Istituzioni e Federalismo

Working Papers

18

Unioncamere Veneto

CONSIGLIO REGIONALE DEL VENETO

Federalism in times of crisis

Analysis of the Italian public spending between unimplemented reforms and recentralizing policies

January 2013

Overview

Drafted with the support of the Regional Council of Veneto, this publication of Unioncamere Veneto entitled “Federalism in times of crisis” provides fresh ideas and suggestions to the debate on federalism. This is the sixth in a series of publications investigating issues relating to federalism, which started five years ago with a first survey on the costs of “non federalism”. The topics discussed are: taxation in Italy and in its Regions, regional differences in public spending and the resulting inequality in terms of per capita spending, the wasteful policies implemented in some Regions and the virtuous cycles of others, the ungrounded idea that the same national policies can help overcome economic disparity and non-homogenous territorial development.

We are currently in the middle of what many economists have called “one of the worst economic crises in history”, second only to the Great Depression that started in 1929. After five years since its inception, its end is not yet in the horizon. The national debt has hit a historical record of more than 2,000 billion Euros, unemployment has risen at least three percent and is now over 11%, the use of temporary unemployment benefits for laid-off workers (*cassa integrazione*) has reached unprecedented levels and the GDP has dropped at least 2.3%. The country’s economy has touched rock bottom in all sectors, as have the morale and the expectations of businesses and citizens alike.

Facing this dramatic scenario, taxes have increased, causing the Italian fiscal burden to become one of the highest in Europe: 45.1% in 2012, with peaks of 55% with some even estimating 66%, net of the shadow economy; at the same time, the resources of Local and Regional Authorities have decreased to the benefit of the central State, which is accountable for the remarkable increase of the national debt (115 billion in the last year, 121% of GDP in 2011 with OECD estimates standing at 127% in 2012, 129.6% in 2013 and 131.4% in 2014).

The scenario has possibly been aggravated by the neo-centralist policies that over recent months have tried unsuccessfully to find a remedy to the emergency faced by the Country and which have, in fact, eased the weight of state bureaucracy, increased the fiscal burden, failed to enhance the role of Local Autonomies, underestimated the needs of businesses and avoided growth policies.

It should not be forgotten that in 2011, the Veneto's GDP at current prices stood at 147,903 million Euros, thus ranking third after Lombardy (333,475 million) and Latium (169,349 million). In worldwide classifications that consider 184 Countries, the Veneto ranks 40th for GDP at going prices and ranks 20th for per capita GDP.

The Veneto Region should be at the forefront to ensure greater legislative, administrative and fiscal autonomy for itself. The idea of uniformity that for decades guided the implementation of regionalism in Italy must be abandoned: to treat the different realities of the Country as if they were the same will only lower expectations and hinder the potential development of the Regions that could act as drivers in the Italian economy.

By publishing this paper, the Chambers of Commerce of Veneto, which serve more than 500 thousand businesses, hope to provide a tool that might usefully contribute to the ongoing debate and support those who are working on the much needed reforms for our Country.

Venice, January 2013

Alessandro Bianchi, President Unioncamere Veneto

Preface

This Survey Report is the follow-up publication of the work started in 2007 by our *Observatory on federalism and public finance*: it aims at providing an in-depth assessment of the potential, difficulties and advantages that federalism can offer in these times of crisis. The results of research activities and information on the discussion platforms in which the Observatory's working group participates at regional, national and also European level, on federalism, fiscal policies and the roles of regional governments in European policies, are available on the web site www.osservatoriofederalismo.eu.

This new report brings together data, ideas and suggestions to revive the debate on federalism. For years, federalism was a major item in the political agenda of parties and governments. In recent months the discussion has languished, as all efforts were put into facing the current emergency. Hastily set aside by a "technical" government and accused of being the source of all Italy's evils, federalism should not, in fact, be subjected to any accusations - as nothing has been done to implement it: the reform of Title V has not been implemented, the 2009 Delegated Law has failed to bring the expected advantages since many of its clauses have not yet entered into force and the meaning of some sections of the decrees on federalism has been "emptied" by the budgetary adjustments made by the various Governments.

In this domestic and international scenario, the crisis affecting the Euro has further highlighted the institutional fragility, political weakness and nationalistic resistance in Europe. To save the miracle of an European Union that has helped us to grow and to give a fresh drive to economic growth, European political integration has to be accomplished by providing political and economic governance for the Eurozone. It would in fact be rather hard, in a globalised world, to think that each European country, acting alone, can effectively contrast the competition of the United States and of the Emerging Countries. A united Europe, nevertheless, needs shared policies and areas of strong competitiveness.

Within this framework, it is interesting to focus not only on the self-determination of the Veneto Region, following up the resolution approved by the Regional Council in late November, but to ensure its even closer involvement in Europe and, even more important, turn it into a region that can set the pace for the solution of Italy's problems. If this is the aim, the mandate entrusted to the

Presidents of the Regional Government and the Regional Council to "urgently set up, with the Institutions of the European Union and of the United Nations, the institutional relations that will ensure the calling of a referendum", could become an opportunity to disseminate the problems faced by Italy's most productive areas, identifying initiatives to increase the competitiveness of the European network, underlining the need for fiscal policies to ensure conditions of equal competitiveness and reinforce networks and alliances. It would also ascertain and ensure that international institutions understand the will and the positions of regional citizens and businesses alike, by-passing the interpretations given and, often, the silence of central administrations. It is indeed an opportunity for the Veneto to rise not only as an "economic giant" but also as a "political giant".

Today, the Regions are held responsible for the waste and the messy management of Italy's public finances: after the Provincial Districts and the Mountain Communities, it is the turn of the Regions to take the blame. As usual, it has been forgotten that, in Italy, provincial district employees account for just 1.75% of the total number of civil servants, those of the Mountain Communities for 0.21% and those of Ordinary Regions for 1.15%. The State, on the contrary, accounts for 56% of civil servants, but little has been done (and I believe will be done) on this major spending item.

This and many other considerations are the starting point for this new survey that aims at understanding where the waste of public money really comes from; responsible management through fiscal autonomy and fiscal federalism is the only strategy to save Italy and its production system. We also restate our firm belief that the European Community is a major ally for the European Regions that have at heart the issues of subsidiarity and federalism. In this process aimed at enhancing the role of the Regions and in view of the reforms needed in our Country, a form of "differentiated" (or "asymmetric") federalism is a great opportunity and an extremely important innovation for the Regions, which could provide new and interesting outlooks both institutionally and financially. This strategy could mitigate the existing difference between the powers attributed to the Ordinary Regions and the institutional framework that characterises the Regions with special statute status. "Differentiated federalism" would allow the Regions - that ask to do so - to manage additional competences, without undermining their solidarity towards other Regions.

Clodovaldo Ruffato, President of the Regional Council of Veneto

This survey was promoted and carried out in the framework of the *Regional Observatory on Federalism and Public Finances*, established by the Regional Council of Veneto and Unioncamere Veneto.

The survey was designed, and the data and legal sources were collected, processed and assessed by a team co-ordinated by Gian Angelo Bellati, Director of Unioncamere Veneto. The members of the team included researchers of Centro Studi Unioncamere Veneto and Centro Studi Sintesi.

We are especially grateful to all those who, as politicians or experts, participated in the meetings of the Observatory on fiscal federalism and contributed with their thoughts, ideas and suggestions to designing and writing this report.

Contents

Introduction[*]

The surveys conducted in the past by the *Observatory on federalism and public finance* faced a number of different topics that, in sum, focused on: the assessment of the fiscal burden in Italy and its Regions; public spending at different levels of government and the resulting unbalance in terms of per capita spending; national policies aimed at solving the problems affecting public finances; last, but not least, the issue of federalism and its different facets, from the viewpoint of taxes and contributions.

We can but witness that in the passed year the public debate on this issue has taken a dramatic turn and has literally "fallen from grace". Unsurprising really: in Italy anything can happen. In our Country, words tend to be used so often as to be emptied of their original meaning. This is what has happened to federalism: it was initially included in the agendas of most political parties and was later hastily denied and accused of being the source of all the evils of the last decade. However, one thing is clear, although it is not sufficiently highlighted due to the loss of its original meaning: fiscal federalism cannot be seen as culpable, quite simply because it has not been implemented. Indeed, most of the reforms outlined in Law no. 42/2009, that was approved and supported across the board in Parliament, have not yet entered into force or have been made ineffective by subsequent government action. Only a tiny part of the same reform of Title V of the Constitution has been implemented.

Over the years, we have been encouraged by the consensus and the support that we have met in this major operation, aimed at achieving transparency and in-depth awareness, the only ambition of which is to state the truth. In particular, we are pleased to see the support of citizens, businesses, local institutions and also European and international institutions, Study Centres of many major countries worldwide. On the other hand, national politics and bureaucracy have shown little interest: unlike the mass media, that have given broad and detailed coverage of our efforts and our reflections, the former proceed relentlessly in denying self-government, as put forward in Art. 5 of our Constitution. Once again, just think

[*] Gian Angelo Bellati, Secretary General of Unioncamere Veneto.

about the history of federalism in Italy that, especially under the so-called Technical Government has been undermined in a silent re-centralisation process, which has led resources from taxes being transferred from the Regions to the central government, at a rate comparable only to that of the 1970's Fiscal Reform, when the entire taxation system was reformed and all resources centralised, in exchange for the establishment of the Regions.

In the recent debates, federalism has been strongly questioned. However, it must be recalled that the centralised mismanagement of national accounts is accountable for the **enormous national debt that is damaging our economy**. The charges made against Regions are not confirmed by the figures.

The Italian national debt literally blew out of proportion between 1981 and 1994: in these thirteen years, the debt /GDP ratio grew from 58.5% to 121.8%, with a nominal increase of 927 billion Euros. In that same period, the debt ascribable to Local Administrations increased by just 14 billion Euros, namely just 1.5% of the total increase. In addition, in that same period, the average fiscal independence of Regions accounted for 9% of the total and the spending managed directly accounted for just 20% of the national public spending before interests. The figures, on the other hand, certify the link between a growing national debt and fiscal centralisation. Between 1980 and mid 1990s, when the debt /GDP ratio in Italy more than doubled, the amount of fiscal revenues managed centrally (fiscal centralisation index) was growing and stood firmly above 60%. From the late 1990s and basically until the 2008 financial crisis, the decline of the national debt was flanked by moderate fiscal decentralisation. The debt of Local Administrations increased mainly between 1994 and 2007, namely in the year in which most competences were decentralised (implying greater spending), and when local taxes were implemented (IRAP: regional tax on productive activities and IRPEF: personal income tax). Nevertheless, **the growth of local debt in these same years (+89 billion Euros) was generally marginal if compared to the increase of the national debt (+536 billion)**. One has the impression that Regions and Local Authorities are only recalled when adjustments to the financial law are made and solely and exclusively when "cuts" are discussed. In the last eighteen months, from summer 2011 to date, Local Authorities have been subjected to an incredible number of public finances adjustments and other measures. This brief summary of the main events is enlightening.

Let us go back to 2011. Towards the end of July, the Government approved the final version of the last Government Implementation Decree on the reform of fiscal federalism (Law no. 42/2009), establishing a system of rewards and sanctions for Regions, Provincial Districts and Municipalities linked to their success. This novelty, however, was not broadly advertised. In fact, several weeks earlier, the Government had passed a Decree law (DL no. 98/2011) that limited the aims of the Domestic Stability Pact referred to Regions and Local Bodies (3.2 billion in 2013 and 6.4 in 2014). Just several months later, as the so-called "spread crisis" worsened, the Government was forced to take shelter and introduce new budgetary adjustments. Just before the August holidays, Legislative Decree no. 138 was approved, anticipating some cuts to 2012 and further increasing the contribution to the restoration of national public accounts demanded of the self-governing entities. For Regions and Local Bodies, the bill increases by a further 6 billion for 2012 and a further 3.2 billion from the following year on. In a couple of months, the achievements made by Local Authorities – after the approval of the federal reform and the associated Government Implementation Decrees – were emptied of meaning by the force of the corrective measures introduced, that allocated budged aims that were objectively hard to achieve. The release of the local fiscal leverage should be interpreted not so much as a step forward towards greater autonomy, but rather as a tool to allow Local Bodies to offset the cuts made centrally.

In November 2011, the new Government immediately embarks in a new budget package that was approved just before Christmas: the so-called "Save Italy" Decree that included a bitter pill to be served to the Local Autonomies. The municipal federalist system dramatically changed through the anticipation of the IMU, the new property tax, and the allocation to the State of 50% of revenues from holiday homes and commercial and industrial facilities. The municipal share in the VAT collected is allocated to the newly-established Experimental Re-equilibration Fund (*Fondo sperimentale di riequilibrio*) which, in turn, endures a 1.45 billion Euros cut from 2012 onwards. The basic tax rate of Irpef (Personal Income Tax) is increased by 0.33%, although Regions will not see even one extra Euro: the State will cash the extra income (more than 2 billion Euros) by reducing the Healthcare Fund by an equal amount. As to the Provincial Districts, in addition to a further cut of transfers for 415 million Euros, they are expected to be declassed. Their President will no longer be elected by universal suffrage, but by the new Councils of the Provincial Districts that will include the Mayors and Municipal Councillors of the Municipalities in that Provincial District. In addition, many of the provincial functions will be transferred to Regions and Municipalities.

The year 2012 started with the approvation of the Liberalisation Decree (Legislative Decree no. 1/2012), that brings back, against the protests of Regions and Local Bodies, the old regime with a centrally managed treasury. Regions and Local Bodies have thus transferred their local accounts, namely some 8.6 billion Euros, to a central treasury held under the Bank of Italy: the experts note how this has brought us back 15 years. Springtime brought the "Spending review". Announced as a selective reduction of waste incurred by the Central State, the "Spending Review" (Leg. Decree no. 95/2012) soon revealed its real nature as the bringer of linear cuts for Local Autonomies. Regions and Local Bodies were subjected to a further cut for 2.3 billion in 2012 and 5.2 billion in 2013 and are now made accountable for 70% of the entire budgetary package. These new cuts enabled the postponement of the VAT increase that was initially expected to take place in October 2012.

The recipe for correcting public accounts never seems to change: **more revenues to the Central State and spending cuts on Local Bodies**. This was certified also by the Court of Auditors: in this government, the Regions and Local Bodies have contributed to reducing the expenditure for almost 27 billion Euros, namely 51.6% of overall spending cuts. There is more to come: through this same "Spending review", the Government dictated that approximately half the Provincial Districts should be cut, although this move was then frozen, due to the anticipated end of its mandate.

This leads us up to the events of recent months. Government intervention on the costs of the politics (Leg. Decree no. 174/2012) in Regions and Local Bodies and the new 2.2 billion cut envisaged in the so-called "phase 2" of the "Spending Review" (included in the recent Stability Law) represent the last stages of a slow but relentless process started over one year ago.

And there is more to come: the Council of Ministers, in a night session, approved a Constitutional Legislative Decree reforming Title V of the Constitution. If implemented, it will reduce the powers of the Regions: issues such as transport, energy, foreign trade, education and the co-ordination of public finances will become exclusive competence of the State; tourism, which is currently an exclusively regional competence, will be shared with the State. And now back to the present.

From our viewpoint, federalism is a conquest that must be strenuously defended and which must, more importantly, be implemented seriously and thoroughly. Indeed, our surveys show that Federal States are a model to be followed: their operating costs are generally lower than those of a centralised State, even considering the numerous competences they are assigned.

This and many other thoughts set the topic for this new Survey Report that aims at clarifying whether the waste of public money is mainly a local or a national issue. It will also assess whether a more responsible form of management, through fiscal autonomy and fiscal federalism, is the only way to save Italy and its production system. It will also reflect upon whether there is still room to remediate the errors made.

The aim of this report is to provide figures and ideas for reflection on the various facets of the Italian public service, giving broad space to the impact of the budget adjustments and the status quo of public spending in Italy. It will also analyse the different levels of government and compare the organisation of Italy's Public Administration with that of federal models existing in Europe, trusting that the new life given to the federalist process can contribute to solve structural issues and lead Italy out of the crisis.

Italy's decentralised public spending accounts for 33.2% of the total, thus standing slightly below that of Germany (38.8%), a country with a long-standing federal tradition. On the other hand, the decentralisation of revenues is practically at a standstill: in our Country, a mere 18.4% of revenues from taxes and other sources are directly ascribable to Local Administrations, against 34.4% in Germany. There is an abysmal gap between competences in terms of expenditure and own revenues in Local Administrations. This gap is compensated by means of State transfers that are traditionally allocated on the principle of historical spending. The level of local autonomy, after the introduction of IRAP (Regional tax on production), has not progressed particularly over the last decade: if anything, it has dropped since 2008.

The gap, in terms of autonomy, that sets the distance between the Italian and the German model, is still enormous and almost impossible to close. In 2011, the index of fiscal autonomy of Local Administrations in Germany was almost 69%, while in Italy it only just exceeded 43%. Because of the low fiscal autonomy at local level, Italy is unable to benefit of the advantages of a decentralised spending model. There has been no concrete attribution of accountability in spending management by Local Administrations; all efforts have been frustrated by restrictions on their ability to change the rates of local taxes and the freedom recently "granted" by Lawmakers simply aims at compensating the heavy cuts to financing imposed by the central State.

In addition, the Public Administration in our Country is firmly organised around a Central State. Although Article 114 of the Constitution depicts the Republic as the sum of several levels of government, each acting equally, it is unquestionable that the reality is quite different. The figures, for example, tell us that our **Local Administrations manage 58.1% of public resources, although they only have available 43.3% of staff**. This confirms the existing anomaly in the federalist system as it has (not) been implemented in our Country: between 1997, when administrative decentralisation was first introduced, and 2006, the number of civil servants employed in Local Administrations increased by 26 thousand units; in those same years, the Central State increased its employees by a remarkable 105 thousand units. In addition, there has been no decentralisation of staff. This has certainly caused duplications and overlaps, and has undoubtedly contributed to an increase in public spending in recent years. Since 2006 there has been a remarkable reduction in the number of civil servants, although it is not ascribable to administrative decentralisation, but rather to restrictions to employee turn-over and the crisis which has forced adjustments to be made to the public finances. Official reports make reference to 11,964 human resources actually transferred as a result of the administrative decentralisation at the end of the 1990's over a total of 21,921 units, namely 0.6% of civil servants: too few to really talk of decentralisation in Italy.

Europe demands that we keep our public accounts in order; that we must cut payment times; it also tells us that subsidiarity is a value to treasure, essential to ensure excellent relations between the Public Administration and citizens. **The reduction of Regional powers and the reversal of federalist policies are**, from this point of view, **clearly in contradiction with European principles**: nevertheless it has not yet been clearly perceived that we are moving against or even openly contrasting the EU principles di subsidiarity and regional autonomy, envisaged by the Maastricht Treaties and the most recent Treaty of Lisbon.

These are but some of the ideas analysed in this Survey Report that will enable us to **suggest a number of concrete proposals**, some of which have already been put forward in the past. They can be summarised as follows:

1) We need to overcome a strategy based on uniformity and experiment forms of **differentiated federalism**, as already contemplated in the Constitution. According to the Region's estimates, if "differentiated federalism" were implemented in the Veneto, the amount of resources allocated from the Centre to the Periphery would not exceed more than 4% of the regional GDP. The same opportunity of managing locally a greater amount of resources would have an "incremental effect" on the per capita GDP, that would thus grow by 9.2%. The benefits on the regional economic system would be even greater, if the mere "shift" of financial resources from the Centre to the Regions were flanked by a reduction of running expenses linked to greater efficiency in supplying services locally, compared to providing them centrally. Indeed, for years the Central State has been unable to cut its costs despite the decentralisation of some administrative competences to the Regions and to Local Bodies, as it continued to let its running expenses grow.
2) A **new stability pact** is needed to define and share the aims of public finance throughout the territory, rewarding best performing areas and allowing free power of investment. **The recentralisation of public accounts does not appear to be the solution of this Country's problems**.

3) The level of efficiency and responsibility in public services must be increased through greater local autonomy in receipts and spending. Federalism can be an advantage, especially in times of crisis. **There is the risk that excessive taxation will block the economic system**, undermining any attempt of recovery.
4) Regions that drive the economy and that have a virtuous administrative system should be given greater autonomy: it is in the **interests of Italy and of Europe**. The chain effects could be very positive, bringing overall economic growth and possibly generating surplus fiscal resources, to be allocated to the development of the areas that are in greater troubles. In the health care sector, Regions such as the Veneto, Emilia Romagna, Lombardy and Tuscany have shown that they can reach high levels of performance, while financially maintaining a balance. Why should regional competences be restricted to health care? Why not accept the challenges of Europe and really implement the principle of subsidiarity, by extending rather than limiting the scope of regional action?

1. Travel in public spending of Italy

1.1 The real Italian "spreads"

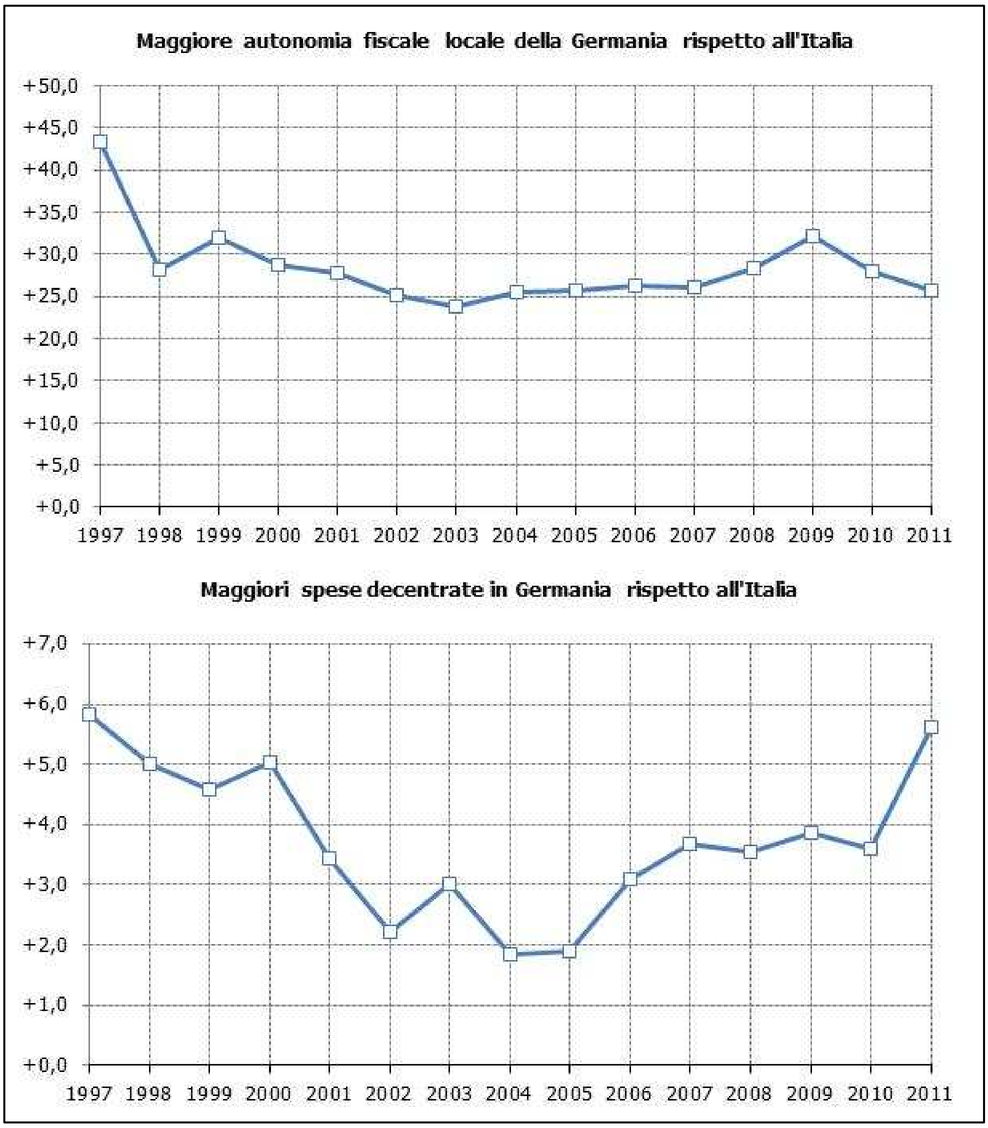
The current economic and institutional scenario will go down in history for the efforts made to correct public accounts made by European countries as the crisis on international markets worsened. Especially in Italy, this period has been often referred to as the "spread crisis", referring to the increasing difference between government bond yields in Italy and in Germany. This increase was (and is) the result of the lack of trust shown towards our Country by international markets: it translates into a dramatic increase in the financial charges due to repay the national debt.

