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Working Papers

10

Unioncamere Veneto

CONSIGLIO REGIONALE DEL VENETO

REGIONE DEL VENETO

Federalism and competitiveness

Towards reform for the social and economic development of the country

september 2008

Introduction

Federalism is the first item on the political and institutional agenda in Italy. A heated debate is underway on the complicated and decisive aspect of fiscal federalism, considered to be "the mother of all reforms".

This Survey Paper on "Federalism and Competitiveness" is Unioncamere del Veneto's contribution to the topic. Drawn up with the support of the regional government, the paper contains ideas and proposals supported by hard data.

As a matter of fact, this publication is the third leg of an itinerary of in-depth investigation of federalism, whose principles are laid down in the new Chapter V of the Italian Constitution but have not been fully implemented yet. The first Survey Paper dealt with issues related to "The Cost of Non-Federalism", while the second concerned "Public Spending and Federalism".

Unioncamere is keenly interested in the effects that this Italian State Reform may engender in the economic system, at a time when the latter is increasingly engaged in difficult global competition, whose outcome is neither pre-determined nor a foregone conclusion. We consider the federal model to be the most modern and effective form of government, the one that can best contribute to Italy's civil and economic growth while improving its standing within the European Union.

To achieve this objective the entrepreneurial community is required to do it's utmost. But first and foremost, as citizens, we must also require the utmost efficiency from our Public Administration, which alone accounts for 50% of the country's total expenditures.

Again on the subject of federalism and competitiveness, Veneto's regional economy, like that of Lombardy and Emilia Romagna, must cope with a fiscal residue much higher than that of other richer regions in Europe. Suffice it to say that the fiscal residue, expressed as a percentage of the regional GDP, exceeds 10% in the three Italian regions of the Veneto, Lombardy and Emilia Romagna, while it stands at 8.1% in Catalonia and at less than 4.5% in the German regions of Bayern and Baden Wuttemberg.

Fiscal federalism is therefore a chapter of the wider debate on federalism that rests on the idea of subsidiarity – namely on the transfer of powers to people, families and enterprise, through the devolution of competencies to the Regional and Municipal governments.

This must be achieved without creating new areas of centralism, but simplifying procedures and increasing the operational efficiency of institutions instead, while requiring everyone, from political decision makers to simple citizens, to apply the greatest possible degree of civic responsibility and rigorousness in their independence. This is not only an institutional change, but above all a cultural one.

Unioncamere del Veneto, which serves a business community of 513 thousand enterprises, many of which are family-run, hopes that this work will be regarded as a qualified investigation with useful suggestions both for the debate that is developing and for those whose duty it is to decide upon the new institutional architecture of the Italian State.

Venice, September 2008

Federico Tessari
President, Veneto Unioncamere

Foreword

The work of our Observatory on Federalism, initiated in collaboration with Unioncamere del Veneto, continues with this publication.

The website www.osservatoriofederalismo.eu was created in order to disseminate information about the activities of the working group and the results produced, thus adding transparency to the process. The website offers users the possibility to download the documents produced by the Observatory (publications and bulletins) as well as to keep abreast of any event concerning the topics of federalism and fiscal matters in which the working group is involved at regional, national and European level.

This research has produced remarkable data.

In 2006 the fiscal residue totalled over 15.5 billion Euro, accounting for 11.2% of the GDP and amounting to 3,267 Euro per inhabitant in the Veneto (3,971 Euro in Lombardy and 3,625 Euro in Emilia Romagna). Over the last five-year period (2002-2006) the Veneto contributed over 61 billion Euro to national solidarity, which did not produce any significant positive effect on the development of Southern Italy. In fact, while between 1996 and 2005 the Veneto's per capita GPD remained almost unvaried, it grew by only 0.8% in Southern Italy.

Nevertheless, we are comforted by the fine work carried out by Honourable Minister Calderoli, who will soon be presenting his new bill on fiscal federalism to the Italian Council of Ministers.

In the latest version, the draft bill envisions great "revolutions" for our system, including: financing of essential services (healthcare, social assistance and education) based upon standard costs rather than on past spending levels, rewarding schemes for virtuous institutions, fiscal subsidiarity and hence the possibility for regional governments to levy local taxes that can best reflect territorial specificities.

If implemented over the short term – thus satisfying our expectations and proposals made in the previous works - this reform could succeed in achieving what sixty years of charitable welfare in favour of the South failed to do: effectively increase development in the South while reducing the gap in wealth between the Northern and Southern regions of Italy.

We hope that taxes in the future will be collected locally, placing the Inland Revenue Service (Agenzia delle Entrate) under the control of the regional authorities; this would have the threefold advantage of improving local administrations' accountability, reducing tax evasion and increasing the number of regional employees, as it has been the case in all of Europe's federal states. Suffice it to say that in Italy a good 54% of civil servants work for the central administration, while in Germany only 11% of the of civil servants are employed by the central government and the remainder are distributed among the Länder and local institutions.

Venice, September 2008

Marino Finozzi
President, Veneto Regional Legislative Assembly

Foreword

We are particularly pleased to see another important result of the efforts we have been making for several years in collaboration with Unioncamere del Veneto to promote studies on public financing and, in particular, on federalism.

As Regional Councillor for economic policies, I feel it is essential for the competitiveness performance of our region to remain high; unfortunately, however, the indicators give us reason for alarm and tell us that it is time to change.

If the Veneto, Lombardy and Emilia Romagna progressively lose their ability to produce and export at competitive prices and quality and to create infrastructures, especially for transportation, they will no longer be able to make as hefty a contribution to the country's balance of payments. At that point the entire Italian system might be at risk of crumbling.

It is therefore extremely urgent to proceed towards completion and implementation of the Reform of Chapter V of the Constitution and institutional and fiscal federalism.

The study we are presenting today focuses on the Veneto region, which is crushed, on the one hand, by extremely high fiscal pressure - whose benefits are not invested in efficient infrastructures and services, but in welfare payments in favour of other regions – and, on the other hand, by what it is appropriate to call unfair competition from the bordering regions, which benefit from special statutes.

We are not calling for these regions to be deprived of their advantages, we only wish our region could benefit from those same advantages; in fact, differences are striking. While the Autonomous Provincial District of Trento has overall fiscal revenue of 7,000 Euro per inhabitant, the Veneto barely exceeds 2,100 Euro. In terms of expenditures, the Veneto spends slightly less than 2,500 Euro per inhabitant, as compared to over 7,700 Euro managed by the Province of Trento. These differences are due to the different distribution of resources and powers between institutional subjects.

Also regions that have special statutes would greatly benefit from federalism, since they still live on 'derived finance', on shares of state taxes: this is neither fiscal federalism nor fiscal autonomy!

