







A comparison among Veneto, Italian regions and decentralization experiences in Europe

May 2007



Unioncamere Veneto



The costs of "non-federalism"

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Presentation

In the first years of the new century, the Veneto Region faces challenges both from within and beyond its borders.

The external challenge regards Europe, already the main theatre of economic, political and social relations, and for this reason an essential factor in regional development planning.

The internal challenge relates to the hitherto incomplete institutional changes which should lead to a 'true' federalism, able to respond to the actual needs and wishes of both citizens and businesses.

This study proposes to explore and clarify the latter, starting with an analysis of the centre-periphery financing flows and ending with an elaboration of some relevant indicators which affect administrative management costs. To facilitate the understanding of this text we have included the experiences of other European regions and of other EU States.

This research demonstrates how the full implementation of federalism in Italy, already formally envisaged by the constitutional reform of 2001, would help to solve two national issues: the state of the public accounts and local economic development.

A federal system in fact, because of its subsidiarity features, favours not only a more efficient and effective allocation of public resources, but also the implementation of targeted policies aiming at boosting local development.

The introduction of a functioning federalism in Italy has, unfortunately, been noticeably late, producing particularly high administration costs and an inevitable cut-back of the spending capacity of the most financially virtuous regions.

Despite everything, however, Veneto places itself at the second place among the Italian regions as to its contribution to the national GDP (9.3%), and places itself among the most virtuous regions both as to the rate of fiscal participation and as to administrative efficiency, equalling the performances of European Regions belonging to the federal Member States.

The failure of the planned transfer of public personnel from Central to Peripheral Administrations is particularly evident, despite the target figure of just 0.6% of all personnel. Over five years this target has been achieved by only 55%.

Europe and federalism thus represent a dual challenge which must be faced without further delay, with the aim of guaranteeing a more equal, efficient, competitive and unified Italy, ensuring a harmonious growth and increased wellbeing in all the areas of the Country.

Venice, May 2007

Federico Tessari President of Unioncamere Veneto

Preface

The following study promoted by Unioncamere and Eurosportello Veneto regarding the cost of the failed introduction of federalism in Italy, and more specifically, in a region of Europe such as Veneto, offers useful ideas and figures for analysing the unfulfilled reform of Title V of the Constitution. A reform which cannot remain uncompleted, as the Head of State recently reasserted during a recent visit to Veneto.

We are facing complex issues that are not just economic but also involve levels of political accountability.

As to the former, one piece of data gives a picture of the general situation. Veneto, the second Italian region after Lombardy as to GDP (it produces the 9.3% of the national GDP), because of the parameters used in Italy for the equalization transfers, slips from the third to the twelfth place in terms of per capita resources. On the contrary, applying the German parameters would leave the original classification unaltered, thus only reducing the different amount of resources owned by the rich and the poor areas of the country.

In terms of political accountability, it must be remembered that the Constitution is the founding Law of a national system, but today many other laws, essential to the regions, are not yet in existence. In such a context the regions will find themselves constrained to continually urge the State for a full implementation, following the aforementioned norms, of the Constitutional reforms.

All this cannot prevent the production of negative consequences for the relationship between the State and its citizens, who are increasingly impatient with respect to the delays and injustices deriving from the failure to achieve full decentralization.

We must remember that were the administration closer to its citizens, greater transparency would subsist. This greater proximity would push the diverse levels of government towards a greater sense of responsibility and thus towards better public services. In this sense we can talk about federalism and subsidiarity.

It is thus essential to continue with the reforms in order to make Veneto a European region, and Europe an institution with close links with its citizens. Not a Europe of States struggling among themselves, but a Europe of Regions, which cooperate and favour European integration of both people and economies.

Starting from these shared values, we believe that it is possible to compete with increasingly strong emerging economies while continuing to guarantee jobs and prosperity in our region and in Europe.

Venice, May 2007

Marino Finozzi President of the Veneto Regional Council

Preface

Veneto, in line with other regions in Italy and in Europe, must face today an economic and institutional reality whose strategies have an echo on a global scale.

This challenge can only be met by exploiting the potential of our territory, of our economic system and of the diverse resources available in our region. This is only possible through fiscal federalism, the sole method which guarantees the best response to internal needs and allows the region to achieve true autonomy in economic and political strategy.

Veneto is ahead of more than a quarter of EU States in terms of internal production per number of inhabitants. Unfortunately, the lack of correlation between costs and benefits connected with its functions constitutes a penalization which can no longer be supported: the difference between what the citizens pay, and what they receive in the form of state spending, places Veneto first in this unfortunate list.

Studies such as this aim, therefore, to clarify a considerably complex subject that is nonetheless very significant during the daily life of our citizens and of our enterprises.

We hope this research will deepen the analysis of this subject, as well as offering an important contribution to the ongoing debate, and lay the foundations, particularly in the fiscal sphere, for that federalism which is the only way to remove current inequalities.

In federalism we recognise the tool for creating administrative and economic competition between regions, which, we are sure, will support a more efficient government, making the best use of the individual features of the communities making them up.

Venice, May 2007

Giancarlo Galan President of the Veneto Region

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The planning and data research and the data analysis were produced by a working group coordinated by Dott. Gian Angelo Bellati, director of Unioncamere Veneto, and Dott. Serafino Pitingaro of the Unioncamere Veneto Studies Centre.

The drawing up of this report was organized by the Unincamere Veneto Studies Centre, with contributions from all the involved members of the working group.

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Preliminary Statement. Between fiscal autonomy and government aids

By Gian Angelo Bellati*

The ability of public bodies to redistribute public resources is one of the fundamental guarantees of equality and development. When, however, certain interest groups or businesses are privileged, there is a risk of giving rise to unfair competition, by favouring some to the disadvantage of others. This creates the opposite effect: inequality and decrease of overall growth.

The EC has always considered essential a firm control of public aid (i.e., State aid) to businesses, having always had as its prime objectives the avoidance of discrimination and the creation of a 'unified market' among member States, entailing free movement of people, goods, capital, and services and professions. Thereby, the EC wants to prevent the creation of unfair conditions of competition among the European enterprises and the rise of rivalry among the member States favouring some businesses over others.

The legal base is given in the first place by the articles of the constitutional treaty of the European Economic Community (EEC) (currently art. 86 and following), by the regulations and decisions of the European Commission (EC), as well as by the case law of the Community judges.

On the basis of such provisions it is forbidden to grant any kind of state aid to businesses (subsidies, fiscal exemptions, low interest loans, etc.) except in particular cases, the so called "dispensations", which are expressly envisaged.

It seems evident that the possibility for a public Body to favour the development of its own territory by granting ad hoc State aid in compliance with the dispensations envisaged by Community law is strategic and decisive for its own policies.

When, however, can a public Body really use this powerful tool to help businesses located within the territory under its authority? This is possible when such public Body is granted recognisable fiscal independence, that is when it can avail itself of autonomous tax return which allows it to manage autonomously the resources received by the territory.

As regards the Italian regions this is unfortunately very rare; in Italy the fiscal autonomy of public Bodies other from the State is still too reduced. Our regions thus risk to lose this valuable tool for economic programming and planning.

An interesting example, which should be followed by the regions, is given by the Chambers of Commerce, to which fiscal autonomy is clearly recognized (we can say in this case that fiscal federalism is fully in action). This allows the Chambers to ask for the approval of certain special 'authorizations' and aid 'regimes' to the EC at the regional and the sub-regional level.

Recently, the regional Unions of the Veneto and Piedmont Chambers of Commerce have obtained the approval for business aid schemes in the agricultural sector. The two Unions can now direct resources from the Chamber system to the development of this area, using methods in agreement with the business associations themselves, and tailoring their interventions according to the particular needs of the two different territories.

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This is exactly the point: the possibility to adopt tailor-made measures to fit the specific characteristics of each territory within a given State. Obviously, in the case of the Italian regions the notable differences are there for all to see. The intervention possibilities that would be available if there was greater recognition of the fiscal autonomy of our regions are infinite. Below are just a few examples:

- a) Interventions to aid weak areas within a region: it is the case of the mountain areas, for example, where interventions could help with the development of tourism, the creation of jobs to encourage population retention, and the development of infrastructures.
- b) Veneto has a mature economy, but it must still strengthen the service and technological innovation sectors; special tax breaks could be envisaged for those who transfer their activity to these sectors.
- c) Veneto has virtually full employment; instead of favouring the businesses that simply create jobs, calls for bids could favour those investing in research and development, internationalizing, creating job places for researchers.
- d) The districts: providing incentives in every way, including fiscal ones, to associations and to the creation of consortiums between businesses in order to reduce the problems created by the often too-small scale of regional enterprises.
- e) The non-profit field. This is considered one of the great contributions that our region offers for the development of the social sector and volunteering; targeted financial aid would be useful in this area.
- These are only examples, but each of these aspects could be individually improved on an ad hoc basis, through grants and subsidies, fiscal incentives, low interest loans, land-purchase, reduced workloads etc.

The existence, today, of simply too many obstacles for the fulfilment of fiscal federalism as laid out in the Constitution, damages both directly and indirectly the majority of Italian regions. Too much space is yet accorded to nationwide interventions which are often scarcely effective because not well adapted to the individual needs and problems of each region, producing notable waste of public resources. Such interventions move away the solutions to existing problems, reducing the competitiveness of the country as a whole.

This "Research notebook" by Unioncamere Veneto, the first of a series, contains other examples of how one can still talk today about the "cost of unful-filled federalism" in Italy, federalism which is surely in line with the evolution of the judicial and governance system, and with the implementation of EU policies and programmes. Federalism, therefore, is proposed as the antithesis of short-sighted provincialism, the negative effects of which cause inefficiencies, costs, and the boost of fiscal pressure; direct damage (e.g. the absence of road-widening interventions) and indirect damage (an increased number of accidents therefore property damage and loss of lives). Italian businesses can no longer bear these negative effects having to deal with an increasingly global and international competition.

Introduction

By Stefano Solari*

The topic of fiscal federalism must be addressed within the wider question of economic decentralization, one of the top debates in economics since the first half of the 20th century. Its major supporters have usually been Catholics and the promoters of ethic liberalism¹.

The debate over economic decentralization can be divided into two issues which, dealing as they do with complementary transactions, cannot be fully separated:

- a) Decentralization of production, that is granting decision-making responsibility to the smallest possible units of production (small businesses, local banks).
- b) Political and administrative decentralization, which means locating the responsibility for decision-making as well as the power to regulate the interdependencies amongst the allocating decisions of the private sector at the smaller local units, in accordance with point a).

From this point of view, a decentralized economy is an economy made up of small productive units and of made-to-measure political and administrative jurisdictions for communities which are homogeneous as for coordination requirements. Taken individually these two points can offer advantages, but it is only combining them that an economic system can achieve synergies between "market" and "democracy". Catholics², and exponents of economic humanism³, have held that the advantage of an economic system structured in this way is that it is more in harmony with human nature. This configuration in fact helps to guarantee a greater involvement of people in the economic process, thus stimulating individual participation and the adoption of responsibilities. Political fragmentation, moreover, guarantees the existence of a true 'political community', a collective action to fit the needs of the local economy and society, greater popular involvement in the management of public activities, and greater control over the action of the administrators.

Veneto is an area in which economic development has assumed an extremely decentralized form, distinct from that of the other North-West regions in its high density of small and medium-sized enterprises. The existence of a network of banks and of local media and the profound radication of the productive processes in the territory have guaranteed a strong autonomy of the economic system. After thirty years of extreme economic decentralization and State centralization, the 90s saw the beginning of a slow, but by no means linear, process of political and administrative decentralization. The Law 142/90, which has given a greater substantial autonomy to local government, has probably been the most significant step of this process. The 'Bassanini' laws and the reform of

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¹ See F. Vito in W. Röpke, *Economia e Personalismo*, (Milano, Vita e Pensiero: 1996). W. Röpke, *The Moral Foundations of Civil Society*, Transaction, (New Brunswick, Civitas Humana: 1998). See also *Humane Economy – The Social Framework of the Free Market*, (Wilmington (Del.), ISI Books (Nachngebot und Nachfrage).

² See G. Toniolo, Trattato di Economia Sociale e Scritti Economici, Vol 5, (Vatican City: 1952).

³ For example see E. F. Schumacher, *Small is Beautiful*, (New York, Harper and Row: 1973).

Title V of the Constitution represent other moves – although neither very clear nor effective – towards decentralization. This process appears, however, to have stalled, and from the point of view of Veneto, at least two types of problem are in evidence.

- a) The overlapping of reforms characterized by different visions and intentions regarding the role of the State has created a situation of little coherence. A good part of the political and administrative mechanisms capable of adapting the political-administrative supply to the demand have not been accomplished. To the principles of Title V of the Constitution neither enforcing laws, nor adaptations of the bureaucraticadministrative system have followed. Various decision-making mechanisms (e.g. university competitions) have instead been re-centralized.
- b) The economy of the North-East has begun to lose its character of decentralized economy: many enterprises have grown and become multinational, have delocalized the production, are quoted on the stock exchange. Local banks the true 'mind' of the economy have almost all disappeared, absorbed by national and multinational organizations. Local independent media have all either disappeared or are weakened; economic development, after thirty years of decentralization, is tending again to re-focus itself in urban areas (limited to Padua and Verona).

The current situation is therefore substantially further away from a federal asset than that of the second half of the 90s.

Economic theory has studied the problem of the optimum territorial dimensions for the supply of public services, trying to combine economies of scale in the production of services with the differentiation of political choices. The bigger the difference in the demand of public services, the more decentralized they have to be. On the other hand, where there are strong externalities between jurisdictions, and the different economic areas of a country are connected in an organic way, it becomes difficult not to put a unified coordination of public policies into practice. The federalist theory, as the theory of State subsidiarity, holds in any case that it is best to centralize only those functions which cannot be efficiently administered through collective (primarily private) action at a local level⁴.

In general, the higher levels of government benefit from economies of scale (above all in bureaucratic management), from a greater 'insurance' function and a greater capacity to concentrate resources for a specific scope. However, it is commonly held that lower levels of administration, being closer to the citizen, guarantee a higher level of democratic control, a higher level of involvement of the citizens (enabling them to fully comprehend the problems at hand), a better response to political demand and therefore a dynamic efficiency in the production of public services. All of this, however, is not guaranteed in advance, and depends on the specific configurations of the political-administrative institutions.

There are in any case other, more general, problems conditioning the evolution of institutions. We live in an advanced phase of a long-term process which has seen substantial shifts in the political-economic structure of Western countries. These changes are a consequence of the general acceptance of the so-called 'international liberalism' model. From institutions strongly orientated towards

⁴ See Oswald S. J. von Nell-Breuning Wirtschaft und Gesellschaft Heute, Vol 2, (Frieburg, Herder: 1957).

the stabilization of demand and the control of the factors of production in relatively closed economies, we have slowly moved towards configurations that are more orientated towards strengthening the supply in very open economies.

The institutions orientated towards demand sustaining – slowly developed in the post-war period – had as their objective the stabilization of the economy in the industrialization phase, and gave way to 'the social State'. These institutions have the nature of an 'insurance mechanism', therefore the greater efficacy of these policies is obtained by enlarging their user basis as much as possible. As a consequence, centralized States are more efficient at organizing redistributive mechanisms capable of stabilizing the demand. As a consequence, it is rational to maintain the homogeneity of welfare institutions at a national level (and if possible, enlarge them to a European level).

In the presence of high public debt, the profound reforms introduced following the adhesion to the EU and to the European Monetary Union and following market globalization (the consequence of the above-mentioned 'international liberalism'), have severely limited the implementation of autonomous macroeconomic policies, making it much more difficult to deal with aggregate demand. This process has therefore helped to make the shift of State intervention to supply supporting policies inevitable. The latter, in order to express coherent development strategies, have to presuppose the adaptation of the institutions to the different territories depending on the homogeneity of the social and production structure. In this situation public services come to assume the function of factors of production complementary to work and capital, therefore the adjustment of their supply to the local political demand becomes much more important. Thereof the always greater necessity to decentralize this type of economic policies and hence the administrative functions that allow them to subsist (as well as the growing difficulty to generate a homogeneous consensus from the territorial point of view concerning central policies).

Naturally, neither the need to redistribute revenue nor to strategically allocate national resources grows less. However, the two types of policies must find a harmonious balance which may allow the most effective management of the extreme diversity of the Italian production structure.

It is often said that only a federal Constitution can guarantee the correct balance between local institution adjustment and redistribution for stabilization and development. Nonetheless, federalism cannot be fiscal only, in as much as it makes no sense to augment the resources of local institutions if these are not characterized nor by autonomy of action nor by a clear definition of responsibilities for the use of such resources.

Different types of redistribution practised by public administrations exist:

- a) between social classes (from poor to rich)
- b) territorial (from the centre to the periphery, north to south, east to west)
- c) temporal (for example public debt makes the costs of current public expense fall upon future generations)

In Italy north-south redistribution has often been presented as redistribution between the rich and the poor. This is however an over-simplified approximation which does not accurately represent the real and more complex forms of redistribution used by the Italian State without however leading to a real development in Southern Italy. The territorial allocation of tax revenues and spending depends on many factors, many of which are not directly verifiable by the government. This phenomenon is in fact accentuated by tax progressiveness, which tends to weaken the fiscal autonomy of the less-developed areas.

The following study shows how the principal differences between northern and southern regions are linked to the difficulties of tax collection in the southern area. Public spending is not, therefore, at the heart of the problem. Nevertheless, notwithstanding the diversity due to the autonomy of some regions, what might disappoint Veneto citizens is the comparison with data from the north-western regions and from Emilia-Romagna and Tuscany. There, the State spends a great deal more than in Veneto. Moreover, even though benefiting from adequate regional funds, Veneto suffers from a lack of resources transferred directly to the 'Communes' (i.e. Municipalities).

The balancing mechanisms adopted up to now by the central Government have, unfortunately, discouraged political and administrative efficiency. The interaction between the reference to historical spending while transferring resources from the centre to local institutions and the policy of restricting these transfers, has accentuated this effect. The administrations which have made an effort to improve their efficiency, even by imposing important sacrifices on their citizens, are continually punished for these savings in the form of reduced transfers from the centre. In practice savings resulting from increases in efficiency are actually redistributed in other regions. Paradoxically, financing in this situation the cut back of public expenditure means contributing to an increase in the unfair redistributive effect of public spending. A good fiscal federalism should allow a region to retain the achieved efficiency increases within the territory of those citizens who contributed to create savings. This can only be achieved by making clear the redistributive flows, something that is impossible to do in the absence of true fiscal autonomy.

Every possible useful step towards federalism therefore involves a parallel development, on the one hand of decentralized special-purpose taxes, and on the other, of ways of democratic control over the management of resources⁵. This means to develop the principle of linking the cost and the benefit of public services, guaranteeing the sovereignty of the citizen in parallel with a greater local spending capacity⁶.

⁵ Special-purpose taxes (similar to ordinary taxes) are contributions closely linked to the service which they finance thus tying the benefit to the cost.

⁶ See Luca Antonini, *Sussidiararietà Fiscale, la Frontiera della Democrazia*, Milano, Guerrini e Associati: 2005).

Chapter 1 Federalism in Italy: starting figures

1.1 Half federalism

Since the nineties, Italy has began a wide-ranging process of institutional reform intended to create a federal State. Multiple elements have contributed to this radical reform: a demand for greater efficiency in public services, pressure from the citizens to be given a greater role and control as to public decision-making and the need to involve territorial bodies in the effort to adjust to Italy's new responsibilities in the European sphere; the request for a generalized reduction of fiscal pressure and of the role of the State in economic life, and the advent of political forces like Lega Nord, powerful enough to force discussion on topics such as fiscal federalism¹.

The most significant innovations of the last fifteen years concern both the institutional powers assigned to the various levels of government and the ways of finding the necessary resources to guarantee the practice of such new administration responsibilities. As to the former aspect, the Bassanini Laws (1997) and the reform of Title V of the Constitution (2001) together, actually formulated again the Italian institutional model, making significant progress in decentralizing administration and giving constitutional dignity to the principle of subsidiarity². With reference to the latter, the redirection of important taxes to local administration (for example the ICI to the 'Communes' in 1993, and the IRAP to the Regions in 1998) produced a sensitive addition to local financial autonomy, although with notable differences at a territorial level. Furthermore, it must be remembered that in the last fifteen years the responsibilities for public health have been devolved to regional administrations.