In fact, the comparison with Germany shows that there are other "spreads" in addition to the all important difference between government bonds. The current situation in Italy, in fact, is the result of wrong choices taken in the last decades and practices that diverge from those implemented in Germany. For example, the inefficiency of the public service, has been aggravated by excessive public spending and by a "partly implemented federalism" that has been unable to set the rules and the means for Regions and Local Bodies to responsibly develop and increase their autonomy.

In this sense, Germany is clearly a model. Germany is a country organised as a federal state and characterised by strong local autonomy. If we were to calculate the "spread" between local fiscal autonomy in the two countries, Germany would rank before Italy for over 25 points (Chart 1.1). For example, according to the most recent data (2011), fiscal autonomy in Germany is 68.8%; in other words, almost 70% of local revenues are own taxes or the result of joint participation in taxes, whereas in Italy transfers still account for most revenues. In the same reference year, local autonomy in Italy only just stood above 43%.

Similarly, decentralised spending is greater in Germany than in Italy, although for this item the differences are slighter and change from one year to the next. The gap in terms of decentralised spending had gradually decreased until 2004, when it started to grow steadily. In 2011, the "spread" for decentralised spending sees Germany rank before Italy by 5.6 points.

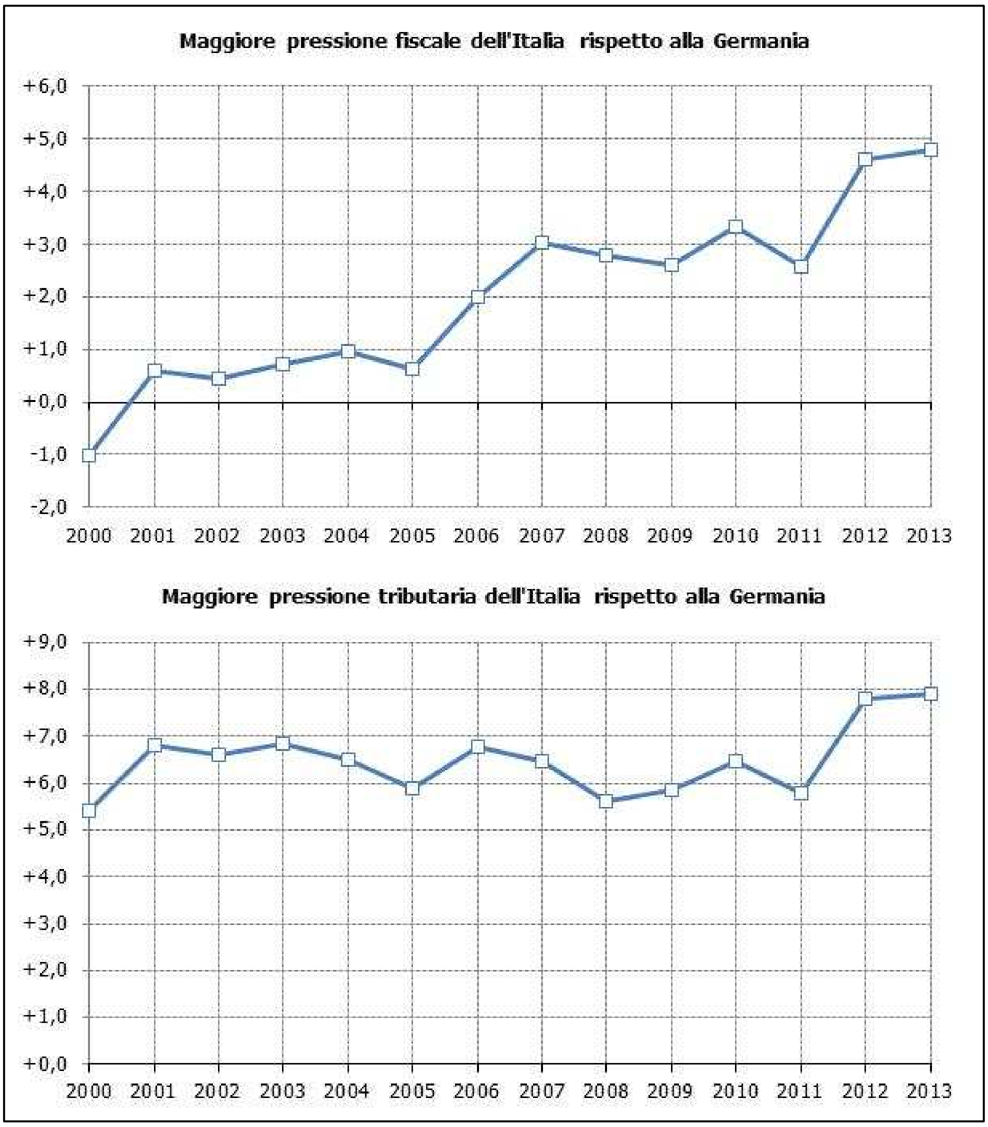
Chart 1.1 - *Germany-Italy: the "spread" in terms of autonomy (% values). Years 1997-2011*



Source: Unioncamere Veneto on data supplied by Eurostat

There are other elements that are worth highlighting and that more clearly show which are the real gaps in the Italian public service compared to Germany. Year after year, Italian taxpayers pay more and more taxes compared to the Germans. **In 2013, the fiscal burden in Italy will reach 45% of the GDP, almost 5% more than in Germany, where it stands at 40.2%.** As stated above, the "spread" for the fiscal burden has grown remarkably over recent years to our detriment. Just think that in 2005, Italian taxpayers paid just 0.6% of the GDP more than the Germans (Chart 1.2). As for tax to GDP ratio, the difference between Italy and Germany is more stable, although higher in value: unlike the fiscal burden, it does not include social contributions. In 2011, the tax to GDP ratio borne by Italians reached 28.8% of GDP, while in Germany it did not exceed 22.3%: a 6.5% difference that takes its toll. The future prospects are discouraging: in 2013, the "spread" calculated on the tax to GDP ratio will grow even further and rise by 7.9% of the GDP.

Chart 1.2 - *Italy-Germany: the "spreads" in the fiscal system (%/GDP). Years 2000-2013*

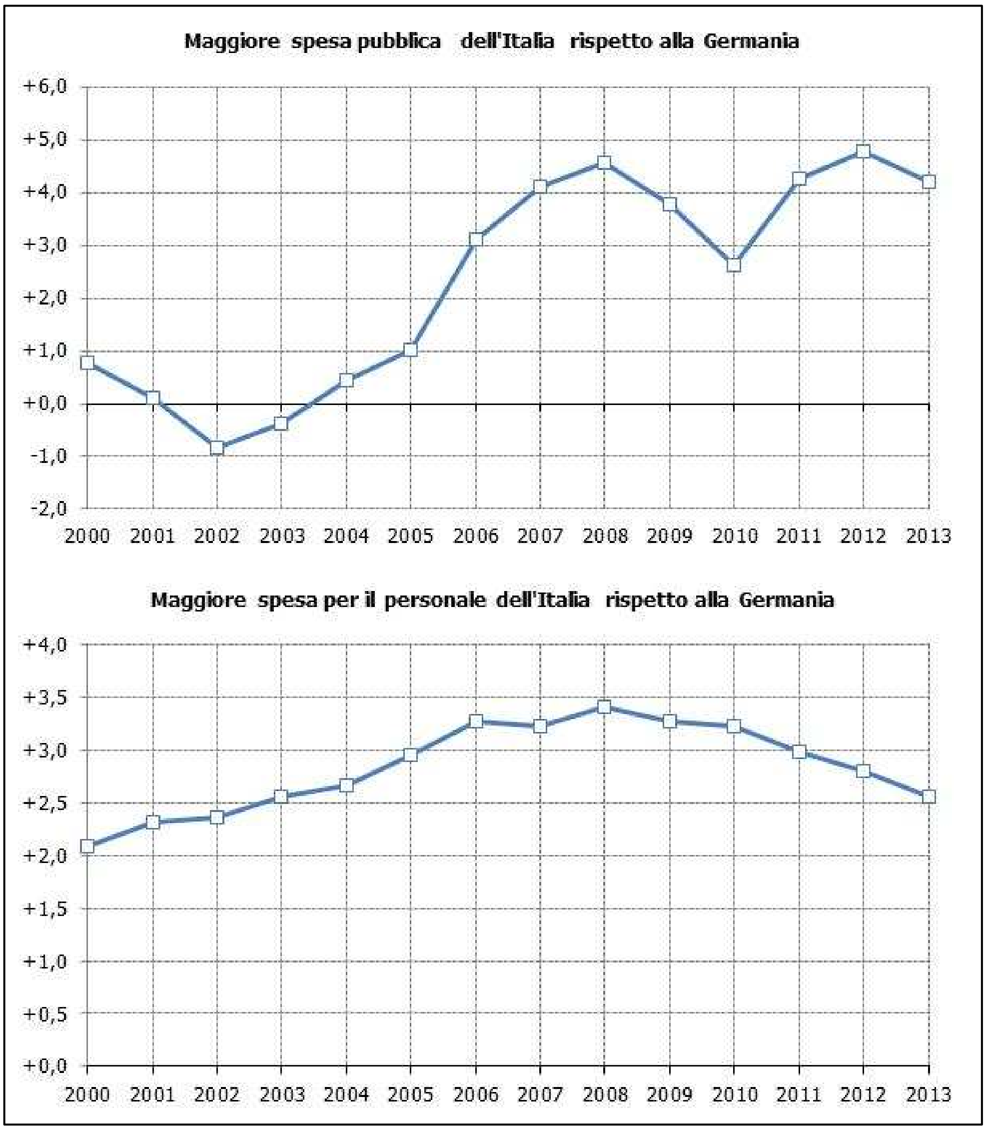


Source: Unioncamere Veneto on data supplied by AMECO-European Commission

The purpose of this long introduction is to show that **Italy's real problem is the amount, distribution and management of public spending**, and this is the main topic of this Survey Report. The financial market "spread", that is such a major concern for Governments, has reached the current level because there are other "spreads" associated to the operations of the public service: little autonomy, excessive taxation, excessive spending. In 2012, according to the figures supplied by the European Commission, Italian public spending (50.3% of

GDP) exceeds German spending (45.5%) by 4.8% of the GDP. What really strikes (and concerns) is the growth of this gap, with the sole exception of the two years between 2009-2010 (Chart 1.3). As was expected, Italy, spends more than Germany also for its civil servants: in this case, the "spread" amounts to an approximate extra 3% of the GDP to our detriment, although in recent years, Italy seems to have embarked on a reduction of its staff as a result of policies reducing staff turn-over.

Chart 1.3 - *Italy-Germany: the "spread" in terms of public spending (%/GDP). Years 2000-2013*



Source: Unioncamere Veneto on data supplied by AMECO-European Commission

The data supplied will also lead to further considerations that will be presented in further depth in this Survey Report. **Greater fiscal autonomy at the local level will certainly have a positive effect on the organisation**

and provision of public services: it binds a large amount of public spending to the ability of local actors to be accountable, self-funded and encouraged by a transparent local taxation system. Italy has been slowed down by uncertainty and the partial implementation of the federalizing process, and is now far behind the German model.

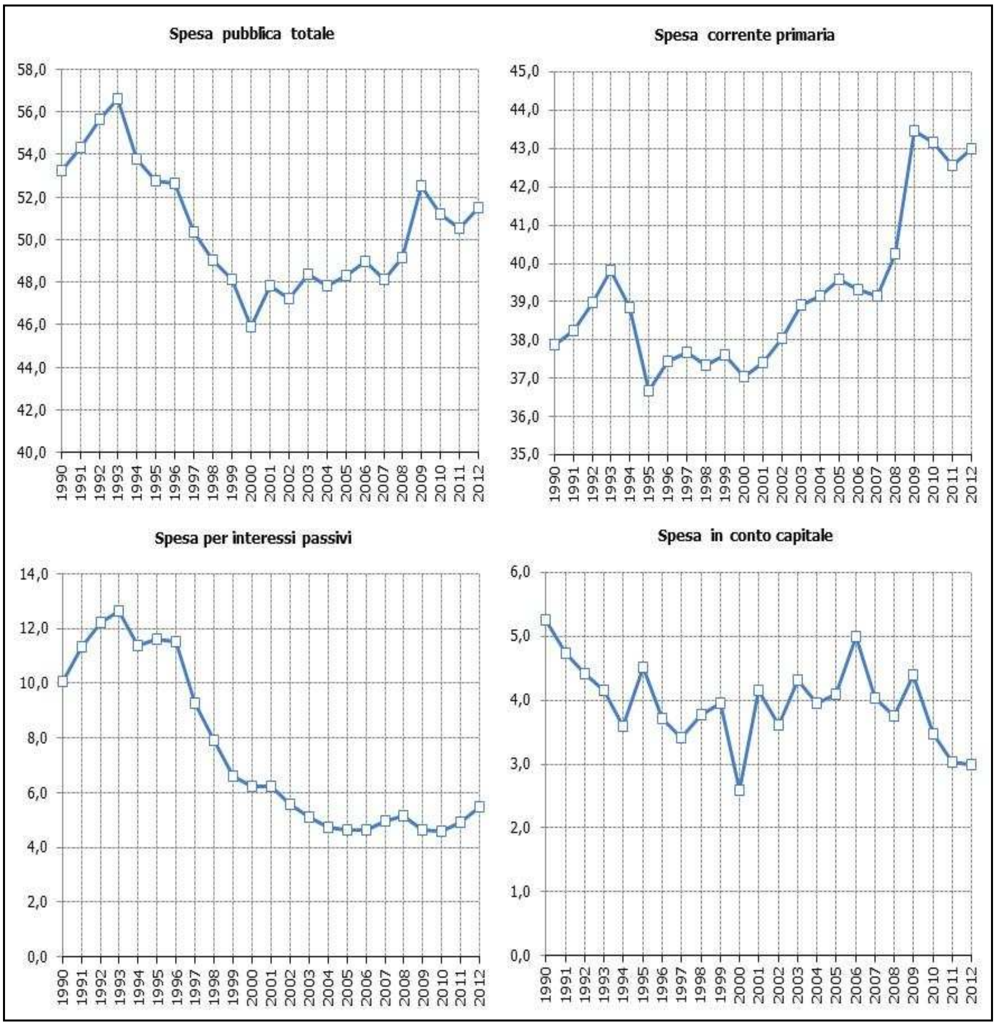
1.2 Assessment of public spending

Italian public spending witnessed recovery in the late 1990s, when it dropped from 56.6% of GDP in 1993 to 45.9% in 2000 (Chart 1.4). However, it was not a structural change: it was almost exclusively associated to a reduction of spending for interest payable, which in the early 1990s was around 11-12% of GDP.

The "fragility" of the move is proved by the fact that running expenses (net of all interests) did not decrease. Quite the opposite: running expenses rose to concerning levels in the next decades. The situation has rapidly deteriorated in recent years as a result of the international crisis: actions to limit its effects have tried to limit spending for investments.

In any case, running expenses still remain the "core" of the main actions of the public sector. **In 2012, running expenses were still worth almost 759 billion Euros, of which 86 ascribable to interests on debt**: note that this item has grown remarkably in recent years (15 billion against 2010, 20 billion against 2005). Net of interest payable, the running expenses (so-called primary running expenses) have remained stable in the last two years (Tab. 1.1 and Tab. 1.2). If anything, the problem is ascribable to the years before the crisis: between 2005 and 2010, namely over five years, primary running expenses rose from 568.7 to 670.4 billion Euros. The difference of more than 100 billion translates into an average extra 20 billion each year.

Chart 1.4 - *Italy. Trend of main public spending items (%/GDP). Years 1990-2012*



Source: Unioncamere Veneto on data supplied by Ministry of Economy and Italian Statistical Office - Istat

Tab. 1.1 - *Italy. Trend of main items ascribable to running expenses (in billion Euros). Years 1990-2012*

	1990	1995	2000	2005	…	2010	2011	2012
Staff costs	85.6	103.9	124.3	156.5	…	172.1	170.1	167.1
Intermediate goods	52.8	63.2	86.3	117.2	…	136.1	136.1	134.7
Social benefits	105.4	154.4	195.5	242.3	…	298.4	305.1	311.7
Other running expenses	22.0	25.8	37.9	52.6	…	63.8	61.3	59.2
Primary running expenses	**265.8**	**347.3**	**444.0**	**568.7**	**…**	**670.4**	**672.6**	**672.8**
for information:								
Interest payable	70.7	109.8	74.9	66.5	…	71.1	78.0	86.1
Running expenses	**336.5**	**457.1**	**518.9**	**635.2**	**…**	**741.5**	**750.6**	**758.9**

Source: Unioncamere Veneto on data supplied by Ministry of Economy and Italian Statistical Office - Istat

Too much has been spent for civil servants and for intermediate goods, although the fragility of our public accounts was clear. Their particular vulnerability is ascribable to spending per social benefits (pensions and social services) that are growing as a result of an ageing population and, more recently, due to the worsening labour market (social security payment). Recently introduced policies imposing greater strictness in running expenses (staff and intermediate goods) have simply "frozen" spending, but have failed to introduce a structural change into the overall organisation. The Public Administration needs to be reorganised starting from the Central State.

Tab. 1.2 - *Italy. Trend of main items ascribable to primary running expenses (% breakdown) Years 1990-2012*

	1990	1995	2000	2005	…	2010	2011	2012
Staff costs	32.2	29.9	28.0	27.5	…	25.7	25.3	24.8
Intermediate goods	19.9	18.2	19.4	20.6	…	20.3	20.2	20.0
Social benefits	39.7	44.5	44.0	42.6	…	44.5	45.4	46.3
Other running expenses	8.3	7.4	8.5	9.2	…	9.5	9.1	8.8
Primary running expenses	**100.0**	**100.0**	**100.0**	**100.0**	**…**	**100.0**	**100.0**	**100.0**

Source: Unioncamere Veneto on data supplied by Ministry of Economy and Italian Statistical Office - Istat

1.3 Central bureaucracy

The Public Administration in Italy revolves around the Central State. Despite Article 114 of the Constitution, that designs the Republic as the sum of several levels of government each with equal status, it is clear that the reality is very different. The Central State has undoubtedly the role of guiding the entire Public Administration system and to ensure the co-ordination of public finances. The clearest example of the inequality of this system is that the adjustments to the financial law were basically "enforced" unilaterally by the Central State onto the other levels of government. There is no negotiation on financial aims and on the means to achieve them: in other words, the State acts as guarantor for the whole system of institutions and takes final decisions on crucial issues.

The current centralised Public Administration system in Italy contrasts with the gradual decentralisation of legislative and administrative powers launched in the mid 1990s and, more recently, with the institutional framework outlined by the reform on fiscal federalism. In the current situation, both the decentralisation of powers and also fiscal federalism are basically at a standstill. This has contributed to weaken the position of Local Autonomies, granting greater room for manoeuvre for the Central State to restate its position as the Country's "leader". In reference to the above, this paragraph will shed light on a number of financial and organisational aspects of the Central State, that will clearly describe its ability to influence other levels of government.

Most of the State's spending is made of transfers of resources to other levels of government or to families and businesses. The aggregate spending item includes transfers to Municipalities and Provincial Districts, the co-financing of health care and the evening out of social security costs. However, other State functions, are associated, amongst others, to defence, law and order, justice and education. These functions act to the benefit of the community and contribute to the provision of services in general, and must be distributed equally all over the country. However, by just considering the Central State's running expenses, namely staff and intermediate goods, the situation that emerges is anything but uniform.

Spending for staff in reference to the population is remarkably higher in the South. Excluding Latium from the comparison, as it includes the Capital and the Republic's representative institutions, in the ordinary regions of the South, the central State spends over 300 Euros per capita more than in the ordinary regions of the North. Keeping to the figures supplied by the General Accounting Office, in 2011 spending for civil servants in Abruzzo, Apulia and Calabria exceeded 1,000 Euros per capita (Tab. 1.3); on the other hand, the same spending item was approximately 600 Euros in Lombardy, 700 Euros in Emilia Romagna and its values are definitely low also in Piedmont (732) and Veneto (776). Spending for staff is also very high in the special statute regions of the South and exceeds 1,000 Euros per inhabitant in Sicily and Sardinia.

Similar considerations are true also for spending for intermediate goods (stationary, spending for heating and electricity, consumer goods to enable PA facilities to operate), although the discrepancies are lower than the general average. Higher levels of spending are found in the ordinary regions of the South (187 Euros per capita) and in special statute regions of the South (184 Euros for each citizen). Spending is remarkably lower in the ordinary regions of the Centre-North that stand at 137 Euros per capita. On this issue, it is worth mentioning some figures: in Calabria and in Campania, the Central State spends, respectively, 206 and 194 Euros per citizen for intermediate goods; in Abruzzo, Apulia and Liguria some 170/180 Euros are spent per inhabitant. Smaller amounts are spent in Veneto (119 Euros), Umbria (123 Euros) and Emilia Romagna (123 Euros). Valle d'Aosta, Bolzano and Trento were not considered in this comparison as most central functions are in fact performed by the local Administrations: this detail justifies, although not completely, the high spending made for transfers from the State to the regions of Valle d'Aosta and to the Autonomous Provincial Districts of Trento and Bolzano.