The bill proposed by Honourable Minister Calderoli definitely goes in the right direction, but there must be some certainty as to the time it will take; in fact, we do not want the proposed law to remain a dead letter after approval, like the Reform of Chapter V did.

The reduction in state and non-virtuous local administration spending and the collection of taxes at local level - with clear fiscal autonomy to allow regions to use so-called 'fiscal advantage policies' - are reforms that can no longer be delayed. Both the business community and the citizens urgently need them. The egotism of individual regions or even the state bureaucracy cannot prevail over these reforms.

Venice, September 2008

Vendemiano Sartor
Regional Councillor
for Economic and Institutional Policies

This survey was promoted and carried out in the framework of the *Regional Observatory on Federalism and Public Finances*, instituted by the Veneto Legislative Assembly and Unioncamere del Veneto, with the contribution of the Department for Economic and Institutional Policies of Veneto's Regional Government.

The planning of the survey, in addition to the collection, processing and assessment of the data is the result of the work performed by a team co-ordinated by Prof. Luca Antonini, Ordinary Professor of Constitutional and Tax Law at the University of Padua and Gian Angelo Bellati, Director of Unioncamere del Veneto; team members are Serafino Pitingaro and Grazia Sartor of Centro Studi Unioncamere del Veneto, Alberto Cestari, Catia Ventura and Andrea Favaretto of Centro Studi Sintesi.

This report was drawn up by the Centro Studi Unioncamere del Veneto, with the contribution of all the members of the working group.

Our special thanks go to the members of the Regional Conference on Economic and Labour Trends of Veneto's Legislative Assembly who participated in the meetings of the working platform dedicated to the issue of federalism, to the Surveys Department (Servizio Studi) and to the Department for Economic and Institutional Policies of Veneto's Regional Government.

Contents

Introduction*

Inefficiency, disorganisation and confusion can cost dearly; such is the risk to which the Italian public system is exposed and which, unfortunately, is already a reality, with public expenditures exceeding 50% of the GDP.

The Italian Public Administration (PA) is substantially centralised (56% of PA expenditures are attributable to the State, while the remainder is ascribable to Local Administrations) and only recently have we witnessed the realisation of a timid regional decentralisation, which often translates into duplication of competencies and overlapping duties with the State government.

The central government lacks the courage, in fact, to make changes and implement actual transfer of competencies to the regions; federalism, understood as "foedus", or the pact between autonomous entities that transfer competencies towards the central government (the opposite process of decentralisation) is even further away.

In our previous works, to dispel any confusion, we have advocated a change of course and urgent simplification, a better distinction between duties and competencies, a courageous decentralisation or, better yet, a form of federalism capable of transforming an old system into a modern public system. It is needless to recall here that the most efficient (and united) countries are precisely the ones with federal governments, from Germany to Switzerland, Canada and the United States.

In our survey on "The cost of non-federalism" we have already brought out the enormous fiscal residua that oppress the economies of the richer regions and "narcotize" the economies of the poorer regions, with public welfare assistance and inefficient spending. In the survey on "Public Spending and Federalism" we have also calculated the enormous savings (up to 56 billion Euro) that Italy could earn by bringing the average costs of personnel and operation into line with those of other federal (or decentralised) states in Europe.

This work shows that in spite of the year on year increase in the fiscal residue, the wealth gap between rich and poor regions widens, (instead of growing smaller!). It illustrates that federalism could allow for so-called fiscal advantage policies, that would benefit the poorest regions in particular. Federalism could also help find a painless solution to the thorny issue of the privileges enjoyed by regions with special statute, which are no longer justifiable today. Last but not least, this publication clearly brings out that the entrepreneurial community is demanding a competitive public system, with concrete proposals.

Starting from the so-called "Calderoli Draft", which is currently being discussed, we recall several proposals that could soon be the subject of evaluation: the identification of taxes for specific purposes and the courageous

* Gian Angelo Bellati, Director of Unioncamere del Veneto and Eurosportello Veneto.

definition of optimal standard costs; the revision of the equalization scheme, following Germany's example, with mechanisms of horizontal solidarity between regions, without the mediation of the State and with strong control over how it is actually implemented in the poorest regions; effective collection of taxes at regional level, with the regional offices of the Inland Revenue Agency reporting to the regional government; a harmonisation of Italian fiscal residua to align them with European ones, to avoid the risk of unfair competition between European regions.

These are a few examples of proposals dealt with in this work, which are motivated by the same objective: to improve the competitiveness of our economic system, without which we would not have sufficient resources for welfare, or a dignified future for our children.

Chapter 1 Inefficiency due to the lack of fiscal federalism*

1.1 Some statistics

Until a short time ago, the most disparate ghosts began floating around as soon as the word "fiscal federalism" was uttered and right away a veritable Babel would grow, where some warned against the danger of cost explosion, while others prophesised an increase in fiscal pressure and the break up of the country. So the Italian plight was never faced and federalism remains a great incomplete project, first and foremost precisely because of the lack of fiscal federalism. Some awareness of this has now been acquired. **It is becoming more evident that it is precisely the lack of fiscal federalism that is harming the national competitiveness, putting the cohesion of the country at risk and causing costs to soar.** In fact, in spite of the important legislative and administrative powers conferred on Regions, in the absence of fiscal federalism no leaner structure for the central government is possible, while regional and local authorities fail to be fully accountable for the new functions assigned to them by the Bassanini law (1998) and the constitutional reform (2001).

In recent years, **the Constitutional Court has repeatedly stressed the urgency of ensuring legislative implementation of Article 119 of the Constitution:** for example, ruling n° 370/03 stated:

"It is self-evident that the implementation of fiscal federalism is urgent in order to concretely apply the provisions of the new Chapter V of the Constitution".

Several years have passed since then, but nothing has happened. From this point of view, Italy is truly confirmed as "the country of incomplete projects"[1]: centralism has broken down, but federalism has not been created yet. **In fact, maintaining a financing model heavily based on transfer payments, the so-called "derived finance", in a country where legislative powers have been strongly decentralised by the 2001 constitutional reform creates enormous confusion, separates taxation from spending responsibilities and generates an institutional situation that makes it impossible to govern public accounts, favouring the duplication of structures, inefficiency and lack of responsibility.**

Several statistics aptly illustrate the problem at national level. According to Eurispes, **between 2000 and 2005, expenditures for managing central Ministries increased by 97.9%**[2], while the Italian Court of Auditors indicated that after a reduction of about 1,000 units between 1991 and 1998 (from 5,600

* This chapter was drawn up by Luca Antonini.
[1] Bertolissi M. 2007), "La diaspora dei Comuni e l'esigenza di giustizia" in Federalismo Fiscale, n. 1, 6.
[2] Eurispes (2007), "La Pubblica Amministrazione in Italia", Rome.

to 4,600) the **number of managers employed by central government departments has resumed its growth, exceeding the threshold of 5,900 units in 2002.**[3]. So the initial headcount was greatly exceeded, multiplying the administrative structures precisely when administrative federalism was supposed to be implemented and services outsourced![4] The same thing happened for the expenditures of central administrations (Ministries), as recently shown by a research conducted by the Unioncamere del Veneto: between 2000 and 2007 the total spending increased by 20%, pushed upwards exclusively by personnel costs, whose numbers increased by 24%, despite the (would-be) federalism[5].