This process has not developed in a linear way, hindered as it was by financial and economic difficulties and by political contradictions. As a consequence, the actual Italian institutional set up, despite the 2001 reform, cannot yet define itself as fully 'federal'. There are various reasons behind this 'half federalism': the following text will point out the most important of these.

The **lack of implementation of fiscal federalism,** determined by the delays in the approval of the ordinary laws necessary to put into effect Article 119 of the Constitution, has produced a general halt, due to the uncertainty regarding regional means for collecting financial resources. Some studies have argued that without fiscal federalism, the administrative federalism put into place with the Bassanini laws and the reform of Title V of the Constitution cannot function either (Antonini, Barbero).

¹ A. Zanardi, Per lo Sviluppo. Un Federalismo Fiscale Responsabile e Solidale, (Il Mulino: 2006).

² According to the principle of subsidiarity, administrative responsibility should be given starting as locally as possible, moving then to the 'collective' level only when the lower level is unable to solve a particular problem efficiently and effectively. In this way decisions are made as close as possible to the citizens.

Secondly, the **progressive worsening of national public accounts** has led the Government to slow down regional and local centrifugal tendencies, even by imposing a strict internal stability Pact.

Finally, the presence of a vertical and **extremely unequally balanced regional system of resource redistribution,** substantially based on previous spending patterns and not on administrative virtuosity, disfavours the attribution of responsibilities to local governments and the autonomy of the local Bodies. The system of previous spending patterns, particularly for Provinces and 'Communes', has crystallized the spending needs of a defined period, dragging them on for decades and generating an unequal situation unacceptable in an institutional system which hopes to become federal.

The continuation of this standstill situation, made of steps forward followed by incomprehensible steps back, has constantly damaged those regions which are more dynamic and have a greater fiscal capacity. These regions find themselves trapped between the rigorous requirements of the Internal Stability Pact – deriving from the need to improve public finances – and significant equalizing flows not compatible with an 'almost federal' system. To quantify the 'costs' of this lapsed implementation of federalism raises some interesting points relating to the current economic and institutional structure of the nation; these would be good points to start from in any new attempt to re-launch a coherent and efficient federalism. Such operation, however, is not at all simple, and creates some significant methodological impediments: this chapter will offer a potential quantification of the contribution paid by the territories with greater fiscal capacity - Veneto amongst these - to the maintenance of the actual political-institutional asset, which is still waiting for a complete federalism.

1.2. Fiscal residue in Veneto

In order to quantify the costs of the postponement of federalism it is necessary in the first place to define the outlines of the current financial flows between the various areas of the Country and between different institutional levels of *governance.* The *Public Territorial Accounts* data bank of the Department of Development Policy (Ministry of Economic Development) allows us to draw various noteworthy conclusions for the purpose of this study. It allows us to disaggregate the public administration income and spending figures by region and by level of government. Public Administrations include central Administrations (the State, the Loan and Deposit Fund, the Social Security Bodies, other central administration Bodies, the ANAS), the regional Administrations (the Regions, local health authorities, public hospitals) and local Administrations (the Provinces, the 'Communes', the 'mountain communities', the Chambers of Commerce, the Universities, the Bodies promoting the access to further education). Throughout the course of this study we will refer to aggregations of local and regional level bodies as 'peripheral' Administrations.

The equalizing flow between government levels and different areas of the Country works through complex mechanisms and takes into consideration specific parameters. Nonetheless, a good indication of the direction and scale of these flows can be found in the data regarding the public Administrations' **fiscal** **residue** (Table 1.1). Essentially, fiscal residue is the difference between all income (fiscal and of other nature) collected by public Administrations from a particular territory and the resources that in such territory are spent. In this way it is possible to show which public Administrations (intended as aggregates given by the State, the Regions and other local Bodies) of the different regions are in the red or financially healthy.

		(euro per inhabitant)					
	income expenditure differen						
Veneto Italy	13.247 12.121	10.734 12.386	2.513 -266				

Table 1.1. Fiscal residue of thepublic Administrations (2003)

(For complete table and graph please see Appendix)

Figures based on data from the Department of Development Policy.

As we can see from Table 1.1 (for the complete version please see the statistical Appendix), Veneto registers a positive fiscal residue of 11,504 million Euro, approximately €2,513 per inhabitant. This data places Veneto at the third place after Lombardy and Emilia Romagna; the other regions with a positive balance are Piedmont, Tuscany and Marche. All the other areas of the country are in deficit. The effect of State-managed territorial redistribution is clear. One piece of data is particularly significant: the resources taken from Lombardy, Emilia Romagna and Veneto end up by helping to pay long-standing debts in Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia. The equalization is all here.

The health of public accounts in Veneto is not to be considered as connected to the current economic situation or as an extemporaneous event, but is also confirmed in the long term: per capita fiscal residue is consistently in credit, and consistently better than the national average.

Our understanding of the financial flows between different areas of the Country is deepened when we consider the data of central and peripheral Administrations (Regions and local Bodies), which together form the whole public administration³.

A superficial look at the figures in Tables 1.2 and 1.3 might show central administration as more virtuous than Regions and local Bodies. However, a deeper analysis shows that in Veneto the State spends about \notin 7,500 per inhabitant, \notin 1,200 less than the national average. At the same time, the State collects from the Veneto taxpayers resources (in the form of taxes, contributions and other revenues) equal to \notin 11,000 per inhabitant, about \notin 1,000 more than the national average. Essentially, **the State collects from Veneto much more than it gives back in the form of public spending.** The picture for peripheral Administrations is characterized by the constant scarcity of available resources compared to their spending responsibilities.

³ A methodological clarification is necessary. The Lazio Region has been charged with spending on constitutional organs and on organs of other public Bodies in their entirety, expenses which have been classified as purchases of goods and services. The methodological note of the Public Territorial Accounts project suggests that these expenditure items, taking account of their heterogeneous nature, 'could be imputed to all the regions, perhaps on the basis of the resident (or voting) population, instead of where the organs in question are based. This would aid a transfer from a narrowly administrative function to a wider economic role'.

Table 1.2. Fiscal residue of the central Administrations (2003)

	(euro per inhabitant)						
	income expenditure difference						
Veneto Italy	11.020 10.062	7.513 8.708	3.506 1.353				

(For complete table and graph please see Appendix)

Figures based on data from the Department of Development Policy.

These results can be explained through a series of factors which noticeably weigh on the size of public income and public spending. Above all, there is the management of the health services, which makes up roughly half of all regional spending commitments.

There are other factors distorting the incomes of peripheral Administrations: half-completed federalism, and a relevant dimensional 'equalization' still based on 'historical' criteria, produce a general picture of uncertain resources which put local governments in a difficult position. Nonetheless, in recent years, peripheral Administrations in Veneto have moved towards much healthier finances, contrasting with the national trend.

Table 1.3. Fiscal residue of the		(et	Iro per inhabitant)
peripheral Administrations (2003)		income	expenditure	difference
	Veneto Italy	2.227 2.059	3.220 3.678	-993 -1.619

(For complete table and graph please see Appendix)

Figures based on data from the Department of Development Policy.

From this data the existence of an Italy 'with two speeds' is clear. The different management of public spending in the different areas of the Country also influences the formation of debts and the consequent formation of public debt. Thus it is interesting to look at Table 1.4 (and at the complete version in the Appendix) illustrating the areas which, through their annual debt, have contributed the most to the national public debt⁴. Even if the complete table shows noticeable improvements since 1996, the positive balances attributable to Veneto are equal to 9.6% of the regional GDP, a performance second only to that of Lombardy.

Following this analysis it is possible to split the national public debt into its regional parts, thus showing the areas where debt stock has built up following its negative fiscal residue. This can only be taken as an indication, as the national debt remains collective; indeed, the administrative, financial and political responsibility for the creation and growth of public debt cannot be transferred in its entirety to one sole area of the country. However, this argument supports our previous points, offering a complete picture of the financial dynamics between levels of government and areas of the Country.

⁴ The data is not directly comparable with that of ISTAT because they are calculated differently and therefore show slightly different results. It nonetheless offers a valuable insight into the details of national public accounts.

Starting from the fiscal residue registered in each region in the period 1996-2003, we can estimate the public debt produced in the same period. In fact, excluding the regions in credit (which have accounts in the black and therefore do not contribute to national debt), an indicative quantification of the territorial "responsibility" of the remaining regions regarding the year after year increase of the national public debt can be pointed out.

Veneto, a Region with a positive fiscal residue, does not add to public debt: indeed, thanks to higher taxes (and lower spending), it helps to reduce the annual creation of debt, and as a consequence, limits the growth of the debt stock (Table 1.5). For the fifteen regions with in the red fiscal residue, their part of the debt – theoretically their responsibility – is equal to €16,621 per inhabitant, approximately the 85% of the local GDP. The burden becomes much greater above all in Calabria (184.1% of the GDP), Basilicata (154.3%), Sardinia (134.4%), and Sicily (132.8%). Otherwise, as previously explained, the positive fiscal residues of Piedmont, Lombardy, Veneto, Emilia Romagna and Tuscany have helped to feed the equalizing mechanism, limiting the negative fiscal residues of the other regions.

	1996	2003
Veneto (in % of the regional GDP)	4,8	9,6
Italy (in % of the national GDP)	-7,5	-1,1

Table 1.4. Public deficit organizedby region: 1996 and 2003(in % of the GDP)

(GDP at current prices) – (For complete table please see Appendix) *Figures based on data from the Department for Development Policy.*

	Accrued fiscal residue	Debt	Debt/GDP	Per capita debt
	(1996-2003)	(1996-2003)	(%)	(in euro)
Veneto ITALY*	-71.316 239.625	0 529.498	0,0 84,6	0 16.621

Table 1.5. Hypothesis of redistribution of the public debt by region (millions of euro)

(+) = deficit; (-) = surplus

(For complete table please see Appendix)

Figures based on data from the Department of Development Policy.

The current institutional set up, which contains contradictory elements - fiscal federalism being only nominal - seems extremely penalizing for Veneto. The additional resources collected in Veneto by the State and assigned to territorial equalization amounted in 2003 to approximately \in 11,5 billion. This figure is equal to Latvia's GDP. From 2001 (the year in which Italy became, at least formally, a federal State) to 2003, Veneto has contributed to the national solidarity by more than \notin 30 billion.

In the light of this data, it is possible to identify the annual cost of the unfinished transition to federalism for Veneto in the figure of \in 11,5 billion. The state drain of resources can in fact be considered as a missed opportunity to invest the local revenues within Veneto itself. The expenditure of the peripheral Administrations in Veneto (a Region, 7 Provinces and 581 'Communes') was valued in 2003 at about \in 14,7 billion, more than 3,200 euro per inhabitant and equal to the 12.2% of the GDP. If the \in 11,5 billion⁵ collected by the State

remained in Veneto, the expenditure of the local Bodies – at an equal fiscal pressure – could increase of 78%⁶, up to a figure of over \in 26,2 billion, equal to 21.8% of the regional GDP, and to a value of \notin 5,700 per inhabitant.

 Table 1.6. Incomplete federalism

 in Veneto (2003)

	Current expenditure	Fiscal residue	Theoretical expenditure	Variation
(millions of euro)	14.741	11.504	26.245	+ 78%
(euro per capita)	3.220	2.513	5.734	

Figures based on data from the Department of Development Policy.

Imagining that these $\notin 11,5$ billion could be spread uniformly across various expenditure items, Veneto's local government Bodies could invest this surplus in numerous institutional activities which would benefit citizens and local businesses. For example, health and social assistance expenditure could go from $\notin 1,344$ per inhabitant to almost $\notin 2,400$, obviously without any additional cost for the local population (Table 1.7). At the same time, more resources could be invested in transport and local infrastructures, raising the current budget from $\notin 399$ per capita to more than $\notin 700$. Furthermore, there would be more money left to take care of the environment and the hydro-geological configuration, as resource availability would go up to about $\notin 825$ per citizen, $\notin 362$ more than the current $\notin 463$.

However, these additional resources for Veneto also include expenditure for allowed interests; even though Veneto does not generate public debt (as seen in Table 1.5), local balances still suffer considerably because of the interests on the national debt, that, as we recalled, fall upon the shoulders of the whole society. Notwithstanding the expenditure due to interests, roughly equal to $\notin 631$ per capita (2.4% of the GDP), Veneto could still have at its disposal $\notin 5,102$ per capita, well over the current $\notin 3,220$ (expenditure could anyway experience a 58.4% rise).

It is important to underline that the increased expenditure capacity would produce greater investments in the territory and a noticeable growth of local GDP. To this end, an interesting picture emerges if we imagine to apply the outline of Table 1.7 to the infrastructure problem. The infrastructure, mobility and transport issues are crucial topics for businesses in Veneto. The regional productive system suffers from a lack of adequate transport infrastructures, thus depressing and slowing down economic development. Efficiency of transport and mobility systems and an adequate infrastructure endowment represent an essential factor for the growth and development of the economic system.

⁵ It has been decided to base the analyses solely on the 2003 data in order to provide a direct comparison with the expenditure of Veneto's local Administrations. In any case, the figure of \in 11,5 billion referring to Veneto's fiscal residue in 2003 is in line with that of the previous years (\in 10,126 billion in the three years 2001-2003).

⁶ The average annual increase from 2001 to 2003 would stabilize at +71%.

	Current	Fiscal	Theoretical
	expenditure	residue	expenditure
	(A)	(B)	(A+B)
(millions of euro)			
General services	1.988	1.552	3.540
Education and Traning	826	645	1.471
Health and welfare	6.154	4.803	10.956
Economic development	675	527	1.202
Culture and sport	298	233	531
Territory and environment	2.121	1.656	3.777
Infrastructures and transport	1.827	1.426	3.253
Other	851	664	1.515
Total	14.741	11.504	26.245
(euro per capita)			
General services	434	339	773
Education and Traning	180	141	321
Health and welfare	1.344	1.049	2.394
Economic development	147	115	263
Culture and sport	65	51	116
Territory and environment	463	362	825
Infrastructures and transport	399	312	711
Other	186	145	331
Total	3.220	2.513	5.734
(in % of the GDP)			
General services	1,7	1,3	2,9
Education and Traning	0,7	0,5	1,2
Health and welfare	5,1	4,0	9,1
Economic development	0,6	0,4	1,0
Culture and sport	0,2	0,2	0,4
Territory and environment	1,8	1,4	3,1
Infrastructures and transport	1,5	1,2	2,7
Other	0,7	0,6	1,3
Total	12,2	9,6	21,8

Table 1.7. Veneto. Greater expenditure in peripheral Administrations at equal fiscal pressure (2003).

Note: (A) indicates the expenditure of Veneto's peripheral Administrations (Regions, Provinces, 'Communes') in 2003. (B) indicates the possible increase in spending, if the fiscal residue that currently goes into the State coffers (\pounds 11,5 billion) were to stay in Veneto. (A+B) shows the new resulting expenditure capacities of Veneto's peripheral Administrations, given a proportional distribution of the current expenditure structure. The GDP is given at current prices.

Figures based on data from the Department of Development Policy, from ISTAT and from ISSiRFA-CNR.

	Current expenditure	Fiscal residue	Theoretical expenditure	Expenditure for allowed interests	Theoretica expenditure net after interests
	(A)	(B)	(A+B)	(C)	(A+B)-C
(millions of euro)	14.741	11.504	26.245	2.891	23.355
(euro per capita)	3.220	2.513	5.734	631	5.102
(in % of the GDP)	12,2	9,6	21,8	2,4	19,4

Table 1.8. Veneto. Interest-connected expenditure effects on fiscal residue and on theoretical expenditure (2003).

Figures based on data from the Department of Development Policy, from ISTAT and from ISSiRFA-CNR.

The annual resource surplus (€11,5 billion) which could benefit Veneto if there was an 'extreme' form of federalism, would allow the creation of 717km of new roads, with no added fiscal pressure. Despite being a purely theoretical exercise, it seems useful, both to understand the quantities of money at play and to understand the development opportunities that Veneto's economic and productive system has not been able to capitalize on⁷.

An equalizing intervention for territories with a minor fiscal capacity is however necessary, and cannot be brought into question; such an institution is also envisaged by the Constitutions of countries with a long-standing federal tradition such as Germany, where the East-West dualism is comparable in some ways with the North-South dualism of Italy. The problem lies in the enduring institutional stalling, when in fact we would need a strong move towards greater autonomy, making local governments become responsible by encouraging a more aware and intelligent administration, even by assigning own taxes to peripheral administrations according to the logic of **spending tax money in the areas from where it is taken.** The current system certainly does not encourage responsible government, nor the development of good government practices; in the same manner abnormal levels of equalization, still over-attached to historical spending patterns, aren't useful nor encourage the attitude of 'who spends more, receives more'⁸.

In a coherent and functional federal model the criteria that regulate equalization must be based on a 'healthy competition' mind-set, which allows regional administrations to excel for greater accountability and management efficiency.

This model of 'competitive federalism' however isn't exempt from criticism. In particular it is held that this model would contribute to and amplify the difference between rich and poor regions. The model's detractors, basing their argument on the presumed current levels of tax evasion in the North-East, expressed their concern that rich regions would subtract important resources from the redistributive mechanism. In reality, the figures undermine such stance. **Veneto in fact has a tax-paying rate of 61.9%** (given by the incidence of the IRPEF net tax contributors on the total population), **7% higher than the national average⁹.**

Furthermore, the rate of detected unpaid taxes (derived by comparing the actual taxpayers and the potential income receiving population) brings Veneto close to 90% (89.4%), a good 5.2% above average tax-paying levels¹⁰. In Veneto, revenue collected by the tax office through enforced tax-collection is below national average; resources per tax-payer (\in 31.92 per inhabitant) find lower than national-average figures for tax evasion in Veneto (\in 33.48)¹¹.

⁷ For further discussion of additional costs caused by delays, inefficiency, etc., please see a) Comitato Transpadana, *I costi del non fare* (Milan, 11 December 2006); b) Djankov, S. – Freund, C. – Pham, S.C., *Trading on time* (World Bank, 26 January 2007).

⁸ To this end concern it is interesting to note the conclusions of the High Commission for fiscal federalism, which proposed a region-funding system ensuring almost total coverage of expenses, minimizing transfers from the redistribution fund.

⁹ 2003 declaration of revenues for the year 2002.

¹⁰ Calculated on the basis of the 2003 declaration of revenues for the year 2002; population numbers exclude people under-15 years old and the unemployed.

¹¹ Data from 2006 forced collection (published by the Inland Revenue Office) has been related to the resident population on the 31st of December 2005 (ISTAT) and to the added value of current prices (2005, the latest available year; source ISTAT).

The recovered money, moreover, constitutes just the 0.13% of the regional added value, versus the national average of 0.15%. Hence, tax evasion is higher in other regions than in Veneto.

Tax evasion being a wide-spread national problem, the abovementioned Indexes confirm the injustice of labelling Veneto as the region which, more than any other, tries to evade its fiscal obligations towards the State and the nation as a whole. Quite the opposite: our region emerges as a territory which amply sustains public finance, a region from which the State drains resources amounting to roughly \in 10 billion euro per annum.

1.3. Autonomy and local tax pressure

All the above-mentioned arguments can be further developed along the lines of tax pressure. In 2003, the taxes of Veneto's peripheral Administrations amounted to €1,765 per inhabitant (€1,240 for the regional level and €525 for the provincial and communal one), a good €400 higher than the national average and almost three times that of Calabria (see Table 1.9 and the statistical Appendix). The high local tax pressure can be attributed to scarce resources coming from the State, little more than €800 per capita against a national average of €1000. The paucity of State financial flows has brought Veneto to develop the basis for supporting substantial fiscal autonomy; in fact, the index of autonomy is estimated to be close to 68%, a percentage in line with Emilia Romagna, Piedmont and Tuscany, although the first among these is Lombardy (78%). However, some regions with special statutes, like the autonomous Province of Bolzano and the Aosta Valley Region, enjoy a higher degree of autonomy than Lombardy; such situation is the effect of the special tax system of these regions which allows them to retain up to 90% of the revenue of some State taxes, making these resources figure as revenue from own regional taxes¹².

Veneto has nonetheless demonstrated, in recent years, to be close to a completely independent taxation system, despite the fact that fiscal federalism is still not a reality. The index of autonomy has grown from 29.7% in 1996 to 68.1% in 2003, maintaining itself on the back of a higher than national-average level. Let us remember that the national average also includes figures for the special-statute regions, which have a tax system not directly comparable with that of the other regions (the degree of autonomy for the regions with an ordinary statute would fall to 53.5%).