Tab. 1.3 - *Central State spending in local territories (Euros per capita). Year 2011*

	Spending for functions managed by the State	*of which, staff*	*of which, intermediate goods*	*of which, investments*	Spending for transfers to Regions and Local Bodies	**Total State spending**
Special Statute Regions NORTH	**1,438**	*784*	*121*	*111*	**4,765**	**6,204**
Valle d'Aosta	1,441	*427*	*63*	*35*	9,951	**11,392**
Autonomous Province Bolzano	640	*311*	*56*	*37*	6,054	**6,695**
Autonomous Province Trento	749	*305*	*93*	*141*	6,015	**6,763**
Friuli-Venezia Giulia	2,064	*1,222*	*167*	*137*	3,158	**5,222**
ORDINARY REGIONS CENTRE-NORTH	**1,435**	*736*	*137*	*131*	**1,652**	**3,087**
Piedmont	1,480	*732*	*137*	*122*	1,752	**3,231**
Liguria	2,045	*1,009*	*170*	*233*	2,064	**4,109**
Lombardy	1,297	*635*	*149*	*145*	1,404	**2,701**
Veneto	1,454	*776*	*119*	*122*	1,541	**2,995**
Emilia Romagna	1,316	*700*	*123*	*139*	1,730	**3,046**
Tuscany	1,544	*836*	*140*	*102*	1,898	**3,442**
Marche	1,512	*825*	*129*	*61*	1,849	**3,361**
Umbria	1,537	*787*	*123*	*85*	2,025	**3,562**
LATIUM	**3,485**	*1,428*	*362*	*286*	**1,706**	**5,191**
ORDINARY REGIONS SOUTH	**1,974**	*1,044*	*187*	*139*	**2,128**	**4,102**
Abruzzo	2,047	*1,076*	*179*	*73*	2,144	**4,192**
Molise	2,315	*986*	*150*	*144*	2,605	**4,919**
Campania	2,011	*999*	*194*	*168*	2,061	**4,072**
Apulia	1,805	*1,114*	*179*	*118*	2,017	**3,822**
Basilicata	2,009	*969*	*154*	*159*	2,461	**4,470**
Calabria	2,094	*1,040*	*206*	*137*	2,368	**4,462**
SPECIAL STATUTE REGIONS SOUTH	**1,744**	*1,023*	*184*	*131*	**3,070**	**4,814**
Sicily	1,764	*1,022*	*183*	*142*	2,891	**4,655**
Sardinia	1,685	*1,025*	*188*	*96*	3,610	**5,295**
TOTAL	**1,789**	*907*	*175*	*147*	**2,049**	**3,838**
TOTAL (excluding Latium)	**1,612**	*853*	*155*	*132*	**2,085**	**3,697**

Source: Unioncamere Veneto on data supplied by the General Accounting Office

In addition to the lack of homogeneity in the national territory, there is also the issue of the "proliferation" of branches of the central state on the local level.

Table 1.4 shows the number of cost centres relating to peripheral facilities reporting to the State's central administration in the years 2008-2012: over the years, the cost centres identified for accounting purposes increased from 137 in 2008 to 251 in 2012. This increase is mainly ascribable to the Ministry of Justice (where the increase in cost centres is associated to the new organisation of the "Regional Offices" implemented in 2011), to the Ministry of Infrastructure and Transport (which increased its "Interregional Offices" in 2011) and to the Ministry of Interior (that gradually reorganised its cost centres associated to "Prefectures–Local Government Offices") and the opening in 2011 of new cost centres relating to the "Police Headquarters" and the "Regional Fire Brigade Departments".

Tab. 1.4 - *Distribution of cost centres for peripheral facilities. Years 2008-2012*

	2008	2009	2010	2011	2012	Var. '08/'12
Foreign affairs	1	1	1	7	6	+5
Labour issues and social policies	-	-	1	1	1	+1
Labour, health care e social policies	3	-	-	-	-	-3
Defence	16	16	16	17	17	+1
Justice	5	5	5	20	20	+15
Health care	-	-	2	2	2	+2
Infrastructure and transport	3	1	3	15	15	+12
Agricultural, food and forestry policies	2	2	2	2	2	+0
Economy and finance	4	4	4	9	9	+5
Interior	43	83	104	137	137	+94
Education, universities and research	36	36	37	19	19	-17
Economic development	2	-	2	2	2	+0
Cultural heritage and activities	22	22	21	21	21	-1
Total	**137**	**170**	**198**	**252**	**251**	**+114**

Source: General Accounting Office

It is worth noting that the **cost centres do not necessarily correspond to individual local (peripheral) offices.** They are, in fact, "organisational units identified within an administrative centre, to which they report, and are tantamount to general organisational facilities (managed by a top executive or similar) which are responsible for managing the resources to cover the costs generated"[1]. However, the decision to increase the number of cost centres,

[1] General Accounting Office (2012), *Report on spending by the State's central administrations – 2012*, September 2012.

probably aimed at better keeping under check the proper allocation of resources and thus improve efficiency, **does not appear to have tangibly increased the quality of spending made in Public Administrations**.

All the evils of our Country are often attributed to the cost of its politics: while it is true that waste and mismanagement of public assets must be eradicated, the other issues that hinder the development of our Country are to be found elsewhere. We should perhaps take a closer look at the organisation and remuneration of the top positions of the Country's bureaucracy. The data available show that the gap between the wages of executives and non-executives in almost all areas of the PA has increased. Between 2007 and 2010, the executives working in non-financial public bodies (INPS, INAIL, INPDAP) received an average total remuneration that was 3.4 times higher than the non-executive staff working in the same institution. Between 2003 and 2006, their wages were 3 times higher (Tab. 1.5). In addition, the executives of non-financial public bodies are the highest paid in the Italian PA.

Pay ranges tend to become wider also in the state monopoly (2.6 to 3 times higher), in the Ministries (2.8 to 3.1 times higher), in research bodies (2.6 to 2.9 higher), in Local Bodies (although in this case it is necessary to distinguish between the different territories), in the armed forces (2.6 to 2.7 times higher), in education (2.1 to 2.2 times higher) and in fiscal agencies (2.4 to 2.5 times higher). The pay ranges stand on the same levels in health care (2.1 times higher), in universities (3.4 times higher) and in the police force (2.8 times higher).

The pay system is strongly affected by indemnities and accessory payments; the latter are basically payroll items that include, for example, performance bonuses. Let us consider, for instance, executives employed in the Ministries: accessory payments account for a large amount of their final pay (Tab. 1.6), namely for 49.6% of their compensation in 2008, and rose to 50.9% in 2010. Unsurprisingly, the weight of accessory payments is higher for top executives, where they exceed 65% of the compensation.

Tab. 1.5 - *Pay gap between executive and non-executive staff (% values in Euros). Average 2003-2006 and 2007-2010*

	Average remuneration in the period	Total average remuneration		Salary gap (a/b)
		Executives * (a)	Non executives (b)	
NATIONAL HEALTH CARE SERVICE	average 2003-2006	54,146	25,754	2.1
	average 2007-2010	62,149	29,167	2.1
NON-FINANCIAL PUBLIC BODIES	average 2003-2006	90,237	30,071	3.0
	average 2007-2010	127,142	36,945	3.4
RESEARCH BODIES	average 2003-2006	75,670	29,265	2.6
	average 2007-2010	98,331	34,278	2.9
LOCAL BODIES	average 2003-2006	78,062	24,058	3.2
	average 2007-2010	92,849	27,455	3.4
MINISTRIES	average 2003-2006	67,555	24,113	2.8
	average 2007-2010	84,181	27,220	3.1
FISCAL AGENCIES	average 2003-2006	72,503	29,665	2.4
	average 2007-2010	84,903	33,565	2.5
STATE MONOPOLY	average 2003-2006	74,553	28,433	2.6
	average 2007-2010	96,893	31,882	3.0
EDUCATION	average 2003-2006	55,819	25,981	2.1
	average 2007-2010	61,908	28,798	2.2
UNIVERSITIES'	average 2003-2006	78,901	22,912	3.4
	average 2007-2010	90,844	26,600	3.4
POLICE FORCE	average 2003-2006	87,342	31,761	2.8
	average 2007-2010	99,459	35,598	2.8
ARMED FORCES	average 2003-2006	81,943	31,219	2.6
	average 2007-2010	93,879	34,140	2.7

(*) to ensure the consistency of the figures used, the information supplied refers solely to range 2 executive staff
Source: General Accounting Office

On the other hand, for non-executive staff, accessory remuneration is much smaller and has tended to decrease over the years (from 22.5% in 2008 to 19.4% in 2010).

Another major observation concerns the trend of salaries. Consistent with the trends described above, between 2008 and 2010 the indemnities and accessory payments of ministerial executives increased 10.8%, while those for non-executive staff decreased by 14.5% (Tab. 1.7). Another major item in the public remuneration system is the salary per se: a greater increase is once again recorded for managerial staff compared to non-managerial staff.

Tab. 1.6 - *Ministries: spending for indemnities and accessory payments over the total spent for remuneration (%). Years 2008-2010*

	2008	2009	2010
Executives with a permanent contract	***49.6***	***49.4***	***50.9***
Executives in range 1, with a permanent contract	*65.2*	*65.6*	*65.9*
Executives in range 2, with a permanent contract	*45.7*	*45.2*	*47.2*
Non- executive staff	***22.5***	***20.4***	***19.4***
Area three	*23.0*	*20.5*	*20.1*
Area two	*22.2*	*20.2*	*19.0*
Area one	*23.0*	*21.4*	*19.3*
TOTAL	***24.0***	***21.9***	***21.2***

Source: Unioncamere Veneto on data supplied by Court of Auditors

Overall, in the past two years, the total remuneration of employees in the Ministries dropped by 0.6 percent. This figure, however, is the result of two very different trends: on the one hand, non-executive staff has been cut by 0.9%; on the other, the executives have seen an 8% increase in salaries.

To a certain extent, these data can be justified also by the payment of arrears. However, other figures supplied by the Court of Auditors confirm the basic trend shown above. The spending for salaries net of all arrears increased between 2009 and 2010 by 5.6%, of which 3.1% for salaries proper and 8.2% for accessory payments; on the other hand, the spending for non-executive staff decreased, in the same period, by 3%, especially as regards the accessory items (-6.6%).

In terms of age, Italy holds a record for the old age of its civil servants. According to an OECD report, the civil servants working in our central administrations are amongst the oldest of the countries that make up the main world economies. In fact, more than 49% of civil servants is over 50 years of age (Chart 1.5). Italy falls far behind countries such as Sweden, Belgium, Germany and United States. Of course, this figure is affected by the age structure and the rigidity of Italy's labour market: nevertheless, it is perhaps an indirect signal of an extremely static and conservative Public Administration.

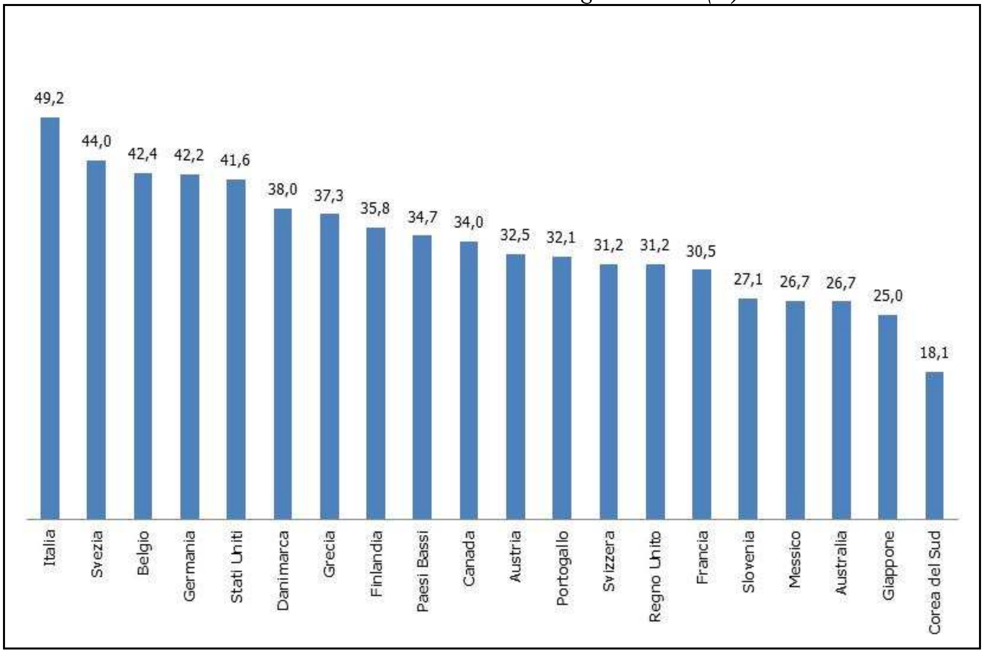
Tab. 1.7 - *Ministries: trend and breakdown of spending for remuneration of permanently employed civil servants. Years 2008-2010*

	2008	2009	2010	% Var. 2010/09	% Var. 2010/08
PAYROLL ITEMS					
Executives with a permanent contract	***47,156***	***47,271***	***49,583***	***+4.9***	***+5.1***
Executives in range 1, with a permanent contract	63,149	64,090	65,758	+2.6	+4.1
Executives in range 2, with a permanent contract	45,349	45,371	47,707	+5.1	+5.2
Non- executive staff	***21,146***	***21,939***	***21,785***	***-0.7***	***+3.0***
Area three	24,599	25,706	25,579	*-0.5*	*+4.0*
Area two	19,947	20,571	20,407	*-0.8*	*+2.3*
Area one	17,589	18,493	18,377	*-0.6*	*+4.5*
TOTAL	**21,585**	**22,349**	**22,234**	***-0.5***	***+3.0***
INDEMNITIES AND ACCESSORY PAYMENTS					
Executives with a permanent contract	***46,334***	***46,059***	***51,348***	***+11.5***	***+10.8***
Executives in range 1, with a permanent contract	118,323	122,133	126,949	*+3.9*	*+7.3*
Executives in range 2, with a permanent contract	38,195	37,462	42,581	*+13.7*	*+11.5*
Non- executive staff	***6,136***	***5,614***	***5,247***	***-6.5***	***-14.5***
Area three	7,333	6,630	6,418	*-3.2*	*-12.5*
Area two	5,681	5,207	4,801	*-7.8*	*-15.5*
Area one	5,243	5,037	4,382	*-13.0*	*-16.4*
TOTAL	**6,816**	**6,270**	**5,992**	***-4.4***	***-12.1***
TOTAL REMUNERATION					
Executives with a permanent contract	***93,490***	***93,330***	***100,931***	***+8.1***	***+8.0***
Executives in range 1, with a permanent contract	181,472	186,223	192,707	*+3.5*	*+6.2*
Executives in range 2, with a permanent contract	83,544	82,833	90,288	*+9.0*	*+8.1*
Non- executive staff	***27,282***	***27,553***	***27,032***	***-1.9***	***-0.9***
Area three	31,932	32,336	31,997	*-1.0*	*+0.2*
Area two	25,628	25,778	25,208	*-2.2*	*-1.6*
Area one	22,832	23,530	22,759	*-3.3*	*-0.3*
TOTAL	**28,401**	**28,619**	**28,226**	***-1.4***	***-0.6***

Source: Unioncamere Veneto on data supplied by Court of Auditors

Italy is also one of the countries where PA staff work less hours. The average hours worked per annum by civil servants in Italian central administrations does not exceed 1,676 hours, against an OECD average of 1,742 hours (Tab. 1.8). From this point of view, Italy is far behind countries such as Chile (2,048 hours), Israel (1,953) and Switzerland (1,913), although it does rank before the United Kingdom (1,667 hours), Spain (1,663) and France (1,573). Also note that despite the decentralised organisation, the **civil servants of the central state in Federal States work more than the OECD average**. A clear example of the above is provided by Switzerland, Mexico, United States, Germany, Austria, Australia and Canada; Belgium and Spain are exceptions (the latter being, in fact, organised as a regionalist system).

Chart 1.5 - *Civil servants in central administrations aged over 50 (%). Year 2009*



Source: Unioncamere Veneto on data supplied by OECD

In the discussion on central administrations, it is important to recall the main institutional and administrative features of some federal and unitary states. **Italy is formally a unitary state. Although its Constitution was changed eleven years ago to introduce a federalist system, it still appears to be even more centralised than a long-established unitary nation like France.** To ensure a consistent comparison, OECD data have been considered for 2010: what emerges is that the Italian Government is organised so as to include more Ministries (23) that the French have (16). Federal states have less ministries than unitary states: the significance of this statement becomes obvious when Italy is compared to other countries with a similar population, namely Germany (14) and Spain (15). Restricting the comparison to the four main European countries, Italy has more Ministries than it has Regions (Tab. 1.9).

In addition, if we take a look at the number of Provincial Districts in a federal state like Germany (323), the recent government provision that stated the urgent need to merge the Italian Provincial Districts does not seem that urgent at all. Efficiency and fighting waste does not necessarily have to mean reducing the levels of governance. If anything, the figures above tend to show that it is urgent to streamline the centralised institutions.

Tab. 1.8 - *Average hours worked per year by civil servants in the central administrations. Year 2010*

Country	Average hours worked per year	Country	Average hours worked per year
Chile	2,048	Japan	1,736
Israel	1,953	Sweden	1,735
Switzerland	1,913	Australia	1,730
Mexico	1,862	Canada	1,706
United States	1,840	Greece	1,678
New Zealand	1,838	**Italy**	**1,676**
Germany	1,814	Norway	1,674
South Korea	1,814	Belgium	1,674
Poland	1,814	United Kingdom	1,667
Slovakia	1,806	Spain	1,663
Slovenia	1,802	Netherlands	1,654
Turkey	1,798	Denmark	1,631
Austria	1,786	Iceland	1,629
Czech Rep.	1,782	Finland	1,578
Hungary	1,770	France	1,573
Estonia	1,750	Ireland	1,565
OECD AVERAGE	**1,742**	Portugal	1,545

Source: OECD

Tab. 1.9 - *Institutional and administrative features of some Federal and Unitary States. Year 2010*

Country	Pop. (million)	Structure	Ministries	Regions	Provin-cial Districts	Municipa-lities
Austria	8.4	Federal	13	9	0	2,357
Belgium	10.6	Federal	14	6	10	589
Germany	81.9	Federal	14	16	323	12,312
Spain	45.9	Federal	15	17	50	8,111
Switzerland	7.7	Federal	7	26	0	2,889
United States	307.0	Federal	15	50	3,143	19,429
France	62.6	Unitary	16	26	100	36,683
Italy	59.8	Unitary	23	20	103	8,101
Netherlands	16.5	Unitary	11	12	0	443
United Kingdom	60.9	Unitary	17	3	35	434
Poland	38.2	Unitary	18	16	314	2,478
Sweden	9.3	Unitary	11	20	0	290

Source: OECD

2. The map of public spending in Italy: a European benchmark

2.1 Public spending broken down by function

The recent spending review provisions (Leg. Decree no. 95/2012) were preceded by a report by Piero Giarda[2] that highlighted the excessive amount and the little quality of public spending in Italy: the report provided an estimate of spending items that could potentially be reduced through a spending review process (295 billion). The Spending Review Decree is based on the awareness that public spending is excessive; it acknowledges the need to improve allocation through a more rational approach, so as to free resources that can be earmarked for growth. However, the good intentions have not been completely implemented: **public spending has in fact been reduced, but through the traditional method based on "linear cuts" rather than "selective cuts"**. Once again, an axe has been used rather than the pincers.

The issue of public spending in Italy, as was highlighted in several previous Survey Reports by Unioncamere Veneto, is for all to see. PA spending in 2011 reached almost 800 billion Euros, exceeding 50% of the GDP. 40.5% (namely 323 billion) is allocated to social security (social security and welfare), and is the top item in the national budget (Tab. 2.1). Health care comes next (116 billion) and accounts for 14.5% of total resources. Italy's problem clearly emerges from the assessment of the figures shown in the table: summarising, **we spend more for interest due than for education**. In fact, the resources allocated to education (just under 66 billion) are less than those needed to pay interest on debt (78 billion in 2011). Economic affairs rank next (accounting for 8.1% of the total) and General services ascribable to Public Administration (8% of spending), that precede Law and order and security (4.1%) and the Defence item (3.2%).

The first three items in the budget (social security, health care and interest) absorb a total 517 billion Euros, namely 65% of resources. Administrators have to make do with the remaining 35% to pay teachers, heat and

[2] Giarda, P. (2012), *Elementi per una revisione della spesa pubblica*, 8 May 2012.

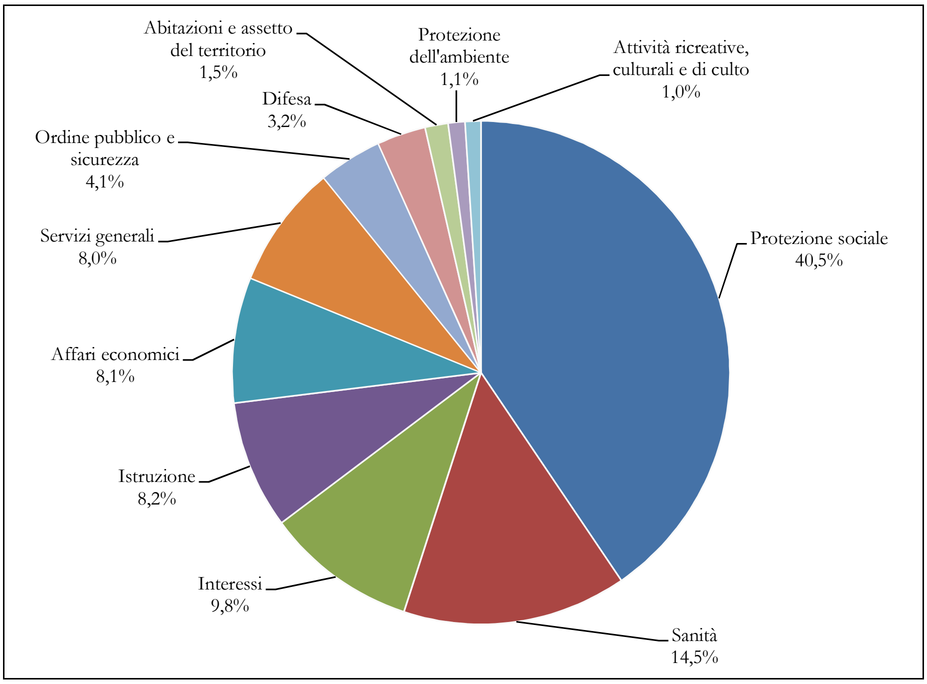
clean school buildings, pay the police and ensure law and order, finance infrastructure and transport, pay defence costs, bear the costs for administrating justice and make public investments (Chart 2.1).