At regional level, data confirm the lack of accountability: with the deficit-saving decree of June 2007 and the 2008 Finance Bill, some 12.1 billion Euro were allocated in favour of Regions in the red (Abruzzo, Campania, Lazio, Molise and Sicily). The cost for every Italian citizen (including newborn babies) was 250 Euro. The organisation of healthcare services is now an exclusive competence of the Regions, but the national government still reconciles any outstanding expense accounts, as it used to do in the Eighties. If those who have created the greatest deficits get rewarded, why should local administrations require their citizens to make sacrifices, instead of implementing demagogic policies and creating deficits that sooner or later will be covered by taxes levied from all Italians anyway?[6] Another statistic: **The Molise Region – the beneficiary of a deficit-saving decree – has 288 regional employees for every 100,000 inhabitants. Calabria has 257, as compared to 43 in Lombardy and 69 in the Veneto.** Operating expenditures in Molise, Basilicata, Umbria, Abruzzo and Campania are standing at between 180 and 380 Euro per inhabitant. The Veneto, however, spends less than 100 Euro per capita to operate the regional administrative structure[7].

[3] Mazzillo L. (2005), "Federalismo fiscale e patto di stabilità", in Antonimi L. (by), "Verso un nuovo federalismo fiscale", Milan, page 33, and following

[4] For further data refer also to Italy's Court of Auditors (2007), "Il costo del lavoro pubblico negli anni 2003, 2004 e 2005" Rome.

[5] See Unioncamere del Veneto (2008), "Public spending and federalism", Survey Paper, n. 9, Venice

[6] The recent regional reports of Italy's Court of Auditors are useful to get an idea of where this logic would take us. Pronouncements like the following are abundant: "Several professionals who sat on the Acceptance Committee, as well as the top managers of the Local Health Corporation are sentenced to compensation for damages, in favour of Local Health Corporation Asl n. 4 of Matera, for gross negligence on the occasion of purchasing and installation of Nuclear Magnetic Resonance (NMR) equipment, which has never been used, inasmuch as it was defective to the point of being unsuitable for its intended use". Or the report of the Regional Prosecutor of Campania: "In particular, it was shown, after careful investigation, that in previous years and until recently, various Local Health Corporations (NA/1, NA/4, CE/1, CE/2 and A.O.R.N. Monaldi) had disbursed special compensation payments under Article 44, para. 6 c of the National Collective Contract – Health Department for the year 1995, which were originally intended only for nursing personnel employed in providing services to patients with infective diseases (recognised as such). Like all indemnities, in particular those intended to compensate for special exposure to specific risks, the indemnity under consideration was supposed to concern only a limited number of nurses, while it was shown that an extremely high number of employees had received such payments, with an evident financial damage for the health corporations involved". Or again, the Regional Prosecutor of Latium: "The suits filed in 2007 by the Regional Prosecutor brought out, even more than in past years, severe cases of negligent and wilful malfunctions in many sectors of the public administration, caused by disloyal officers and administrators, who were far from respecting the fundamental principles of legality and correct management of public monies."

[7] Compare Unioncamere del Veneto (2007), "The costs of non-federalism", Survey Paper n. 8, Venice

1.2 Incomplete federalism

For years now, each Finance Bill has made various and more or less evolved attempts to freeze regional and local institution expenditures; **but this has taken place in the absence of fiscal federalism, considering all organisations in the same manner, with surrogate mechanisms that have often rewarded waste and punished the virtuous, without guaranteeing any effective improvements**[8]. In other words, the principle was consecrated that those who have spent more in the past may continue to do so, while those who have spent less – because they have been more efficient – must continue to spend less. So the expenditures in Molise, which – as we have seen – are used to support almost three hundred regional employees for every one hundred thousand inhabitants, were frozen in the same manner as they were in the Veneto, where there are sixty-nine civil servants to every one hundred thousand inhabitants, or in Lombardy, where the figure goes down to forty-three.

It will not be possible to motivate regions to rationalise public spending without overturning these dynamics and providing some real incentives for efficiency. The experience of the healthcare system is extremely meaningful in this connection: the costs for the Treasury have almost doubled in ten years, going from 55.1 billion in 1998 to 101.4 billion in 2008, despite measures to contain spending laid down by the Finance Bills during these years[9].

Additionally, strong sentiments of intolerance have begun to rise within the system towards issues that have remained unsolved for many years, such as **the financial privileges of some "special statute" Regions. The situation has become all the more intolerable since the reform of Chapter V, which substantially has equalised the levels of "competence" of ordinary and special autonomies.**[10]. Many cities in Northern Italy (Cortina being the last example) have in fact followed the recent initiative of the town of Lamon in northern Veneto, which following a local referendum several months ago requested annexation to the Trentino-Alto Adige Region, in order to benefit from the financial privileges that said Region has long enjoyed (and which are now unjustified).

Finally, there have also been some cases of fiscal federalism "gone mad", such as "exported" taxes collected from non-residents, the Sicilian tax on pipelines (so-called "*tubatico*" tax[11]) or the luxury tax in Sardinia – which have now been declared unconstitutional – and which perpetrated a sort of ethnic fiscal criteria.

Against this background, it is worth mentioning that a recent survey concerning institutional reforms[12] promoted by the Foundation for

[8] The Constitutional Court recently gave some extremely clear signals, condemning many of these surrogate mechanisms: the declaration that the so-called "policy to reduce spending" was unconstitutional was emblematic of the need to invert the trend towards a serious mechanism of financial accountability.

[9] Buratti C. (2007) "Editoriale: un federalismo da ripensare", in Federalismo fiscale, n. 2,3 and following.

[10] For a comparison between ordinary and special autonomies, refer to chapter 4 of this report.

[11] The so-called "tubatico", or the tax on pipelines, which was introduced by Sicilian regional law n. 6 of 2001, is intended as an environmental duty imposed on the owners of large gas pipelines that cross the regional territory to compensate for any environmental damage they cause. Since, in one way or another, pipeline owners will end up charging the extra cost for the Sicilian duty to the users, this is a classical example of exported taxation, which transfers a Sicilian duty to all Italian citizens, circumventing the principle of political accountability.

[12] Fondazione per la Sussidiarietà (2008), "Sussidiarietà e riforme istituzionali. Rapporto sulla sussidiarietà", Mondadori Università, Milan.