	1996	2003	Variation
Veneto	29,7	68,1	+38,4
ROS*	25,7	58,4	+32,8
Italy	25,2	57,4	+32,2

Table 1.9. Index of autonomy of theperipheral Administrations (%):1996 and 2003

(*) excluding Veneto.

(For complete table and graph please see Appendix)

Figures based on data from the Department of Development Policy.

¹² In this concern see Zanardi (2006).

In the last decade the peripheral Administrations have progressively increased their role in the internal workings of the national institutional system, thanks to the decentralizing process which has assigned further competences to the Regions, Provinces and 'Communes'. The slow withdrawal of the State and the decline of the derived-finance mind-set have brought an increase in local taxation pressure, with peripheral Administrations called to handle the widening of their spending responsibilities. This is a shared and physiological element in decentralized or federalized State organizations. In Italy, instead, **greater local taxation** (to match the greater powers and responsibilities of local Bodies) **has not been matched by a corresponding fall in the levels of State taxation** (which should no longer seek to fund activities whose responsibility has been assigned to peripheral Administrations): the levels of State taxation remained relatively stable between 1996 and 2003, thus inexorably raising overall levels of taxation (Graph 1.1).





(GDP at current prices)

(For complete table and graph please see Appendix)

Figures based on data from the Department of Development Policy.

Taken as a whole, tax pressure levels in Veneto are among the highest in Italy, equal to 32.9% of the regional GDP. The list is headed by Lombardy (35.7%), Aosta Valley (34.8%, *special system Region*), and Emilia Romagna (34.7%). The slenderness of State transfers and the considerable levels of central taxation inexorably are leading, in order to avoid cuts in public services, to a rise in local government taxation.

Appendix: tables and graphs

	(Millions of euro)			(eu		
	Income	Expenditure	Difference	Income	Expenditure	Difference
Lombardy	155.025	125.041	29.983	17.020	13.728	3.292
Emilia R.	62.775	52.124	10.651	15.576	12.933	2.643
Veneto	60.637	49.133	11.504	13.247	10.734	2.513
Piedmont	56.675	55.338	1.337	13.394	13.078	316
Tuscany	46.075	45.443	632	13.103	12.924	180
Marche	17.469	17.290	178	11.767	11.646	120
Abruzzo	12.785	14.256	-1.471	10.041	11.196	-1.155
Lazio	79.284	86.642	-7.358	15.407	16.837	-1.430
Campania	41.774	53.296	-11.523	7.297	9.309	-2.013
Puglia	29.495	38.363	-8.868	7.330	9.534	-2.204
Trentino-Alto Adige	13.894	15.993	-2.099	14.617	16.826	-2.208
Molise	2.791	3.507	-716	8.693	10.925	-2.232
Liguria	19.937	23.529	-3.593	12.681	14.966	-2.285
Umbria	9.629	11.614	-1.985	11.543	13.922	-2.379
Friuli V. G.	15.256	18.372	-3.116	12.803	15.418	-2.615
Sicily	36.109	50.300	-14.191	7.262	10.116	-2.854
Basilicata	4.535	6.362	-1.827	7.599	10.659	-3.060
Sardinia	14.697	19.915	-5.218	8.975	12.161	-3.186
Calabria	14.004	20.976	-6.972	6.976	10.449	-3.473
Aosta Valley	1.936	2.512	-576	16.010	20.778	-4.767
ITALY	694.782	710.007	-15.225	12.121	12.386	-266

Table 1.1. Fiscal residue of the public Administrations

 Income and total funded expenditure distribution (2003)

Table 1.1.a. Fiscal residue of the public AdministrationsComparison Italy-Veneto: 1996-2003 (euro per inhabitant)

	1996	1997	1998	1999	2000	2001	2002	2003
Income Italy	8.510	9,253	9,467	10.240	10.391	11.089	11.520	12.121
Expenditure Italy	9.804	9.631	10.108	10.557	10.668	11.540	12.069	12.386
Italy	-1.295	-377	-641	-317	-277	-451	-548	-266
Income Veneto	9.597	10.456	10.660	11.505	11.512	12.225	12.114	13.247
Expenditure Veneto	8.619	8.543	8.769	9.155	9.483	9.958	10.221	10.734
Veneto	978	1.913	1.890	2.350	2.029	2.267	1.893	2.513





Figures based on data from the Department of Development Policy

	(Millions of euro)		(e	uro per inhabitant)	bitant)	
	Income	Expenditure	Difference	Income	Expenditure	Difference
Trentino-Alto Adige	11.271	7.066	4.205	11.858	7.434	4.424
Lombardy	121.197	87.128	34.069	13.306	9.565	3.740
Veneto	50.442	34.392	16.050	11.020	7.513	3.506
Emilia R.	50.930	36.873	14.057	12.637	9.149	3.488
Aosta Valley	1.548	1.186	361	12.801	9.812	2.989
Piedmont	47.905	40.176	7.729	11.321	9.495	1.827
Tuscany	38.573	32.649	5.924	10.970	9.285	1.685
Marche	14.493	12.295	2.198	9.762	8.282	1.481
Abruzzo	10.766	10.142	624	8.455	7.965	490
Friuli V. G.	13.656	13.356	300	11.460	11.209	252
Umbria	7.994	7.789	206	9.583	9.337	246
Campania	36.080	36.515	-435	6.302	6.378	-76
Lazio	68.683	69.218	-535	13.347	13.451	-104
Sardinia	12.118	12.481	-363	7.399	7.621	-222
Liguria	16.918	17.323	-405	10.761	11.018	-257
Sicily	30.503	31.788	-1.285	6.135	6.393	-258
Puglia	25.506	27.586	-2.080	6.339	6.855	-517
Molise	2.337	2.505	-167	7.280	7.801	-521
Basilicata	3.849	4.309	-460	6.449	7.220	-770
Calabria	11.971	14.397	-2.427	5.963	7.172	-1.209
ITALY	576.739	499.172	77.567	10.062	8.708	1.353

Table 1.2. Fiscal residue of the central AdministrationsIncome and total funded expenditure distribution (2003)

Table 1.2.a. Fiscal residue of the central AdministrationsComparison Italy-Veneto, 1996-2003 (euro per inhabitant)

	1996	1997	1998	1999	2000	2001	2002	2003
Income Italy	7.640	8.280	8.131	8.719	8.775	9.326	9.708	10.062
Expenditure Italy	7.517	7.127	7.428	7.682	7.574	8.102	8.519	8.708
Italy	123	1.154	702	1.037	1.201	1.225	1.189	1.353
Income veneto	8.773	9.508	9.285	9.888	9.941	10.372	10.582	11.020
Expenditure Veneto	6.538	6.335	6.515	6.696	6.666	6.989	7.064	7.513
Veneto	2.235	3.172	2.770	3.192	3.275	3.383	3.518	3.506





Figures based on data from the Department of Development Policy

Table 1.3. Fiscal residue of the peripheral Administration	ns
Income and total funded expenditure distribution (2003)

		Millions of euro)		(eu	ro per inhabitant)	
	income	expenditure	difference	income	expenditure	difference
Lombardy	33.828	37.913	-4.086	3.714	4.162	-449
Emilia R.	11.845	15.252	-3.406	2.939	3.784	-845
Veneto	10.195	14.741	-4.546	2.227	3.220	-993
Lazio	10.601	17.424	-6.823	2.060	3.386	-1.326
Marche	2.975	4.995	-2.020	2.004	3.364	-1.360
Tuscany	7.503	12.794	-5.292	2.134	3.639	-1.505
Piedmont	8.771	15.162	-6.392	2.073	3.583	-1.511
Abruzzo	2.019	4.114	-2.095	1.586	3.231	-1.646
Puglia	3.989	10.777	-6.788	991	2.678	-1.687
Molise	454	1.003	-549	1.413	3.124	-1.711
Campania	5.694	16.781	-11.087	995	2.931	-1.937
Liguria	3.019	6.207	-3.188	1.920	3.948	-2.028
Calabria	2.033	6.579	-4.546	1.013	3.277	-2.264
Basilicata	686	2.053	-1.367	1.150	3.440	-2.290
Sicily	5.606	18.512	-12.906	1.128	3.723	-2.596
Umbria	1.635	3.825	-2.190	1.960	4.585	-2.625
Friuli V. G.	1.600	5.016	-3.416	1.343	4.209	-2.866
Sardinia	2.579	7.434	-4.855	1.575	4.539	-2.964
Trentino-Alto Adige	2.623	8.927	-6.304	2.760	9.392	-6.632
Aosta Valley	388	1.326	-938	3.209	10.965	-7.756
ITALY	118.043	210.835	-92.792	2.059	3.678	-1.619

Table 1.3.a. Fiscal residue of the peripheral AdministrationsComparison Italy-Veneto: 1996-2003 (euro per inhabitant)

	1996	1997	1998	1999	2000	2001	2002	2003
Income Italy	870	973	1.336	1.521	1.616	1.763	1.812	2.059
Expenditure Italy	2.287	2.504	2.680	2.875	3.094	3.439	3.550	3.678
Italy	-1.417	-1.531	-1.344	-1.354	-1.478	-1.676	-1.738	-1.619
Income Veneto	824	948	1.375	1.618	1.571	1.853	1.532	2.227
Expenditure Veneto	2.081	2.208	2.254	2.459	2.817	2.968	3.157	3.220
Veneto	-1.257	-1.260	-879	-842	-1.247	-1.115	-1.625	-993

Figure 1.3.



Figures based on data from the Department of Development Policy

	1996	2003
Lombardy	6,8	11,1
Veneto	4,8	9,6
Emilia R.	-1,4	9,1
Piedmont	-2,3	1,2
Tuscany	-5,8	0,7
Marche	-4,5	0,5
Lazio	-17,2	-5,3
Abruzzo	-16,4	-5,9
Trentino-Alto Adige	-8,8	-7,1
Liguria	-14,4	-8,9
Friuli V. G.	-11,6	-9,7
Umbria	-11,6	-10,6
Molise	-25,5	-12,4
Campania	-21,2	-12,9
Puglia	-18,5	-14,3
Aosta Valley	-19,7	-16,2
Sardinia	-29,5	-17,7
Sicily	-24,5	-18,1
Basilicata	-28,1	-19,0
Calabria	-36,2	-23,6
ITALY	-7,5	-1,1

Table 1.4. Public deficit organized by regionPeriod 1996-2003 (in % of the GDP)

(GDP at current prices)

Figures based on data from the Department of Development Policy

Table 1.5.	Hypothetical	redistribution	n of public d	debt by region
Millions of	euro			

willions of euro				
	Accrued fiscal residue	Debt*	Debt/GDP	Per capita debt
	(1996-2003)	(1996-2003)	(%)	(in euro)
Piedmont	-12 121	0	0.0	0
Aosta Vallev	4 056	4 056	114 1	33 546
Lombardy	-156 716	4.050 0	0.0	0-10-55 0
Liquria	26 486	26 486	65.6	16 846
Trentino-Alto Adiae	15 709	15 709	52.8	16 527
Veneto	-71.316	15.705	0.0	10.527
Friuli V. G.	16.425	16.425	51.1	13,784
Fmilia R.	-48.974	0	0.0	0
Tuscany	-746	0	0.0	0
Umbria	11.031	11.031	59.1	13.223
Marche	1.177	1.177	3,4	793
Lazio	72.628	72.628	52,5	14.114
Abruzzo	13.398	13.398	53,7	10.522
Molise	6.993	6.993	121,3	21.783
Campania	89.508	89.508	100,6	15.634
Puglia	59.219	59.219	95,4	14.717
Basilicata	14.834	14.834	154,3	24.855
Calabria	54.493	54.493	184,1	27.146
Sicily	104.024	104.024	132,8	20.921
Sardinia	39.518	39.518	134,4	24.131
ITALY	239.625	529.498	84,6	16.621

 $(\ensuremath{^\star})$ Fiscal residue only from the regions in the red

Figures based on data from the Department of Development Policy

	Indox of	0	Own taxes			State transfers		
	autonomy (%)	Regional	Local	Peripheral	To Regions	To local Bodies	To peripheral Bodies	
A. P. of Bolzano	92,1	1.242	287	1.529	92	39	131	
Aosta Valley	82,8	1.609	447	2.056	376	50	426	
Lombardy	78,3	1.609	588	2.197	420	189	609	
Emilia R.	73,6	1.408	644	2.051	430	307	737	
Veneto	68,1	1.240	525	1.765	585	240	825	
Piedmont	66,2	895	568	1.463	481	265	747	
Tuscany	64,2	795	650	1.445	459	346	805	
A.P. of Trento	62,0	832	395	1.227	621	130	751	
Lazio	61,4	857	586	1.443	426	481	907	
Marche	60,5	951	509	1.459	658	295	954	
Liguria	56,4	318	748	1.066	512	314	826	
Abruzzo	54,8	485	451	935	416	354	770	
Umbria	50,3	555	495	1.049	583	455	1.038	
Friuli V.G.	48,6	32	427	459	245	241	486	
Molise	41,3	575	314	888	799	462	1.261	
Sicily	38,3	443	295	738	619	570	1.189	
Sardinia	37,5	529	397	925	1.063	480	1.543	
Campania	35,0	390	331	722	798	541	1.339	
Basilicata	33,4	377	282	659	793	518	1.311	
Puglia	30,1	344	402	746	1.382	354	1.736	
Calabria	21,4	340	264	604	1.725	490	2.216	
ITALY	57,4	854	494	1.348	640	359	1.000	

Table 1.6. Fiscal autonomy of the peripheral AdministrationsRegions' and Local Bodies' specific taxes and national revenue transfers in 2003 (euro per capita)

Figure 1.4.





	Central	Regional	Local	Total
Lombardy	28,3	5,4	2,0	35,7
Aosta Valley	27,8	5,5	1,5	34,8
Emilia R.	27,6	4,9	2,2	34,7
Veneto	26,2	4,7	2,0	32,9
Tuscany	27,2	3,1	2,5	32,9
Lazio	27,4	3,2	2,2	32,8
Piedmont	27,0	3,4	2,2	32,6
Marche	25,5	4,1	2,2	31,7
A.P. of Trento	26,7	3,0	1,4	31,1
Liguria	26,7	1,2	2,9	30,9
Abruzzo	25,5	2,5	2,3	30,3
Umbria	25,5	2,5	2,2	30,2
Puglia	25,2	2,2	2,6	30,0
Sardinia	24,7	2,9	2,2	29,9
Campania	24,6	2,5	2,1	29,3
Sicily	24,1	2,8	1,9	28,8
Molise	22,9	3,2	1,7	27,8
Friuli V.G.	26,0	0,1	1,6	27,7
Calabria	23,3	2,3	1,8	27,4
A. P. of Bolzano	21,6	3,6	0,8	26,0
Basilicata	21,9	2,3	1,7	26,0
Ord. Stat. Regions	26,8	3,8	2,2	32,8
Spec. Stat. Reg.	24,6	2,5	1,7	28,8
ITALY	26,5	3,7	2,1	32,3

Table 1.7. Fiscal pressure by region (2003)Composition by level of government (in % of the GDP)

(GDP at current prices)

Figures based on data from the Department of Development Policy


Figure 1.5.

Figure 1.6. Fiscal pressure by region in Italy (in % of the GDP)



(GDP at current prices) Figures based on data from the Department of Development Policy

Chapter 2 Federalism and Development: some European experiences

2.1 Decentralization in the European countries

Italy is formally a federal country, in as much as the reform of Title V of the Constitution sanctioned a break from the ideal of the unified State. The plural structure of the Italian State is defined in article 114 as follows:

the Republic consists of the Communes, the Provinces and the Metropolitan Cities, of the Regions and of the State.

while article 118 gives constitutional approval to the principle of subsidiarity, according to which public decisions must be taken at a level of government as close as possible to the citizens, for this reason, administrative competences are assigned primarily to the 'Communes' and secondarily to the Provinces, the Regions and the State.

administrative functions are assigned to the Communes apart from the cases where the unity of their practice must be guaranteed, in which case they are transferred to the Provinces, to the Metropolitan Cities and to the State. All this follows the principles of subsidiarity, differentiation and adequacy.

Legislative authority is instead assigned to the State or to the Regions (Art. 118), while the guidelines for fiscal federalism are given in article 119:

the Communes, the Provinces, the Metropolitan Cities and the Regions have financial autonomy regarding income and expenditure.

the Communes, the Provinces, the Metropolitan Cities and the Regions have autonomous resources. They establish and enforce their taxes and income, in harmony with the Constitution and according to the principles of coordination of public finance and of the taxation system. They participate in the use of the central tax revenue that is referable to their territory.

In recent years, however, peripheral Administrations have been assigned not only further legislative and administrative competences, but substantial sources of income (such as IRAP, ICI, the participation to Irpef and IVA, and additional Irpef) as well. Through an analysis of the figures regarding the financial resources of peripheral Bodies, it is possible to outline the evolution of the decentralization process started in the 90s and to quantify it in terms of resource allocation. This exercise allows us to 'map' decentralization, identifying Italy's position compared with other European countries, and in particular those with a federal constitution (Austria, Belgium, Germany and Spain).

Even so, we must recall that it is difficult to find, in real experiences of fiscal decentralization, evident signs of a convergence towards a single defining

pattern. The actual configuration of financial relations between different levels of government differs notably amongst countries; these differences appear to have stemmed from historical events and from the socioeconomic structure of each country, rather than from the form of government¹.

The index of decentralization (for income as for expenditure) only partially describes the effective accomplishment of the federal process: from a simple analysis of resources available to peripheral Bodies (in relation to the income or expenditure totals of public Administrations) it isn't possible to see either the autonomy to set rates, or the power to introduce their own taxes or the freedom to choose from where these taxes will be taken. In substance, it is not possible to define the limits within which territories are free to organize autonomously (and independently) the gathering of necessary resources.

In any case, the tables regarding the index of decentralization give an indication of the resource quotas given to the peripheral levels of government. In particular for the majority of EU countries the data shows the tendency to an increase in the resources at the disposal of local administrations.

After this important premise, one can analyze the data regarding locallygathered taxes. The taxes gathered by peripheral Administrations are growing in most EU countries, Italy included: therefore, **the index of fiscal decentralization has almost doubled in less than a decade,** from 12.6% in 1996 to 23.0% in 2004. The process of decentralization in Italy, therefore, has made some important steps forward: IRAP and the participation in the revenue of some central taxes are the main originators of this growth (Table 2.1 and Graph 2.1).

		1996	2000	2004
Germany	F	51,9	51,1	50,5
Spain	F	21,3	26,2	46,8
Italy	С	12,6	20,6	23,0
France	С	19,0	15,4	16,9

(For complete table please see Appendix) Figures based on Eurostat data

On this particular scale Italy finds itself in the 8th position, far from the peripheral Administrations of Germany and Spain, which retain taxes equivalent to 50.5% and 46.8% of the total. The role of the German *Landers* and of the Spanish *Comunidades Autonomas* – institutions between the State and the local Bodies – appears particularly relevant, not only for their legislative authority but especially for their fiscal powers.

Fiscal decentralization in Italy has registered significant gains. Currently, the index of decentralization in Italy touches higher values than those recorded in federal countries like Belgium (14.5%), and in unitary States like France (16.9%) and the UK (6.0%).

 Table 2.1. Index of fiscal

 decentralization (%):

 1996, 2000, 2004

¹ Zanardi, A.: Per lo sviluppo. Un federalismo fiscale responsabile e solidale (Il Mulino, 2006).

Graph 2.1. Structure of public

Administrations' tax-return in the EU countries (2004)



(For complete table and graph please see Appendix) *Figures based on Eurostat data*

Local tax increase is not in itself a negative factor: a greater correlation between what is taxed and what is administered reinforces the links between administrators and citizens, in so far as the latter will be able to evaluate with better transparency whether the amount of taxes paid justifies the quality of the provided services, and have the chance to 'punish' inefficiency and waste at the elections. Those who control the levers of public power will thus be stimulated to greater efficiency in order to avoid unnecessary increases in local taxes.