Tab. 2.1 - *Italy. Public spending broken down by function Year 2011*

	billion Euros	as a % of GDP	%
Social security	323.0	20.4	40.5
Health care	116.0	7.3	14.5
Interests	78.2	5.2	9.8
Education	65.8	4.2	8.2
Economic affairs	64.4	4.1	8.1
General services	63.7	4.0	8.0
Law and order and security	32.8	2.1	4.1
Defence	25.3	1.6	3.2
Housing and territorial management	12.0	0.8	1.5
Environmental protection	8.6	0.5	1.1
Recreational, cultural and religious activities	8.2	0.5	1.0
TOTAL SPENDING	**798.0**	**50.7**	**100.0**

Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

Chart 2.1 - *Italy. Public spending broken down by function Percentage breakdown. Year 2011*



Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

In the last decade (2001-2011) the amount of public resources allocated to social security has increased, rising from 36% to 40.5%; health care is also increasing (having risen from 13% to 14.5%), while interest is the only spending item to have decreased in the period (down from 13.1% to 9.8%). The decreasing weight of debt interest has encouraged spending for general services in the PA and for defence, while the decreasing spending for economic affairs and education is reason for concern (Tab. 2.2).

Tab. 2.2 - *Italy. Percentage breakdown of public spending per function. Years 2001 and 2011*

	2001	2011
General services	7.5	8.0
Defence	2.5	3.2
Law and order and security	4.1	4.1
Economic affairs	9.8	8.1
Environmental protection	1.0	1.1
Housing and territorial management	1.7	1.5
Health care	13.0	14.5
Recreational, cultural and religious activities	1.7	1.0
Education	9.6	8.2
Social security	36.0	40.5
Interests	13.1	9.8
TOTAL SPENDING	**100.0**	**100.0**

Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

As a percentage of GDP, public spending increased by 2.9 percent between 2001 and 2011; this increase is mainly ascribable to social security (+3.2% of GDP) and, to a lesser extent, to health care (+1.1% of GDP); on the other hand, defence, general services and law and order increased by no more than 0.4 percent of GDP. "Housing e territorial management" and "Environmental protection" are basically stable in the decade considered, while a decrease is recorded for spending for debt interest (-1.1%), economic affairs (-0.6%), education (-0.4%) and recreational, cultural and religious activities (-0.3%). **Despite the lower amounts paid for interest, public spending has not at all diminished**: on the contrary. If we take a look at **primary spending** (public spending before interest), this item has **increased by 4% of the GDP** and is almost fully ascribable to the trends in social security (Tab. 2.3).

Tab. 2.3 - *Italy. Public spending over a ten year period: the re-allocation of resources (%/GDP). Years 2001 and 2011*

	2001	2011	Var.
Functions on the increase			
Social security	17.2	20.4	+3.2
Health care	6.2	7.3	+1.1
Defence	1.2	1.6	+0.4
General services	3.6	4.0	+0.4
Law and order and security	1.9	2.1	+0.2
Functions that have remained stable			
Housing and territorial management	0.8	0.8	+0.0
Environmental protection	0.5	0.5	+0.0
Decreases recorded per function			
Recreational, cultural and religious activities	0.8	0.5	-0.3
Education	4.6	4.2	-0.4
Economic affairs	4.7	4.1	-0.6
Interests	6.3	5.2	-1.1
TOTAL SPENDING	**47.8**	**50.7**	**+2.9**

Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

From this point of view, it is essential to read the "map" of public spending in Italy, in terms of the internal allocation of resources and its evolution over time. If we match the classification based on spending per function and the data on the nature of the costs incurred, the result is a "matrix" of public spending in Italy (Tab. 2.4 and Tab. 2.5).

Spending per staff is 170 billion Euros and is mainly incurred in the areas of education (30.2%), health care (22.7%), law and order and security (14.1%) and general services (13%). On the other hand, of the 136 billion Euros spent for intermediate goods (purchase of goods and services by the PA to run its facilities), almost 52% are ascribable to health care. Social benefits distributed as money, which is the main cost item in the national budget (305 billion Euros), are entirely ascribable to social security: these are pensions and other forms of social benefit. Finally, as regards capital account expenditure (48 billion Euros), allocations are mainly made in the areas of economic affairs (53.4%) and, to a lesser extent, general services for the PA (14.3%).

Tab. 2.4 - *Italy. The "matrix" of public spending (in million Euros). Year 2011*

	Primary running expenses	of which, staff	of which, intermediate goods	of which, social benefits in currency	of which, current transfers	**Capital account expenses**	of which, investments	of which, capital account transfers	**Interest payable**	**TOTAL SPENDING**
General services	**56.8**	22.2	16.0	-	14.9	**6.9**	5.1	1.4	**76.3**	**140.0**
Defence	**23.8**	14.4	7.1	-	0.2	**1.5**	1.5	-	**-**	**25.3**
Law and order and security	**31.6**	23.9	5.1	-	0.1	**1.3**	1.2	-	**-**	**32.8**
Economic affairs	**38.7**	7.1	6.0	-	1.3	**25.7**	10.6	15.0	**0.7**	**65.1**
Environmental protection	**5.3**	1.7	8.6	-	0.2	**3.3**	2.8	0.5	**0.1**	**8.8**
Housing e territorial management	**7.5**	2.4	3.1	-	0.1	**4.5**	2.9	1.7	**0.2**	**12.2**
Health care	**113.0**	38.5	70.3	-	1.1	**3.0**	3.0	0.0	**0.4**	**116.4**
Recreational, cultural and religious activities	**9.6**	2.6	4.4	-	2.6	**-**	1.8	0.7	**0.2**	**8.4**
Education	**63.4**	51.2	6.6	-	2.6	**2.4**	2.3	0.1	**0.2**	**66.0**
Social security	**322.0**	5.5	8.7	305.1	2.4	**0.9**	0.8	0.2	**0.1**	**323.1**
TOTAL SPENDING	**671.7**	**169.5**	**135.9**	**305.1**	**25.5**	**48.0**	**32.0**	**19.7**	**78.2**	**798.0**

Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

Tab. 2.5 - *Italy. The "matrix" of public spending (percentage breakdown). Year 2011*

	Primary running expenses	of which, staff	of which, intermediate goods	of which, social benefits in currency	of which, current transfers	**Capital account expenses**	of which, investments	of which, capital account transfers	**Interest payable**	**TOTAL SPENDING**
General services	**8.5**	13.1	11.8	-	58.5	**14.3**	16.0	7.2	**97.6**	**17.5**
Defence	**3.5**	8.5	5.2	-	0.8	**3.2**	4.8	-	**-**	**3.2**
Law and order and security	**4.7**	14.1	3.8	-	0.5	**2.6**	3.9	0.1	**-**	**4.1**
Economic affairs	**5.8**	4.2	4.4	-	5.1	**53.4**	33.1	76.5	**0.8**	**8.2**
Environmental protection	**0.8**	1.0	6.3	-	0.9	**6.9**	8.8	2.3	**0.1**	**1.1**
Housing e territorial management	**1.1**	1.4	2.3	-	0.3	**9.4**	8.9	8.8	**0.2**	**1.5**
Health care	**16.8**	22.7	51.8	-	4.3	**6.2**	9.3	0.0	**0.5**	**14.6**
Recreational, cultural and religious activities	**1.4**	1.5	3.2	-	10.0	**-**	5.7	3.3	**0.3**	**1.1**
Education	**9.4**	30.2	4.8	-	10.2	**5.0**	7.2	0.7	**0.2**	**8.3**
Social security	**47.9**	3.3	6.4	100.0	9.3	**2.0**	2.4	1.0	**0.2**	**40.5**
TOTAL SPENDING	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

Between 2001 and 2011, primary running expenses (before interests) grew by a remarkable 5.3% of GDP and were partly offset by the decrease in capital account expenditure (-1.1%) and interest payable (-1.3%). Primary running expenses have grown not only due to the increase of social benefits allocated in currency (+3.3%) but also due to current transfers to families and businesses (+0.5%), spending for staff (+0.3%) and intermediate goods (+1.1%). **The costs of the civil service have grown in all areas of public functions, except for the area that is most strategic for the future: education (-0.3%).** On the other hand, the trend for intermediate goods is exactly the same as that for health care (+1%), confirming the growing need for resources in this area and also the need to rationalise purchasing and supplies (Tab. 2.6).

Tab. 2.6 - *Italy. The public spending "matrix" (% var. on GDP against 2001). Year 2011*

	Primary running expenses	of which, staff	of which, intermediate goods	of which, social benefits in currency	of which, current transfers	**Capital account expenses**	of which, investments	of which, capital account transfers	**Interest payable**	**TOTAL SPENDING**
General services	**+0.5**	+0.1	-	-	+0.4	**-0.1**	-0.1	-	**-1.2**	**-0.8**
Defence	**+0.4**	+0.2	+0.2	-	-	**-**	-	-	**-**	**+0.4**
Law and order and security	**+0.1**	+0.2	-0.1	-	-	**-**	-	-	**-**	**+0.1**
Economic affairs	**-**	+0.1	-0.1	-	-	**-0.6**	-0.1	-0.5	**-**	**-0.6**
Environmental protection	**+0.1**	-	-	-	-	**-**	-	-	**-**	**+0.1**
Housing e territorial management	**-**	-	-	-	-	**-0.1**	-	-0.1	**-**	**-0.1**
Health care	**+1.2**	+0.1	+1.0	-	-	**-**	-	-	**-**	**+1.2**
Recreational, cultural and religious activities	**-**	-	-	-	-	**-0.3**	-0.1	-	**-**	**-0.3**
Education	**-0.4**	-0.3	-	-	-	**-**	-	-	**-**	**-0.4**
Social security	**+3.3**	-	+0.1	+3.3	-	**-**	-	-	**-0.1**	**+3.3**
TOTAL SPENDING	**+5.3**	**+0.3**	**+1.1**	**+3.3**	**+0.5**	**-1.1**	**-0.3**	**-0.5**	**-1.3**	**+2.9**

Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

2.2 How other countries spend

The Assessment of public spending in Italy cannot be exempted from comparison with other main European Union countries. What follows is a comparison of public spending broken down by functions in Italy, Germany, France and Spain. To ensure consistency, the comparison is made on data for the year 2010.

Social security restates its position as the area that absorbs the greatest amounts of money in all countries, ranging between 37.2% in Spain and 43.1% in Germany. Health care ranks second in the national budgets assessed and account for a minimum of 14.3% in Spain to a maximum 15.1% in Italy. The major differences arise in spending for economic affairs, that ranges between 6.7% in France and 11.4% in Spain, and for interest on debt, ranging from a minimum of 4.2% in Spain to a maximum of 8.8% in Italy (Tab. 2.7).

Tab. 2.7 - *Public spending broken down by functions in main EU States (percentage breakdown). Year 2010*

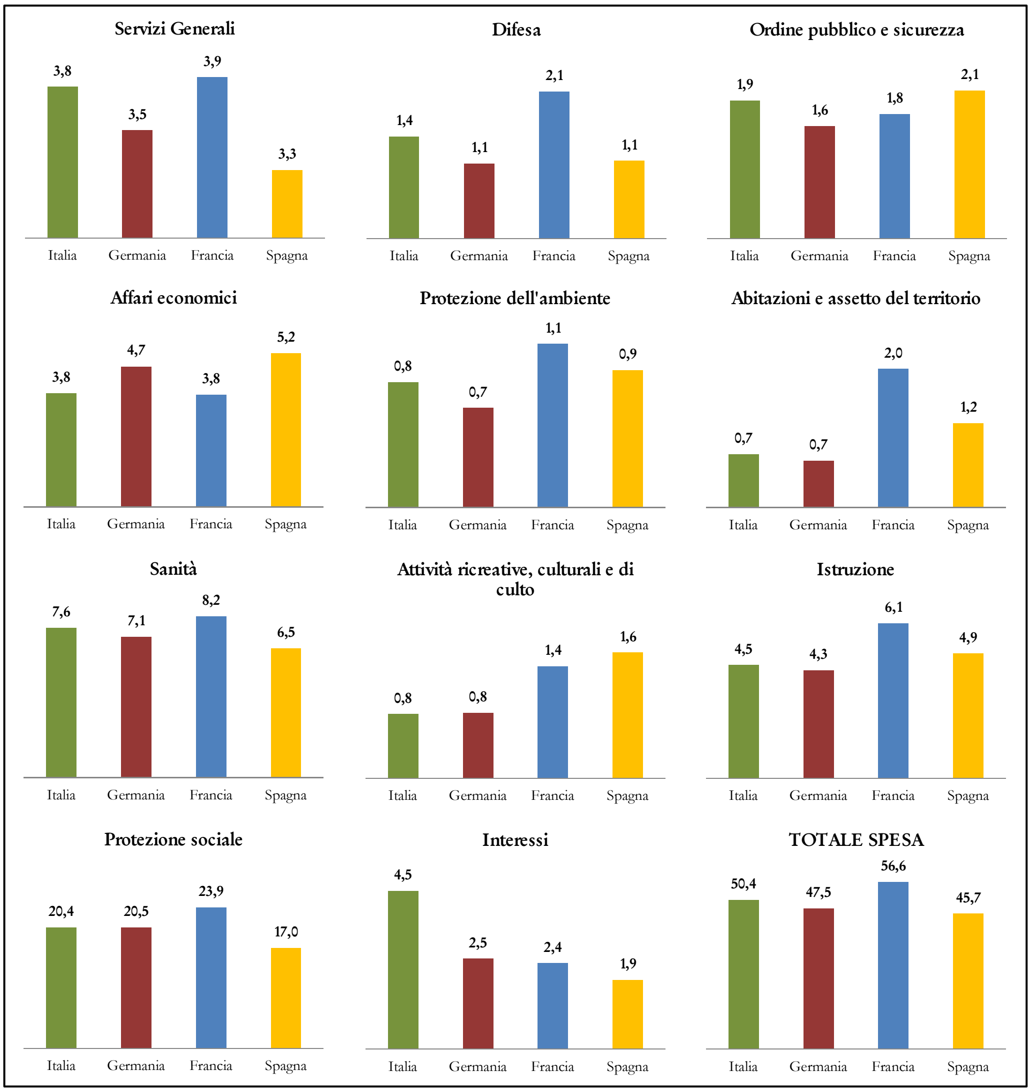
	Italy	Germany	France	Spain
General services	7.6	7.4	6.9	7.1
Defence	2.9	2.2	3.7	2.4
Law and order and security	3.9	3.3	3.1	4.6
Economic affairs	7.6	10.0	6.7	11.4
Environmental protection	1.7	1.4	2.0	2.0
Housing and territorial management	1.5	1.4	3.5	2.6
Health care	15.1	15.0	14.5	14.3
Recreational, cultural and religious activities	1.6	1.8	2.5	3.5
Education	8.9	9.0	10.8	10.7
Social security	40.5	43.1	42.2	37.2
Interests	8.8	5.3	4.3	4.2
TOTAL SPENDING	**100.0**	**100.0**	**100.0**	**100.0**

Source: Unioncamere Veneto on data supplied by Eurostat

Debt interest is one of the main problems faced by national public accounts. In 2010, when public finances were not yet affected by the "spread crisis", spending for interest payable accounted for 4.5% of GDP, a good 2% higher than Germany and 2.6% more than Spain (Chart 2.2). **These are resources (and, as a result, taxes) that the national debt diverts from**

economic growth, infrastructure, welfare and the competitiveness of the production system.

Chart 2.2 - *Public spending broken down by functions in main EU States (%/GDP). Year 2010*



Source: Unioncamere Veneto on data supplied by Eurostat

Critical issues emerge from the assessment of spending for general services (3.8% of the GDP, against 3.3% in Spain and 3.5% in Germany) and for economic affairs (almost 1% of the GDP less than Germany). On the other hand, Italian spending for health care is half way between that of Spain (6.5%) and France (8.2%). The comparison with other countries shows that Italy's spending for social security is not excessively high (20.4% of the GDP): in this case, the issue is whether the entire welfare system is sustainable or not, considering that social contributions continue to be insufficient to ensure the total coverage of benefits. The comparison with Germany appears especially useful for our country:

it is a model both for how public accounts are kept and for the efficiency of services; in addition, the federalist organisation of institutions allows high levels of transparency. As an interesting exercise, we can calculate how much Italy would save if it were to apply the same cost structure as Germany (Tab. 2.8).

Tab. 2.8 - *Italy. A check-up of public spending: a comparison with the German structure to assess possible saving (in million Euros). Year 2011*

	Staff	Intermediate goods	Social benefits	Other running expenses	Contributions investments	Other investments	TOTAL
General services	-995	-3,496	-	+2,517	+984	-4,290	**-5,280**
Defence	-6,024	+743	-	-862	+37	-145	**-6,251**
Law and order and security	-6,856	+1,547	-	-1,295	+36	-331	**-6,898**
Economic affairs	+1,499	+6,086	+4,019	-6,887	+14,298	-3,006	**+16,009**
Environmental protection	-221	-3,374	-	+1,072	+91	-856	**-3,289**
Housing and territorial management	-126	-924	-	+252	+1,388	-1,299	**-709**
Health care	-33,187	-26,670	+57,993	-2,668	+1,652	-2,820	**-5,700**
Recreational, cultural and religious activities	+1,577	+344	-	-1,179	-101	-182	**+459**
Education	-14,390	+6,504	+1,537	+606	+327	+2,570	**-2,845**
Social security	+7,631	+3,586	-14,191	+3,711	+337	-213	**+861**
TOTAL	**-51,091**	**-15,654**	**+49,357**	**-4,734**	**+19,050**	**-10,572**	**-13,644**

Source: Unioncamere Veneto on data supplied by Eurostat

The total saving achieved would amount to some 13.6 billion Euros. However, some items would have to be cut, while others could benefit from additional resources. An example of this is the item referring to staff (51 billion to be cut) and intermediate goods (to be reduced by some 15.6 billion Euros) to the advantage of social benefits (+49.4 billion) and contributions for investments (+19 billion). In other words, the problem of Italy's public spending is not simply a matter of amounts: it is a problem of internal allocation. **Indeed, too many resources are allocated to the operation of the administrative machinery: the risk is to stunt the country's growth.**

3. The centre or the periphery: which is most efficient?

3.1 The missing decentralization

The main aim of the fiscal federalism reform is to encourage greater responsibility at the local level. This intent should be reached through fiscal autonomy and by imposing more transparency in how resources are allocated to each local authorities, thus abandoning the vicious circle of "historical spending". It is clear that the reforms in the 1990s (the so-called "Bassanini Reform") and the 2001 reform of "Title V" of the Constitution have introduced a great degree of decentralisation in spending: unfortunately, the same has not been done for civil servants and financial resources. The Delegated Law of 2009 (together with the much-awaited Charter of Autonomies) aspired to adjust this distorted situation, that almost certainly provided fertile ground for the mismanagement of resources by some local administrators. In fact, greater responsibility in the management of the common good can only be achieved by overcoming derived finance and by giving real autonomy on the management of receipts.

In Italy, decentralised public spending (33.2%) is slightly lower than that of a country with a long-standing federalist tradition as is Germany (38.8%). On the other hand, the decentralisation of revenues is practically at a standstill: **in our Country a mere 18.4% of tax revenues and revenues from other sources are directly ascribable to Local Administrations, compared to 34.4% in Germany** (Tab. 3.1 and Chart 3.1). There is an abysmal gap between competences in terms of expenditure and own revenues in Local Administrations. This gap is compensated by means of State transfers that are traditionally allocated on the principle of historical spending.

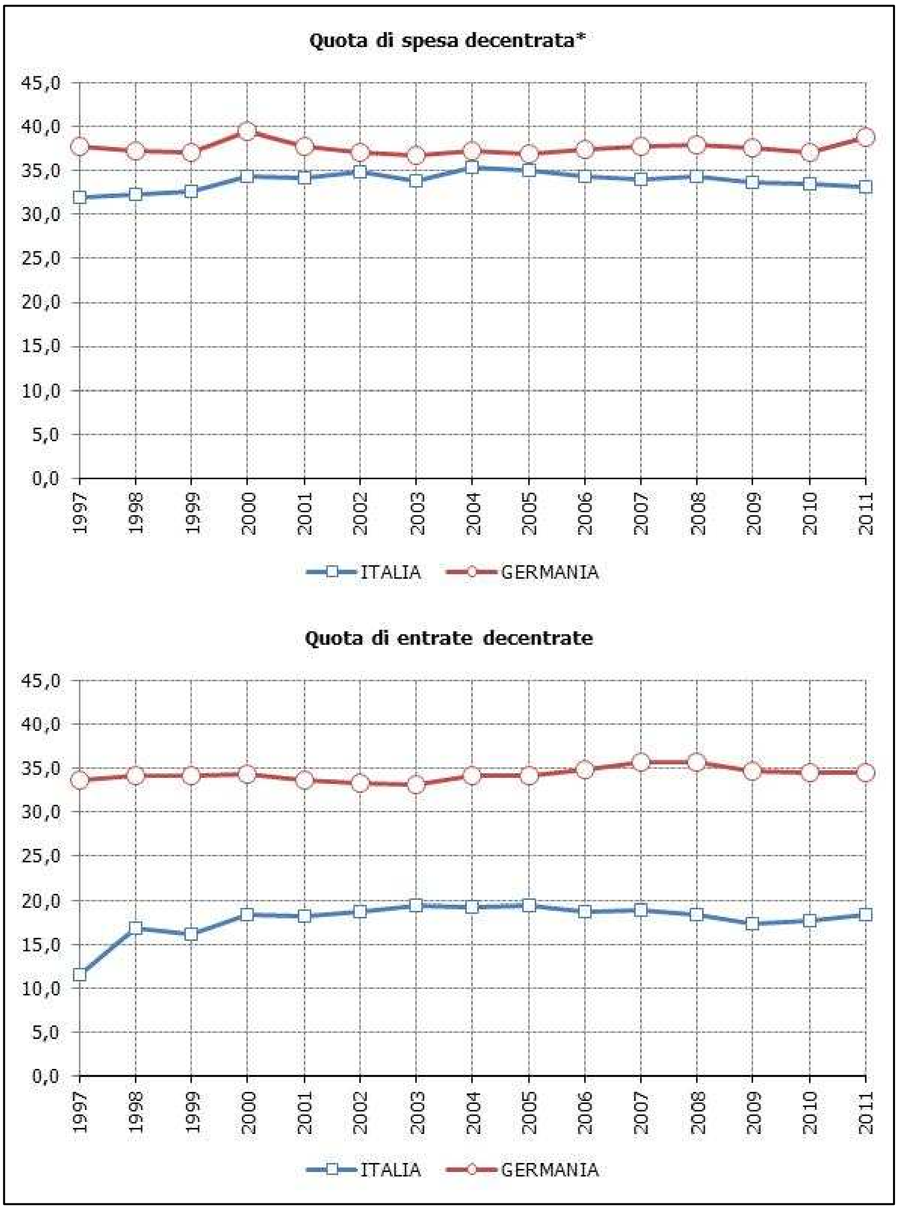
The level of local autonomy, after the introduction of IRAP (Regional tax on productive activities), has not progressed particularly over the last decade: if anything, it has dropped since 2008. The gap in terms of autonomy, that sets the distance between our and the German model, is still enormous and almost impossible to close. In 2011, the index of fiscal autonomy for Local Administrations in Germany was almost 69%, while in Italy it was just over 43% (Chart 3.2).