Subsidiarity brought out that **60.8% of the persons interviewed at national level feel that fiscal federalism may permit greater efficiency and transparency in taxation and/or less waste at regional or local level.** This proves that despite the complexity of the subject and the rhetoric that has often polluted the debate, the public - even in Southern Italy - is generally more aware of the fact that fiscal federalism is an indispensable step both to fight inefficiency (the case of urban waste in Naples, emblematic of decades of state aid, is only the tip of an iceberg) and to modernise the "fiscal pact", bringing it into conformity with the principle of *no taxation without representation.*

In the absence of fiscal federalism, in fact, no mechanism can be activated to let political decision makers become fully aware of their responsibilities towards local voters *(accountability),* **nor will transparency concerning spending decisions and responsibilities increase.** Those are the prerequisites to bring public spending in Italy under control - effectively and without distortion. Otherwise the most virtuous regions will continue to support the "historical cost" of less efficient regions, as shown on the updated map of fiscal residua.

Chapter 2 The geography of fiscal residua in Italy and Europe

2.1 The fiscal residue in Italian regions: an updated picture

On the eve of the long-awaited "road map" of fiscal federalism reforms - prepared by the Minister for Simplification in Public Administration, Hon. Calderoli, as delegated by Ministers Tremonti (Economy and Finance) and Bossi (Reform) - it is worth updating the geography of financial flows between the central and local echelons of government.

It is a well-known fact that the equalising flows between the central and local levels of government are regulated by complex mechanisms and take into account specific parameters that vary from country to country. However, a good indication of the direction and extent of such flows can be

provided by the data regarding the fiscal residue of Public Administrations. By definition the fiscal residue is calculated as the difference between income (fiscal revenue and other income) that public Administrations collect in a given territory and the resources that are spent in that same territory: Thus, it is possible to identify the regions where the Public Administration (intended as the central government and its local bodies) has a financial surplus or deficit.

Let us then take stock of the situation using the latest version of the database of the Ministry of Economic Development13 for the years 1996 to 2006. In doing that we will focus on the fiscal residue , which we consider to be the most important indicator for the purposes of our research, since it quantifies the "cost" of the failure to implement federalism, both after the promulgation of the Bassanini Law (1997), and after the reform of Chapter V of the Constitution (2001).

According to the most recent data available, which refer to 2006, the Veneto has a fiscal residue of 15,596 million Euro (Table 2.1), or 3,267 Euro per inhabitant, and ranks third in Italy in terms of financial surplus per capita, following Lombardy (3,971 Euro) and Emilia Romagna (3,625 Euro). On the other hand, in absolute terms, the Veneto is the second-ranking region for overall surplus, following Lombardy (37,905 million Euro) and ahead of Emilia Romagna (15,308 million Euro). Piedmont, Tuscany, Marche and to a lesser extent, Latium, belong to the group of regions that contribute to paying for the public spending of regions with deficits.

[13] Data base Conti Pubblici Territoriali (CPT) of the Department for Development Policies, at the Ministry of Economic Development.

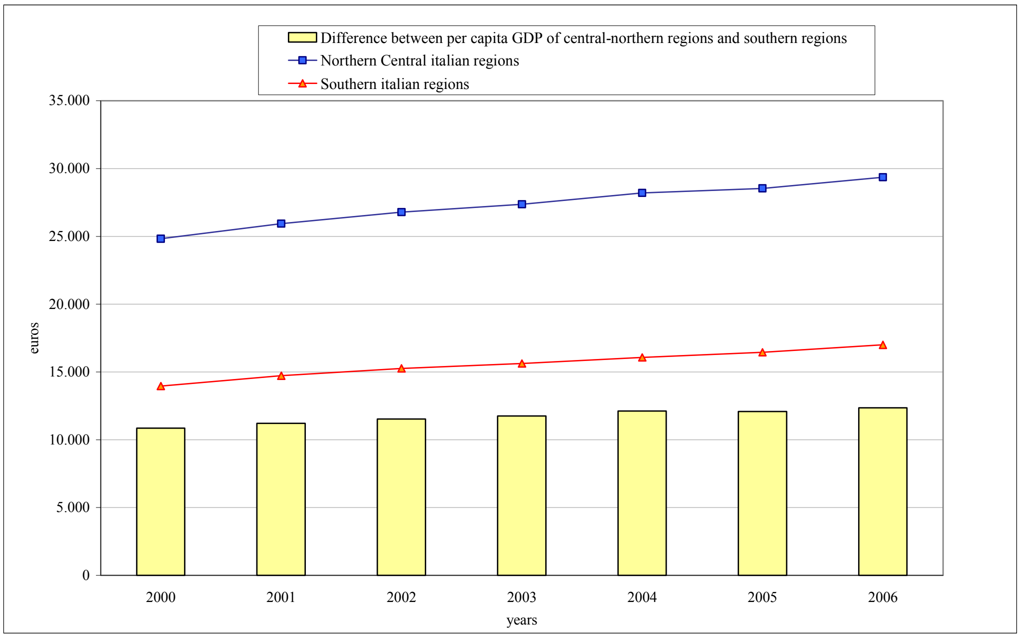
Table 2.1 - *Italy. Fiscal residue of public administrations. Breakdown of revenue and consolidated expenditures by region. Year 2006*

Regions	Millions of euro			Euro per inhabitant*		
	Income	**Expediture**	**Difference**	**Income**	**Expediture**	**Difference**
Piedmont	61.839	55.868	5.972	14.207	12.835	1.372
Aosta Valley	2.140	2.660	-520	17.146	21.309	-4.163
Lombardy	162.000	124.095	37.905	16.971	13.000	3.971
Veneto	66.255	50.659	15.596	13.880	10.612	3.267
Friuli Venezia Giulia	18.566	19.262	-696	15.311	15.885	-574
Liguria	21.867	22.719	-853	13.600	14.130	-530
Emilia Romagna	67.579	52.271	15.308	16.002	12.377	3.625
Tuscany	50.450	45.534	4.915	13.867	12.516	1.351
Umbria	10.998	11.520	-522	12.598	13.196	-598
Marche	18.942	16.743	2.199	12.331	10.900	1.432
Lazio	84.033	80.284	3.749	15.297	14.615	682
Abruzzo	13.217	14.359	-1.142	10.091	10.963	-872
Molise	2.907	3.586	-679	9.083	11.204	-2.121
Campania	46.967	53.549	-6.582	8.111	9.248	-1.137
Puglia	32.174	37.889	-5.714	7.906	9.310	-1.404
Basilicata	4.976	6.349	-1.373	8.414	10.736	-2.322
Calabria	15.947	21.155	-5.208	7.981	10.588	-2.607
Sicily	40.046	53.331	-13.286	7.982	10.630	-2.648
Sardinia	17.556	19.905	-2.349	10.579	11.995	-1.415
Trentino-Alto Adige	15.088	15.867	-779	15.169	15.951	-783
ITALY	**753.547**	**707.604**	**45.943**	**12.744**	**11.967**	**777**

(*) Reference population as at 31.12.2006

Source: processed on data supplied by the Department for Development policies

Graph 2.1 – *Difference between per capita GDP of central-northern regions and southern regions. Amounts in Euro per capita. Years 2000-2006*



Source: processed on Istat data

The data update and confirm the trends already shown in our previous survey[14]: **the same regions continue to contribute positively to territorial equalisation[15], which currently does not seem to have produced any positive effect for the economic development of southern Italian regions.** Suffice it to say that - contrary to what one would expect from a policy of solidarity between regions - from 2000 to the present date the gap between the per capita GDP of the North-Central regions and that of Southern Italy (Graph 2.1) has widened, instead of shrinking.

