Can a federal system improve public finance management in Europe?
A comparison between German Ländern and Italian Regions

Gian Angelo Bellati – General Secretary of Eurosportello Veneto

Venice - February, 5th 2015
Veneto regional Council

- Legislative body of the Veneto Region
- Composed of sixty councilors elected directly by the people

Regional Association of the Chambers of Commerce of Veneto Region

- Representing the 7 Chambers of Commerce of Veneto Region
- Stimulating actions supporting Veneto economy
- Collaborating with regional, national and European institutions
- Participating in the policy making process both at regional and EU level
Eurosportello Veneto coordinates the activities of Enterprise Europe Network (EEN) for the Northern East of Italy

Eurosportello Veneto cooperates with:

- The EU Commission and other EU institutions
- The 500 members of EEN
- The national and regional system of the Chambers of Commerce
- The Brussels Delegation of Unioncamere Veneto
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- The costs of ‘non federalism’
Activities for CALRE

CALRE Working Group “Financial Federalism”
Financial decentralization and regional differences in European Cohesion Policy and Revision of the ESA95
L’Aquila document
November 2011

CALRE Working Group “Financial Federalism”
Cohesion Policy and Revision of the ESA95
Working Program
23rd February 2011

CALRE Working Group on “Financial Federalism”
Venice Paper
Draft
April 15, 2013
Italian regionalism compared to German federalism
The missing decentralization

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public spending</td>
<td>Civil servants</td>
</tr>
<tr>
<td>Central administrations</td>
<td>28.6</td>
<td>12.4</td>
</tr>
<tr>
<td>Local administrations</td>
<td>71.4</td>
<td>87.6</td>
</tr>
<tr>
<td>Total*</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(* net of spending and staff ascribable to social security bodies)

Source: Unioncamere Veneto on data supplied by Eurostat
Other countries’ federalism: effects on Italy’s public spending

**Overview of parameters. Average 2003-2007**

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Italy</th>
<th>Germany</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interm. per capita consump. (€)*</td>
<td>1.279</td>
<td>1.103</td>
<td>1.153</td>
</tr>
<tr>
<td>Civil servants per 1000 inhab</td>
<td>62.2</td>
<td>56.1</td>
<td>55.8</td>
</tr>
<tr>
<td>Labour cost per civil servant (€)*</td>
<td>41.826</td>
<td>34.759</td>
<td>42.374</td>
</tr>
</tbody>
</table>

**Public expenditure is higher in Italy compared to Spain and Germany.**
Italy could save several costs if some key parameters were adopted, like in Germany or in Spain.
If Italy were to adopt the parameters of Germany, the savings would be on the order of 1.8% of the GDP per year.

Possible savings for Italy if German and Spanish parameters were applied. Average 2003-2007 (in billion of euros)

Source: Processed by Centro Studi Sintesi on data supplied by Eurostat, ISTAT and German and Spanish institutional sources.
"Optimal level of expenditure" in Italy

<table>
<thead>
<tr>
<th>Intermediate consumption – EUR per capita</th>
<th>Civil servants – every 100 inhab. (2)</th>
<th>Cost of personnel – EUR per employee (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>VDA</td>
<td>3.345</td>
<td>TAA</td>
</tr>
<tr>
<td>LAZ*</td>
<td>2.498</td>
<td>VDA</td>
</tr>
<tr>
<td>TAA</td>
<td>2.355</td>
<td>LAZ*</td>
</tr>
<tr>
<td>SAR</td>
<td>2.053</td>
<td>TAA</td>
</tr>
<tr>
<td>LIG</td>
<td>2.015</td>
<td>FVG</td>
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<tr>
<td>LOM</td>
<td>2.009</td>
<td>MOL</td>
</tr>
<tr>
<td>FVG</td>
<td>1.931</td>
<td>SAR</td>
</tr>
<tr>
<td>TOS</td>
<td>1.926</td>
<td>CAL</td>
</tr>
<tr>
<td>PIE</td>
<td>1.876</td>
<td>LIG</td>
</tr>
<tr>
<td>Media</td>
<td>1.857</td>
<td>BAS</td>
</tr>
<tr>
<td>MOL</td>
<td>1.805</td>
<td>TAA</td>
</tr>
<tr>
<td>UME</td>
<td>1.777</td>
<td>SIC**</td>
</tr>
<tr>
<td>EMR</td>
<td>1.767</td>
<td>UMB</td>
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<tr>
<td>BAS</td>
<td>1.719</td>
<td>ABR</td>
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<tr>
<td>SIC</td>
<td>1.710</td>
<td>TOS</td>
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<tr>
<td>MAR</td>
<td>1.688</td>
<td>CAM</td>
</tr>
<tr>
<td>PUG</td>
<td>1.662</td>
<td>Media</td>
</tr>
<tr>
<td>VEN</td>
<td>1.662</td>
<td>MAR</td>
</tr>
<tr>
<td>ABR</td>
<td>1.633</td>
<td>VEN</td>
</tr>
<tr>
<td>CAL</td>
<td>1.552</td>
<td>PIE</td>
</tr>
<tr>
<td>CAM</td>
<td>1.456</td>
<td>VEN</td>
</tr>
</tbody>
</table>