Tab. 3.1 - *Breakdown of revenues and public spending by level of government (%). Year 2011*

	Breakdown of spending		Breakdown of revenues	
	Italy	Germany	Italy	Germany
Central administrations	23.9	15.5	52.0	29.6
Local administrations	33.2	38.8	18.4	34.4
Social security bodies	42.9	45.6	29.5	36.0
Total Public Administration	100.0	100.0	100.0	100.0

Source: Unioncamere Veneto on data supplied by Eurostat

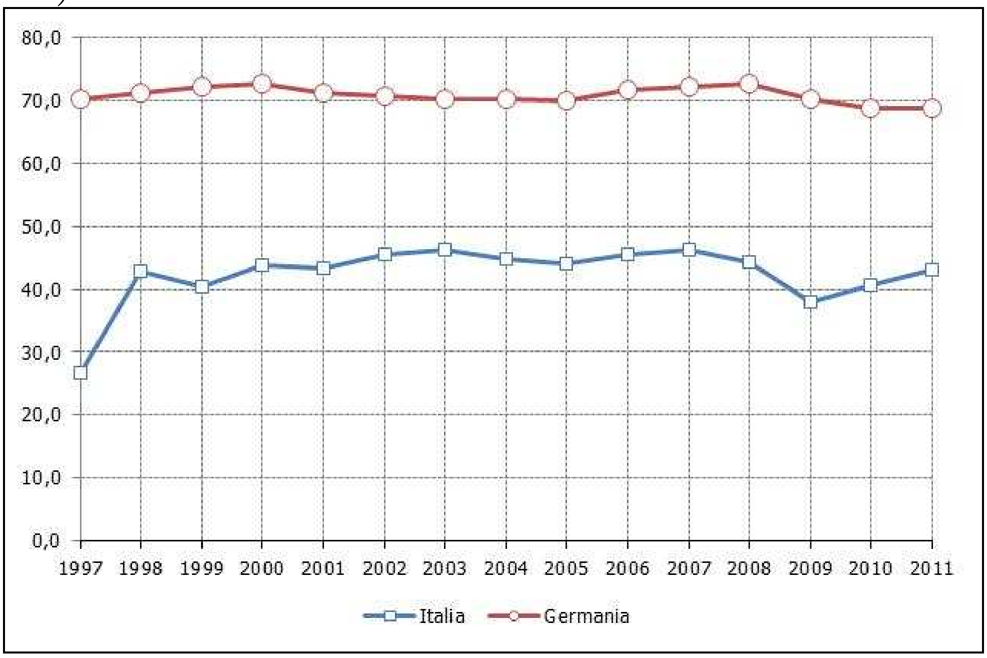
Chart 3.1 - *Trend of decentralised spending and revenues in Italy and in Germany (% values). Years 1997-2011*



(*) net of spending for interest
Source: Unioncamere Veneto on data supplied by Eurostat

Because of the low fiscal autonomy at local level, Italy is unable to benefit of the advantages of a decentralised spending model. There has been no concrete attribution of accountability in spending management by Local Administrations; all efforts have been frustrated by restrictions on their ability to change the rates of local taxes and the freedom recently "granted" by the Lawmaker simply aims at compensating the heavy cuts to financing imposed by the central State.

Chart 3.2 - *Levels of local fiscal autonomy in Italy and Germany (of fiscal revenues as a % of total revenues). Years 1997-2011*



Source: Unioncamere Veneto on data supplied by Eurostat

Another issue also prevents us from speaking of federalism in Italy: namely the distribution of staff. In "normal" countries, the allocation of staff more or less mirrors the breakdown of competences amongst the different levels of government. That is not how it works in Italy. Net of interest on debt, spending by social security bodies and their employees, Local Administrations in Germany account for 71.4% of public spending and 87.6% of staff. The opposite occurs in Italy: **our Local Authorities manage 58.1% of public resources but have available only 43.3% of staff** (Tab. 3.2). This anomaly is further confirmed by the following: between 1997, when administrative decentralisation was first introduced, and 2006, the number of civil servants employed in Local Administrations increased by 26 thousand units; in those same years, the Central

State increased its employees by a remarkable 105 thousand units. Figures show that there has been no decentralisation of staff. This has certainly caused duplications and overlaps, and has undoubtedly contributed to an increase in public spending in recent years.

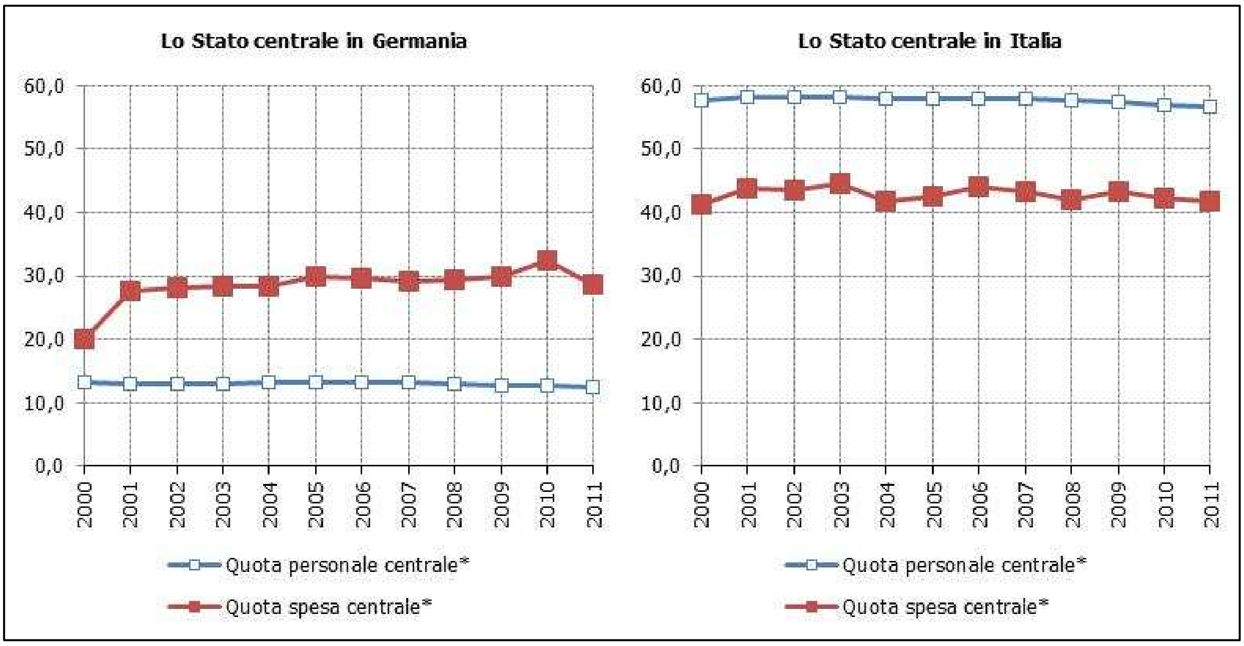
Tab. 3.2 - *Staff and public spending broken down by level of government in 2011 (%)*

	Germany		Italy	
	Public spending	Civil servants	Public spending	Civil servants
Central administrations	28.6	12.4	41.9	56.7
Local administrations	71.4	87.6	58.1	43.3
Total*	100.0	100.0	100.0	100.0

(*) net of spending and staff ascribable to social security bodies
Source: Unioncamere Veneto on data supplied by Eurostat

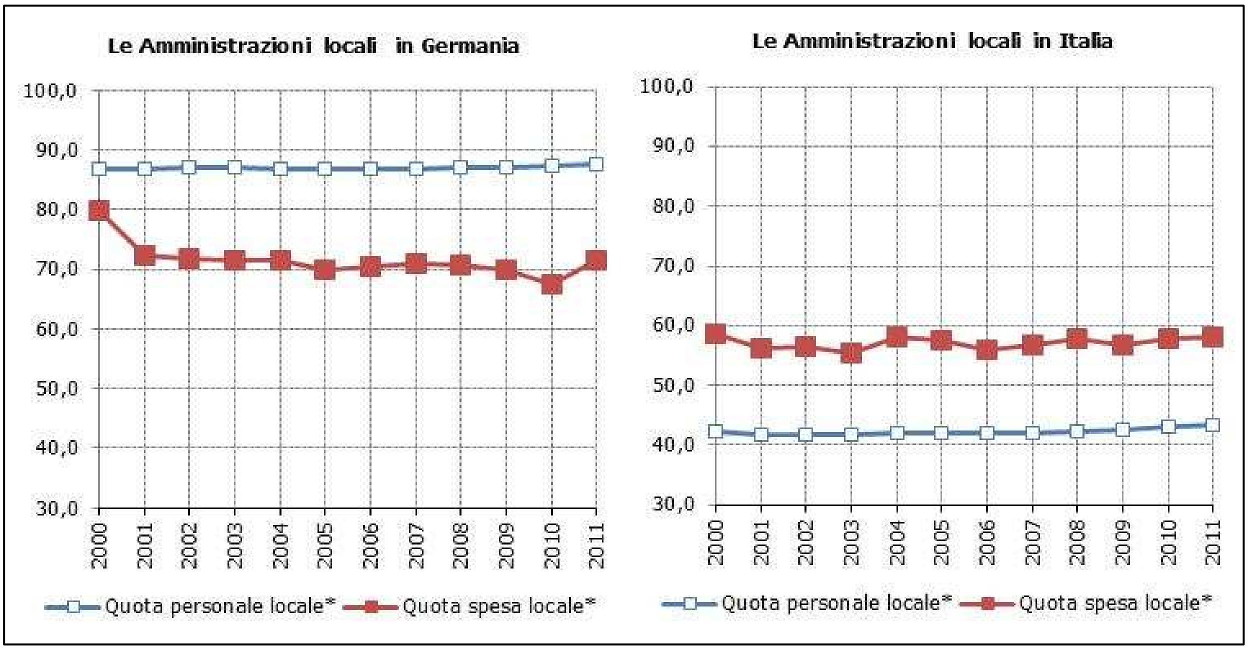
Since 2006 there has been a remarkable reduction in the number of civil servants. This decline, however, does not result from administrative decentralisation, but rather from restrictions to employee turn-over and from the crisis, which has forced adjustments to be made to the public finances (Table 3.3 and Chart 3.5). Official reports make reference to 11,964 human resources actually transferred as a result of the administrative decentralisation at the end of the 1990's over a total of 21,921 units, namely 0.6% of civil servants: too few to really talk of decentralisation in Italy. It is pointless and unfair to blame federalism for responsibilities that it does not have. Recent scandals that emerged in some Regions offer an important opportunity for serious reflection on Italy's political class, rather than on the efficiency of the Regions and of the Local Bodies. Everything is improvable and federalism is no exception; monitoring and transparency of budgetary issues should be implicit and obvious in a democratic Country, regardless of whether its institutions are decentralised or not.

Chart 3.3 - *Breakdown of staff and public spending ascribable to the Central State (%). Years 2000-2011*



(*) net of spending and staff ascribable to social security bodies
Source: Unioncamere Veneto on data supplied by Eurostat

Chart 3.4 - *Breakdown of staff and public spending ascribable to Local Administrations (%). Years 2000-2011*



(*) net of spending and staff ascribable to social security bodies
Source: Unioncamere Veneto on data supplied by Eurostat

Metaphorically speaking, it is like blaming the "car" (the Regions and the Local Bodies) saying that it does not work properly when in fact the blame lies on the "driver" (part of the political class), who is not able to drive. Not to mention that without "maintenance" (checks, and transparency in budgetary issues) and - first and foremost - without "fuel" (fiscal autonomy) sooner or later the "car" will stop.

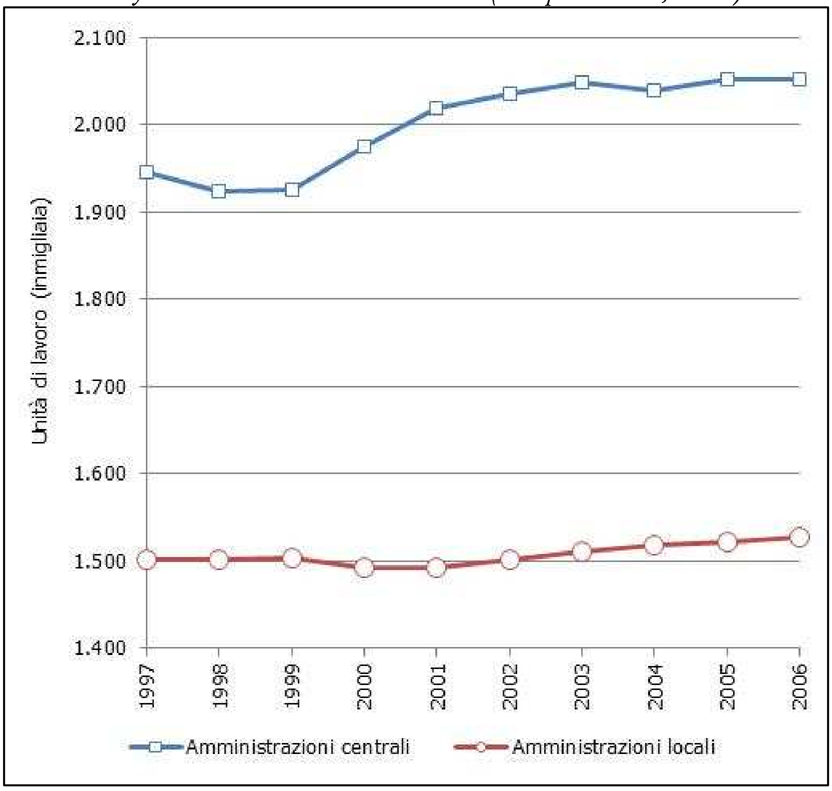
There are direct and personal responsibilities associated to the recent cases of mismanagement and corruption: to think that all administrations are the same or to cancel the Regions does not solve the problem. Quite the opposite: it simply shadows the responsibilities of those involves.

Tab. 3.3 - *Italy. Civil servants per level of government (manpower units, in thousands). Years 1997 and 2006*

	1997	2006	variation 2006-1997
Central administrations	1,946	2,051	+105
Local administrations	1,502	1,528	+26
Social security bodies	56	57	+1
Total Public Administration	3,504	3,636	+132

Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

Chart 3.5 - *Italy. Central and local civil servants (manpower unit, thous.). Years 1997-2006*



Source: Unioncamere Veneto on data supplied by Italian Statistical Office - Istat

3.2 Education and health care: input-output assessments

It is not easy to determine which level of government is most efficient for each spending item: in addition to the assessment of input and output, the variables to consider are many and also depend on issues that are not ascribable to the country's institutional system, as they touch upon the country's economy and society.

The scope of the assessment and of this discussion is of course Italy, or rather its institutional, administrative and financial organisation, and the aim is to improve its performance and efficiency. The considerations made are based on two graphs that relate inputs and outputs of two very important public functions: education and health care. The former is mainly managed by the State, while the latter is a competence that is attributed to the Regions although, in fact, funding levels are determined by the Central Government.

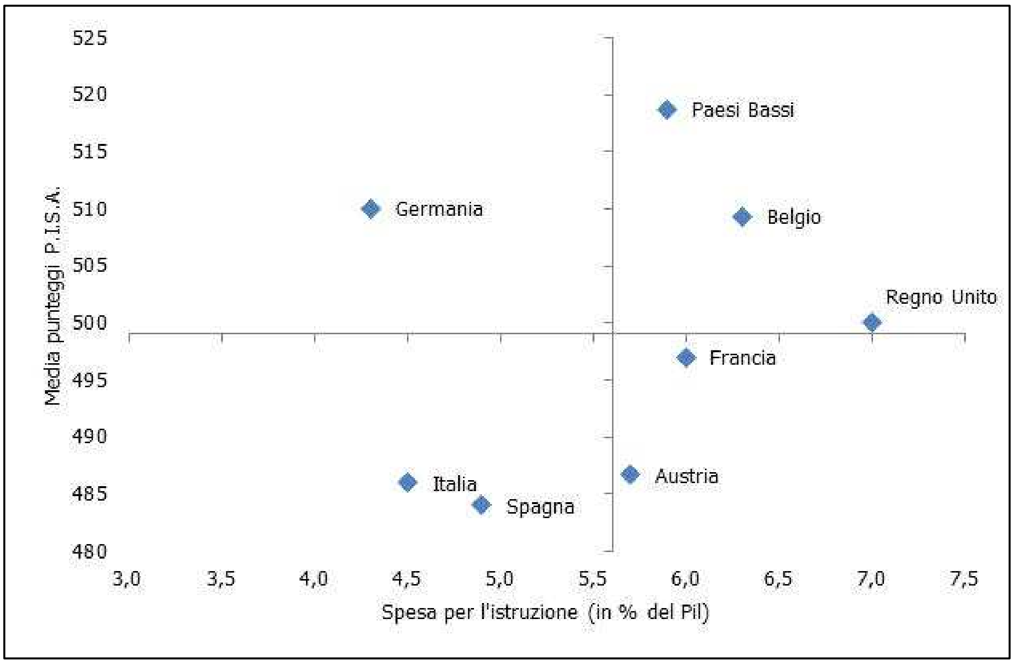
Chart 3.6 relates inputs (public spending for education compared to the GDP) and outputs (the average P.I.S.A. scores on student performance) in main European countries. P.I.S.A. (*Programme for International Student Assessment*) is an international survey promoted by OECD (its fifth edition was performed in 2012) aiming to ascertain the skills of fifteen-year-olds in school in the areas of reading and understanding, mathematics and science.

Italy's performance is shown in the lower right-hand corner (Chart 3.6) and highlights unsatisfactory results in terms of learning at school (486 points against an average of 499 points) and low levels of spending (4.5% of the GDP). By contrast, Germany has the best school performance (510 points) and its public spending (4.3% of the GDP) is slightly lower than Italy's (Tab. 3.4).

The same assessment was made taking into consideration the main public function managed by local authorities, namely health care. Once again, a dedicated assessment tool made available by OECD was used[3], that relates health care expenditure in different countries with an indicator associated to life expectancy at birth.

[3] OECD (2011), *Government at a Glance 2011*, June 2011.

Chart 3.6 - *Education: P.I.S.A. results and spending for education %/GDP*



Source: Unioncamere Veneto on data supplied by Eurostat and OECD

Tab. 3.4 - *Education: P.I.S.A. results and spending for education %/GDP*

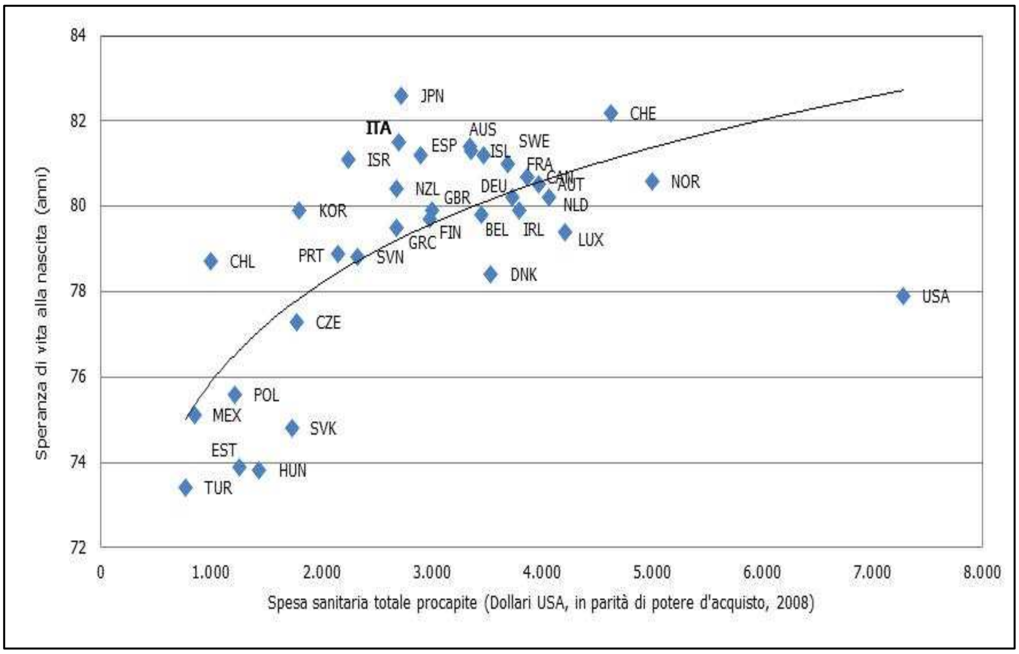
	Spending (as a % of GDP)	**Average P.I.S.A. score**	Mathematics	Reading	Science
UNITED KINGDOM	**7.0**	**500**	492	494	514
BELGIUM	**6.3**	**509**	515	506	507
FRANCE	**6.0**	**497**	497	496	498
NETHERLANDS	**5.9**	**519**	526	508	522
AUSTRIA	**5.7**	**487**	496	470	494
SPAIN	**4.9**	**484**	483	481	488
ITALY	**4.5**	**486**	483	486	489
GERMANY	**4.3**	**510**	513	497	520
Country average	***5.6***	***499***	*501*	*492*	*504*

Source: Unioncamere Veneto on data supplied by Eurostat and OECD

With a per capita healthcare expenditure in line with the OECD average (2,701 Eurodollars per inhabitant at purchasing power parity), Italy can boast one of the highest life expectancies at birth in the world (81.5 years). Chart 3.7 clearly highlights the positive relation between input (healthcare expenditure) and output (a country's healthcare conditions summarised as life expectancy). The link here seems stronger than what emerged in the assessment of education. It is obviously difficult to determine which indicator can most appropriately measure the outputs of a healthcare system; nevertheless, the OECD report confirms the positive assessment of Italy's health care in general.

The considerations made and illustrated in this paragraph should be interpreted as part of an endeavour to "measure" public performance. This information is not sufficient to prove that the services managed by local authorities have better levels of performance than those provided by the central administrations. Nevertheless, the simple observation of events in Italy's health care and education supports the position of those who hope that there will be further decentralisation of public competences in our country.

Chart 3.7 - *Health care : life expectancy at birth and per capita healthcare expenditure*



Source: OECD

4. The domestic "instability" pact

4.1 The effects of the "Pact"

The Domestic Stability Pact is the tool used by the Central Government to set the aims of public finance to be achieved by local authorities. In fact, the "Pact" risks being misleading: far from an agreement between parts, it is imposed top down. The way the pact works differs for Regions and Local Bodies: Regions are basically asked to limit non-healthcare spending to a set threshold; Provincial Districts and Municipalities are asked to improve the balance between revenues and spending by a set percentage.

Although the application of the Pact differs, its effects on Regions and Local Bodies are the same. Also as a result of the growing strictness in the budget due to the recent adjustments to the financial law, the efforts aimed at achieving the goals set in the stability pact mainly target capital account expenses. In other words, the attempt has been to safeguard running expenses while "sacrificing" spending for investments. Since approximately 75% of the spending for investments is ascribable to local administrations, that choice, although inevitable, has had dramatic consequences on the country's economic growth.

