-05,05-08).	idem
(b) Time-invariant variables		
Adm	Administrative budgetary controls on state and local governments, imposed by the central government.	Joumard and Kongsrud (2003); Sutherland, Price and Joumard (2005)
Bbr	Balanced budget arrangements (usually medium term horizon).	Idem
Coop	Cooperatively agreed budgetary trajectories between the central and state, local governments.	Idem
Capi	Deficits are not allowed but for public investment expenditure.	Idem
Bailout	Bailout history of state and local governments.	Plekhanov and Singh (2006)
EU	Dummy variable indicating EU-membership (=1).	
FED	Federal dummy variable.	
Regloc	A dummy variable distinguishing between state (=1) and local (=0) governments.	