Graph 2.2 – *Fiscal residue of public administrations in some Italian regions. Amounts in Euro per capita. Years 1996-2006*

Source: processed on data supplied by the Department for Development Policies

Concerning the Veneto, during the 1996-2006 decade (Graph 2.1), the per capita fiscal residue remained steadily positive, and greatly above the national average. In particular, over the last five-year period, the Veneto has contributed to national solidarity a total of 61 billion Euro, 15.6 of which in 2006 alone (11.2% of the GDP[16]), namely over 3,200 Euro per capita.

Undoubtedly, if such financial surplus were kept in the region, it would allow greater spending flexibility both for the provision of essential services (such as healthcare), as well as for investment, especially in sectors that are strategic for the competitiveness of the local economy, namely infrastructures, energy and research and development. **The data therefore corroborate the belief that unlike the "horizontal" equalization system, the vertical system, based on the criteria of the historical spending, is ineffective.** In fact, the German system of equalization, based on a horizontal type of logic, facilitates verification of the financial flows between "donor " and "receiving" regions, inasmuch as it favours greater transparency and coherence in the utilisation of funds, while guaranteeing more accurate monitoring[17].

[14] See Veneto Unioncamere (2007), work cited above.
[15] The only remarkable development is Latium, which in 2004 joined the group of regions with a financial surplus on the basis of the fiscal surplus (calculated on the basis of fiscal residuefiscal residue).
[16] Calculation as a percentage of GDP, at current prices. Source: ISTAT.
[17] Nevertheless, even in a State with a federal structure, like Germany, the system of redistribution in force, albeit "horizontal", appears inadequate for the changed domestic and foreign conditions of the country and

Table 2.2 - *Italy. Fiscal residue of public administrations by region. Years 2000-2006*

Regions	2002	2003	2004	2005	2006	2002-2006 average
			Total fiscal residue (millions of euro)			
Piedmont	3.751	5.237	5.945	3.410	5.972	4.863
Aosta Valley	-534	-432	-399	-525	-520	-482
Lombardy	24.338	36.193	31.780	23.062	37.905	30.656
Veneto	**10.017**	**14.334**	**11.675**	**9.501**	**15.596**	**12.225**
Friuli Venezia Giulia	-1.434	-2.357	147	-2.535	-696	-1.375
Liguria	-2.209	-1.873	-830	-2.063	-853	-1.566
Emilia Romagna	9.442	13.699	11.152	8.350	15.308	11.590
Tuscany	3.193	3.101	4.770	3.992	4.915	3.995
Umbria	-966	-1.496	-838	-1.326	-522	-1.030
Marche	650	1.108	1.440	1.324	2.199	1.344
Lazio	-984	-1.536	5.592	2.355	3.749	1.835
Abruzzo	-753	-801	-256	-1.143	-1.142	-819
Molise	-597	-506	-520	-646	-679	-590
Campania	-9.512	-8.696	-6.846	-7.536	-6.582	-7.835
Puglia	-5.063	-6.813	-5.335	-6.810	-5.714	-5.947
Basilicata	-1.583	-1.458	-900	-1.498	-1.373	-1.362
Calabria	-6.578	-5.935	-5.104	-5.900	-5.208	-5.745
Sicily	-12.092	-11.417	-11.161	-12.252	-13.286	-12.041
Sardinia	-4.498	-3.851	-3.529	-4.087	-2.349	-3.663
Trentino Alto Adige	-1.043	-751	-883	-1.074	-779	-906
ITALY	**3.544**	**25.751**	**35.902**	**4.600**	**45.943**	**23.148**
			Fiscal residue (euro per inhabitant)			
Piedmont	886	1.226	1.373	785	1.372	1.129
Aosta Valley	-4.415	-3.541	-3.249	-4.231	-4.163	-3.920
Lombardy	2.672	3.914	3.383	2.434	3.971	3.275
Veneto	**2.188**	**3.087**	**2.484**	**2.005**	**3.267**	**2.606**
Friuli Venezia Giulia	-1.203	-1.967	122	-2.098	-574	-1.144
Liguria	-1.405	-1.187	-521	-1.281	-530	-985
Emilia Romagna	2.343	3.357	2.686	1.994	3.625	2.801
Tuscany	908	870	1.326	1.103	1.351	1.111
Umbria	-1.158	-1.764	-976	-1.528	-598	-1.205
Marche	438	736	948	866	1.432	884
Lazio	-191	-295	1.061	444	682	340
Abruzzo	-591	-623	-197	-876	-872	-632
Molise	-1.861	-1.573	-1.614	-2.013	-2.121	-1.836
Campania	-1.662	-1.510	-1.183	-1.301	-1.137	-1.358
Puglia	-1.258	-1.686	-1.311	-1.673	-1.404	-1.466
Basilicata	-2.653	-2.442	-1.509	-2.521	-2.322	-2.289
Calabria	-3.277	-2.951	-2.540	-2.943	-2.607	-2.864
Sicily	-2.432	-2.282	-2.226	-2.442	-2.648	-2.406
Sardinia	-2.747	-2.344	-2.139	-2.468	-1.415	-2.223
Trentino Alto Adige	-1.097	-780	-906	-1.090	-783	-931
ITALY	**62**	**445**	**614**	**78**	**777**	**395**

Source: processed on data supplied by the Department for Development Policies

requires urgent adjusting. To this end, in December 2006, the Bundestag and Bundesrat instituted a special joint commission with the task of developing several proposals to modernise the system of financial relations between the central government and the Länder . The reform essentially aims to improve control over public spending to put a curb on the growing debt incurred by central and local government institutions. It intends to effectively limit the indebtedness in a durable manner, while guaranteeing economic and financial sustainability for the entire country and future generations, thereby fulfilling the general principles of the EU Stability and Growth Pacts.

The continuing financial imbalance tends to generate distorting effects on local economies, especially in regions like the Veneto, which are more dynamic and have greater fiscal capacity[18]. These regions often find themselves obliged to meet the stringent requirements of the Domestic Stability Pact, but on the other hand they have to finance equalization towards other regions.