What is not fully justifiable is raising local taxes without a corresponding proportional drop in State taxation. In Italy, between 1996 and 2004, the fiscal pressure of peripheral Administrations rose by 3.1% of the GDP, while remaining well below these levels in Germany and Spain; nonetheless, central tax-gathering has shown a certain rigidity, in so far as the drop in central taxation was, in the same period, inferior to the rise in local taxation (see Graph 2.2 and Table 2.2). The biggest federal States, meanwhile, show different dynamics. In Spain, the concession of extra powers to the Comunidades Autonomas has had the effect of raising local tax pressure, with a consequent significant fall in the taxes collected by Madrid. Unlike Spain and Italy, Germany has been a federal State for roughly 60 years; therefore, the fiscal relationship between central and peripheral Administrations is substantially well defined and consolidated. Central taxation pressure develops in line local taxation pressure.

A final consideration: the Italian tax burden (28.1%) is much higher than that of Spain (22.5%) and Germany 22.0%): this is explained by structural differences, amongst which there could be the division by 50% of the tax lever, while in Italy inland revenue is probably still too centralized.



The index of expenditure decentralization is equal to 32.5%: this means that, in Italy, around **one third of public spending is attributable to the Re-gions, Provinces and 'Communes',** with the State and the Social Security Bodies controlling the remaining two thirds. The patterns of local spending show a significant growth in the period 1996-2004, from 25.4% to 32.5% (Table 2.2). The peripheral Administrations of Spain and Germany, which detain a higher level of fiscal autonomy, manage a much higher quota of public spending, even reaching – in the Spanish case – more than half of the total.

Examining the combined data of income and expenditure, one can see how the peripheral Administrations spend without having sufficient resources from local taxes to cover such commitments. If this picture shows some differences between EU countries, the tendency is for the balances of peripheral Administrations to be integrated with central State contributions, even if quotas of these contributions cover State functions managed by peripheral Bodies. Therefore, it is likely that the implementation of Article 119 of the Constitution would mean increases in the expenditure quotas of Italian peripheral Administrations, bringing them to the levels of the other federal countries.

	1996	2000	2004
Spain	n.d.	46,2	52,1
Germany	44,8	46,1	43,1
Italy	25,4	30,5	32,5
France	18,4	18,9	20,3

 Table 2.2. Index of expenditure

 decentralization (%): 1996, 2000, 2004

(For complete table please see Appendix) Figures based on Eurostat data

A deeper understanding of decentralization related to expenditure can also be reached by analysing expenditure for final consumption; this aggregate data in fact represents the heart of public spending, including items like expenditure on personnel, the purchase of goods and services on the market and intermediate consumption². Expenditure for final consumption, equal to around 40% of public spending, does not therefore include capital account outlays, transfers to lower-level administrative Bodies, and social benefits in cash (pensions, family cheques). These, all together, represent the current expenditure for activities which are under the strict responsibility of the local Administration. Not including expenditure items such as transfers and pensions, it is possible to gain a more homogenous and meaningful comparison of public Administrations' expenditure.

After this due premise, let us observe the composition of expenditure for final consumption at each level of government (Graph 2.3 and Table 2.5 in Appendix). In 2004 the Italian peripheral Administrations absorbed an expenditure quota for final consumption (around 57%) higher than that of central government (40%), contrasting with the average trends of the other EU countries. It is

² Expenditure for intermediate consumption is 'the value of the consumed goods and services as input of a productive process, excluding fixed capital whose consumption is registered as amortization. The goods and services can be transformed or used up during the productive process' (ISTAT).

a value which places Italy at a distance from centralized States, where expenditure for final consumption is still largely a responsibility of the central government (UK, Netherlands, Portugal and Greece).

Effective expenditure, therefore, denotes in Italy a significant level of decentralization: the next step is to assign adequate resources to peripheral Administrations to enable them to incur such expenses, removing their financial dependence on the State in favour of a stricter correlation between levied taxes and derived benefits.

100%



(For complete table and graph please see Appendix) *Figures based on Eurostat data*



2.2. Federalism as a vehicle for development

The tendency towards decentralization is something that many EU countries have in common. Apart from Germany and Spain, which are to all intents and purposes 'federalist' countries, the UK and France are also experimenting various forms of decentralization. Federalism is in fact deemed to be an institutional solution able to generate significant benefits not only for public finance but also for the economic system, thanks to the possibility of carrying out widespread investments and projects aimed at increasing support to local development.

Is there a correlation between institutional assets and economic performance? The opportunity to manage their own resources would permit peripheral Administrations to affirm their role as creators of local development. Greater fiscal and normative autonomy would guarantee benefits for the local economy, and not only because of a better knowledge of the actual problems of the area. Lower-level government bodies that are part of a centralized State or of a Federation, in virtue of their vicinity to the local population, guarantee solutions best suited to the preferences of the population residing within that jurisdiction.

By means of suitable indicators we offer a comparative analysis of Veneto and other European regions. Specifically, we consider the regions of two federal States; Bavaria and Baden-Württemberg in Germany, and Catalonia and the Basque Country in Spain. Furthermore, we take into consideration Ireland, because of its recent high levels of growth. The choice to include a State such as Ireland in an analysis comparing regions is justified by its small demographic and geographical scale, similar to those of the regions which we examine.

To do this we will consider a series of indicators, opportunely organized and synthesized in 'scores' through a special statistical procedure. The scores emerging from the processing of the indicators are offered in relation to the figures given for expenditure decentralization, which measure the quotas of expenditure managed by peripheral Administrations on the whole. This represents the ideal analytical continuation of what was discussed in the first Chapter, with Veneto "forced" to spend on the territory only a small part of the fiscal resources collected within it (Graph 2.4).

Regarding the contents of the comparison (see the following graphs) we see excellent results in terms of **GDP** and **productivity** in Ireland, and a good performance in the Iberian regions. Veneto, meanwhile, reveals a discouraging situation, due above all to the downturn in the gross domestic product in 2003 (-0.1%).

Regarding family income, Veneto reveals a better picture, much in line with the Basque Country and Bavaria, and better than Catalonia. The disposable income of Veneto's families (envisaging purchasing power parity) is equal to $\notin 15,701$ against $\notin 14,733$ in Catalonia.

However **labour** represents the sector that reflects the best results for Veneto: low unemployment rates (4.2%), and activity levels (53.9%) similar to many other regions, allowing Veneto's labour market a position above the European average.

³ Zanardi, A.: Per lo sviluppo. Un federalismo fiscale responsabile e solidale (Il Mulino, 2006).

⁴ To this extent see Table 2.6 in the Appendix of this chapter, which shows the used indicators.



Graph 2.4. Correlation between levels of decentralization and macroeconomic indicators – detail.

Note: the 'scores' are the result of a statistical analysis of some indicators inherent to each discussed theme. The complete list of indicators used to calculate the 'scores' is to be found in the Appendix of this chapter (Table 2.6). *Figures based on Eurostat data*

Some difficulties emerge regarding the **evolutionary dynamics of the entrepreneurial system.** The fall of operators and local manufacturing units has for a long time constituted a point of weakness, partially compensated by the growth in the service sector. In this field a federal system could guarantee suitable tools for dealing with delicate economic phases like today's, financing for example the re-qualification and refreshing of professional skills.

Innovation, the ground on which development and economic growth grow, presents for Veneto a substantially satisfying picture. The only criticism is the low level of spending on research and development incurred by enterprises, equal to 0.7% of the GDP, against 3.9% in Baden-Württemberg. Nonetheless, Veneto's economic system is based upon a diffuse structure of small enterprises, which carry out research and development activities that are not easily identifiable in statistical analysis.

Veneto performs well in the area of **road networks** and **transport**. The obtained score is second only to that of the Basque Country. The structural endowment, measured in terms of concentration of rail or road networks per square km, gives only a quantitative indication, without giving an idea as to its quality; it is in this sense that more resources assigned to peripheral Administrations could offer an improvement in the quality of mobility in Veneto.

The **complete picture** (Graph 2.5) places Veneto at much the same level as the other analyzed Regions. Even if the choice of the indicators and their statistical analysis could be refined and improved, one clear and fairly outlined fact stands out. Despite missing out on the benefits of a federal system, Veneto has nevertheless been able to equal the performances of regions like Baden-Württemberg and the Basque Country, which are part of true federal States. Yet fiscal federalism remains necessary: **those** \notin **11,5 billion of fiscal residue represent an untapped resource**, which could guarantee highly better-than-European-average *performances* to Veneto in terms of competitiveness, economic development, transport system improvement, support for enterprises, and income available to families.



Figures based on Eurostat data

Graph 2.5. Correlation between levels of decentralization and macroeconomic indicators (synthesis)

Appendix: tables and graphs

-					
			1996	2000	2004
DE	Germany	F	51.9	51.1	50.5
ES	Spain	F	21.3	26.2	46.8
SE	Sweden	C	42,2	39,3	44,9
DK	Denmark	C	, 32,6	34,8	35,4
FI	Finland	С	32,6	29,2	28,6
AT	Austria	F	30,5	28,7	26,3
LV	Latvia	Ν	31,6	25,5	26,1
IT	Italy	С	12,6	20,6	23,0
CZ	Czech Republic	Ν	19,8	20,7	22,0
PL	Poland	Ν	17,5	15,8	21,1
EE	Estonia	Ν	18,1	21,4	20,3
HU	Hungary	Ν	11,2	14,6	17,9
FR	France	С	19,0	15,4	16,9
BE	Belgium	F	11,0	10,0	14,5
LT	Lithuania	Ν	25,8	29,0	14,1
SI	Slovenia	Ν	11,0	11,8	12,1
PT	Portugal	С	7,7	8,8	9,8
SK	Slovakia	Ν	6,1	6,9	8,0
LU	Luxemburg	C	9,1	7,9	6,9
NL	The Netherlands	C	5,8	5,8	6,6
UK	United Kingdom	C	4,7	4,9	6,0
IE	Ireland	C	2,7	2,1	2,4
CY	Cyprus	N	1,1	1,8	1,8
GR	Greece	С	1,6	1,2	1,4
MT	Malta	N	0,0	0,0	0,0

Table 2.1. Index of fiscal decentralization (%).Percentage of peripheral Administrations' tax revenue upon the whole

C = Centralized states; F = Federal states; N = New EU members *Figures based on Eurostat data*

			1996				2000				200		
		Total	Central Adm.	Peripheral Adm.	Social sec. Bodies	Total	Central Adm.	Peripheral Adm.	Social sec. Bodies	Total	Central Adm.	Peripheral Adm.	Social sec. Bodies
Federa	states												
АТ	Austria	50.015	34.743	15.272		57.835	41.246	16.589		66.106	48.709	17.397	
BE	Belgium	63.335	55.468	6.994	873	76.658	67.397	7.644	1.618	87.973	72.994	12.795	2.185
DE	Germany	432.476	207.972	224.503		502.030	245.330	256.700		485.520	240.150	245.370	
ES	Spain	100.003	78.666	21.337		138.046	101.847	36.199		188.945	100.612	88.333	
Centra	lized states												
DK	Denmark	69.928	47.122	22.806		82.469	53.751	28.719		93.863	60.651	33.213	
Ħ	Finland	33.207	22.372	10.835		46.049	32.583	13.466		48.091	34.335	13.756	
FR	France	308.465	227.113	58.476	22.876	399.376	262.055	61.537	75.784	445.659	295.868	75.101	74.690
ß	Greece	20.937	20.317	333	287	32.464	31.576	405	483	38.236	36.966	533	737
出	Ireland	16.077	15.649	428		27.740	27.153	587		37.738	36.830	908	
ե	Italy	267.168	233.378	33.789		348.248	276.359	71.889		390.156	300.498	89.658	
B	Luxemburg	4.383	3.986	397		6.276	5.781	495		7.291	6.789	503	
NL	The Netherlands	79.224	74.661	4.564		090.060	93.331	5.729		113.773	106.239	7.534	
ΡT	Portugal	20.803	18.732	1.592	479	28.609	25.556	2.522	531	32.764	28.850	3.224	069
SE	Sweden	79.253	45.781	33.471		101.316	61.493	39.823		102.580	56.567	46.013	
Я	United Kingdom	262.230	249.902	12.327		475.829	452.748	23.080		498.925	469.180	29.745	
New m	lembers												
5	CVDRUS	1.438	1.423	15		2.362	2.319	43		3.276	3.217	59	
2	Czech Republic	9.999	8.016	1.983		12.076	9.581	2.494		18.456	14.404	4.053	
빒	Estonia	861	705	156		1.246	980	266		1.925	1.535	390	
ΠH	Hungary	9.434	8.378	1.056		13.350	11.397	1.953		20.687	16.982	3.705	
Ц	Lithuania	1.292	840	333	119	2.603	1.574	754	276	3.587	2.731	507	349
Z	Latvia	894	611	283		1.665	1.240	425		2.191	1.620	571	
MΤ	Malta	560	560	0		920	920	0		1.196	1.196		
Ы	Poland	31.813	26.244	5.569		36.789	30.976	5.813		39.237	30.943	8.293	
SI	Slovenia	3.792	3.374	418		4.972	4.388	584		6.486	5.698	787	
SK	Slovakia	4.270	4.008	263		4.516	4.204	312		6.235	5.733	502	

 Table 2.2. Structure of public Administrations' tax revenue in the EU countries (millions of euro)

Figures based on Eurostat data

The costs of "non-federalism"



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Social security Bodies

Peripheral Administrations

SK Central Administrations

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New members





Table	e 2.3. Tax pressure	by level of	f governı.	ment (% of th	e GDP)								-				
			year 1	966		I				year 20	00					year 20	4	
		AACC	AAPP	EEP	Ĕ	ו ⊨			AACC	AAPP	EEPP	TOT			AACC	AAPP	EEPP	TOT
Я	Denmark	32,4	15,7		48	,1 D	¥	Denmark	31,0	16,5		47,5	A	Denmark	30,8	16,8		47,6
SE	Sweden	21,3	15,6		36	,9 S	щ	Sweden	23,4	15,2		38,6	SE	Sweden	20,1	16,3		36,4
Ħ	Finland	22,1	10,7		32	8, F	F	Finland	24,6	10,2		34,8	Ħ	Finland	22,6	9,1		31,7
BE	Belgium	25,6	3,3	°,0	4 29	,2 B	щ	Belgium	26,8	3,1	0,6	30,5	BE	Belgium	25,3	4,4	0,8	30,5
NK	United Kingdom	26,6	1,3		27	n 6'	¥	United Kingdom	28,9	1,5		30,4	Ч	United Kingdom	27,1	1,7		28,8
IE	Ireland	27,1	0,7		27	I 8'	E	Italy	23,2	6,0		29,2	L	Italy	21,6	6,5		28,1
Ľ	Luxemburg	24,6	2,4		27	,0 L		Luxemburg	26,3	2,3		28,5	АТ	Austria	20,7	7,4		28,0
ե	Italy	23,5	3,4		26	- 6 ′	Ř	France	18,2	4,3	5,3	27,7	ΜТ	Malta	27,5	0'0		27,5
AT	Austria	18,7	8,2		26	A 8,	F	Austria	19,6	7,9		27,5	FR	France	17,8	4,5	4,5	26,9
ΡH	Hungary	23,5	3,0		26	,5 II	ш	Ireland	26,0	0'0		26,5	LU	Luxemburg	25,1	1,9		26,9
SK	Slovakia	24,4	1,6		26	,0 H	₽	Hungary	22,3	3,8		26,2	2	Cyprus	25,8	0,5	0,0	26,3
ЪГ	Poland	21,3	4,5		25	8,	R	Greece	25,1	0,3	0,4	25,8	Π	Ireland	25,0	0,6		25,6
FR	France	18,3	4,7	1,1	8 24	D 6'	Щ	Germany	11,9	12,4		24,3	ΠH	Hungary	20,9	4,6		25,5
NL	The Netherlands	22,7	1,4		24	,1 C	≻	Cyprus	23,4	0,4		23,9	SI	Slovenia	21,7	3,0		24,7
Ш	Estonia	19,3	4,3		23	5 S	I	Slovenia	21,1	2,8		23,9	NL	The Netherlands	21,7	1,5		23,2
SI	Slovenia	20,9	2,6		23	,5 N	4	The Netherlands	22,3	1,4		23,7	ΡT	Portugal	20,2	2,3	0,5	22,9
DE	Germany	10,8	11,6		22	,5 P	F	Portugal	20,9	2,1	0,4	23,4	GR	Greece	21,9	0,3	0,4	22,7
ΡТ	Portugal	20,2	1,7	0	5 22	,4 E	S	Spain	16,2	5,8		21,9	ES	Spain	12,0	10,5		22,5
ß	Greece	20,7	0,3	0,	3 21	√ √	1T	Malta	21,7	0'0		21,7	DE	Germany	10,9	11,1		22,0
C	Czech Republic	16,4	4,1		20	,5 L	F	Lithuania	12,7	6,1	2,2	21,0	CZ	Czech Republic	16,5	4,6		21,2
ES	Spain	16,0	4,3		20	,4 E	щ	Estonia	16,1	4,4		20,4	Ш	Estonia	16,4	4,2		20,5
N	Latvia	13,9	6,4		20	,3 S	¥	Slovakia	19,0	1,4		20,4	Ц	Lithuania	15,1	2,8	1,9	19,8
Ц	Lithuania	13,2	5,2	1,	9 20	,3 P	Ļ	Poland	16,7	3,1		19,8	LV	Latvia	14,5	5,1		19,7
Ç	Cyprus	19,6	0,2		19	,8 C	Z	Czech Republic	15,6	4,1		19,6	Ы	Poland	15,2	4,1		19,3
МΤ	Malta	18,8	0'0		18	8	>	Latvia	14,6	5,0		19,6	SK	Slovakia	16,9	1,5		18,4

Note: AACC = Central Administrations; AAPP = Peripheral Administrations (Regions and local Bodies); EEPP = Social security Bodies; TOT = Total public Administrations Figures based on Eurostat data

			1996	2000	2004
DK	Denmark	С	53,9	57,1	60,3
ES	Spain	F	n.d.	46,2	52,1
SE	Sweden	С	38,6	42,5	44,2
DE	Germany	F	44,8	46,1	43,1
IE	Ireland	С	31,6	39,4	42,4
BE	Belgium	F	37,9	39,7	41,4*
FI	Finland	С	33,8	36,6	38,9
NL	The Netherlands	С	33,2	35,0	35,1
AT	Austria	F	35,0	37,1	34,1
IT	Italy	С	25,4	30,5	32,5
PL	Poland	Ν	n.d.	n.d.	30,6
UK	United Kingdom	С	26,9	28,1	28,7
CZ	Czech Republic	Ν	n.d	n.d.	28,5
LV	Latvia	Ν	n.d.	n.d.	28,1
LT	Lithuania	Ν	n.d.	n.d.	26,8
HU	Hungary	Ν	n.d.	n.d.	25,9
EE	Estonia	Ν	n.d.	n.d.	24,8
FR	France	С	18,4	18,9	20,3
SI	Slovenia	Ν	n.d.	19,1	19,6
SK	Slovakia	Ν	n.d.	n.d.	17,5
LU	Luxemburg	С	14,6	13,8	12,9
PT	Portugal	С	11,5	13,8	12,8
GR	Greece	С	4,9	5,3	6,0
CY	Cyprus	Ν	n.d.	4,2	4,5
MT	Malta	Ν	n.d.	1,7	1,5

Table 2.4. Index of expenditure decentralization% of public expenditure incurred by peripheral Administrations upon the whole.