In its Report on the financial management of Regions issued last July, the Court of Auditors summarised the effects of the Domestic Stability Pact's rules on investments. According to the Court, "*the effect of the austerity measures, implemented in recent years to pursue the aim of balancing public finances, has been to broadly reduce the spending programmes of regional administrations and the governance thereof (...),the above has had an immediate effect on investments, which suffered a marked slowdown, due both to structural inefficiency (...) and to distortions caused by the rules of the Domestic stability pact and, more specifically, by the implementation of the criterion whereby different aims are calculated on the final spending in terms of mixed competences*".

The numbers in the budgets confirm the positions maintained by the Court of Auditors. **In the last two years, the capital account expenditure actually made by Regions decreased by 22.2%** (Tab. 4.1): this trend has affected mainly the Regions with ordinary statute (-29%) and less dramatically the Regions with special statute (-10.8%). Positive trends are recorded only in Sicily and in Trentino-Alto Adige (Chart 4.1).

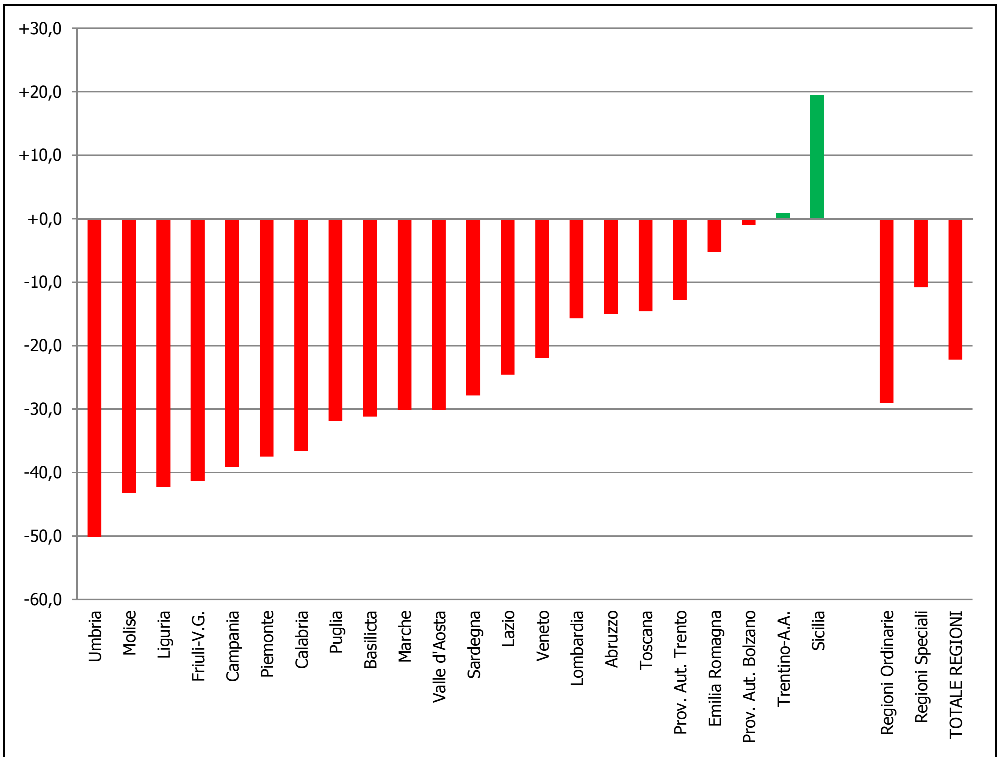
Tab. 4.1 - *Trend of capital account expenditure in the Regions (payments, in million Euros). Years 2009-2011*

	2009	2010	2011	% Var. 2011/09
Piedmont	1,438	1,108	899	-37.5
Lombardy	1,765	1,793	1,488	-15.7
Veneto	1,066	1,006	832	-21.9
Liguria	447	425	258	-42.3
Emilia Romagna	597	571	566	-5.2
Tuscany	917	990	784	-14.6
Umbria	282	213	141	-50.2
Marche	359	308	251	-30.2
Latium	1.105	1.316	833	-24.6
Abruzzo	467	442	397	-15.0
Molise	330	227	188	-43.2
Campania	2,771	1,201	1,689	-39.1
Apulia	1,338	807	911	-31.9
Basilicata	618	520	426	-31.1
Calabria	995	795	631	-36.6
Ordinary Regions	**14,497**	**11,722**	**10,292**	**-29.0**
Valle d'Aosta	531	434	371	-30.2
Trentino-Alto Adige	124	133	125	+0.8
Aut. Prov. Bolzano	1,200	1,197	1,188	-1.0
Aut. Prov. Trento	1,792	1,580	1,563	-12.8
Friuli-V.G.	1,496	984	878	-41.3
Sardinia	1,258	952	907	-27.9
Sicily	2,239	2,329	2,673	+19.4
Special Statute Regions	**8,640**	**7,610**	**7,705**	**-10.8**
TOTAL REGIONS	**23,137**	**19,332**	**17,997**	**-22.2**

Source: Unioncamere Veneto on data supplied by the Court of Auditors

As maintained above, the Local Bodies are not faring much better. The early data disseminated by the Court of Auditors, show that capital account expenses of Provincial Districts dropped between 2009 and 2011 by more than 23%; for municipal administrations, on the other hand, the reduction of capital account expenses in the same period amounted to some 20%. The results of these public finance restrictions are once again stated by the Court of Auditors: "*the amount of the budget allocated to the capital account has been decreasing year* *after year, despite the infrastructural gap between Italy and other European countries and the drive that this field of industry could represent for the economy. The drop persists especially in Municipalities , which are in fact in charge of conducting most of the country's public investments: this contributes to determining the general depression of the economy. Also in the current times of extreme crisis in public finances, it is essential to set suitable margins, in line with the national aims for public financing, so as to allow the entities to perform the investments needed for growth*".

Chart 4.1 - *The drop in capital account expenses in the Regions (% var. against 2009). Year 2011*



Source: Unioncamere Veneto on data supplied by the Court of Auditors

4.2 The results at the local level

The number of Local Bodies that have been unable to fulfil the Domestic Stability Pact has remarkably decreased in the last five years. As far as Municipalities are concerned (those with a population of more than 5,000 inhabitants), the trend of improvements has not been consistent, bur rather discontinuous: in 2007, 11.3% of Municipalities had not respected the Pact compared to 4.6% in 2011. Nevertheless, it must be noted that in 2010 only 2.2% of Municipalities were not compliant. The best performances were achieved by the Provincial administrations: in 2011, only one Provincial District did not comply with the restrictions of the Pact. Just four years earlier, nine Provincial Districts had been non-compliant (Tab. 4.2).

Tab. 4.2 - *Municipalities and Provincial Districts: compliance to the Domestic Stability Pact. Years 2007-2011*

	2007	2008	2009	2010	2011
MUNICIPALITIES					
Municipalities falling under the Pact	1,773	2,011	2,260	2,283	2,285
Municipalities that complied with the Pact	1,573	1,893	2,035	2,232	2,180
Non-compliant Municipalities	200	118	225	51	105
% of non-compliant Municipalities	**11,3**	**5,9**	**10,0**	**2,2**	**4,6**
PROVINCIAL DISTRICTS					
Provincial districts falling under the Pact	92	94	100	100	100
Provincial districts that complied with the Pact	83	92	98	99	99
Non-compliant Provincial Districts	9	2	2	1	1
% of non-compliant Provincial Districts	**9,8**	**2,1**	**2,0**	**1,0**	**1,0**

Source: Unioncamere Veneto on data supplied by the Court of Auditors

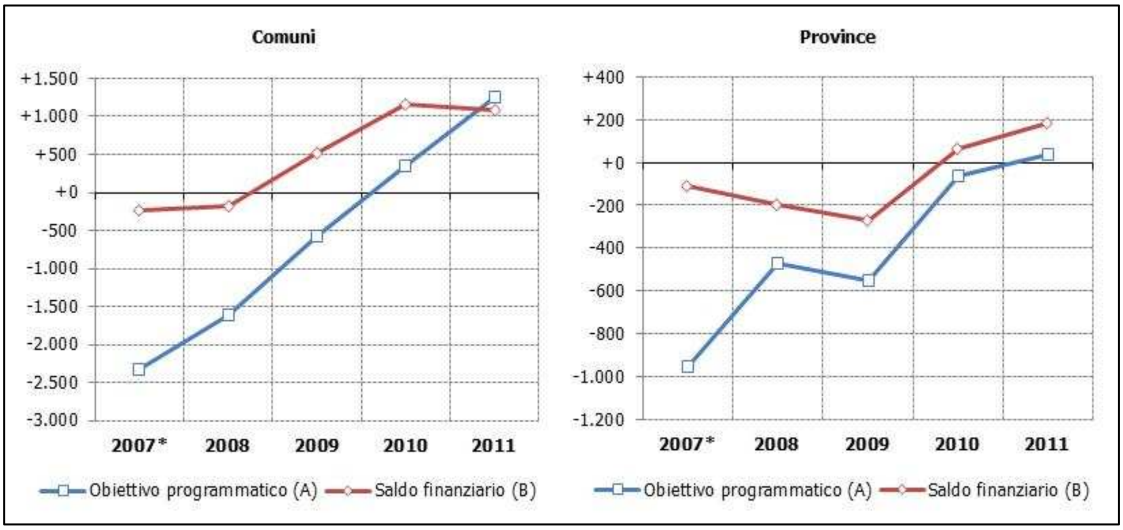
Since 2007, when the Domestic Stability Pact was once again implemented on the actual final budget (from 2005 to 2006 it was implemented as per the Regions, i.e. based on a ceiling), **the results achieved by Municipalities and Provincial Districts have always, generally speaking, improved on the aims set by the Government** (Tab. 4.3 and Chart 4.2). The only exception is year 2011, when the aggregate figure recorded for Municipalities in the final balance was lower than expected: the reason is ascribable to the fact that one single municipality, Turin, exceeded the goals set so much, that it could not be offset by the performance of the other municipal administrations. Without the negative contribution of Turin, by the way associated to the organisation of the 2006 Winter Olympics, the goals set by the Pact for the Municipalities would have been achieved.

Tab. 4.3 - *Municipalities and Provincial Districts: aggregate results for the Domestic Stability Pact (in million Euros). Years 2007-2011*

	2007*	2008	2009	2010	2011	Surplus accumulated
MUNICIPALITIES						
Set goal (A)	-2,329	-1,606	-574	+346	+1,261	
Financial balance (B)	-230	-179	+525	+1,162	+1,084	
Difference (B-A)	**+2,099**	**+1,427**	**+1,098**	**+817**	**-178**	**+5,264**
PROVINCIAL DISTRICTS						
Set goal (A)	-954	-472	-551	-66	+35	
Financial balance (B)	-107	-196	-271	+62	+182	
Difference (B-A)	**+847**	**+277**	**+280**	**+128**	**+147**	**+1,679**

(*) goals for areas under their competence
Source: Unioncamere Veneto on data supplied by the Court of Auditors

Chart 4.2 - *Municipalities and Provincial Districts: aggregate results for the Domestic Stability Pact (in million Euros). Years 2007-2011*



(*) goals for areas under their competence
Source: Unioncamere Veneto on data supplied by the Court of Auditors

Once the calculations have been done, considering the surplus of the last five years, **the municipal and the provincial administrations subjected to the Domestic Stability Pact have "given" to public finances 5,264 and 1,679 million Euros respectively**. In total, just under 7 billion Euros that the Local Bodies have generated as a surplus, in their fear of exceeding the amounts set and having to pay the associated sanctions. Note, however, that this surplus is decreasing over the years. This may be due to three different factors:

- the rules and mechanisms of the Pact have gradually been fine tuned;
- the implementation of the so-called "Vertical Pacts" and "Horizontal Pacts" that allow regions and Local Bodies, or entities between themselves, to compensate deficits with surpluses;
- the reduction of the financial margins for Provincial Districts and Municipalities , as a result of the major budget adjustments launched in recent years.

In the last year, the highest percentage of non-compliances was recorded by southern regions (8.1%), followed by the islands (5.5%) and the North-west (4.7%). In central Italy, non-compliances amounted to just 0.8%, and 2.8% in the North-East (Tab. 4.4). However, it must be stressed that simply assessing the rate of non-compliance does not say much on the actual non-compliance or on the starting point against which the entity was measured. In addition, the goals of the Pact are set on an accounting basis that is revised on a yearly basis (or on a three-year period at the most), thus inevitably jeopardising the entities that have had any extra revenues or spending. Table 4.5 highlights the surplus against the goals of the Pact achieved by the provincial administrations in each region.

Partial confirmation of the fact that the goals and the results set by the Pact are unrelated with actual management emerges from the assessment of the table on the surplus achieved by the Provincial Districts (Tab. 4.5). The greater surpluses achieved in the last three years were achieved in the Provincial Districts of Southern Italy (+220 million Euros); this result is double the one recorded in the Provincial Districts of the North-East. It is possible that these results have been affected by the public transfers made to support the entities in this part of the Country. On careful examination, the goal is simply to achieve a positive balance from the difference between revenues and spending: the entities that receive more transfer are more likely to easily reach the budget targets.

The assessment of the aggregate results of the Pact leads us to reflect upon how healthy the Municipalities of the Centre-north are (Tab. 4.6). In addition to the cited case of Turin and of Piedmont, there is concern for the deficit (-4 million) incurred by Municipalities in Lombardy in 2011 and the strong deterioration of the final balances in the Veneto, Emilia Romagna and Tuscany.

Tab. 4.4 - *Municipalities: compliance with the Domestic Stability Pact broken down by macro-area Years 2007-2011*

	2007*	2008	2009	2010	2011
NORTH-WEST	10.2	5.2	13.9	2.8	4.7
NORTH-EAST	8.0	6.5	12.3	2.0	2.8
CENTRE	6.6	2.9	4.8	0.5	0.8
SOUTH	17.1	7.6	8.0	2.7	8.1
ISLANDS	18.1	7.8	7.8	2.7	5.5
TOTAL	**11.3**	**5.9**	**10.0**	**2.2**	**4.6**

(*) aims for areas under their competence
Source: Unioncamere Veneto on data supplied by the Court of Auditors

Tab. 4.5 - *Provincial districts: difference between the financial balance and the set goal (in million Euros). Years 2009-2011*

	2009	2010	2011	aggregate 2009-2011
Piedmont	+36	+5	+12	+53
Lombardy	-10	-16	+5	-20
Veneto	+11	+7	+5	+23
Liguria	+14	+5	+11	+30
Emilia Romagna	+25	+30	+32	+87
Tuscany	+16	+5	+5	+25
Umbria	+2	+3	+1	+6
Marche	+6	+4	+1	+10
Latium	+37	+15	+5	+57
Abruzzo	+10	+16	+11	+36
Molise	+1	+1	+1	+3
Campania	+29	+25	+42	+96
Apulia	+5	+3	+8	+16
Basilicata	+3	+3	+3	+8
Calabria	+51	+11	-2	+60
Sicily	+28	+6	+4	+39
Sardinia	+15	+5	+5	+24
NORTH-WEST	+41	-5	+28	+63
NORTH-EAST	+36	+37	+36	+110
CENTRE	+61	+27	+12	+99
SOUTH	+99	+59	+62	+220
ISLANDS	+43	+11	+9	+63
TOTAL	**+280**	**+128**	**+147**	**+555**

Source: Unioncamere Veneto on data supplied by the Court of Auditors

In other words, **the financial situation of the northern Municipalities is worse than that of southern Municipalities. They are penalised by years of transfers made based on historical spending, limited funds transferred by the State and by fixed local tax rates** (which took place in several stages between 2003 and 2006 and between 2008 and 2011). All of this has led to a deterioration of the financial margins of northern Municipalities and has especially affected spending for investments.

Tab. 4.6 - *Municipalities : difference between the financial balance and the planned aim (in million Euros). Years 2009-2011*

	2009	2010	2011	aggregate 2009-2011
Piedmont	+123	+26	-444	-294
Lombardy	-42	+65	-4	+19
Veneto	+32	+57	+20	+109
Liguria	+28	+24	+24	+77
Emilia Romagna	+83	+68	+24	+175
Tuscany	+85	+57	+27	+169
Umbria	+14	+14	+4	+32
Marche	+31	+22	+14	+67
Latium	+147	+88	+36	+271
Abruzzo	+16	+35	+32	+83
Molise	+8	+5	-2	+11
Campania	+213	+127	+34	+374
Apulia	+82	+75	+42	+199
Basilicata	+23	+14	+6	+43
Calabria	+41	+17	-11	+47
Sicily	+166	+92	-8	+251
Sardinia	+48	+30	+27	+106
NORTH-WEST	+110	+115	-424	-199
NORTH-EAST	+115	+125	+43	+284
CENTRE	+277	+181	+81	+539
SOUTH	+382	+273	+102	+757
ISLANDS	+214	+123	+20	+356
TOTAL	**+1,098**	**+817**	**-178**	**+1,737**

Source: Unioncamere Veneto on data supplied by the Court of Auditors

4.3 Stability pact or balancing the accounts?

The introduction of the principle of balanced accounts in the Constitution could have major effects on the role of the Domestic Stability Pact. This is the result of the approval of Constitutional Act no. 1/2012 of 20 April 2012, which provides that the principle of "balanced accounts" be implemented starting from 2014. The Act also requires the debt of all public administrations to be sustainable and compliant with the economic and financial rules arising from the European legal system. The changes introduced involve the budgetary rules of all public administrations, including local entities (Regions, Provincial Districts, Municipalities and Metropolitan Cities). It must be highlighted, however, that the "balanced accounts" are assured by balancing revenues and budgetary spending, also bearing in mind the different (adverse or favourable) economic cycles.

The most important element is, nevertheless, the mandatory compliance with the principle of balanced accounts and sustainability of the public debt for all public administrations. The literal interpretation of this passage would imply that if a municipality is unable to ensure the balancing of its accounts, it would automatically violate the Constitution.

Article 119 of the Constitution (the article introducing fiscal federalism) could not remain as it was. The budgetary rules for local entities was thus changed, to state that the financial self-governance of Municipalities, Provincial Districts, Metropolitan Cities and Regions is assured, fully respecting the balance of their accounts. It also sets the principle whereby Regions and Local Bodies both contribute to complying with the economic and financial restrictions arising from the European Union legal framework [4].

An important section of the same article regards the so-called **"golden rule"**: in other words **incurring debts**, which is currently allowed only to finance investment spending, **is subjected** to a redemption plan **and to the condition that the aggregate of all entities of a given Region are able to balance their accounts**. In fact, this provision sets the foundations for the creation of a territorial stability pact. Currently, the national rules on the Domestic Stability Pact are integrated by measures that have been called "Horizontal" and "Vertical" Pacts: these are working models that allow entities belonging to a same

[4] See Chamber of Deputies: "Il pareggio di bilancio in Costituzione", Temi dell'attività parlamentare, on-line review.

territory to balance the accounts between them, using a sort of clearing system (between the Region and the Municipalities or between Municipalities). However, the goals to be achieved are set for each level of government (Region, Provincial District, Municipalities), which therefore acts as a "closed box", regardless of a given entity's geographical position.

It would be a lot different if the public finance goals to be achieved were set directly in the local territories and, as a result, specific objectives were then established for each level of governance and entity belonging to the same Region. This would encourage local co-ordination and tools of reciprocal accountability that could ensure the compliance with the goals at a macro level, while leaving greater freedom of action and of financial self-governance. The financial goals to be achieved in each territory could be determined through simple and shared indicators, so as to reward "virtuous" territories in terms of administration and taxation.

However, there is a question that might simply be formal in nature but which cannot be underestimated: if the Constitution obliges Regions and Local Bodies alike to balance their books, what is the point of having a Domestic Stability Pact? From this point of view, the Pact emerges as a bureaucratic and redundant tool, not intended to ensure the general balance in public accounts but to oblige Regions and Local Bodies to create broad surpluses that can then be used to cover the inefficiencies of entities at other levels of the government. At this point it is worth mentioning that **Official Journal** n. 12 of 15 January 2013 published **Act 24 no. 243** of **December 2012,** on the **Provisions for the implementation of the principle of balanced accounts pursuant to Article 81, Section six of the Constitution**.

5. Who has paid for the "budgetary adjustments"?

5.1 Four years of changes to the financial bill

The gradual erosion of Italy's public accounts has required a series of particularly important adjustments to the budget. If we consider the main "budgetary adjustments" approved from the beginning of the 16th legislature (from 2008), it is clear that there have been numerous attempts to correct the deficit. The Court of Auditors, in its May 2012 report[5], has quantified the adjustments to the net indebtedness determined by all the budgetary measures approved from the beginning of the 16th Legislature to the so-called "Save Italy" Decree": the total net amount resulting from the adjustments has been calculated to be 17 billion in 2010, 46 billion in 2011, 106 billion in 2012, 133 billion in 2013, 139 billion in 2014. Note in particular, the exacerbation between 2011 and 2012, as a result of the two packages of measures approved in the summer by the Berlusconi Government and the "Save Italy" Decree approved by the Monti Government (Tab. 5.1).

Tab. 5.1 - *Effects of the "budgetary adjustments" from the beginning of the legislature* (in million Euros). Years 2010-2014*

	2010	2011	2012	2013	2014
Net greater revenues	**5,653**	**11,449**	**54,330**	**63,842**	**65,361**
Central admin.	5,282	11,694	48,597	59,057	59,953
Local admin.	294	290	4,976	4,015	4,625
Social security bodies	77	-535	757	770	783
Net lower expenditure	**11,633**	**34,983**	**52,133**	**69,602**	**73,663**
Central admin.	5,942	16,290	20,068	24,839	24,255
Local admin.	6,212	18,325	26,880	33,059	35,572
Social security bodies	-521	368	5,185	11,704	13,836
Effects on net indebtedness	**17,286**	**46,432**	**106,463**	**133,444**	**139,024**

(*) provisions considered: Leg. Decree 112/2008, Leg. Decree 78/2010, Leg. Decree 98/2011, Leg. Decree 138/2011, Leg. Decree 201/2011
Source: Court of Auditors

[5] Court of Auditors (2012), *2012 Report on the co-ordination of public finances*, May 2012.

The adjustment of public accounts between early 2008 and the end of 2011[6] apparently shows a balance between greater revenues and lower expenditure (although effective as from 2012). Instead, efforts made by the different levels of government to correct public accounts were pretty much unequal. The higher revenues are almost entirely ascribed to the central administrations: however, the aggregate figure also includes the revenues arising from measures whereby the State increases local taxes and absorbs the extra income by reducing transfers. This operation was recently approved through the "Save Italy" Decree, which introduced a new property tax called IMU and the automatic 0.33% increase of the Irpef rate (Regional Personal Income Tax). In other words, Regions and Local Bodies "collect" resources for the State which then absorbs those resources through measures aimed at limiting the budgets of self-governing entities.

As regards spending, the sacrifices appear to have been mainly borne by the local administrations: in the last legislature, Regions and Local Bodies contributed to reduce spending by 27 billion Euros, namely 51.6% of total spending cuts. This percentage is expected to be maintained close to 50% in the years to come (Tab. 5.2 and Chart 5.1). Measures aimed at reducing expenditure include cuts to the National Healthcare Fund, to transfers and to the Experimental Re-equilibration Fund, exacerbating the Domestic Stability Pact.