Legend:
- VDA: Veneto
- LAZ*: Lazio
- TAA: Trentino-Alto Adige
- SAR: Sardegna
- LIG: Liguria
- LOM: Lombardia
- FVG: Friuli-Venezia Giulia
- TOS: Toscana
- PIE: Piemonte
- Media: Average
- UMB: Umbria
- ABR: Abruzzo
- CAM: Calabria
- MAR: Marche
- VEN: Veneto
- PIE: Piemonte
- VEN: Veneto
- LOM: Lombardia
- MOL: Molise

Some values are rounded for simplicity.
The most virtuous region...

Extending the “Veneto model” to the entire national public administration:

- savings of over **27 billion euros** would be generated, slightly less than 2% of the GDP
- **reduction of over 500,000 personnel management**, decreasing public employees to over 3 million units
Italy. Fiscal deficit of P.A. by region euro per capita (average 2010-2012)

Italy demonstrates to be the country where public administration exerts the greatest internal redistribution of resources to achieve national cohesion.

Fonte: elab. Unioncamere Veneto su dati Conti Pubblici Territoriali - Dipartimento per lo Sviluppo e la Coesione Economica
The issue concerning the **smaller fiscal capacity** of the territories and the **greater fiscal residue** of the regions with respect to the central government does not concern Italy alone, but every country in the European Union.

We compared some European regions with Spanish areas thanks to data given by Barcelona University.

**Imbalances in public finance systems of some European regions**

*Fiscal residue in some European regions (in % of regional GDP). Years 1997, 2000*

Source: Processed on data supplied by Unioncamere Veneto for the Italian regions; data supplied by Novel, Tremosa (2005) for the other regions.
The record rise in public debt in Italy

in 2013 the Italian debt of Amm. Public was 2.069 billion euros
132,8% of GDP (+4% compared to 2012)

- 1.961 billion euros Central Government (+4,6%)
- 108,5 billion euros Local government (-5,7%)
- 158 billion euros Security Institutions (+6,2%)
Public debt in different administrations (% of GDP)

Fonte: elaborazione Unioncamere Veneto con dati Banca d'Italia e Istat
Re-centralisation process in Italy

• **Chapter V of Italian Constitution** focuses on the way powers should be distributed and divided between the central government and various local levels of administration.

  **Under revision in these days**

• **Chamber of Commerce Reform Law 580/93 - dl 90/2014**. They are all independent bodies as each Chamber of Commerce has its own Statute, defines its own political program and is independent from a financial and management point of view.

  **Negative impact of the reform on national economy and governmental budget**
Chambers of Commerce are a complete and tangible example of Fiscal federalism

- enterprises pay the so-called “Chamber of Commerce annual tax” (diritto camerale) at provincial level;
- there is no transfer of funds from the centre to the periphery;
- time and place of payments together with the expenses are managed by each Chamber of Commerce;
- the responsibility of the Chamber of Commerce administrators and officials is therefore to the highest degree as well as the transparency of the expenses.
Objectives

- Promote the implementation of **financial federalism** in order to promote a more balanced and sustainable public finance management in Italy
- Reduce public spending to **boost investments**
- Create a **fair fiscal and tax system**
Conclusions (1)

- **Cost** and **efficiency of the ‘governing machine’**: considerable impact on the economic system and competitiveness of the country.

- **Germany** has accrued its net domestic savings: **reduction** of the costs of central government and the public expenditure.

- **Italy**: the **central government still manages national public finance and the federalization process is far from being completed**.

- Centralization of resources and direct management of public functions by the central government: **incompatible with a country with regional-based governance**.
Conclusions (2)

- To the regions that drive the economy and that have a virtuous administrative system should be given greater autonomy: that’s in the interest of Italy and of Europe.

- The chain effect could be very positive, bringing overall economic growth and possibly generating a surplus of fiscal resources, to be allocated for the development of the areas that are in greater troubles.

- Reducing public spending to boost investments

- Greater control over the management of public resources at all levels of government through greater transparency on the financial flows between public authorities.
Thank you for your attention!

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