* year 2003 C = Centralized states; F = Federal states; N = New EU members Figures based on Eurostat data

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			1996				2000				2007		
		Total	Central Adm.	Peripheral Adm.	Social sec. Bodies	Total	Central Adm.	Peripheral Adm.	Social sec. Bodies	Total	Central Adm.	Peripheral Adm. s	Social ec. Bodies
Federa	l states												
АТ	Austria	37.036	13.895	15.334	7.808	38.650	14.440	16.821	7.390	42.412	15.293	18.680	8.438
BE	Belgium	47.721	9.303	25.615	12.803	53.679	9.927	29.195	14.557	63.093	10.301	35.204	17.588*
Ы	Germany	380.762	47.074	190.898	142.789	391.910	46.170	192.040	153.700	412.760	47.490	200.960	164.310
ES	Spain	88.231	26.741	50.593	10.897	108.360	23.499	72.402	12.459	149.756	29.226	116.571	3.959
Centra	lized states												
Я	Denmark	36.916	10.928	25.585	403	43.615	12.715	30.482	418	52.194	14.321	37.426	447
E	Finland	23.524	7.533	14.544	1.448	26.860	8.487	16.523	1.850	33.247	9.981	20.770	2.496
Æ	France	296.030	131.424	67.665	96.942	330.078	144.582	75.389	110.107	394.448	162.645	94.274	137.529
GR	Greece	14.230	10.388	844	2.997	21.750	16.506	1.283	3.962	27.789	20.276	2.002	5.511
믭	Ireland	9.088	4.012	4.923	153	14.418	5.645	8.521	251	23.267	8.629	14.243	396
ե	Italy	175.512	82.380	89.277	3.855	213.300	93.834	114.641	4.825	260.063	105.364	149.235	5.464
LU	Luxemburg	2.657	1.431	483	743	3.327	1.763	590	974	4.580	2.321	807	1.452
NL	The Netherlands	75.040	20.183	34.167	20.690	91.288	24.698	39.262	27.328	118.512	28.503	51.694	38.315
РТ	Portugal	16.725	13.762	2.596	367	23.624	19.397	3.698	528	29.561	23.392	5.445	724
SE	Sweden	59.401	19.659	39.654	88	69.250	20.197	48.713	340	77.249	21.302	55.569	378
Я	United Kingdom	180.090	111.139	68.951		293.771	177.180	116.592		363.673	220.887	142.786	
New El	J members												
ç	Cyprus					1.620	1.546	99	8	2.296	2.161	123	12
CZ	Czech Republic									19.501	7.267	7.183	5.051
出	Estonia									1.717	953	588	177
ΠH	Hungary									19.317	9.411	7.892	2.015
5	Lithuania									3.215	1.675	1.294	246
Z	Latvia									2.224	1.270	934	19
МΤ	Malta					802	781	22		963	938	25	
Ы	Poland									36.477	14.121	17.896	4.459
SI	Slovenia					4.016	2.461	1.115	440	5.099	3.104	1.438	557
SK	Slovakia									6.722	3.664	1.849	1.210

(*) year 2003 For new EU member States admitted in 2004 the data relating to 1996 and 2000 is not taken into consideration *Figures based on Eurostat data*





 Table 2.6. Chart of macroeconomic indicators

Year	Indicator	Veneto	Baden- Württemberg	Bavaria	Basque Country	Catalonia	Ireland
	GDP AND PRODUCTIVITY						
2004	Per capita GDP (euro)	26.113	29.694	30.990	23.028	22.415	34.852
2004	Per capita GDP envisaging purchasing power parity (euro)	26.413	26.696	27.861	26.240	25.541	29.161
2003	GDP growth (% var.)	-0,1	0,2	2,5	2,8	4,4	0,4
2003	Productivity per hour envisaging purchasing power parity (euro)	31,6	35,4	35,7	31,5	28,3	36,4
	FAMILY INCOME						
2004	Per capita primary income envisaging purchasing power parity (euro)	18.441	20.600	19.571	18.297	17.440	14.289 (2003)
2004	Per capita disposable income envisaging purchasing power parity (euro)	15.701	16.954	16.099	16.266	14.733	12.961 (2003)
	LABOUR						
2004 2004	Employment rates (%) Unemployment rates (%)	53,9 4,2	59,4 6,4	59,9 6,3	55,8 9,7	60,1 9,7	60,8 4,5
2004	ENTERPRISES Local Unit variation manufacturing (%)	-3,5	-1,7	-1,7	-1,2	0,0	-8,0
2004	Local Unit variation constructions (%)	5,3	-5,2	-6,3	113,5	31,7	n.d.
2003	Local Unit variation real estate activities and finance (%)	12,0	-7,4	-1,0	-4,9	9,2	n.d.
2004	Variation manufacturing personnel (%)	-2,7	-1,5	-1,4	-0,8	-3,3	-2,5
2004	Variation constructions personnel (%)	2,7	-6,6	-7,5	104,3	23,7	16,8
2003	Variation real estate activities and finance personnel (%)	6,4	0,9	-11,2	-1,8	5,6	6,3
	INNOVATION						
2003	Enterprise spending on research and development (% of the GDP)	0,7	3,9	3,0	1,4	1,3	1,2
2003	Enterprise contribution to spending on reseach and development (%	44,1	10,8	11,8	19,4	24,3	25,2
2004	High technology sectors: % of employment related to manufacturing	30,1	31,4	24,6	25,9	23,0	14,1
2003	TRANSPORT Concentration of the motorway network (kms2/kms of motorway)	38,8 (2000)	34,8	30,7	17,3	33,3	395,9
2003	Concentration of the rail network (kms2/kms of railways)	15,9	n.d.	n.d.	24,0	23,5	36,4

Figures based on Eurostat data

Chapter 3 Administrative efficiency: running costs

3.1 Running costs in the EU countries

Among the objectives of federalism, beyond favouring local socio-economic development, there is the improvement of overall public spending, both in quantity and in quality. In substance, the greater responsibility given to local government Bodies determined by stronger links between "what is taxed and what is spent", favours a better allocation of public resources, with beneficial effects in terms of cut-back of overall spending. All this at least in theory, as there should also be a contextual reduction in the expenditure of central Administrations, due to their reduced responsibilities (these being gradually assigned to peripheral Administrations). Fears that federalism would not come cheaply, bringing additional costs, have often risen (ISAE, Bordignon-Cerniglia), especially in occasion of the implementation of Title V of the Constitution and of the approval of the so-called 'devolution'. In particular, these fears refer to the issue of transferring personnel from central to peripheral Administrations: the problem of 'added costs' relating to the implementation of federalism derive for the most part from the limited mobility of public employees and from the difference in wages between central and peripheral Administrations. The risk therefore is a slowing down in the decentralization process (which has, in effect, occurred) which would add to the overlapping of areas of competence (especially for shared competences) set in motion by the reform of Title V.

A more efficient expenditure allotment often produces (or at least should produce) a reduction in superfluous spending and in inefficiency (more prosaically, waste). On average, **federal States tend towards lower running costs compared to those of centralized States,** even in the light of the larger number of competences they are responsible of. An analysis of administrative efficiency based merely on financial and economic data gives only a partial picture of the phenomenon; nonetheless it gives a sufficiently accurate idea to allow a description of historical dynamics and to draw out a wide-ranging framework. Moreover, the composition of expenditure items varies within the different countries, because the qualitative and quantitative levels of supplied services are different again.

Moving on, we can examine Table 3.1. In countries with a federal Constitution, the average running costs amount to a little less of the 28% of public expenditure (after interests on national debt); in centralized States, instead, these rise by more than 5% (33.2%). Italy shows relatively satisfying results (30.8%), placing itself between federal and centralized States, a position which reflects the actual State of affairs in the Country.

As previously noted, such an analysis of running costs does not take into account the greater administrative and legislative responsibilities assigned to peripheral Bodies within federal States. Spain, for example, shows running costs that are equal to the 32.8% of total expenditure, greater than that of some centralized States. In reality, in order to dispose of a picture which reflects more actual efficiency, it would be necessary to relate data on running costs to the assigned competences, and indirectly, to the expenses that peripheral Bodies incur to carry these out.

The last column of Table 3.1. shows an indicator which in some way takes this aspect into account: **the standardized running index expresses the cost of the administrative machine at equal levels of decentralized expenditure.**

In this way it is possible to discern a kind of 'efficiency level' for each country. It is clear that federal States have lower running costs (0.565 against an European average of 1.000) than those of centralized States (0.948). The continental average is altered by the higher figures referring to the new EU members, which show lower efficiency indexes, apart from some significant exceptions (the Czech Republic and Poland).

	Index of expenditure decentralization	Running costs*	Standardised running index**
Austria	34,7	26,2	0,645
Belgium	40,9	31,6	0,659
Germany	43,9	21,0	0,409
Spain	49,7	32,9	0,565
Federal countries	42,3	27,9	0,564
Denmark	58,9	41,0	0,595
Finland	37,9	34,5	0,778
France	19,2	31,8	1,414
Greece	5,6	32,2	4,914
Ireland	41,7	32,7	0,670
Italy	31,2	30,8	0,843
Luxemburg	13,9	26,8	1,643
The Netherlands	35,1	31,0	0,754
Portugal	13,7	37,9	2,362
United Kingdom	28,5	29,7	0,893
Sweden	44,0	37,2	0,722
Centralized Countries	30,0	33,2	0,948
Cyprus	4,2	42,2	8,521
Estonia	25,6	32,6	1,087
Latvia	28,0	36,8	1,123
Lithuania	27,3	39,6	1,239
Malta	1,6	39,9	21,470
Poland	32,1	29,1	0,775
Czech Republic	24,2	21,7	0,766
Slovakia	11,2	28,8	2,191
Slovenia	19,5	36,0	1,576
Hungary	25,5	33,2	1,112
New members	19,9	34,0	1,457
EU Average	27,9	32,7	1,000

(*) On the total of public expenditure, net after debt interests

(**) Parameterization of the running costs at equal decentralized expenditure (EU average=1) *Figures based on Eurostat data*

Table 3.1. Comparison between decentralization levels and public Administrations' running costs (average 2000-2004)

The standardized running index places Germany and Spain first in the grading for European efficiency (Graph 3.1) with the other two federal States (Austria and Belgium) in the fourth and fifth position. Italy, even though registering a higher-than-average running index, is classified only twelfth in this special ranking. It is likely that excluding the new EU members, Italy's running costs (photographed by the standardized index) would climb above the European average.

Despite the fact that each country constitutes a freestanding case for analysis, it can be reasonably affirmed that federalism is capable of stimulating greater administrative efficiency in public structures, due to the better relationship between incurred costs and assigned competences.



Graph 3.1. Standardized (average 2000-2004)

(*) Parameterization of the running costs at equal decentralized expenditure (EU average=1) Figures based on Eurostat data

How do Italian peripheral Administrations operate? A partial answer can be found in Table 3.2. The running costs of peripheral Administrations in Italy are equal to the 5.7% of the GDP, that is the 37.6% of peripheral spending. On the whole, peripheral Administrations seem wise in their management of public resources, although, as it will soon become clear, areas of the Country substantially differ. However, it is important to remember that figures are sometimes influenced by differences in data classification between countries. Furthermore, the distribution of spending responsibilities between peripheral and central Administrations plays an important role in total public spending levels (and hence the smaller or greater incidence of running costs). The presence of expenditure items such as transfers and contributions creates a noticeable rise in total spending, with limited effects as to management costs. In this way the incidence of running costs on total costs is artificially reduced. The example offered by the EU balance is significant: running costs make up just 4.4% of total spending. Nonetheless, EU spending is primarily due to funds, contributions and transfers. The EU has been the protagonist of an 'upwards devolution', but its modest balance actually deprives the exercise of the responsibilities currently assigned to the European institutions of tangible effects; particularly in the light of the adoption of the 2004 Constitution¹.



Figures based on Eurostat data

¹ Zanardi, A.: *Per lo sviluppo. Un federalismo fiscale responsabile e solidale* (Il Mulino, 2006).

In Table 3.3 (complete table in Appendix) it is possible to see the dynamics of expenditure for final consumption, which is the heart of public administration spending, including items such as expenditure for personnel, purchase of goods and services on the market and intermediate consumption². In the period 2001-2005 Italy shows a quota of expenditure for final consumption equal to 19.6% of the GDP, lower than France, but superior to that of Germany and Spain. Nonetheless, this quota has registered a rising trend (+1.3% of the GDP, compared to the period 1996-2000) which hasn't occurred in other countries. This can be attributed in particular to the residual expenditure item 'other expenses', which incorporates all the costs for the purchase of goods and services incurred by public Administrations.

		1996-2000	2001-2005	Variation
ITALY	expenditure for final consumption	18,3	19,6	1,3
	personnel	10,9	<i>10,7</i>	-0,1
	other expenses*	7,4	<i>8,9</i>	1,5
FRANCE	expenditure for final consumption	23,4	23,5	0,1
	personnel	13,6	1 <i>3,4</i>	-0,2
	other expenses*	9,8	10,1	0,2
SPAIN	expenditure for final consumption	17,4	17,5	0,1
	personnel	10,7	10,1	-0,6
	other expenses*	6,8	7,4	0,7
GERMANY	expenditure for final consumption	19,3	19,0	-0,3
	personnel	<i>8,4</i>	<i>7,8</i>	-0,6
	other expenses*	10,9	11,2	0,3

Table 3.3. Dynamics of theexpenditure for final consumption(in % of the GDP)

(*) Residual category of expenditure for final consumption, given primarily by the expenditure for the purchase of goods and services.

(For complete table please see Appendix)

Figures based on Eurostat data

Examining Table 3.4 one finds a decrease in the efficiency of central Italian Administrations between 2000 and 2004. Contextually, peripheral Administrations have managed to maintain unaltered operational costs; it is a trend shared by other EU countries, with Austria, Spain and France showing the best results thanks to a notable reduction in peripheral running costs. At the central level, instead, Italy and Germany show a notable rise in running costs, bucking the trend of the majority of EU countries.

² Expenditure for intermediate consumption is 'the value of consumed goods and services as input of a production process, excluding the fixed capital whose use is registered as amortization. The goods and services can be transformed or used up during the production process" (ISTAT).

Table 3.4. Estimated runningcosts of central and peripheralAdministrations (expenditure %,net after debt interests): 2000-2004

	I		Peripheral	Administratior	IS			Central A	dministrations		
		2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Federal st.	ates										
AT	Austria	36,0	33,4	32,9	32,0	31,5	29,8	28,8	27,3	27,5	25,4
BE	Belgium	54,5	54,4	54,5	54,3	n.d.	57,4	57,7	55,7	54,1	n.d.
DE	Germany	44,4	43,4	43,6	43,1	43,1	8,8	27,0	27,4	27,1	27,3
ES	Spain	52,3	52,2	50,8	51,0	50,8	78,6	79,0	73,9	73,7	70,0
Centralize	d states										
Ъ	Denmark	41,4	41,2	41,1	41,4	41,1	34,4	34,5	34,5	34,0	35,1
E	Finland	60,2	59,9	59,6	59,5	58,9	23,7	23,7	26,0	26,5	26,0
Æ	France	41,0	41,0	39,7	38,9	37,5	55,4	55,7	56,4	57,2	55,2
GR	Greece	58,9	58,8	62,0	62,8	62,3	29,6	31,6	32,2	30,2	32,9
H	Ireland	34,9	33,6	34,9	37,3	38,3	25,8	24,2	23,9	24,3	25,0
Ц	Italy	37,8	37,4	36,6	37,1	37,6	43,0	39,5	46,3	48,6	46,8
LU	Luxemburg	42,5	41,8	41,6	42,4	44,3	36,9	37,0	34,0	33,4	34,5
NL	The Netherlands	48,4	48,5	48,8	50,4	50,6	36,6	34,3	33,8	34,6	33,2
РТ	Portugal	41,8	40,6	42,5	44,3	45,8	63,4	63,8	66,6	63,9	64,7
SE	Sweden	57,8	56,0	55,6	55,7	56,7	28,9	29,9	29,4	29,3	27,6
Ъ	United Kingdom	47,1	46,4	45,3	45,1	44,6	40,2	39,6	40,4	40,4	40,4
New mem	ibers										
ç	Cyprus	47,0	43,8	46,0	43,8	38,8	50,5	46,6	45,2	44,2	52,6
Ŋ	Czech Republic	n.d.	n.d.	34,2	38,4	38,0	n.d.	n.d.	19,9	18,3	23,4
Ш	Estonia	n.d.	n.d.	n.d.	46,2	48,0	n.d.	n.d.	n.d.	31,7	30,3
Ĥ	Hungary	n.d.	n.d.	n.d.	56,4	62,1	n.d.	n.d.	n.d.	30,3	29,1
Ŀ	Lithuania	n.d.	n.d.	n.d.	56,2	57,2	n.d.	n.d.	n.d.	62,0	63,9
L<	Latvia	n.d.	n.d.	58,5	59,0	57,6	n.d.	n.d.	36,6	40,1	34,9
ΜТ	Malta	100,0	100,0	100,0	100,0	100,0	39,4	41,4	40,0	36,3	41,5
ЪГ	Poland	n.d.	n.d.	n.d.	49,3	49,1	n.d.	n.d.	n.d.	30,5	30,0
SI	Slovenia	72,6	73,1	73,6	73,3	73,2	36,2	37,8	35,2	35,0	37,2
SK	Slovakia	n.d.	n.d.	n.d.	56,2	57,6	n.d.	n.d.	n.d.	28,7	33,1

Figures based on Eurostat data

3.2. State costs and the implementation of decentralization

After the comparative analysis of public administration running costs in the EU countries and the link with the institutional structure, it seems useful to continue with a closer look at central Administrations' costs in Italy.

Table 3.5 presents some data published by the General Accounting Department in its annual report 'Survey on State Costs': this data refers to the specific costs of central Administrations, which differ from the so-called 'displaced costs'. The latter in fact correspond to the financial resources transferred from the State to other Administrations (current transfers, contributions for investments, other capital account transfers). Differently, the specific costs represent the expenditure that refers directly to the running of Ministries. Through these, we can judge – even if only indirectly –the administrative machine's working.

The specific costs of central Administrations in 2005 came to more than \in 84 billion, with a noticeable increase (+5.0%) with reference to 2004. This aggregate expenditure is almost completely made up by personnel and operational costs. Wages (more than \notin 71 billion in 2005) increased of 6.0% with reference to 2004, even if the trend seems modest compared to the +16.0% registered between 2003 and 2004. Among operational costs, meanwhile, the item 'purchase of services and use of third-party goods' expresses the highest value (\notin 6.9 billion); the growth in 2005 was low at +6.9%, compared to the +7.3% rise registered between 2003 and 2004.

	2003	2004	2005	Var.% '04/'03	Var.% '05/'04
Personnel costs	60.641	69.279	72.788	14,2	5,1
Wages	57.811	67.060	71.100	16,0	6,0
Missions	491	487	659	-0,8	35,2
Other personnel costs	2.339	1.732	1.029	-25,9	-40,6
Operational Costs	7.851	8.366	8.866	6,6	6,0
Consumption goods	1.525	1.617	1.601	6,0	-1,0
Purchase of goods of third parties and services	6.016	6.459	6.904	7,3	6,9
Other operational costs	309	291	361	-6,0	24,3
Extraordinary and special costs	207	371	230	78,6	-38,0
Legal costs	180	194	157	7,8	-19,4
Other extraordinary costs	11	42	14	284,4	-66,1
Financial services	17	135	59	709,9	-56,3
Amortization	1.682	2.082	2.221	23,8	6,7
TOTAL	70.381	80.098	84.105	13,8	5,0

Table 3.5. Specific costs of the centralAdministrations. Partition according tothe nature of the cost (millions of euro):2003-2005

(Other table in Appendix)

Figures based on data from the State General Accounting Department

Separating the costs for each Ministry, we can see which department contributes most to the increase of state running costs (Table 3.6). The Department for Education creates almost half of central administration costs (\notin 40 billion in 2005), due to personnel costs: in relation to the high expense budget, the increase of 5.8% with reference to 2004 becomes even more significant. Costs equal to approximately \notin 19 billion are instead attributable to the Ministry of Defence, with a 2004 growth trend equal to +10.1%, more than double the average increase of central administrations. Some departments decreased spending (Productive Activities, Justice, Infrastructures and Transport, Communication, Cultural Activities and Heritage, Health). However, these savings are not sufficient to cause a fall in the actual ministerial costs, which in 2005 registered a total overall increase of 5% compared with 2004.

	Personnel	costs	Operationa	l costs	Other co	sts*	TOTA	L
Ministry	2005	% Var. '05/'04	2005	% Var. '05/'04	2005	% Var. '05/'04	2005	% Var. '05/'04
Economy and Finance	3.874	9,5	570	-6,4	225	-14,2	4.669	5,9
Productive Activities	87	-1,1	32	-3,5	4	-0,7	122	-1,7
Labour and Social Policies	347	16,9	61	-11,2	15	-43,7	424	7,8
Justice	4.853	-7,1	1.696	4,1	120	5,4	6.669	-4,3
Foreign Office	808	-0,4	172	5,8	22	-10,6	1.002	0,3
Education, University and Research	39.239	6,0	1.196	-1,1	98	-9,8	40.534	5,8
Home Office	7.238	2,9	1.108	-7,1	288	-9,7	8.635	1,1
Environment and Safeguard of the Territory	54	15,5	151	18,1	4	3,5	208	17,1
Infrastructures and Transport	766	7,6	183	3,0	34	-65,6	983	-0,6
Communication	73	-1,4	8	-31,7	8	-0,4	90	-5,1
Defence	14.096	7,6	3.389	21,6	1.559	10,5	19.044	10,1
Agricultural and Forestry Policies	520	16,9	86	7,5	22	32,1	629	15,9
Cultural Heritage and Activities	665	-11,3	139	-20,9	34	-5,6	838	-12,9
Health	168	4,8	73	-26,9	16	-11,1	257	-7,7
Total	72.788	5,1	8.866	6,0	2.450	-0,1	84.105	5,0

Table 3.6. Summary of actual Ministry costs. Partition by nature of the cost. (millions of euro): 2005

(*) Extraordinary costs and amortization (further information in Appendix)

Figures based on data from the State General Accounting Department

Personnel, therefore, is the most significant expenditure item in ministerial budgets; the growth trend between 2004 and 2005 was of +5.1%.