For the Veneto, such effects have translated into a progressive loss of competitiveness, both at national and European level. Assuming a national average of 100 (Table 2.2), let us compare the per capita GDP of the three regions with a constantly positive fiscal residue to that of regions in Southern Italy. Between 1996 and 2005 the per capita GDP of the Veneto remained unvaried, is spite of dropping by almost two percentage points in the last five-year period. The negative effects were more marked for Lombardy and Emilia-Romagna: between 2000 and 2005, the per capita GDP of the two regions dropped by 2.7% and 6.3% respectively. **However, during the same period of time the Southern regions, which are characterised by systematically negative fiscal balances, recorded no significant variations in terms of economic growth:** the per capita GDP in the area grew by 0.8% in the decade between 1996 and 2005 and by only 0.4% in the period from 2000 to 2005. The latter is a revealing figure indeed. It shows that in slow-growth Italy, notwithstanding the consistent influx of national (and EU) financial resources, the weaker areas they have not been able to fill their development gap, unlike other economically backward areas abroad[19].

In particular, in half of the cases (Abruzzo, Molise, Apulia and Sicily) the per capita GDP recorded at the end of the period was lower than the opening value, while in two regions (Campania and Basilicata) it increased by less than 1%.

A closer examination of the financial flows at regional level can be made by disaggregating the expenditures and receipts by level of government, considering the data of central and local administrations separately, which together make up the aggregate of public administrations.

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[18] According to a survey conducted by the Veneto Region, the parameters used in Italy to determine equalising transfers cause the Veneto to slip from the third to the twelfth place in the ranking of Italian regions in terms of per capita resources. Instead, if equivalent German parameters were applied , the ranking of the regions before and after application of the principle of equalization would remain unaltered and resource differentials between rich and poor areas of the country would decrease. For more in-depth information, refer to the publication by the Veneto Region (2006) "L'applicazione alle regioni italiane delle regole di perequazione operanti in Germania", in *Documento di Programmazione Economica e Finanziaria Anno 2006 – Relazione di approfondimento.*

[19] We refer to a survey contained in the 2007 Svimez Report. It shows that between 1995 and 2004, the poorest EU-15 regions - grouped under Objective 1- grew more than the average in the area. During said period, the annual average growth of the per capita GDP in Objective 1 regions was 4.5%, compared to 4.1% in remaining regions and 2.8% in Italy's Southern regions. See SVIMEZ (2007), 2007 "Rapporto 2007 sull'economia del Mezzogiorno" , Rome, www.svimez.it

Table 2.3 – *Per capita GDP at purchasing power parity in some Italian regions (Italy=100). Years 1996, 2000, 2005*

Italian regions	Per capita GDP (Italy =100)			% change		
	1996	2000	2005	1996-2005	1996-2000	2000-2005
Lombardy	132,3	132,9	130,2	-2,1	0,6	-2,7
Veneto	117,9	119,9	118,0	0,0	1,9	-1,9
Emilia-Romagna	128,5	128,5	122,2	-6,3	0,0	-6,3
Abruzzo	85,4	86,1	81,2	-4,2	0,7	-4,9
Molise	76,8	73,3	74,1	-2,7	-3,5	0,8
Campania	62,9	62,2	63,8	0,9	-0,7	1,6
Puglia	65,1	65,6	65,0	-0,1	0,4	-0,6
Basilicata	70,0	71,3	70,9	0,9	1,4	-0,4
Calabria	59,1	62,2	64,4	5,3	3,1	2,2
Sicily	64,9	63,4	64,3	-0,6	-1,5	0,9
Sardinia	73,7	74,4	76,5	2,8	0,8	2,1

Source: processed on Eurostat data

Table 2.4 - *Veneto and Italy. Financial flows by government level. Amounts in Euro per capita. Year 2006*

	Central Administr.	Peripheral Administr.
VENETO		
Income	11.673	2.207
Experiture	7.287	3.325
Residue	4.386	-1.119
ITALY		
Income	10.649	2.095
Experiture	8.373	3.594
Residue	2.276	-1.499

Source: processed on data supplied by the Department for Development Policies

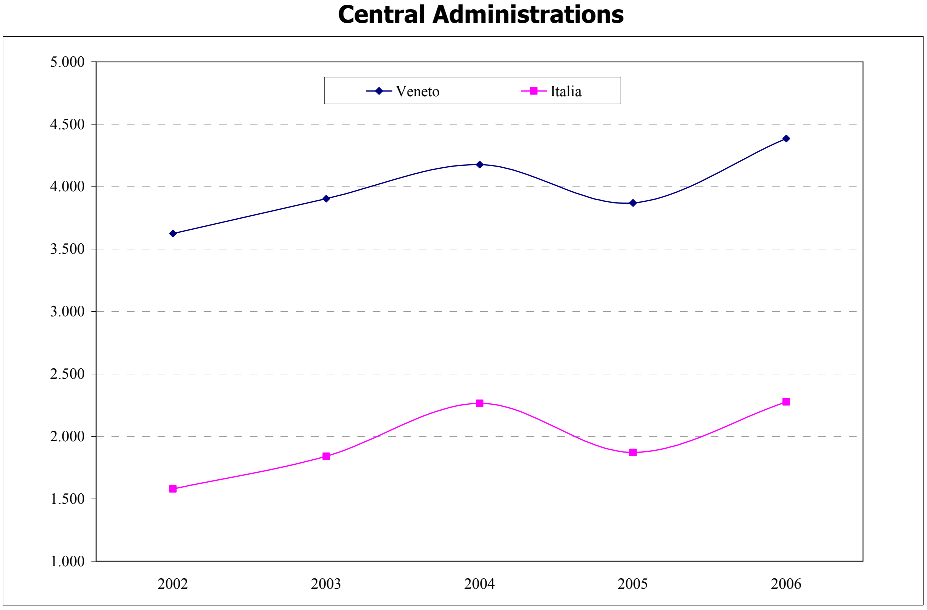
This analysis shows that the central government spends approximately 7,300 Euro per capita in the Veneto, that is over 1,000 Euro less than the national average. At the same time, taxes levied by the central government in the Veneto Region amount to over 11,600 Euro per inhabitant, thereby exceeding the national average by 1,000 Euro.