Tab. 5.2 - *The breakdown of spending cuts contained in the corrective budgetary measures since the beginning of the legislature* (% breakdown). Years 2011-2014*

	2011	2012	2013	2014
Central admin.	46.6	38.5	35.7	32.9
Local admin.	52.4	51.6	47.5	48.3
Social security bodies	1.1	9.9	16.8	18.8
Total Public Admin.	**100.0**	**100.0**	**100.0**	**100.0**

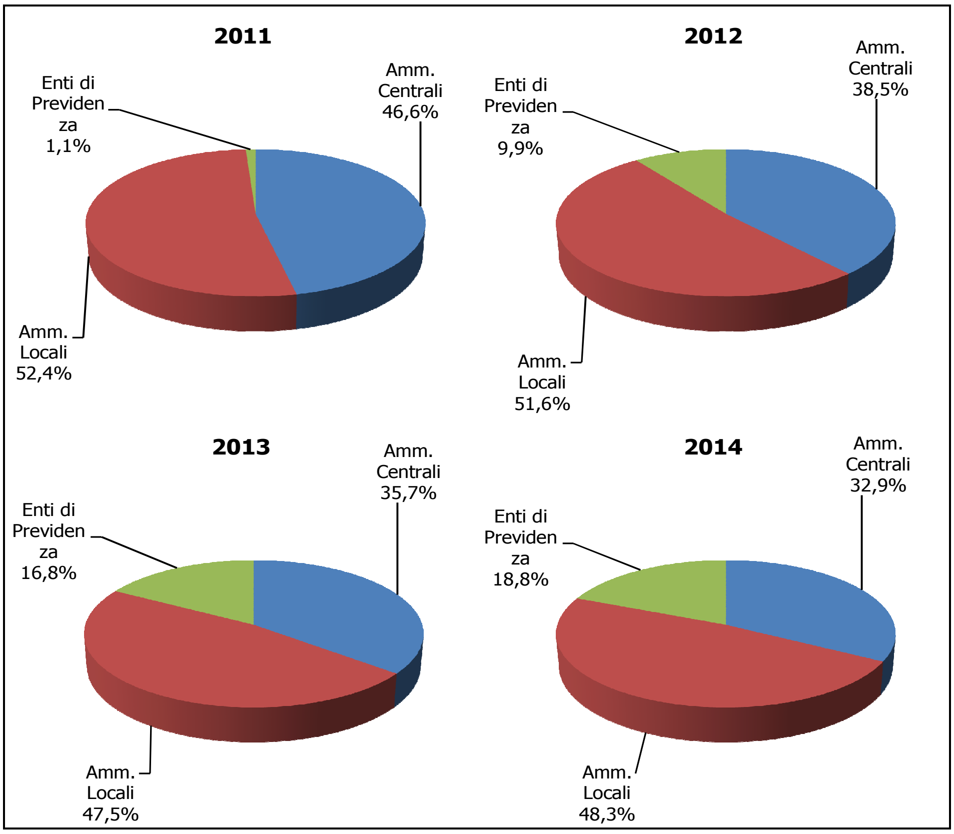
(*) provisions considered: Leg. Decree 112/2008, Leg. Decree 78/2010, Leg. Decree 98/2011, Leg. Decree 138/2011, Leg. Decree 201/2011
Source: Unioncamere Veneto on data supplied by the Court of Auditors

Summarising, **the adjustments made to restore the economy between 2008-2011 are based on a simple mechanism: higher revenues for the Centre, lower expenditure in the Periphery.** In addition, the sacrifices

[6] The calculation did not include Leg. Decree no. 95/2012 on the Spending Review (July 2012) and the Stability Law 2013 (December 2012); however, these measures did not entail a major adjustment of the net indebtedness.

demanded of Local Administrations are often decided top-down without even the slightest negotiation or co-ordination with Regions and local entities, stretching the principles of autonomy and of loyal co-operation amongst the different levels of government to respond to the non-deferrable needs of the public finances.

Chart 5.1 - *The breakdown of spending cuts contained in the corrective budgetary measures since the beginning of the 14th legislature* (% breakdown). Years 2011 and 2012*



(*) provisions considered: Leg. Decree 112/2008, Leg. Decree 78/2010, Leg. Decree 98/2011, Leg. Decree 138/2011, Leg. Decree 201/2011
Source: Unioncamere Veneto on data supplied by the Court of Auditors

Further evidence of this mechanism emerges from the comparison between the last two editions of the Economic and Finance Document approved by the Government in April each year. Comparing the spending forecasts of the current legislature made in April 2011 and April 2012 allows full understanding of the extent to which each level of government is asked to contribute to restoring the economy. For the purposes of this assessment, it is important to clarify the concept of "own running expenses": these are ordinary expenses for the provision of services, net of interest payable and of resources transferred to other levels of government. In other words, it is the spending that is directly managed by the entity considered. If we compare the data of the 2011 Economic and Finance Document with those of the 2012 Economic and Finance Document, it is clear that the central administrations have not been assigned any significant goals in terms of reducing expenditure (Tab. 5.3 and Chart 5.2). Quite the opposite: the spending forecasts for 2012 are 1 billion Euros higher compared to the values estimated twelve months earlier. On the other hand, Local Administrations have actually reduced their spending: compared to the forecasts of the 2011 Economic and Finance Document, local spending was 2 billion Euros lower in 2011 and a further decrease is expected in 2012 (-4.9 billion), in 2013 (-12.4 billion) and in 2014 (-17.4 billion).

The main items ascribed to "own running expenses" are staff costs and the purchase of goods and services (intermediate goods). Staff costs in central administrations forecast in the latest Economic and Finance Document are actually higher than the forecasts made in April 2011. The real reduction of staff costs has taken place in the Periphery: in 2012, Regions and Local Bodies spent approximately 1.7 billion Euros less than the forecasts for staff. The discrepancy is expected to increase over the upcoming years.

The aggregate figure for expenses for intermediate goods is the main target of the spending review process. This spending item is expected to decrease in the Central State over the next years: however, the spending values stated in the 2012 Economic and Finance Document seem to be higher than the forecasts made one year ago. The greatest savings are once again assigned to the Periphery: compared to the 2011 Economic and Finance Document, the Local Administrations have spent 2.7 billion less in 2012, 7.4 billion less in 2013 and 11.4 billion less in 2014.

Tab. 5.3 - *Public spending for the Centre and the Periphery in the public finance documents: a comparison one year on (in billion Euros). Years 2010-2014*

Own running expenses*

	2010	2011	2012	2013	2014
Central administrations					
ECONOMIC AND FINANCE DOCUMENT 2011	160.5	159.6	156.8	155.8	156.4
ECONOMIC AND FINANCE DOCUMENT 2012	160.7	159.5	157.8	155.6	155.6
Difference	+0.2	-0.1	+1.0	-0.2	-0.8
Local administrations					
ECONOMIC AND FINANCE DOCUMENT 2011	209.5	210.0	212.0	217.1	222.9
ECONOMIC AND FINANCE DOCUMENT 2012	210.4	208.0	207.1	204.7	205.5
Difference	+0.9	-2.0	-4.9	-12.4	-17.4

Staff costs

	2010	2011	2012	2013	2014
Central administrations					
ECONOMIC AND FINANCE DOCUMENT 2011	95.2	94.7	94.4	93.9	94.2
ECONOMIC AND FINANCE DOCUMENT 2012	95.8	95.5	94.7	94.0	93.7
Difference	+0.6	+0.8	+0.4	+0.1	-0.5
Local administrations					
ECONOMIC AND FINANCE DOCUMENT 2011	72.9	72.7	72.5	73.1	74.1
ECONOMIC AND FINANCE DOCUMENT 2012	72.7	71.1	70.9	70.7	70.7
Difference	-0.2	-1.6	-1.7	-2.4	-3.4

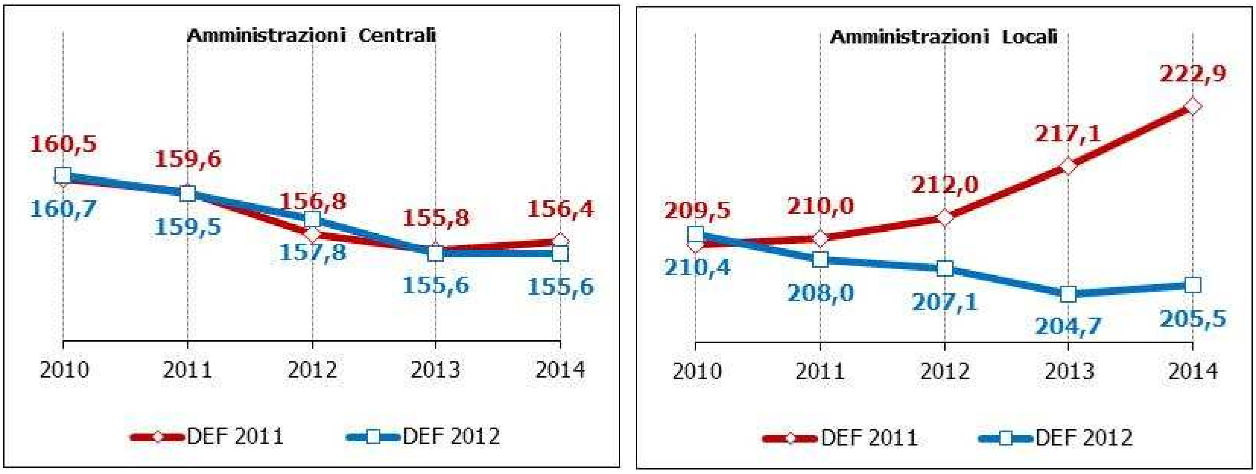
Intermediate goods

	2010	2011	2012	2013	2014
Central administrations					
ECONOMIC AND FINANCE DOCUMENT 2011	25.1	23.9	22.5	21.7	21.7
ECONOMIC AND FINANCE DOCUMENT 2012	25.2	25.3	23.2	21.8	21.7
Difference	+0.1	+1.4	+0.7	+0.1	+0.1
Local administrations					
ECONOMIC AND FINANCE DOCUMENT 2011	109.0	110.6	113.6	117.8	122.5
ECONOMIC AND FINANCE DOCUMENT 2012	108.2	108.8	110.9	110.5	111.2
Difference	-0.8	-1.8	-2.7	-7.4	-11.4

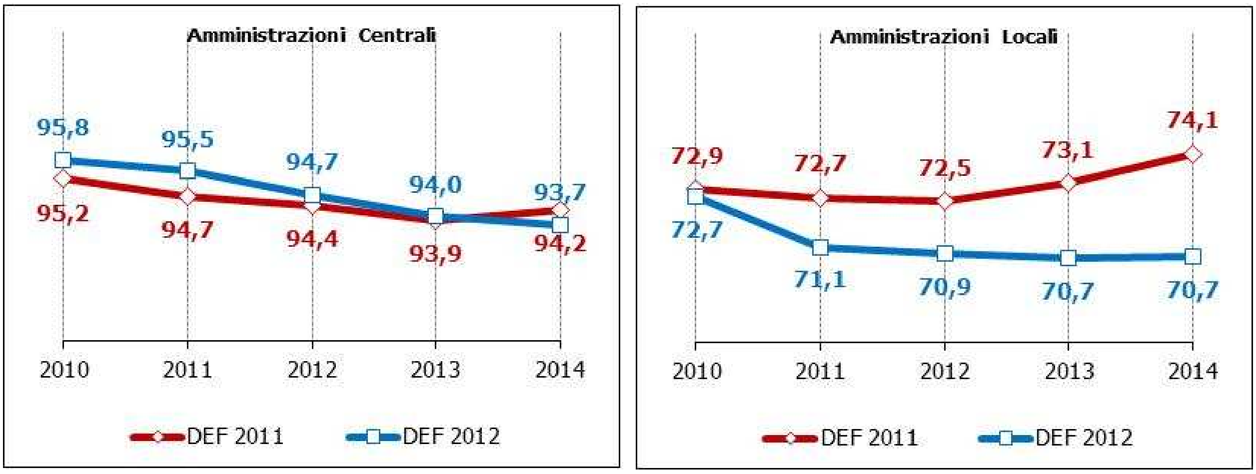
(*) before interest and transfers to public bodies
Note: red indicates an increase in spending compared to the forecasts of the 2011 Economic and Finance Document; blue indicates a decrease in spending compared to the forecasts of the 2011 Economic and Finance Document
Source: Unioncamere Veneto on data supplied by Ministry of Economy and Finance

Chart 5.2. *Public spending for the Centre and the Periphery in the public finance documents: a comparison one year on (in billion Euros). Years 2010-2014*

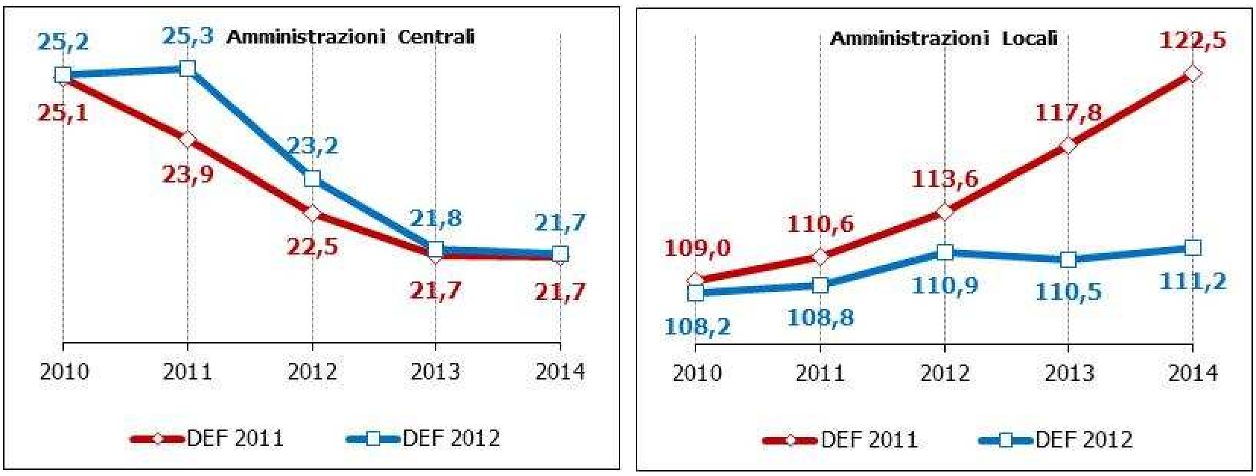
*Own running expenses**



Staff costs



Intermediate goods



(*) before interest and transfers to public bodies
Source: Unioncamere Veneto on data supplied by Ministry of Economy and Finance

5.2 An updated overview of cuts in the Periphery

The financial efforts that have almost unilaterally been demanded of local self-governing bodies in recent years seem to be greater than the actual extent to which the latter weigh upon public accounts. It also appears to be in contrast with the basic principles of the federal reform, the implementation stage of which ended formally just eighteen months ago.

The financial adjustments approved in 2012 confirm the strategy of penalising local administrations. Not even the spending review provisions (Leg. Decree no. 95 of 6 July 2012) have been able to balance out the financial sacrifices demanded of the Centre and of the Periphery: indeed, although the original aim of the provisions was to rationalise spending in the offices of the Central State, the final text of the Decree included measures implementing major cuts in the financing of health care and of cuts allocated to local self-governing bodies. The data provided in the reports to this provision **show that, in 2012, Local Administrations were asked to contribute to 73% of resources by means of the Spending Review**, a percentage which is expected to decrease slightly over the upcoming years to 62-63% (Tab. 5.4).

Tab. 5.4 – *The Spending Review broken down by level of government. Years 2012-2014*

	2012	2013	2014
values in million Euros			
Central administrations	1,192	3,574	3,734
Local administrations	3,200	7,000	7,500
cuts on expenditure for health care	*900*	*1,800*	*2,000*
reduction of resources to the Regions	*1,300*	*2,200*	*2,500*
reduction of resources to Provincial Districts and Municipalities	*1,000*	*3,000*	*3,000*
Total resources arising from the Spending review	**4,392**	**10,574**	**11,234**
% breakdown			
Central administrations	27.1	33.8	33.2
Local administrations	72.9	66.2	66.8
cuts on expenditure for health care	*20.5*	*17.0*	*17.8*
reduction of resources to the Regions	*29.6*	*20.8*	*22.3*
reduction of resources to Provincial Districts and Municipalities	*22.8*	*28.4*	*26.7*
Total resources arising from the spending review	**100.0**	**100.0**	**100.0**

Source: Unioncamere Veneto on the annexes to Leg. Decree no. 95/2012

In sum: not only the Spending Review has **failed to bring a new balance in the relations of power between the Centre and Periphery,** as far as restoring the economy is concerned; it has also increased the differences - and the Regions and the Local Bodies now bear an even greater burden.

As mentioned earlier, since the summer of 2010 local finances have been targeted by a series of budgetary measures introduced by the Central Government, whose aim was to reduce state transfers and make the Domestic Stability Pact's targets more stringent. The main "adjustments to the financial law" adopted since 2010 are listed below:

- the financial adjustments of summer 2010 (Leg. Decree no. 78);
- the various financial adjustments of summer 2011, integrated by the 2012 Stability Law (Leg. Decree no. 98/2011, Leg. Decree no. 138/2011, Law no. 183/2011);
- the "Save Italy" Decree (Leg. Decree n. 201/2011) of December 2011;
- the Spending Review Decree of July 2012 (Leg. Decree no. 95/2012), integrated by the 2013 Stability Law (Law n. 228/2012).

Legislative Decree no. 78 of summer 2010 forecast a strong drop in state transfers; this measure directly impacted the scope of the resources to be involved in the implementation of fiscal federalism. The cuts performed (6.3 billion in 2011 and 8.5 billion from 2012) are considered "structural" cuts and have further reduced the state transfers that, according to the initial plans of Delegated Law no. 42/2009, were to be replaced by own revenues (Tab. 5.5).

On the other hand, the measures approved in mid 2011 produced stricter targets for the Domestic Stability Pact (4 billion in 2012, 6.4 billion from 2013). The first corrective actions introduced to reward the best performing entities is seen as a positive move, a starting point towards a better definition of the efforts required, more consistent with the real effectiveness of the administrations involved. Nevertheless, as the room for financial manoeuvre is small and that only very few entities are considered to be "best performing" (143 Municipalities and 4 Provincial Districts in 2011) it is not possible to assess the impact of these measures on local public finances.

Tab. 5.5 – *Packages of budgetary measures affecting Local Administrations and approved between 2010 and 2012 (in million Euros)*

	2011	2012	2013	2014	2015
Adjustments approved in summer 2010 (1)	**6,300**	**8,500**	**8,500**	**8,500**	**8,500**
of which, Ordinary Regions	4,000	4,500	4,500	4,500	4,500
of which, Special Statute Regions	500	1,000	1,000	1,000	1,000
of which, Provincial Districts	300	500	500	500	500
of which, Municipalities	1,500	2,500	2,500	2,500	2,500
Adjustments approved in summer 2011 (2)		**4,000**	**6,400**	**6,400**	**6,400**
of which, Ordinary Regions		745	1,600	1,600	1,600
of which, Special Statute Regions		1,630	2,000	2,000	2,000
of which, Provincial Districts		530	800	800	800
of which, Municipalities		1,115	2,000	2,000	2,000
"Save Italy" Decree (3)		**2,785**	**2,785**	**2,785**	**2,785**
of which, Ordinary Regions		-	-	-	-
of which, Special Statute Regions		920	920	920	920
of which, Provincial Districts		415	415	415	415
of which, Municipalities		1,450	1,450	1,450	1,450
Spending Review (4)		**2,300**	**7,150**	**7,700**	**8,025**
of which, Ordinary Regions		700	2,000	2,000	2,050
of which, Special Statute Regions		600	1,700	2,000	2,075
of which, Provincial Districts		500	1200	1200	1300
of which, Municipalities		500	2,250	2,500	2,600
TOTAL ADJUSTMENTS	**6,300**	**17,585**	**24,835**	**25,385**	**25,710**
of which, Ordinary Regions	4,000	5,945	8,100	8,100	8,150
of which, Special Statute Regions	500	4,150	5,620	5,920	5,995
of which, Provincial Districts	300	1,945	2,915	2,915	3,015
of which, Municipalities	1,500	5,565	8,200	8,450	8,550

(1) Leg. Decree no. 78/2010; (2) Leg. Decrees no. 98 and no. 138 of 2011, integrated into Stability Law 2012. For 2012, the total is net of all rewarding measures for entities participating in the budget harmonisation process; (3) Leg. Decree no. 201/2011; (4) Leg. Decree no. 95/2012, integrated by the 2013 Stability Law.
Source: Unioncamere Veneto from various sources

The Christmas 2011 package (the so-called "Save Italy" Decree) increased the financial contribution of Regions and Local Bodies from year 2012 on. This Decree contained a mixture of measures, including cutting resources to local entities and exacerbating the Domestic Stability Pact for an overall saving of 2.8 billion Euros. However, the "Save Italy" Decree will be remembered for the anticipated introduction of IMU, the new property tax, and the mechanism whereby part of the State revenues are put to reserve, thus completely changing the municipal federalist system that had been designed just nine months earlier.

The second half of 2012 was characterised by the introduction of the so-called "Spending Review" that was further endorsed by the 2013 Stability Law. The restrictions mainly affect spending and mainly target the reduction of the expenditure for intermediate goods. This further cut affected local budgets for 2.3 billion in 2012 and for 7.1 billion in 2013. These figures are likely to increase in the years to come.

5.3 Local assessment of the budgetary measures affecting Local Authorities

This paragraph will provide an assessment of how Local Autonomies (Regions, Provincial Districts, Municipalities) have been affected by the recent budgetary measures.

The adjustments to the financial bill have required the Regions with ordinary statute to give up 4,000 million Euros in 2011, 5,945 million in 2012 and 8,100 million in 2013 (Tab. 5.6). The financial effort has been distributed based on the old principle of the state transfers: as a result, the Regions that were most affected are those that are weaker demographically (Basilicata, Molise, Umbria) and those in the South (Abruzzo and Calabria).

Tab. 5.6 - *Ordinary Regions: the value of the recent budgetary measures (in million Euros)*

	2011	2012	2013	Euros per capita (2013)
ABRUZZO	137	201	269	200
BASILICATA	88	131	178	302
CALABRIA	168	260	364	181
CAMPANIA	381	604	861	148
EMILIA ROMAGNA	347	497	661	149
LATIUM	423	683	984	172
LIGURIA	154	219	285	177
LOMBARDY	624	921	1,258	127
MARCHE	125	185	251	160
MOLISE	45	67	91	283
PIEDMONT	396	575	766	172
APULIA	302	450	616	151
TUSCANY	360	504	654	174
UMBRIA	99	147	198	218
VENETO	350	501	664	134
TOTAL ORDINARY REGIONS	**4,000**	**5,945**	**8,100**	**157**

Source: Unioncamere Veneto from various sources

Similarly, the Regions with special statute status were also subjected to restrictive measures: the cuts amounted to just 500 million Euros in 2011, but then soared in the following years (4,150 million in 2012 and 5,620 million in 2013). The extremely high amounts borne by the Special Statute Regions are explained by the greater competences allocated to them by their respective Statutes of Autonomy, especially for Trentino-Alto Adige and Valle d'Aosta (Tab. 5.7).