The importance of such expenditure burden is not imputable solely to the large number of ministerial employees, but also to the high level of wages. **The 'Person-Year' cost of ordinary salaries in 2005 amounted to €37,424, approximately €2,000 more compared to 2004** (see Table 3.7). It has to be specified that 'Person –Year' means the amount of human resources – of any kind – used in the space of a year. The highest wages were paid to the personnel of the Foreign Office (€51,212), of the Ministry of Health (€47,890), and of the Ministry of Environment (€47,440). More restrained were the wages of the Department for Education (€35,000), of the Ministry of Labour (€37,742) and of

Table 3.7. Costs for ordinary wages
in Ministries (euro for Person/Year):
2004-2005

Ministry	2004	2005
Economy and Finance	41.453	43.850
Productive Activities	44.876	44.683
Labour and Social Policies	32.947	37.742
Justice	44.617	43.441
Foreign Office	46.910	51.212
Education, University and Research	32.640	35.006
Home Office	39.708	39.966
Environment and Safeguard of the Territory	42.835	47.440
Infrastructures and Transport	35.736	38.193
Communication	38.634	37.904
Defence	37.664	40.318
Agricultural and Forestry Policies	36.250	41.038
Cultural Heritage and Activities	32.834	34.501
Health	44.911	47.890
TOTAL	35.416	37.424

(Further information in Appendix)

Figures based on data from the State General Accounting Department

Communications (\notin 37,904). The issue of human resources and of salary costs is linked to the theme of administrative decentralization too, as established by the Bassanini Laws of 1997 and by the constitutional reform of 2001.

In this paragraph we will investigate in detail the state-of-the-art of the decentralization process and of the transfer of personnel from central to peripheral Bodies.

The Law 59/1997 conferred a delegation for implementing administrative federalism on the Government: this phrase means the transfer to the Regions and to the local Bodies of all duties not expressly assigned to the State, and has indicated the path to be followed in order to carry out this project³. Table 3.8 offers a general picture of the human resources assigned to the peripheral Administrations by the Law 59/1997 (so-called 'Bassanini'). As it can be noticed, the share of personnel that has been transferred is relatively small: little more than 21,000 units. On the strength of the latest available data, the degree of implementation appears superior to 70%, even if for some functions this number is still steady at zero. In reality, implementation levels would be just over 50%: as to the State Forestry Corporation (more than 5,000 envisaged units), recentralization has already been arranged, actually taking a step back on the road leading to administrative decentralization.

The amount of personnel to be decentralized will not likely produce significant effects for the new federal structure which we are trying to build in Italy: as already noted, **the 21,000 employees represent just the 0.6% of public personnel.** The transfer of personnel from central to peripheral Administrations is essential in order to give strength and effective implementation to the decen-

Area	Individuated	Transferred	Implementation %
Energy and mining	E4	E4	100.0%
	-C	20	100,0%
Incentives for enterprises	20	20	100,0%
Environment	0	0	
Road-network	3.421	3.421	100,0%
Transport	609	609	100,0%
Civil Protection	48	48	100,0%
State Water	104	104	100,0%
Public Works	937	937	100,0%
Public housing	0	0	
Tide and Hydrographic services	143	138	96,5%
Human and animal health	27	27	100,0%
State disability pensions	454	454	100,0%
Administrative police	96	96	100,0%
Education	177	0	0,0%
Professional institutions	331	0	0,0%
Agriculture	5.444	0	0,0%
Labour market	6.026	6.026	100,0%
Local public transport	30	30	100,0%
Land Register	4.000	0	0,0%
Total	21.921	11.964	54,6%
Total net after costs for the State Forestry Corporation	16.621	11.964	72,0%

Table 3.8. The law 59/1997(administrative federalism).The transfer of human resourcesto the Regions and local Bodies.

(Further information in Appendix)

Source: Cittadino, C.; "I percorsi del federalismo amministrativo e lo stato della sua attuazione"

³ Cittadino, C. "I percorsi del federalismo amministrativo e lo stato della sua attuazione" (ASTRID Rassegna n. 15, 2005).

tralization process; however, the numbers in question have only a marginal effect on the construction of a new federal layout. **The passage of personnel towards regional and local Administrations,** with all the difficulties and problems it entails, **has to be set at the centre of the decentralization process.** The reason is double: on the one hand, in fact, this provides peripheral Administrations with the means and tools necessary for implementing their policies and for supplying services to citizens and enterprises. On the other, the central State would relieve itself materially of some costs which would fall on the shoulders of the peripheral Bodies. According to the logic of **'competitive federalism',** peripheral Administrations will be responsible for managing the resources used to provide services.

The basis for the implementation of federalism and, more generally, for the decentralization of competences lies in the absence of additional costs for the public purse. Has it really happened this way? Without sufficient data to verify directly this situation, we have analyzed the dynamics of the expenditure incurred by central Administrations (the State) and by the Regions, separating primary expenditure (net after allowed interests) from transfers to the Regions and local Bodies – as far as the State is concerned - , and from the transfer of resources to other public Bodies (Local Health Corporations) - as for the Regions. In the period 2000-2005, central spending (net after the abovementioned items) increased noticeably, from 9.8% of the GDP in 2000 to 11.6% in 2005: after registering a record value in 2003 (12.1% of the GDP), there was a drop in 2004 after which it continued to grow in 2005. In any case, central spending has not diminished.

Contextually, the aggregate spending of the Regions has shown constant increases, passing from 2.7% of the GDP in 2000 to 3.1% in 2005. In the graph, the comparison between the dynamics of state and regional spending is integrated with the trend referring to the resources provided to finance devolved responsibilities (right axis). The resources identified by the State and supplied to the Regions show a regular trend, with the exception of the year 2002.

The scenario emerging from this data is characterized by the growth of both central and regional spending. This could be attributed to a still uncertain institutional structure.

Without the assigning of own resources to local Administrations – which in turn encourages greater accountability of peripheral governments – not only the federal system envisaged by Title V of the Constitution will work only partially, but it will not be possible to benefit from the lower costs deriving from a more efficient administrative machine at all levels. In substance, the positive effects of federalism (autonomy, greater accountability, correlation between taxation and spending, efficiency, resource-saving), which are the ultimate aims of a competitive federal system, would not subsist.



Graph 3.2. Implementation of the decentralization: comparison between state and regional spending and the financing of transferred functions (% of the GDP): 2000-2005

Note: state and regional spending are to be considered after interests and transfers. The resources transferred because of administrative federalism refer to Regions with an ordinary statute. *Figures based on ISTAT data.*

3.3. The Regions' running costs

In the previous paragraph we referred to the difference between the costs of running peripheral Administrations in different areas of the Country. In substance, despite the overall good results registered for peripheral Bodies, these reveal great differences between one another. Table 3.9 (and Graph 3.3) compares the running costs of Italian regional Administrations (not including Regions with special statutes).

	2002	2003	2004
Malia	222	240	274
Molise	333	348	374
Basilicata	269	277	304
Calabria	250	267	265
Umbria	228	235	249
Abruzzo	180	189	197
Campania	163	175	181
Puglia	114	139	160
Marche	164	149	157
Piedmont	116	123	151
Lazio	124	121	139
Emilia Romagna	117	121	128
Tuscany	94	121	121
Liguria	99	106	103
Veneto	90	87	99
Lombardy	78	87	91
Regions with an Ord. Statute	125	133	143

Table 3.9. Estimated regional runningcosts (data in euro per inhabitant):2002-2004

Figures based on data from the Court of Accounts and from ISSiRFA-CNR

At a general level we can see a progressive growth of operational costs, rising from $\notin 125$ per inhabitant in 2002 to $\notin 143$ in 2004. In detail, Molise shows the lower levels of efficiency, since running costs arrive at $\notin 374$ per capita. On the average, southern Regions show higher running costs than northern Regions; Molise is followed by Basilicata ($\notin 304$), Calabria ($\notin 265$), Umbria ($\notin 249$), Abruzzo ($\notin 197$) and Campania ($\notin 181$). The most efficient regions are Veneto and Lombardy, both with levels of spending inferior to $\notin 100$ per inhabitant. These two Regions, inter alia, also show the highest levels of positive fiscal residue.



Graph 3.3. *Regional running costs* (*data in euro per inhabitant*): 2004

Figures based on data from the Court of Accounts and from ISSiRFA-CNR

Running costs in Table 3.9 and Graph 3.3 are put into relation with the number of inhabitants residing within regional borders. However, these costs fall only partly back upon local taxpayers' pockets: in reality, citizens of other regions also pay a part of these costs, including those of **Lombardy** and **Veneto** which, **due to a more efficient bureaucratic system, ask their citizens for less than** €100 in order to run the regional administrative machine.

Within the running costs are included the costs related to the item 'general services' and the personnel-related costs. These charges depend on both the number of employees and wage levels. Table 3.10 shows the staffing of the Regions with an ordinary statute: it is obvious that the proportion of employees compared to the resident population varies considerably depending on the regional administration in question.

In 2004 Molise counted 288 employees every 100,000 inhabitants; Calabria (257), Basilicata (215), and Umbria (194) show similar levels. This is well over the average (96 employees every 100,000 inhabitants) of the fifteen Regions with an ordinary statute. Below average are Lombardy (43), Lazio (68), and Veneto (69).

A high, if not excessive, endowment of permanent staff contributes to enormous running costs if associated with just as high wage levels (Table 3.11). It is the case, for example, of Calabria, which despite the record staffing levels (a good 257 every 100,000 inhabitants), also registers the highest wage levels related to executive staff (yearly $\leq 127,614$). However, it is important to mark the fact that the average wage levels of Calabria's executive staff, after a rapid rise which lasted until 2003, have been substantially downsized starting from the

Table 3.10. Regions with an ordinarystatute: permanent staff every 100,000

inhabitants (2001-2004)

	2001	2002	2003	2004
Piedmont	74	77	77	78
Lombardy	57	48	45	43
Veneto	71	72	74	69
Liguria	71	77	74	75
Emilia Romagna	70	76	77	77
Tuscany	75	80	81	83
Umbria	221	201	201	194
Marche	154	117	111	112
Lazio	76	72	70	68
Abruzzo	157	162	154	152
Molise	289	303	294	288
Campania	170	159	173	156
Puglia	110	111	103	98
Basilicata	210	208	209	215
Calabria	267	263	255	257
TOTAL	103	100	99	96

Figures based on data from the Court of Accounts

	executive staff					ROS averag	je = 100	
	2001	2002	2003	2004	2001	2002	2003	2004
Piedmont	69.591	80.579	80.097	89.813	96	111	95	104
Lombardy	75.813	82.332	91.589	89.254	105	114	109	104
Veneto	69.048	76.676	83.802	81.382	96	106	100	94
Liguria	68.805	71.875	73.731	76.579	95	99	88	89
Emilia Romagna	68.767	78.080	75.282	77.466	95	108	89	90
Tuscany	62.966	74.686	73.721	78.177	87	103	88	91
Umbria	59.140	67.256	69.274	84.049	82	93	82	98
Marche	68.638	79.473	86.353	85.643	95	110	103	99
Lazio	110.319	55.066	84.818	74.943	153	76	101	87
Abruzzo	60.046	84.264	84.544	80.363	83	116	100	93
Molise	59.600	88.349	79.740	92.393	83	122	95	107
Campania	87.606	73.843	85.947	79.060	121	102	102	92
Puglia	53.887	60.771	64.353	109.860	75	84	76	128
Basilicata	76.429	96.951	89.709	95.413	106	134	107	111
Calabria	88.217	131.270	142.836	127.614	122	181	170	148
TOTAL	72.166	72.391	84.210	86.127	100	100	100	100

Table 3.11. Regions with an ordinarystatute: average annual wages for executivestaff and other categories (data in euro):2001-2004

	other categories					ROS average	ge = 100	
	2001	2002	2003	2004	2001	2002	2003	2004
Piedmont	23.824	26.006	25.321	30.589	96	101	99	104
Lombardy	24.635	25.631	27.556	29.486	100	100	108	100
Veneto	23.763	24.641	22.998	27.709	96	96	90	94
Liguria	23.443	24.132	24.328	27.311	95	94	95	93
Emilia Romagna	25.452	24.453	24.504	27.626	103	95	96	94
Tuscany	22.164	22.666	22.643	26.863	90	88	89	91
Umbria	25.634	24.118	22.834	29.401	104	94	89	100
Marche	24.138	29.037	24.538	28.029	98	113	96	95
Lazio	28.990	33.375	29.505	35.040	117	130	115	119
Abruzzo	22.711	24.731	24.932	28.182	92	96	98	96
Molise	21.883	22.468	24.079	28.778	89	87	94	98
Campania	26.564	29.150	28.973	32.311	107	113	113	110
Puglia	22.166	23.128	21.803	26.137	90	90	85	89
Basilicata	25.002	25.689	26.802	29.907	101	100	105	102
Calabria	24.125	21.682	24.688	28.202	98	84	97	96
TOTAL	24.719	25.713	25.559	29.455	100	100	100	100

Figures based on data from the Court of Accounts

following year.

Regarding non-executive personnel (the so called 'categories'), the wage differences between Regions are less evident. In 2004 the highest average levels were those of Lazio (yearly \notin 35,040), followed by Campania (\notin 32,311), and Piedmont (\notin 30,589). As for Calabria, it is possible to move a small reproach even to another Region, Campania, which shows higher staffing levels than the average of the Regions with an ordinary statute (156 every 100,000 inhabitants) as well as one of the highest wage levels for non-executive personnel. The result is well over the average running costs, with a worrying tendency to rise even further (see Tables 3.10 and 3.11).

Therefore, it makes sense to reduce running costs, particularly in those regions whose accounts are in the red. Such downsizing would benefit public finance. In Table 3.12 we see an evaluation of the financial margins still available to the Regions wanting to reduce running costs: crucial expenditure items related to regional operational costs have been considered, like wages, the purchase of non-durable goods, counselling fees and the running costs of institutional bodies.

After dividing the Regions into three groups according to population size, a per capita value is assigned to each Region, the lowest possible for each of the four considered expenditure items⁴. In this way we gain an indication of the savings in cash potentially available in each region through the harmonization of running costs. In substance, the operational costs which can be defined 'superfluous' amount to an impressive \in 148 per capita in Calabria, \in 110 in Molise, \in 107 in Campania and \in 101 in Piedmont. In total this means \in 45 per capita for the Regions with an ordinary statute, equal to \in 2,177 million, about 3.1% of the regional tax-funded income.

In order to compare homogeneous units, the analysis has until now looked only at Regions with an ordinary statute; the special Regions in fact have wider competences, with noticeable effects on costs. Nonetheless, it seems useful to offer an indication of expenditure for operational purposes incurred by both ordinary and special Regions. According to ISTAT data, special Regions constantly have higher operational costs than the average costs of ordinary Regions: this discrepancy holds in particular for wage levels and the purchase of non-durable goods (see Graph 3.4).

In the light of the data discussed up to this point and of the observations made, one can conclude that **the implementation of federalism appears to be**, not just a priority, but **a way to contain the increase of public spending through the greater involvement and accountability of peripheral government units.** Furthermore, it would ensure that **the inefficiencies of one Region are not funded by the citizens of another.** In a federal system redistribution between territories remains necessary and useful, but has to be based on actual economic and social needs, not on previous spending patterns. According to this theory, it would be wise to base a new equalizing system on expenditure after certain crucial costs such as running costs; in this way peripheral Administrations would be stimulated to improve efficiency and eliminate the waste of public money.

⁴ In the Appendix of this chapter there is a table with the best and the worst results used for filling in Table 3.12.

 Table 3.12. Possible savings in the

 spending of the Regions with an
 ordinary statute (euro per capita): 2002

	Services of the region's institutional organs	Employees wages	Purchase of non- durable goods	Spending on collaborations, studies and counselling	Total savings
Up to 1 million inhabitants					
MOLISE	17	36	23	34	110
BASILICATA	7	10	1	0	17
UMBRIA	0	0	0	24	24
Between 1 and 3 million inh	abitants				
ABRUZZO	9	39	0	2	51
MARCHE	0	40	6	7	53
LIGURIA	4	0	43	0	47
CALABRIA	3	75	48	22	148
Over 3 million inhabitants					
TUSCANY	7	9	3	3	23
EMILIA	5	3	17	7	31
PUGLIA	3	10	5	0	17
PIEDMONT	4	12	75	11	101
VENETO	7	8	6	4	25
LAZIO	10	9	12	2	32
CAMPANIA	21	46	7	32	107
LOMBARDY	0	0	0	1	1
TOTAL	6	16	15	8	45

(Further information in Appendix)

Figures based on ISTAT data



Graph 3.4. Comparison of the main running costs of the Regions with an ordinary statute (ROSs) and of the Regions with a special statute (RSSs) (expenses in euro per capita): 2002

Figures based on ISTAT data

Federalism, in any case, is not limited solely to a question of taxes, of spending and of personnel transfers. It is important to have a clear, well-defined, commonly-agreed plan; on previous occasions given by institutional reforms this scenario has only partly occurred. In order to avoid duplications of functions (and therefore of costs), it is important to define from the beginning 'who does what', that is, to identify the (legislative and administrative) competences of the State, of the Regions, of the Provinces and 'Communes'. Starting from such a definition, it will be possible to allocate necessary resources, composed, according to Article 119 of the Constitution, of local taxes, shares of national revenues, specific transfers and of an equalizing fund.