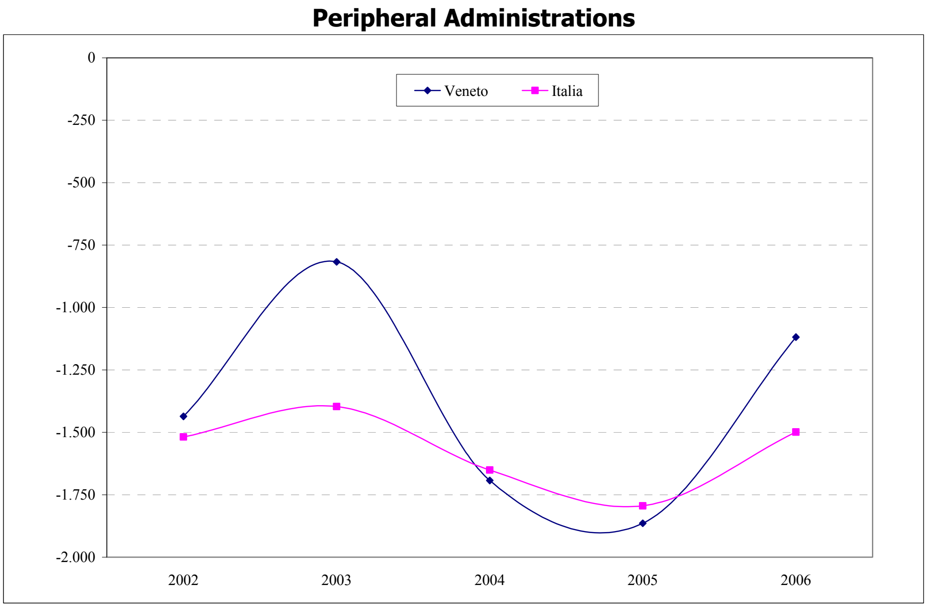
It happens then that the peripheral administrations (regional and local governments), which have lower expenditures than the national average (3,325 Euro against 3,594 Euro per inhabitant) are incapable of guaranteeing total coverage with receipts alone, which however exceed the national average (2,207 Euro against 2,095 per capita).

This means that the central government drains resources from the region, which are not given back to the territory of origin. Additionally these figures show how difficult it is for local administrations to - fully and independently - cover the expenses they are in charge of with the limited resources made available to them.

Graph 2.3 clearly illustrates this point. It is made up of two figures: on the left the progress of the per capita fiscal residue of central public administrations; on the right, the trends of the per capita fiscal residue of peripheral administrations, from 2002 to 2006.

Graph 2.3 – *Veneto and Italy. Fiscal residue of central and peripheral public administrations. Amounts in Euro. Years 2002-2006*





Source: processed on data supplied by the Department for Development Policies

In particular, in the picture on the left , the progress of the fiscal residue in the Veneto and Italy shows the same trend, namely they increase with the same intensity even though their starting levels are different, Veneto's initial fiscal residue being higher than the national average. As regards the central administrations, their trend is due to a constant increase in receipts with unvaried public expenditures.

The trend of the fiscal residue per capita for peripheral administrations, on the other hand, is completely different. First of all, a deficit is shown throughout the 2002-2006 period, for both the Veneto and Italy[20].

[20] Please note that as far as the Veneto is concerned, management costs for the healthcare service in 2006 accounted for 89% of the total regional expenditure.

Additionally, the financial deficit fluctuates, and peaks are higher for the Veneto than the national average. In particular, the per capita public spending remains almost unchanged, against relatively low revenue levels, especially in 2002, 2004 and 2005.

It is therefore a known fact that the process of decentralising spending powers – to let the competencies and responsibilities of the Regions grow - was not accompanied by full-fledged fiscal federalism on the revenue front, which is a fundamental step to make sure that the spending ability of the regions matches their autonomy in procuring the financial means to cover their needs.

In addition to this there is a further complementary necessity, which is no less important, of an interregional financial equalization system able to encourage efficiency in the regional administrations, through monitored solidarity.

Although withholding all of the resources generated by the financial surplus in a given territory is not a viable solution because of the need for equalization among territories with different fiscal capacity, such redistribution should be implemented following a horizontal model rather than a vertical one, in a transparent and controlled manner. **Transparency and control of financial flows and the effective use of such transfers by the beneficiary region may be guaranteed by an interregional body created specifically for this purpose.**

Such solidarity between the regions should also be accompanied by incentives for interregional competitiveness, which cannot forego the implementation of greater - if not total - fiscal autonomy, sufficient at least to permit "healthy competition" between the regions. It is therefore a matter of defining the "ownership" of the most important revenue taxes, deciding whether the central administration or the decentralised institutions should collect and use them, in addition to defining what portion and by what criteria any surpluses earned by the regions must be allocated to equalise the accounts of regions showing deficits.

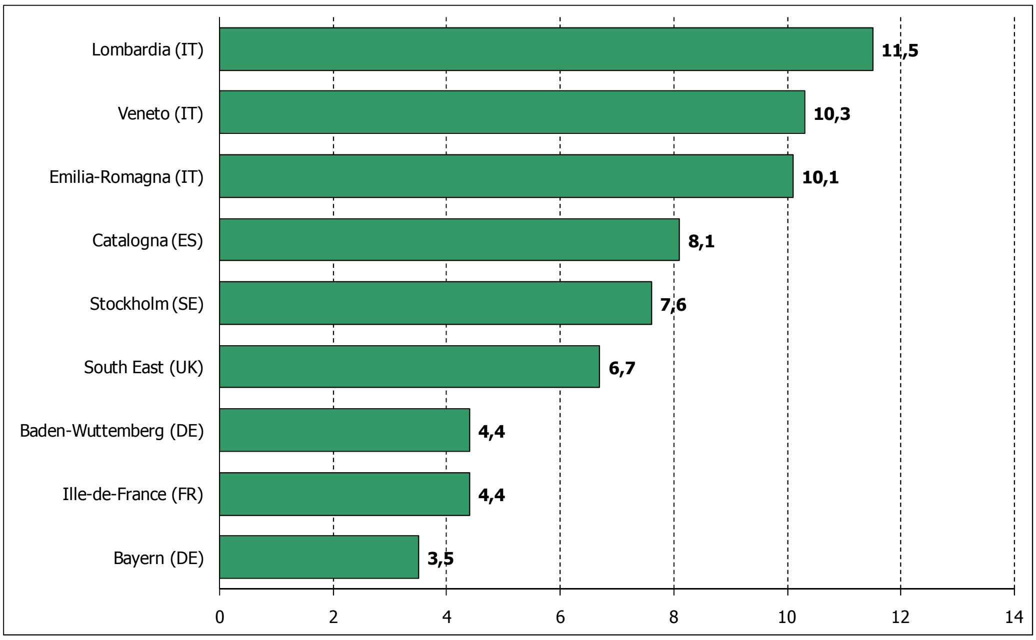
In order for the regions to fully enjoy this fiscal autonomy, competencies must be further decentralised. To let local governments become more aware of their responsibilities, the collection of local taxes should be handled by regional inland revenue agencies, which could report to a central institution in charge of supervising the activities and the efficiency of the individual offices.