In addition, it must be noted that for the Autonomous Provincial Districts of Trento and Bolzano, Valle d'Aosta and Friuli-Venezia Giulia, the amounts set in the corrective budgetary measures include the cuts demanded of all the Local Bodies belonging to their territory. The "sacrifice" demanded of the Special Statute Regions is basically based on their spending; as a result, the most affected Region is definitely Valle d'Aosta, which is also penalised by its small resident population.

It is quite appropriate to mention here that the financial adjustments approved from 2010 on have changed some trends and have brought a new balance to the financial efforts made by North and South and by Ordinary Regions and Special Statute Regions. There are however some criteria used to provide "uniformity" that do not aim at identifying waste and inefficiency, but simply to ensure the achievement of the goals set. In addition, as stated above, the financial effort has been shifted in order to ensure that it mostly borne by the Local Autonomies.

Tab. 5.7 - *Special Statute Regions: the value of the recent budgetary measures (in million Euros)*

	2011	2012	2013	Euros per capita (2013)
BOLZANO	59	547	766	1,508
FRIULI-VENEZIA GIULIA	77	568	731	592
SARDINIA	77	684	984	587
SICILY	199	1,601	2,138	423
TRENTINO-ALTO ADIGE	5	47	56	54
TRENTO	59	459	560	1,057
VALLE D'AOSTA	24	244	386	3,006
TOTAL SPECIAL STATUTE REGIONS	**500**	**4,150**	**5,620**	**616**

Source: Unioncamere Veneto from various sources

Provincial Districts are also affected by increasingly restrictive measures. For 2011, Leg. Decree no. 78/2010 had forecast a reduction of State transfers for

300 million Euros. This amount soon grew in 2012 and then in 2013 as a result of the many government measures implemented in the next months. For last year, between cuts to the newborn Experimental Re-equilibration Fund and a stricter Domestic Stability Pact, the contribution to savings is estimated at just below 2 billion Euros, while in 2013 it will touch 2.9 billion (Tab. 5.8).

The different cuts affecting the Provincial Districts were implemented based on a number of different parameters and specific measures. Generally speaking, cuts mainly affected the payments for intermediate goods and running expenses. Considering the above, the greatest "sacrifices" were made by the Provincial Districts of Basilicata (107 Euros per inhabitant) and Molise (86 Euros). However, the biggest issue now concerns the survival of the Provincial Districts in the future and the way in which their financial goals will be re-assigned at the national level. Over the last year, government measures have outlined a major change in the institutional organisation of the Provincial Districts, namely:

- their declassification to second level entities;
- loss of administrative functions - to be absorbed by Regions and Municipalities;
- administrative mergers to cut the number of Provinces.

Tab. 5.8 - *Provincial Districts: the value of the recent budgetary measures (in million Euros)*

	2011	2012	2013	Euros per capita (2013)
ABRUZZO	14	52	68	51
BASILICATA	11	43	63	107
CALABRIA	36	110	140	69
CAMPANIA	52	261	402	69
EMILIA ROMAGNA	6	106	160	36
LATIUM	14	149	228	40
LIGURIA	8	67	110	68
LOMBARDY	11	238	374	38
MARCHE	9	64	99	63
MOLISE	8	22	28	86
PIEDMONT	16	165	268	60
APULIA	29	134	188	46
SARDINIA	9	55	81	48
SICILY	45	173	227	45
TUSCANY	16	150	244	65
UMBRIA	6	35	52	57
VENETO	11	121	184	37
TOTAL PROVINCIAL DISTRICTS	**300**	**1,945**	**2,915**	**50**

Source: Unioncamere Veneto from various sources

This process has however been put on stand-by when the Government stepped down. In any case, the applicability of these cuts was questionable considering the already blurry scenario characterised by too many elements of uncertainty. How can the Provincial Districts, reduced in number and deprived of their competences and financial resources and tools, face such a task? Is it possible for aims set for the public finances to somehow be transferred alongside the competences they refer to? The next Legislature will have to supply suitable answers to these questions.

The high number of municipal administrations and their demographic heterogeneity make it hard to estimate the effects of the recent budgetary measures on the local level. Nevertheless, it is interesting to provide a general overview mirroring, as far as possible, the actual situation, so as to determine how efforts to restore the State's finances will be distributed.

The transfer cut determined by Leg. Decree no. 78/2010 amounts to 1.5 billion Euros in 2011. The subsequent budget adjustments required the Municipalities to relinquish an even greater amount: up to 5,565 million Euros in 2012 and 8,200 million in 2013 (Tab. 5.9). Within this contexts, it is worth noting that the Domestic Stability Pact has been extended to apply also to Municipalities with a population exceeding one thousand inhabitants; moreover a very specific measure was included in the Spending Review, whereby the initial transfer cut to Municipalities subjected to the Stability Pact is transformed into the municipalities' obligation to cut their debt for an equal amount.

The results of the assessment on the local impact of the financial contribution of Municipalities are apparently more homogeneous than those for Regions and Provincial Districts. The per capita "sacrifices" for 2013 range between 181 Euros in Latium to 107 Euros in Calabria. This is the outcome of the implementation of linear cuts, more specifically those envisaged in Leg. Decree no. 78/2010 based on the value of state transfers and those envisaged by the "Save Italy" Decree based on the revenues from IMU, the new property tax. The cuts applied to Municipalities do not stem from a general and comprehensive plan: they are rather a sum of measures drafted in different moments in time and with different aims.

The aggregate figures resulting from the measures approved in the recent adjustments to the financial law and targeting Regions, Provincial Districts and Municipalities provide an overview of the "sacrifices" borne by different parts of the Country. Generally speaking, considering the efforts that Regions and Local Bodies are required to face, in 2013, the Local Autonomies will have to bear cuts for almost 25 billion Euros (Tab. 5.10). The North bears the largest share (approximately 10.8 billion, namely 43.3%), although the Southern Regions are most affected when the amounts are calculated per inhabitant (451 Euros per capita). In other words, the overall cuts affecting the North and the Centre of the Country are equal (respectively 388 and 389 Euros per capita). What emerges, possibly for the first time, is a "fairer" distribution of financial efforts between North and South, although not as a result of a clear plan but rather dictated by a practical need.

Tab. 5.9 - *Municipalities : the value of the recent budgetary measures (in million Euros). Years 2011-2013*

	2011	2012	2013	Euros per capita (2013)
ABRUZZO	25	105	182	136
BASILICATA	13	40	67	114
CALABRIA	44	133	214	107
CAMPANIA	200	563	778	133
EMILIA ROMAGNA	110	466	652	147
LATIUM	206	725	1,034	181
LIGURIA	49	208	288	178
LOMBARDY	205	895	1,416	143
MARCHE	31	126	203	130
MOLISE	4	21	37	116
PIEDMONT	95	392	586	131
APULIA	101	367	510	125
SARDINIA	31	139	254	151
SICILY	161	480	684	135
TUSCANY	101	403	571	152
UMBRIA	23	86	130	144
VENETO	101	417	595	120
TOTAL MUNICIPALITIES	**1,500**	**5,565**	**8,200**	**141**

Source: Unioncamere Veneto from various sources

This overview is confirmed if we look at the financial packages vis à vis the local public spending. On average, the adjustments made affect some 20% of local public spending; the share of the above is smaller in the North (18.5%), while it is higher in the Centre of Italy (21.3%) and in the South (21.7%).

The amounts set in the financial adjustments are linked to the public spending actual managed. This strategy fills in the gap between Ordinary Regions and Regions with special statute status and is a way to fine-tune measures based on the resident population (Tab. 5.11). If the Local Administrations in Valle d'Aosta have been forced to relinquish more than 3,000 Euros per capita (386 in million Euros) against a national average of 410 Euros, it is also true that compared to the 1,343 million spent locally, the amount of cuts is much smaller (28.7% against an average 20.1%). The same considerations hold true for Trentino-Alto Adige (considered as the aggregate figure of the two Autonomous Provincial Districts of Trento and Bolzano), Sicily and Sardinia.

The data illustrated above are a "practical" encouragement to go beyond the Domestic Stability Pact as it is today, embracing a new approach based on the definition of local public finance goals. If the effort required of each territorial level is known in advance and is clear, this would lead to greater transparency in the general organisation of local public finances. It would also encourage greater accountability in the ex-post assessment of results.

Tab. 5.10 - *Local Autonomies: the value of the recent budgetary measures for 2013 (in million Euros)*

	Regions	Provincial Districts	Municipalities	**Local Autonomies**	Local Autonomies	
					% comp. %	Euros per capita
ABRUZZO	269	68	182	**519**	2.1	387
BASILICATA	178	63	67	**308**	1.2	523
CALABRIA	364	140	214	**718**	2.9	357
CAMPANIA	861	402	778	**2,041**	8.2	350
EMILIA ROMAGNA	661	160	652	**1,472**	5.9	332
FRIULI-VENEZIA GIULIA	731			**731**	2.9	592
LATIUM	984	228	1,034	**2,247**	9.0	392
LIGURIA	285	110	288	**684**	2.8	423
LOMBARDY	1,258	374	1,416	**3,049**	12.3	307
MARCHE	251	99	203	**553**	2.2	353
MOLISE	91	28	37	**155**	0.6	486
PIEDMONT	766	268	586	**1,619**	6.5	363
APULIA	616	188	510	**1,314**	5.3	321
SARDINIA	984	81	254	**1,318**	5.3	787
SICILY	2,138	227	684	**3,049**	12.3	604
TUSCANY	654	244	571	**1,469**	5.9	392
TRENTINO-ALTO ADIGE	1,382			**1,382**	5.6	1,332
UMBRIA	198	52	130	**380**	1.5	419
VALLE D'AOSTA	386			**386**	1.6	3,006
VENETO	664	184	595	**1,443**	5.8	292
TOTAL	**13,720**	**2,915**	**8,200**	**24,835**	**100.0**	**410**
NORTH	6,132	1,096	3,537	**10,765**	43.3	388
CENTRE	2,087	623	1,938	**4,648**	18.7	389
SOUTH	5,501	1,196	2,726	**9,423**	37.9	451

Source: Unioncamere Veneto from various sources

Tab. 5.11 – *Budgetary measures affecting Local Autonomies, compared to the consolidated local spending*

	Financial adjustments for the year 2013	Consolidated local spending	% ratio financial adjustments on local spending
PIEDMONT	1,619	8,623	18.8
VALLE D'AOSTA	386	1,343	28.7
LOMBARDY	3,049	15,940	19.1
LIGURIA	684	3,806	18.0
TRENTINO-ALTO ADIGE	1,382	7,356	18.8
VENETO	1,443	7,528	19.2
FRIULI-VENEZIA GIULIA	731	5,580	13.1
EMILIA ROMAGNA	1,472	8,056	18.3
TUSCANY	1,469	7,251	20.3
UMBRIA	380	1,951	19.5
MARCHE	553	2,767	20.0
LATIUM	2,247	9,832	22.9
ABRUZZO	519	2,388	21.8
MOLISE	155	951	16.3
CAMPANIA	2,041	11,673	17.5
APULIA	1,314	6,108	21.5
BASILICATA	308	1,357	22.7
CALABRIA	718	3,941	18.2
SICILY	3,049	11,683	26.1
SARDINIA	1,318	5,267	25.0
TOTAL	**24,835**	**123,403**	**20.1**
NORTH	10,765	58,232	18.5
CENTRE	4,648	21,802	21.3
SOUTH	9,423	43,369	21.7

(*) processed on data supplied by CPT-Ministry of Economic Development. The figures show the spending by Regions and local entities not including health care
Source: Unioncamere Veneto from various sources

6. Prospects and suggestions: decentralisation to overcome the crisis

6.1 Saving federalism

Now (almost) everyone wants to dismantle federalism. The blame has been pinned on the Mountain Communities first, followed by the Provincial Districts and now the Regions. Tomorrow it might be the Municipalities. Do we really want to go back to the old-style centralized State? It is worth pointing out to those who are attacking federalism and decentralization that it was the centralized mismanagement of national accounts that led to the enormous national debt that is damaging our economy. The charges against the Regions are in no way confirmed by the numbers. The Italian national debt literally blew out of proportion between 1981 and 1994: in these thirteen years, the debt /GDP ratio grew from 58.5% to 121.8%, with a nominal increase of 927 billion Euros. In that same period, the debt ascribable to Local Administrations increased by just 14 billion Euros, namely just 1.5% of the total increase in indebtedness (Tab. 6.1). In addition, in that same period, the average fiscal independence of Regions accounted for 9% of the total and the spending managed directly accounted for just 20% of the national public spending before interest. These figures certify the link between a growing national debt and fiscal centralization. Between 1980 and the mid 1990s, when the debt /GDP ratio in Italy more than doubled, the amount of fiscal revenues managed centrally (fiscal centralisation index) was growing and stood firmly above 60%. From the late 1990s, and basically until the 2008 financial crisis, the decline of the national debt was flanked by moderate fiscal decentralization (Chart 6.1).

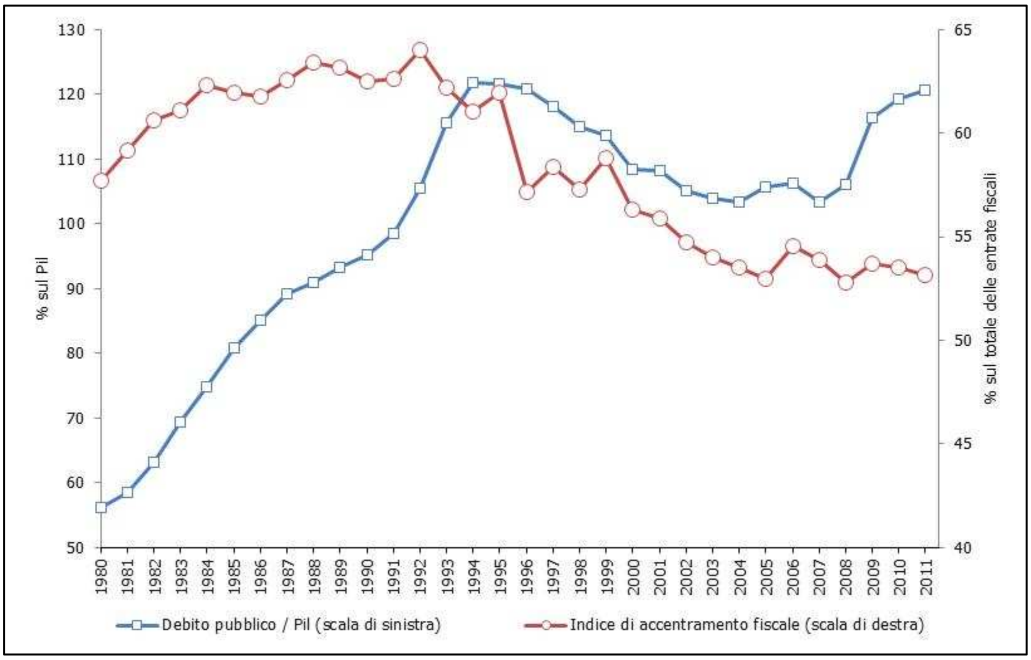
The debt of Local Administrations increased mainly between 1994 and 2007, namely in the year in which the largest decentralisation of competences took place (implying greater spending), and when new local taxes were implemented (IRAP: regional tax on production and IRPEF: personal income tax). Nevertheless, the growth of local debt in these same years (+89 billion Euros) is generally marginal if compared to the increase of the national debt (+536 billion).

Tab. 6.1 - *Public debt broken down by level of government (billion Euros). Years 1970-2011*

Figures as at 31/12	Public debt as a % of GDP	**Total public debt**	of which Central Admin.	of which Local Admin.
1970	37.1	**13**	11	2
1981	58.5	**142**	134	8
1994	121.8	**1,069**	1,047	22
2007	103.3	**1,605**	1,493	111
2011	120.7	**1,907**	1,789	117
1970-1981	+21.4	**+129**	+123	+6
1981-1994	+63.4	**+927**	+913	+14
1994-2007	-18.6	**+536**	+446	+89
2007-2011	+17.4	**+302**	+296	+6

Source: Unioncamere Veneto on data supplied by the Bank of Italy and the Italian Statistical Office - Istat

Chart 6.1 - *Italy. Link between the national debt and the fiscal centralisation index*



Source: Unioncamere Veneto on data supplied by the Bank of Italy and the Italian Statistical Office - Istat

Federalism is an achievement that must be defended strenuously. More than that, it must really be implemented. Federal States provide a model for us to follow. A more efficient distribution of spending generates a reduction of unnecessary charges and inefficiency. Studies conducted by Unioncamere Veneto show that Federal States tend to spend less to operate compared to Unitary States, even in consideration of the higher number of competences assigned. The assessment of the **standardised index on running costs**, that illustrates how much the administrative machinery would costs with the same spending levels but in a decentralized system, Federal States presented lower operating costs (0.564 against a European average of 1.000) than those recorded in Unitary States (0.948).

The advantages of a smoothly running federal system is provided by the comparison between the public administration system in Germany and in Italy. Italy and its sluggish centralism loses in any comparison with federal Germany for all the parameters associated to the organisation of public administration: our employee/inhabitants ratio is worse, as the average cost of work in the public sector and we also spend more per capita for intermediate goods. If we were to adapt our PA to the German standards, we could save at least 20 billion Euros a year, approximately twice the amount of resources generated through the Spending Review last summer. Of course this is but a theoretical exercise that cannot be applied immediately. Nevertheless it is remarkable, as it shows how distant a country like Italy is from a federal and efficient country like Germany. It can be reasonably stated that **federalism can promote administrative efficiency in the public sector, as the costs borne are more closely associated to the competences assigned.**

6.2 Turning back is not an option

Up to now, it has not been recalled that we cannot go back to a centralist system. Europe demands that we keep our public accounts in order; that we must shorten payment terms; it also tells us that **subsidiarity is a value to treasure, essential to ensure excellent relations between the Public Administration and citizens.** The reduction of regional power and the reversal of federalist policies are, from this point of view, clearly in contradiction with the EU principles of subsidiarity and regional autonomy envisaged by the Maastricht Treaties and the most recent Treaty of Lisbon. All the other European countries are discussing on how to apply the rules on the roles of regional Parliaments in the bottom-up stage of the European legislative process, or rather on how to ensure that the Regions can participate in the top-down implementation process of European Law. Why are we moving against the general trend? Italy has signed a Treaty that envisages cohesion policies, which are nothing more than regional policies promoted by the EU to fill the wealth and growth gaps amongst the Regions of Europe. Do we want to go back in time and centralise all this?

Briefly, **we need more federalism, not less federalism**: Italy needs an "asymmetrical" federalism, which would finally implement Article 116 of the Constitution. An example: the implementation of "differentiated federalism" in the Veneto region would entail more than 4% of the GDP being transferred from the Centre to the Periphery. **The chance of managing locally a greater amount of money would then have an "incremental effect" on the per capita GDP, which could increase by 9.2%**. The benefits for the regional economic system would be even greater, if instead of a mere "shift" of financial resources from the Centre to the Periphery, there were also a reduction of running expenses and greater efficiency in the provision of services, compared to the centralised system. It is no chance that for years the Central State was unable to cut its costs, despite the decentralisation of some administrative competences to the Regions and to Local Bodies, having allowed running expenses to grow.

An asymmetrical system is perhaps the only tool available to continue building the federal system in these times of crisis. On the one hand, this would allow public accounts to be more closely monitored and, on the other, the local aspiration to self-governance would finally be achieved. The idea of uniformity must be overcome, having hindered the implementation of real administrative and fiscal decentralisation Italy and in fact frustrated the progress made in the last decades. To leave behind the idea of uniformity does not mean abandoning the constitutional duty of solidarity: it simply means **treating different diseases through different types of therapy**. Local territories are characterised by profoundly different social and developmental features: despite this, in compliance with the principle of uniformity (that does not mean sameness), Veneto has the same autonomy as Calabria. **The best performing territories should be given the power to autonomously manage a greater amount of resources and public functions**: the chain effects could be extremely positive, in terms of general economic growth and also in terms of the possible surplus fiscal resources available to be allocated for the development of the areas that are struggling. Regions such as the Veneto, Emilia Romagna, Lombardy and Tuscany have shown that in the areas of health care they can achieve very high performance levels in supplying services, while balancing their finances. Why restrict exclusive regional competences to health care alone? Why not accept the European challenge and concretely implement the principle of subsidiarity, broadening - not limiting - the Regions' scope of action?

A new stability pact is also needed: it would allow the definition and the distribution of the public finance targets on a territorial basis, rewarding those that perform best and freeing resources for investments**. The return to the centralised management of public accounts is not a solution to Italy's problems**.

Drawing to a conclusion, public efficiency and accountability must be incremented by allowing greater local autonomy in the management of receipts and spending. Federalism can be an advantage, especially in times of crisis. **Excessive taxation risks bringing the economic system to a standstill, frustrating all attempts to achieve recovery**.

Literature

Camera dei Deputati (2013), *Il pareggio di bilancio in Costituzione*, Temi dell'attività parlamentare, febbraio 2013, in www.camera.it

Corte dei Conti (2012), *Rapporto 2012 sul coordinamento della finanza pubblica*, maggio 2012, in www.corteconti.it

Corte dei Conti (2012), *Relazione 2012 sul costo del lavoro pubblico*, maggio 2012, in www.corteconti.it

Corte dei Conti (anni vari), *Relazione sulla gestione finanziaria degli Enti locali*, in www.corteconti.it

Corte dei Conti (anni vari), *Relazione sulla gestione finanziaria delle Regioni,* in www.corteconti.it

Giarda, P. (2012), *Elementi per una revisione della spesa pubblica*, versione del 8 maggio 2012, in www.governo.it

Istat (anni vari), *Conti ed aggregati economici delle AP*, in www.istat.it

Istat (2013), *Spesa delle Amministrazioni pubbliche 1990-2011*, 17 gennaio 2013, in www.istat.it

Ministero dell'economia e delle Finanze (anni vari), *Documento di economia e finanza*, in www.tesoro.it

OCSE (2011), *Government at a Glance 2011*, in www.oecd.org

Ragioneria Generale dello Stato (2012), *Rapporto sulla spesa delle Amministrazioni centrali dello Stato – 2012*, settembre 2012, in www.rgs.mef.gov.it

Ragioneria Generale dello Stato (2013), *La spesa statale regionalizzata 2011 - provvisoria*, gennaio 2013, in www.rgs.mef.gov.it

On-line databases and studies:

www.oecd.org/pisa

www.oecd.org/gov/pem/acquiringcapacity.htm

www.oecd.org/employment/pem/workforceplanningandmanagement.htm

http://ec.europa.eu/economy_finance/db_indicators/ameco/index_en.htm

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/introduction