However, in order that the federal system may fully express its beneficial effects, it is essential that the solidarity mechanisms between territories cover

only the difference between the standard costs of assigned functions and the real capacity of citizens and local businesses to pay. This is to say that **the additional costs linked to administrative inefficiency cannot in any way fall into the cauldron of redistribution.**

In this way the virtuous mechanisms behind the federalist logic can be fully applied, guaranteeing greater accountability of local authorities and benefits for public finance.
Appendix: tables and graphs

		Incomes	from employe	e wages	Oth	er expenditur	·e*	Expenditur	e for final cor	sumption
		1996-2000	2001-2005	Variation	1996-2000	2001-2005	Variation	1996-2000	2001-2005	Variation
	тот	11,4	9,5	-1,9	7,6	8,7	1,1	19,0	18,2	-0,8
Austria	CEN	5,4	5,1	-0,3	5,5	5,1	-0,4	10,9	10,2	-0,7
	PER	6,0	4,4	-1,6	2,2	3,6	1,4	8,2	8,0	-0,2
	тот	11.7	12,1	0,3	9,8	10,6	0,8	21,5	22,6	1,1
Belgium	CEN	3,1	3,0	-0,1	6,7	7,1	0,4	9,8	10,1	0,2
	PER	8,6	9,1	0,5	3,1	3,5	0,4	11,7	12,6	0,9
	тот	8,8	n.d.	=	6,0	n.d.	=	14,8	n.d.	=
Bulgaria	CEN	6,7	n.d.	=	3,9	n.d.	=	10,7	n.d.	=
-	PER	3,3	n.d.	=	2,6	n.d.	=	5,9	n.d.	=
	тот	13,5	14,4	0,9	3,2	3,8	0,6	16,7	18,2	1,5
Cyprus	CEN	n.d.	13,7	=	n.d.	3,6	=	16,0	17,4	1,4
	PER	0,7	0,7	0,0	0,0	0,2	0,2	0,7	0,9	0,2
	тот	17,2	17,7	0,4	8,1	8,5	0,4	25,4	26,2	0,8
Denmark	CEN	4,9	4,8	-0,1	2,8	2,7	-0,1	7,6	7,5	-0,1
	PER	12,4	12,9	0,5	5,3	5,8	0,5	17,7	18,7	0,9
	тот	11,1	9,9	-1,2	11,4	8,5	-2,9	22,4	18,4	-4,0
Estonia	CEN	n.d.	6,0	=	n.d.	5,8	=	n.d.	11,8	=
	PER	n.d.	3,9	=	n.d.	2,6	=	n.d.	6,6	=
	тот	14,0	13,4	-0,6	7,6	8,0	0,4	21,6	21,4	-0,2
Finland	CEN	4,0	3,7	-0,3	4,4	4,3	-0,1	8,4	8,0	-0,3
	PER	10,1	9,7	-0,4	3,2	3,7	0,5	13,3	13,4	0,1
	тот	13,6	13,4	-0,2	9,8	10,1	0,2	23,4	23,5	0,1
France	CEN	10,7	10,4	-0,4	7,3	7,6	0,3	18,0	18,0	0,0
	PER	2,8	3,0	0,2	2,6	2,4	-0,1	5,4	5,5	0,1
	тот	8,4	7,8	-0,6	10,9	11,2	0,3	19,3	19,0	-0,3
Germany	CEN	1,9	1,8	-0,1	7,9	8,0	0,1	9,7	9,8	0,0
	PER	6,5	6,0	-0,5	3,0	3,2	0,2	9,5	9,2	-0,3
	тот	11,4	12,0	0,6	4,3	4,9	0,6	15,8	16,9	1,1
Greece	CEN	10,5	10,9	0,4	4,3	4,8	0,5	14,8	15,7	0,9
	PER	0,9	1,0	0,2	0,0	0,1	0,1	0,9	1,1	0,2
	тот	8,6	9,0	0,3	5,8	6,3	0,5	14,5	15,3	0,8
Ireland	CEN	4,6	4,7	0,1	1,7	2,6	0,8	6,3	7,3	1,0
	PER	4,0	4,3	0,3	4,1	3,7	-0,4	8,1	8,0	-0,1
	тот	10,9	10,7	-0,1	7,4	8,9	1,5	18,3	19,6	1,3
Italy	CEN	6,4	6,3	-0,1	2,3	2,5	0,2	8,7	8,8	0,1
	PER	4,5	4,4	-0,1	5,1	6,4	1,3	9,6	10,8	1,2
	тот	10,9	10,4	-0,5	10,9	9,6	-1,3	21,8	20,0	-1,8
Latvia	CEN	n.d.	5,9	=	n.d.	5,9	=	n.d.	11,8	=
	PER	n.d.	4,5	=	n.d.	3,6	=	n.d.	8,1	=
	тот	12,0	11,1	-1,0	10,5	7,4	-3,1	22,5	18,5	-4,1
Lithuania	CEN	n.d.	6,1	=	n.d.	4,9	=	n.d.	11,0	=
	PER	n.d.	4,9	=	n.d.	2,5	=	n.d.	7,4	=

Table 3.1. Dynamics of expenditure for final consumption.Partition by level of government (in % of the GDP)

continues

Incomes from employee wages Other expenditure* Expenditure for final consumption 1996-200 201-205 Variation 101 201	(continues from previ	ous page)									
1996-200 Variation 1996-200 Variation 1996-200 Variation 1996-200 Variation Luxemburg CFN PER 6.2 6.1 7.7 8.5 0.8 15.9 16.5 0.6 Matia TOT 1.3,7 1.49 1.2 5.7 6.4 0.0 1.9,4 1.3,3 0.1 Matia CEN n.d.			Incomes	from employe	e wages	Oth	er expenditur	·e*	Expenditur	e for final cor	sumption
Luxemburg TOT PER 8,2 6,4 6,4 6,4 6,4 6,2 9,2 0,0 8,1 0,0 1,0 7,7 0,0 8,5 1,0 0,8 0,1 15,9 1,0 16,5 0,0 0,6 0,1 Maita TOT PER 13,7 0,0 14,9 0,0 1,2 0,0 1,0 0,0 1,0 0,0 0,0 0,1 0,0 0,0			1996-2000	2001-2005	Variation	1996-2000	2001-2005	Variation	1996-2000	2001-2005	Variation
Luxemburg CEN 6,4 6,2 -0,2 6,7 7,4 0,7 13,1 13,6 0,5 Malta TOT 13,7 14,9 1,2 5,7 6,4 0,7 13,4 13,6 0,5 0,1 Malta TOT 13,7 14,9 1,2 5,7 6,4 0,7 19,4 21,3 1,9 Malta TOT 9,8 9,9 0,1 12,5 14,0 1,4 22,3 23,8 1,5 The Netherlands CEN 3,5 3,4 -0,1 9,1 10,0 0,9 12,6 13,4 0,9 1,4 14,4 0,9 PER 6,3 6,5 0,1 3,4 2,0 7,0 8,8 18,8 Poland CFN 5,6 4,4 0,7 3,7 4,6 1,4 13,4 2,0 Per 1,7 1,8 1,4,5 0,7 3,7 4,4 1,4 1,5 1,7		тот	8,2	8,1	-0,2	7,7	8,5	0,8	15,9	16,5	0,6
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	Luxemburg	CEN	6,4	6,2	-0,2	6,7	7,4	0,7	13,1	13,6	0,5
		PER	1,9	2,0	0,1	1,0	1,0	0,0	2,9	3,0	0,1
		тот	13,7	14,9	1,2	5,7	6,4	0,7	19,4	21,3	1,9
PER 0,1 0,1 0,0 0,4 0,4 0,1 0,5 0,5 0,1 The Netherlands CEN 3,5 3,4 -0,1 9,1 1,0 0,9 12,6 13,4 0,9 12,6 13,4 0,9 Poland CEN 5,6 4,4 -1,1 5,1 4,8 -0,4 10,7 9,2 -1,5 0,4 10,4 0,6 Poland CEN 5,6 4,4 -1,1 5,1 4,8 -0,4 10,7 9,2 -1,5 5,6 1,4 -1,1 1,8 0,4 10,7 9,2 -1,5 5,7 0,8 1,8 1,8 1,2,5 0,7 3,7 4,6 0,8 1,5,5 1,7 1,6	Malta	CEN	n.d.	n.d.	=	n.d.	n.d.	=	n.d.	n.d.	=
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $		PER	0,1	0,1	0,0	0,4	0,4	0,1	0,5	0,5	0,1
The Netherlands CEN 3,5 3,4 -0,1 9,1 10,0 0,9 12,6 13,4 0,9 Poland FER 6,3 6,5 0,1 3,4 3,9 0,5 9,7 10,4 0,6 Poland CEN 5,6 4,4 -1,1 5,1 4,8 -0,4 10,7 9,2 -1,5 Permugal CEN 5,6 4,4 -1,1 5,1 4,8 -0,4 10,7 9,2 -1,5 Portugal CEN 1,8 12,5 0,7 3,7 4,6 0,8 15,5 17,1 1,6 PER 1,7 1,9 0,2 1,2 1,5 0,3 2,9 3,4 0,5 OT 10,2 10,9 0,7 8,5 9,8 1,3 18,7 20,7 2,0 United Kingdom CEN 5,5 5,9 0,4 6,1 6,7 1,7 11,6 1,6,6 1,6 1,0,2		тот	9,8	9,9	0,1	12,5	14,0	1,4	22,3	23,8	1,5
PER 6,3 6,5 0,1 3,4 3,9 0,5 9,7 10,4 0,6 Poland TOT 10,2 10,5 0,2 7,4 7,6 0,1 17,7 18,1 0,4 Per 4,7 6,0 1,3 2,3 2,8 0,5 7,0 8,8 1,8 Portugal CT 13,5 14,4 0,9 4,9 6,1 1,1 18,4 20,4 2,0 Portugal CT 13,5 14,4 0,9 4,9 6,1 1,1 18,4 20,4 2,0 Mited Kingdom CT 1,7 1,9 0,2 1,2 1,5 0,3 2,9 3,4 0,5 United Kingdom CEN 5,5 5,9 0,4 6,1 6,7 0,7 11,6 12,5 1,0 QER 4,7 5,0 0,4 2,1 1,0 20,7 22,3 1,6 CEN 6,5 7,0	The Netherlands	CEN	3,5	3,4	-0,1	9,1	10,0	0,9	12,6	13,4	0,9
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $		PER	6,3	6,5	0,1	3,4	3,9	0,5	9,7	10,4	0,6
Poland CEN 5,6 4,4 -1,1 5,1 4,8 -0,4 10,7 9,2 -1,5 Per 4,7 6,0 1,3 2,3 2,8 0,5 7,0 8,8 1,8 Portugal CEN 13,5 14,4 0,9 4,9 6,1 1,1 18,4 20,4 20,0 Portugal CEN 1,1,8 12,5 0,7 3,7 4,6 0,8 15,5 17,1 1,6 Dirted Kingdom TOT 10,2 10,9 0,7 8,5 9,8 1,3 18,7 20,7 2,0 Onited Kingdom TOT 10,2 10,9 0,7 13,5 14,4 0,9 20,7 22,3 1,6 Czech Republic TOT 7,2 7,9 0,7 13,5 14,4 0,9 20,7 22,3 1,6 Czech Republic TOT 8,1 8,3 0,2 6,9 8,4 1,5 15,0 16,7 <		тот	10,2	10,5	0,2	7,4	7,6	0,1	17,7	18,1	0,4
PER 4,7 6,0 1,3 2,3 2,8 0,5 7,0 8,8 1,8 Portugal TOT 13,5 14,4 0,9 4,9 6,1 1,1 18,4 20,4 20,4 20,4 20,4 20,4 20,4 3,4 0,5 PER 1,7 1,9 0,2 1,2 1,5 0,3 2,9 3,4 0,5 United Kingdom CEN 5,5 5,9 0,4 6,1 6,7 0,7 11,6 12,6 1,0 9 7,2 8,1 0,9 20,7 2,0 1,6 7,2 8,1 0,9 20,7 2,1 1,6 <td>Poland</td> <td>CEN</td> <td>5,6</td> <td>4,4</td> <td>-1,1</td> <td>5,1</td> <td>4,8</td> <td>-0,4</td> <td>10,7</td> <td>9,2</td> <td>-1,5</td>	Poland	CEN	5,6	4,4	-1,1	5,1	4,8	-0,4	10,7	9,2	-1,5
Portugal TOT CEN 13,5 11,8 14,4 12,5 0,9 0,7 4,9 3,7 6,1 4,6 1,1 0,8 18,4 15,5 20,4 17,1 1,6 0,5 United Kingdom TOT PER 1,0 10,9 0,7 8,5 9,8 1,3 18,7 20,7 2,0 United Kingdom CEN PER 5,5 5,9 0,4 6,1 6,7 0,7 11,6 12,6 10,0 PER 4,7 5,0 0,4 2,5 3,1 0,6 7,2 8,1 0,9 Czech Republic TOT PER 5,2 4,4 -0,8 10,2 10,4 0,9 20,7 22,3 1,6 Czech Republic PER 2,0 3,5 1,4 3,3 4,1 0,8 5,3 7,5 2,2 Rumania CEN n.d. 5,5 = n.d. 6,4 = n.d. 11,9 = Stovakia CEN n.d. 5,5 = n.d. 1,6 1,7 <td< td=""><td></td><td>PER</td><td>4,7</td><td>6,0</td><td>1,3</td><td>2,3</td><td>2,8</td><td>0,5</td><td>7,0</td><td>8,8</td><td>1,8</td></td<>		PER	4,7	6,0	1,3	2,3	2,8	0,5	7,0	8,8	1,8
Portugal CEN 11,8 12,5 0,7 3,7 4,6 0,8 15,5 17,1 1,6 PER 1,7 1,9 0,2 1,2 1,5 0,3 2,9 3,4 0,5 United Kingdom TOT 10,2 10,9 0,7 8,5 9,8 1,3 18,7 20,7 2,0 United Kingdom CEN 5,5 5,9 0,4 6,1 6,7 0,7 11,6 12,6 1,0,9 CEN 5,2 4,4 0,8 10,2 10,4 0,9 20,7 22,3 1,6 CEN 5,2 4,4 0,8 10,2 10,4 0,2 15,4 14,8 0,6 CEN 8,1 8,3 0,2 6,9 8,4 1,5 15,0 16,7 1,7 Rumania CEN n.d. 2,2 9 = n.d. 2,0 = n.d. 11,9 - 2,1 1,7 2,1		тот	13,5	14,4	0,9	4,9	6,1	1,1	18,4	20,4	2,0
PER 1,7 1,9 0,2 1,2 1,5 0,3 2,9 3,4 0,5 United Kingdom TOT 10,2 10,9 0,7 8,5 9,8 1,3 18,7 20,7 2,0 United Kingdom CEN 5,5 5,9 0,4 6,1 6,7 0,7 11,6 12,6 1,0 PER 4,7 5,0 0,7 13,5 14,4 0,9 20,7 22,3 1,6 Czech Republic CEN 5,2 4,4 -0,8 10,2 10,4 0,2 15,4 14,8 -0,6 CEN 5,2 4,4 -0,8 10,2 10,4 0,2 15,4 14,8 -0,6 PER 2,0 3,5 1,4 3,3 4,1 0,8 5,3 7,5 2,2 Rumania CEN n.d. 5,5 -0,7 12,2 11,5 -0,7 21,3 20,0 -1,4 Stovakia CEN	Portugal	CEN	11,8	12,5	0,7	3,7	4,6	0,8	15,5	17,1	1,6
United KingdomTOT CEN10,2 5,510,9 5,90,7 5,98,5 0,49,8 6,11,3 6,718,7 0,720,7 11,620,7 12,620,07 10,0Czech RepublicTOT CEN7,27,9 2,00,7 3,510,2 1,410,4 3,30,67,28,1 8,10,9Czech RepublicCEN PER5,2 2,07,9 3,51,40,8 3,314,40,9 4,120,7 0,622,3 3,51,6 1,4RumaniaTOT PER8,1 1,68,3 2,90,2 2,96,9 1,48,4 3,31,515,0 4,116,7 4,9SlovakiaTOT PER9,2 1,68,5 2,3-0,7 1,512,2 2,111,5 1,6-0,7 2,1,320,0 2,9-1,7 4,2SlovakiaTOT PER0,8 0,82,31,52,1 2,11,9 9-0,22,94,21,3SlovakiaTOT PERn.d. 0,1- - -n.d. - 1,52,1 2,11,9 9-0,22,94,21,3SlovakiaTOT PERn.d. 0,1- - - -n.d. - - - - -1,6 - - -1,6- - - -1,6 - - -1,6- - - -1,6 - - -1,6- - - -1,6- - - - - - -1,7- - - -1,6- - - -		PER	1,7	1,9	0,2	1,2	1,5	0,3	2,9	3,4	0,5
United Kingdom CEN 5,5 5,9 0,4 6,1 6,7 0,7 11,6 12,6 1,0 PER 4,7 5,0 0,4 2,5 3,1 0,6 7,2 8,1 0,9 Czech Republic CEN 5,2 4,4 0,8 10,2 10,4 0,2 15,4 4,6 0,6 Czech Republic CEN 5,2 4,4 0,8 10,2 10,4 0,2 15,4 6,6 6,6 6,7 2,2 3,5 2,2 Rumania CEN n.d. 5,5 = n.d. 6,4 = n.d. 11,9 =		тот	10,2	10,9	0,7	8,5	9,8	1,3	18,7	20,7	2,0
PER 4,7 5,0 0,4 2,5 3,1 0,6 7,2 8,1 0,9 Czech Republic TOT PER 7,2 7,9 0,7 13,5 14,4 0,9 20,7 22,3 1,6 Czech Republic FER 5,2 4,4 -0,8 10,2 10,4 0,2 15,4 14,8 -0,6 PER 2,0 3,5 1,4 3,3 4,1 0,8 5,3 7,5 2,2 Rumania CEN n.d. 5,5 = n.d. 6,9 8,4 1,5 15,0 16,7 1,7 Rumania CEN n.d. 2,9 = n.d. 6,4 = n.d. 11,9 = 2,0 = n.d. 4,9 = Stovakia CEN 8,3 6,1 -2,2 10,1 9,6 -0,5 18,4 15,7 -2,7 Stovakia CEN n.d. n.d. = n.d. n.d.<	United Kingdom	CEN	5,5	5,9	0,4	6,1	6,7	0,7	11,6	12,6	1,0
Czech RepublicTOT CEN7,2 5,27,9 4,40,7 		PER	4,7	5,0	0,4	2,5	3,1	0,6	7,2	8,1	0,9
$\begin{array}{c c c c c c c c c c c c c c c c c c c $		тот	7,2	7,9	0,7	13,5	14,4	0,9	20,7	22,3	1,6
PER 2,0 3,5 1,4 3,3 4,1 0,8 5,3 7,5 2,2 Rumania TOT 8,1 8,3 0,2 6,9 8,4 1,5 15,0 16,7 1,7 Rumania CEN n.d. 5,5 = n.d. 6,4 = n.d. 11,9 = PER n.d. 2,9 = n.d. 6,4 = n.d. 11,9 = Slovakia TOT 9,2 8,5 -0,7 12,2 11,5 -0,7 21,3 20,0 -1,4 Slovakia CEN 8,3 6,1 -2,2 10,1 9,6 -0,5 18,4 15,7 -2,7 Slovenia TOT n.d. 0,1 = n.d. 0,0 = n.d. 0,1 = Slovenia TOT n.d. n.d. = n.d. n.d. = n.d. 0,1 = 0,1 1,2	Czech Republic	CEN	5,2	4,4	-0,8	10,2	10,4	0,2	15,4	14,8	-0,6
RumaniaTOT CEN PER8,1 n.d.8,3 5,50,2 =6,9 n.d.8,4 6,41,5 = n.d.15,0 16,716,7 1,7 = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = n.d.11,9 = = = n.d.11,9 = = = =11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,1 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,0 = = = n.d.11,1 = = = n.d.11,1 = = = n.d.11,1 = = = n.d.11,1 = = = n.d.11,1 = = = n.d.11,1 = = = n.d.11,1 = = = n.d.11,1 = = = n.d.11,1 = = n.d.11,1 = = n.d.11,1 = = n.d.11,1 = = n.d.11,1 = = n.d.11,1 = = n.d.11,1 = = n.d.11,1 = = n.d.11,1 = = n.d. <th< td=""><td></td><td>PER</td><td>2,0</td><td>3,5</td><td>1,4</td><td>3,3</td><td>4,1</td><td>0,8</td><td>5,3</td><td>7,5</td><td>2,2</td></th<>		PER	2,0	3,5	1,4	3,3	4,1	0,8	5,3	7,5	2,2
RumaniaCEN PERn.d. $5,5$ =n.d. $6,4$ =n.d. $11,9$ =TOT PER $9,2$ $8,5$ $-0,7$ $12,2$ $11,5$ $-0,7$ $21,3$ $20,0$ $-1,4$ SlovakiaCEN PER $8,3$ $6,1$ $-2,2$ $10,1$ $9,6$ $-0,5$ $18,4$ $15,7$ $-2,7$ SlovakiaCEN PER $8,3$ $6,1$ $-2,2$ $10,1$ $9,6$ $-0,5$ $18,4$ $15,7$ $-2,7$ SlovaniaTOT PER $0,8$ $2,3$ $1,5$ $2,1$ $1,9$ $-0,2$ $2,9$ $4,2$ $1,3$ SlovaniaTOT PER $n.d.$ $0,1$ = $n.d.$ $0,0$ = $n.d.$ $0,1$ =SlovaniaTOT PER $n.d.$ $n.d.$ = $n.d.$ $n.d.$ = $n.d.$ $0,0$ = $n.d.$ $0,1$ =SlovaniaTOT $n.d.$ $n.d.$ = $n.d.$ $n.d.$ = $n.d.$ $0,0$ = $n.d.$ $0,1$ =SlovaniaTOT $10,7$ $10,1$ $-0,6$ $6,8$ $7,4$ $0,7$ $17,4$ $17,5$ $0,1$ SpainCEN $4,2$ $2,6$ $-1,7$ $2,6$ $1,8$ $-0,8$ $6,9$ $4,4$ $-2,5$ SpainCEN $4,2$ $2,6$ $-1,7$ $2,6$ $1,8$ $-0,7$ $8,3$ $7,7$ $-0,6$ SwedenCEN $3,8$ $3,8$ $0,1$ $4,6$ $3,9$ $-0,7$ $8,3$ <td></td> <td>тот</td> <td>8,1</td> <td>8,3</td> <td>0,2</td> <td>6,9</td> <td>8,4</td> <td>1,5</td> <td>15,0</td> <td>16,7</td> <td>1,7</td>		тот	8,1	8,3	0,2	6,9	8,4	1,5	15,0	16,7	1,7
$\begin{array}{c c c c c c c c c c c c c c c c c c c $	Rumania	CEN	n.d.	5,5	=	n.d.	6,4	=	n.d.	11,9	=
SlovakiaTOT CEN PER9,2 8,3 0,88,5 2,3-0,7 1,2,212,2 10,111,5 9,6 2,1-0,7 1,921,3 1,920,0 1,7,4-1,4 -2,7 2,9SlovakiaTOT PER0,8 0,82,31,52,11,9-0,22,94,21,3SloveniaTOT CEN PERn.d. n.d.0,1 n.d.= n.d.n.d. n.d.= n.d.n.d. n.d.= n.d.n.d. n.d.=n.d. n.d.0,1 = n.d.=SpainTOT CEN PER10,7 6,410,1 7,4-0,6 1,76,8 2,67,4 1,00,7 4,217,4 6,717,4 1,7,50,1 0,1 2,6SpainTOT CEN PER16,2 3,80,0 3,810,9 6,311,3 7,70,3 1,610,613,2 13,22,6SwedenCEN PER3,8 12,53,8 12,30,1 6,34,6 7,41,118,8 19,710,0HungaryCEN PER5,1 5,66,3 6,30,73,5 3,80,39,110,11,0		PER	n.d.	2,9	=	n.d.	2,0	=	n.d.	4,9	=
Slovakia CEN 8,3 6,1 -2,2 10,1 9,6 -0,5 18,4 15,7 -2,7 PER 0,8 2,3 1,5 2,1 1,9 -0,2 2,9 4,2 1,3 Slovenia TOT n.d. 0,1 = n.d. 0,0 = n.d. 0,1 = Slovenia CEN n.d. n.d. = n.d. n.d. = n.d. 0,0 = n.d. 0,1 = Slovenia CEN n.d. n.d. = n.d. n.d. = n.d. 0,1 = Slovenia TOT 10,7 10,1 -0,6 6,8 7,4 0,7 17,4 17,5 0,1 Spain CEN 4,2 2,6 -1,7 2,6 1,8 -0,8 6,9 4,4 -2,5 Spain CEN 3,8 3,8 0,1 4,2 5,7 1,6 10,6 13,		тот	9,2	8,5	-0,7	12,2	11,5	-0,7	21,3	20,0	-1,4
PER 0,8 2,3 1,5 2,1 1,9 -0,2 2,9 4,2 1,3 Slovenia TOT n.d. 0,1 = n.d. 0,0 = n.d. 0,1 = Slovenia CEN n.d. n.d. n.d. = n.d. n.d. = n.d. 0,1 = Slovenia CEN n.d. n.d. = n.d. n.d. = n.d. 0,1 = Spain CEN n.d. n.d. = n.d. n.d. = n.d. 0,1 = Spain CEN 4,2 2,6 -1,7 2,6 1,8 -0,8 6,9 4,4 -2,5 Spean CEN 4,2 2,6 -1,7 2,6 1,8 -0,8 6,9 4,4 -2,5 Sweden CEN 3,8 3,8 0,1 4,6 3,9 -0,7 8,3 7,7 -0,6	Slovakia	CEN	8,3	6,1	-2,2	10,1	9,6	-0,5	18,4	15,7	-2,7
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Slovenia CEN PER n.d. n.d. n.d. n.d. n.d. = n.d. n.d. n.d. n.d. n.d. = n.d. n.d. n.d. = n.d. n.d. n.d. = n.d. n.d. n.d. = n.d. n.d. n.d. = n.d. n.d. n.d. = n.d. n.d. n.d. n.d. = n.d. n.d. n.d. n.d. n.d. = n.d. n.d. n.d. n.d. n.d. = n.d. n.d. n.d. <th< td=""><td></td><td>тот</td><td>n.d.</td><td>0,1</td><td>=</td><td>n.d.</td><td>0,0</td><td>=</td><td>n.d.</td><td>0,1</td><td>=</td></th<>		тот	n.d.	0,1	=	n.d.	0,0	=	n.d.	0,1	=
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PER 5,6 6,3 0,7 3,5 3,8 0,3 9,1 10,1 1,0	Hungary	CEN	5,1	6,0	0,9	7,6	6,2	-1,3	12,7	12,3	-0,4
		PER	5,6	6,3	0,7	3,5	3,8	0,3	9,1	10,1	1,0

(*) Residual cathegory of expenditure for final consumption given primarily by expenditure for the purchase of goods and services.

TOT = Total public Administrations

CEN = Central Administrations and Social Security Bodies

PER = Local Administrations and federal State Administrations

Figures based on ISTAT data

Table 3.2. Detail of central Administrations' operational costs (2005)

	Data in millions	% upon the
	of euro	whole
Consumption goods	1.601	18,1
Paper, stationery, printing	173	2,0
Newspapers and publications	29	0,3
Materials and accessories	1.399	15,8
Purchase of services and use of third party goods	6.904	77,9
Counselling	1.137	12,8
Assistance	159	1,8
Promotion	113	1,3
Training and mentoring	278	3,1
Ordinary maintenance	1.306	14,7
Rents, locations and leasings	1.332	15,0
Bills and fees	794	9,0
Catering services	313	3,5
Auxiliary services	1.438	16,2
Insurances	35	0,4
Other costs	354	4,0
Money spent for duties completed by citizens	24	0,3
Administrative	173	2,0
Levies	41	0,5
Taxes	115	1,3
Financial burdens	7	0,1
TOTAL OPERATIONAL COSTS	8.866	100,0

Figures based on data from the State General Accounting Department

Table 3.3. Summary of each Ministry's specific costs.Partition by cost destination (millions of euro)

	Political di	rection	Institutional	missions	Suppo	ort	TOTA	۱L.
Ministry	2005	% Var. '05/'04	2005	% Var. '05/'04	2005	% Var. '05/'04	2005	% Var. '05/'04
Economy and Finance	32	-10,1	3.211	4,7	1.427	9,3	4.669	5,9
Productive Activities	9	15,4	80	-3,4	33	-1,6	122	-1,7
Labour and Social Policies	14	39,1	359	7,4	50	4,0	424	7,8
Justice	1	81,3	6.331	-5,0	338	12,7	6.669	-4,3
Foreign Office	16	4,4	863	-4,6	124	55,1	1.002	0,3
Education, University and Research	16	-10,9	40.449	5,8	69	5,5	40.534	5,8
Home Office	31	23,8	6.759	1,0	1.845	1,2	8.635	1,1
Environment and Safeguard of the Territory	3	12,5	119	22,6	86	10,5	208	17,1
Infrastructures and Transport	12	67,8	743	-12,7	229	74,4	983	-0,6
Communication	7	-22,6	59	10,1	24	-25,3	90	-5,1
Defence	4	26,4	17.546	11,0	1.494	0,2	19.044	10,1
Agricultural and Forestry Policies	4	15,6	531	16,7	93	11,6	629	15,9
Cultural Heritage and Activities	7	11,2	622	-15,6	209	-4,5	838	-12,9
Health	13	28,9	199	-12,2	45	8,3	257	-7,7
TOTAL	168	9,8	77.870	4,9	6.066	5,8	84.105	5,0

Figures based on data from the State General Accounting Department

		2004			2005	
Ministry	Person/Years	Total cost (millions of euro)	Person/Year average cost (euro)	Person/Years	Total cost (millions of euro)	Person/Year average cost (euro)
Economy and Finance	81.065	3.360	41.453	80.877	3.546	43.850
Productive Activities	1.878	84	44.876	1.857	83	44.683
Labour and Social Policies	8.516	281	32.947	8.261	312	37.742
Justice	109.393	4.881	44.617	105.816	4.597	43.441
Foreign Office	8.341	391	46.910	7.867	403	51.212
Education, University and Research	1.113.854	36.356	32.640	1.116.486	39.084	35.006
Home Office	171.062	6.793	39.708	165.695	6.622	39.966
Environment and Safeguard of the Territory	1.020	44	42.835	1.059	50	47.440
Infrastructures and Transport	18.991	679	35.736	18.772	717	38.193
Communication	1.846	71	38.634	1.826	69	37.904
Defence	340.072	12.809	37.664	327.385	13.200	40.318
Agricultural and Forestry Policies	11.847	429	36.250	12.097	496	41.038
Cultural Heritage and Activities	22.193	729	32.834	18.808	649	34.501
Health	3.419	154	44.911	3.362	161	47.890
TOTAL	1.893.497	67.060	35.416	1.870.167	69.989	37.424

Figures based on data from the State General Accounting Department

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Table 3.4. Cost of ordinary wages in Ministries

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Table

REGIONS	oad network	Local public transport	Animal health	Pubblic works	Incentives for enterprises	Labour market	Agricolture	Environment Pu	ublic housing	Personnel M	linor sectors	TOTAL
millions of euro												
Piedmont	254	606	37	186	348	16	123	120	303	9	19	2.322
Lombardy	261	1.565	87	48	728	20	204	192	485	12	35	3.636
Veneto	203	472	45	74	440	12	146	80	193	24	23	1.711
Liguria	86	346	21	23	81	13	21	41	102	4	8	746
E.Romagna	260	537	81	34	385	14	173	120	316	m	15	1.937
Tuscany	268	788	29	8	293	16	76	129	248	Ω	14	1.875
Umbria	125	202	7	2	65	8	32	33	106	1	4	583
Marche	109	141	26	6	141	11	52	15	82	10	5	600
Lazio	206	1.116	65	48	134	23	91	124	428	21	6	2.264
Abruzzo	188	304	27	4	105	6	57	50	82	7	9	839
Molise	18	88	4	10	23	S	22	20	25	2	2	219
Campania	50	1.337	117	12	329	24	66	53	373	7	11	2.412
Puglia	119	1.069	58	48	260	18	152	126	248	15	10	2.123
Basilicata	102	203	10	£	57	6	47	40	55	S	2	531
Calabria	32	538	33	2	89	18	72	52	145	5	9	663
TOTAL ROS	2.282	9.616	645	511	3.477	215	1.367	1.194	3.191	123	169	22.790
A. P. of Trento					8				45			53
A. P. of Bolzano					6				50			59
Friuli V.G.					33				99			66
Sardinia					86				89		1	174
Sicily					0				313			313
Aosta Valley					0				9			9
TOTAL RSS*					135				569			704
TOTAL	2.282	9.616	645	511	3.612	215	1.367	1.194	3.760	123	169	23.494

(*) Includes the resources transferred from 2000 to 2004. Source: Court of Accounts

•)	•		3	4)		
	Services of the I institutional c	Region's Irgans	Personnel v	wages	Purchase of non-du	rable goods	Expenditure for collistudies and cou	aborations, nselling
BEST RESULTS								
Up to 1 million inhabitants	UMBRIA	(8,53)	UMBRIA	(66,29)	UMBRIA	(21,98)	BASILICATA	(5, 15)
From 1 to 3 million inhabitants	MARCHE	(6,05)	LIGURIA	(20,18)	ABRUZZO	(12,75)	LIGURIA	(2,51)
More than 3 million inhabitants	LOMBARDY	(2,20)	LOMBARDY	(18,63)	LOMBARDY	(5,17)	PUGLIA	(1, 12)
WORST RESULTS								
Up to 1 million inhabitants	MOLISE	(25,03)	MOLISE	(102,58)	MOLISE	(44,53)	MOLISE	(39,34)
From 1 to 3 million inhabitants	ABRUZZO	(18,28)	CALABRIA	(95,34)	CALABRIA	(60, 41)	CALABRIA	(24,88)
More than 3 million inhabitants	CAMPANIA	(23,14)	CAMPANIA	(64,55)	PIEDMONT	(79,89)	CAMPANIA	(33,5)
In parenthesis the per capita values Figures based on ISTAT data								

Table 3.6. Possible savings in the spending of the Regions with an ordinary statute (2002). Best and worst results for each expenditure item and demographic class.

Conclusions

Half-federalism

The failed implementation of fiscal federalism has produced a stalemate situation which damages, above all, the most dynamic Regions with greater fiscal capacity, amongst which there is Veneto. The current equalizing system, substantially based on historical spending patterns and not on administrative virtuousness, doesn't promote the accountability and financial autonomy of the local governments. Veneto finds itself divided between the obligation to respect the rigorous constraints of the Internal Stability Pact on the one hand and to finance equalizing flows towards other Regions on the other.

Fiscal residue in Veneto

Veneto registers a positive fiscal residue of $\notin 11,5$ billion (equal to Latvia's GDP); this means that Veneto's tax-payers receive from all the public Administrations (State, Regions, Provinces, 'Communes') an amount of resources that is inferior to the taxes they have paid. The dynamics of equalization emerge: resources collected in Lombardy, Emilia Romagna and in Veneto end up by making good the deficit developed by Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia. If Veneto was able to keep for itself the resources assigned to equalization, local spending – at equal fiscal pressure – could rise by 78% (passing from $\notin 3,220$ to $\notin 5,734$ for every Veneto citizen).

Autonomy and local tax pressure

The scantiness of state financial flows has "forced" Veneto to develop a substantial fiscal autonomy: even though fiscal federalism is still only theoretical, Veneto's index of autonomy is equal to 68% (% of tax revenues on the total). The low level of state transfers and the noteworthy withdrawal carried out by the State have pushed Veneto to increase local tax pressure (grown from 28,3% in 1996 to 32,9% in 2003) in order to avoid cuts in public services.

Decentralization in the European Countries

In Italy the quota of taxes collected by peripheral Administrations has increased from 12,6% in 1996 to 23% in 2004. The index of fiscal decentralization in Italy has nearly doubled, exceeding that of federal States such as Belgium (14,5%) and other unitary States like France (16,9%) and the UK (6,0%). The index of expenditure decentralization is equal to 32,5%; this means that in Italy approximately one third of the public spending is attributable to the Regions, the Provinces and the 'Communes'. The implementation of federalism would lead to an increase in the expenditure levels of Italian peripheral Administrations, lining up with the levels of federal countries such as Spain (52,1%) and Germany (43,1%).

Fiscal federalism as a means of development

Federalism is considered as an institutional solution capable of generating beneficial effects not only for public finances but also for the economic system,

thanks to the possibility of making widespread investments and especially created projects capable of boosting local development. Combining the expenditure decentralization levels with the main economic, social and infrastructural indicators of some of the EU regions a positive framework emerges for Veneto. Notwithstanding the constraints arising from equalization and from the current institutional set up, Veneto has been able to equal the economic performances of the regions belonging to federal States. The implementation of fiscal federalism would guarantee Veneto a greater economic development and a quality of services absolutely superior to the European standards.

Running costs in the EU countries

Federalism generates more efficient administration: in federal States the rational allocation of public expenditure often produces a reduction in superfluous tax loads and in inefficiency. In fact, in the countries where public spending is more decentralized the running costs of the administrative machine are on average lower than in other countries. In Italy the central State running costs are higher than those of the local Bodies: this means that peripheral Administrations are more efficient than the central State.

State costs and the implementation of decentralization

The actual cost of central Administration in 2005 amounted to over $\in 84$ billion, with a noticeable increase (+5%) with reference to 2004. Such expenditure is made up almost entirely of personnel costs and general running costs. Wages (over $\in 71$ billion in 2005) have grown by 6% since 2004. The transfer of central administrative personnel to local and regional administrations, with all the problems and difficulties it entails, has necessarily to be set at the heart of the decentralization process. However, the current numbers (21,000 people, just 0.6% of the total public personnel) are too small to have a significant impact on the new federal architecture we are trying to build in Italy.

Running costs in the Regions

Efficiency is not equal in all Italian regions: running costs in Molise, Basilicata, Umbria, Abruzzo and Campania show figures between $\in 180$ and $\in 380$ per inhabitant. In reality, part of these inefficiencies are paid also by the citizens of the other Regions, including Veneto, which yearly spends less than $\in 100$ per capita in order to run the regional administrative machine. For this reason, it is a good idea to reduce running costs: according to an evaluation, to harmonize the operational costs of the Regions with an ordinary statute would roughly free $\in 2,177$ million, equal to $\in 45$ per inhabitant or to 3.1% of the regional taxes.

Final considerations

It is necessary to implement fiscal federalism on the basis of the correlation between what is taxed and what is spent. This principle reinforces the relation between administrators and citizens, in as much as the latter will be able to evaluate more directly whether the amount of paid taxes justifies the quality of the supplied services.

It is important to have a clear, well-defined, commonly-agreed federalist project: in order to avoid the duplication of competences (and the costs these entail), it is necessary primarily to clarify 'who does what', that is to identify the different administrative and legislative roles of the State and of the Regions, Provinces and 'Communes'.

On the basis of these well-defined competences, the necessary resources can be assigned. In this context, equalization must be formulated again, basing it on the actual needs and not on the historical spending patterns; additional costs associated with inefficient administration cannot be included in the cauldron of equalization. Mechanisms of solidarity between territories in fact should only cover the eventual differences between the standard costs of the assigned competences and the actual capacity of the citizens and of the local businesses to pay.

Glossary

Central Administrations: the part of the public administration which includes the State, the Deposit and Loan Fund, the Social Security Bodies (Inail, Inps), and other central administrative bodies. They can be grouped together under the heading **'central State'**.

Local Administrations: the part of the public administration which includes the Provinces, the 'Communes', the 'Mountain Communities', the Chambers of Commerce, the Universities, and the Bodies promoting the access to further education.

Peripheral Administrations: combined local and regional Administrations.

Public Administrations: the sector which groups together all the bodies whose main function is to supply the community with services not available for sale and to carry out an equalization of the income and wealth within the country. Their main resources are given by compulsory payments made directly or indirectly by bodies coming from other sectors (Source: Istat). They represent the grouping of central, regional and local Administrations.

Regional Administrations: the part of the public administration which includes the Regions (with an ordinary or special statute), the Local Health Corporations (ASL), and public hospitals.

Person-Year: the quantity of human resources used within the course of a year - the number of people employed and the duration of their employment - with any job title, at the cost centre (Source: RGS).

Fiscal autonomy: it is the amount of income (basically tax revenue) per institutional unit (e.g., a Region or a 'Commune'). This expresses the level of 'independence' of an institutional unit from transfers or resources from other institutions.

Total surplus or deficit: it is the resulting difference between income and total spending. This emerges only while performing or managing the balance (both the competence and cash balance), and measures the excess (surplus) or insufficiency (deficit) of collectable or collected resources with respect to the potential or actual jobs (Source: Istat).

Dislocated costs: financial resources, transferred from the central Administration to other bodies, where they will turn into costs. They can be broken down into current transfers, contributions for investments, other transfers in capital account.

Index of fiscal decentralization: it represents the quota of tax income collected by peripheral Administrations with reference to the total tax income.

Index of expenditure decentralization: it represents the quota of spending incurred by peripheral Administrations as part of total public spending.

Fiscal pressure: it is given by the relation between direct taxation, indirect taxation, cash taxation, and social security contributions expressed in percentage of the GDP. It can also be expressed in relation to the number of inhabitants.

Tax pressure: it is given by the relation between direct taxation, indirect taxation and capital account taxation in percentage of the GDP. It can also be expressed in relation to the number of inhabitants.

Fiscal residue: it is given by the difference between the income and the spending of public Administrations. It synthesizes the financial flows occurring between levels of government and between different areas.

Expenditure for final consumption: it refers to public spending directed to the satisfaction of public and collective needs. It includes expenditure for goods and services that can be produced directly by the public Administration or supplied by market producers. Amongst the items which make up expenditure for final consumption there are expenditure for personnel, the purchase of goods and services from the market and intermediate consumption.

Running costs: they are given by the sum of expenditure for personnel and of the item "general services" (which includes all administrative operational costs). They represent the resources necessary to run the administrative machine.

Subsidiarity: the principle of subsidiarity (article 118 of the Constitution) assigns administrative functions to the 'Communes', apart from the functions which the 'Communes' are not able to manage effectively and efficiently. These functions 'climb' to the relevant higher level of government (the Provinces, the Regions, the State).

Title V: part of the Italian Constitution which regulates the relation and division of competences amongst the State, the Regions and the local Bodies. It was modified in 2001 by the relevant constitutional law (3/2001), after being approved by a popular referendum.

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