2.2 A comparison among European regions

As discussed in the previous paragraph, Lombardy, Veneto and Emilia Romagna are the regions with the highest fiscal residue, expressed as a percentage of the regional GDP, contributing in a substantial manner to supporting national redistribution. They are known to be the most economically advanced areas in Italy and, as we have already seen, they are suffering from Italy's institutional stalemate. Essentially, the central state levies much more from these regions that it actually returns in terms of public spending. One piece of information appears to be quite significant: the resources levied from these three regions make up for the deficit of 8 regions.

In the framework of a wider debate on the implementation of administrative decentralisation in Europe, it is worth mentioning that **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.**

By way of example, let us examine the different levels of fiscal residue in some European regions (Graph 2.4). Like in Italy, also in Spain and Germany there are regions that contribute more than others to territorial solidarity.



Graph 2.4 – *Fiscal residue in some European* regions (in % of regional GDP). Years 1997, 2000*

* for Italian regions data refer to the year 2000, for the other regions to the year 1997
Source: Processed on data supplied by Unioncamere Veneto for the Italian regions; data supplied by Novel, Tremosa (2005) for the other regions.

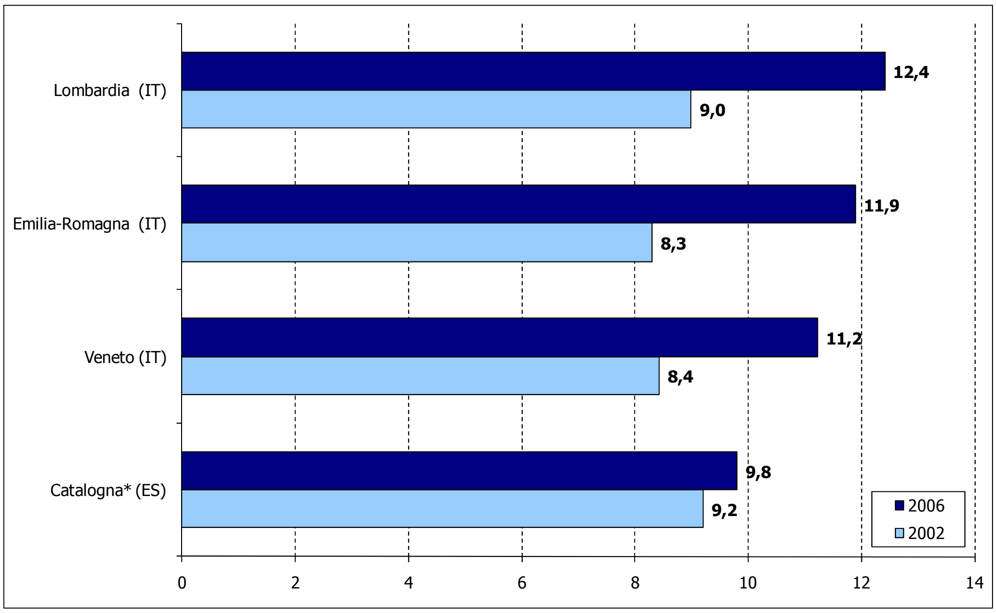
In Spain, according to some estimates of the Spanish Ministry of Economy made for the year 2005, the Balearic Islands, Catalonia, Valencia and Madrid are the regions *(Comunidades)* that have the highest fiscal residua as a percentage of the regional GDP, (14.2%, 8.7%, 6.3% and 5.6 % respectively), guaranteeing therefore greater solidarity to the economically and financially weaker regions[21].

[21] See Gobierno de Espana – Ministerio de Economia Y Hacienda (2008), *Las balanzas fiscals de las CCAA espanolas con las AA publicas centrals* 2005, Madrid.

It is not by chance that in Spain, like in Italy, the most solidarity-oriented regions are also the most economically advanced ones, using the per capita income as an indicator. In particular, the region of Catalonia is the driving force of the Spanish economy (like Northeastern Italy), and has the highest fiscal residue in absolute terms, with a growing trend in recent years. According to the estimates of the Autonomous Community, from 2002 to 2005 Catalonia's fiscal residue increased from 12.6 to 16.7 billion Euro, accounting for 9.8% of the regional GDP[22].

In analysing the time-series data on the fiscal residue of the most advanced Italian and Spanish regions, it can be clearly seen that, far from being occasional or related to the current economic situation, the phenomenon extends over a long period of time (Graph 2.5). **The per capita fiscal residue in these regions has always recorded positive values in recent years, it has been higher than the national average and in constant growth, with negative effects for the regional economy.**

Graph 2.5 – *Fiscal residua in some Italian and Spanish regions* (in % of regional GDP). Years 2002-2006*



* The data refer to 2002 and 2005 for the region of Catalonia

Source: Processed by Unioncamere on data supplied by the Italian Ministry of Economic Development and Generalitat de Catalunya

In fact, recent studies have shown that without a reduction of the fiscal residue, these regions could undergo progressive economic decline.

A research conducted in 2005 on the basis of data produced by Eurostat and the Spanish Ministry of Economy and Finance brought out the critical situation that could arise in the process of convergence of Catalonia in future years (2002-2010)[23]. The survey simulated the development of the regional economy in three different scenarios (best-case, intermediate and worst-case), assuming no reduction in the Catalan fiscal residue occurs, or else in the presence of three different levels of gap reduction (as a % of the GDP).

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[22] See Generalitat de Catalunya (2008) *Rusltats de la balança fiscal de Catalunya amb l'Administració central 2002-05,* Grup de treball per a l'actualització de la balança fiscal de Catalunya, Barcelona.

[23] Novell, Tremosa (2005), "Macroeconomics effects of Catalan fiscal deficit with the Spanish state (2002-2010)", in Applied Economics, 37, 1455-1463.

The main reason for conducting such research was the Catalan economy's lack of progress compared to other advanced regions of Europe, a stalemate that can be traced primarily to the current fiscal policy of the Spanish central government. In this respect, the academic community in Spain widely agrees on attributing a systematic decline in prosperity - estimated to be about 7-8% of Catalonia's GDP- to the reported fiscal imbalance. By contrast this negative trend is not observed in the Autonomous Communities of Navarra and the Basque Country (which use a special system of financing called '*concierto econòmico')* and is much less pronounced in the Community of Madrid (1-2% of the regional GDP).

In fact, despite the financial reform of 2001 aimed at streamlining the fiscal system so as to grant greater fiscal autonomy to the Autonomous Communities, Catalonia was not given the chance to have more resources. On the contrary, the enormous growth of the fiscal deficit observed since the Seventies has worsened, determining a progressive loss of competitiveness both at national and European level.

The study shows that **unless the fiscal deficit drops, the Catalan economy could presumably reach the level of the more developed European regions - albeit with some difficulty - only in the best case scenario.** The per capita GDP, expressed as purchasing power standard **(**PPS) is used as yardstick of performance in this case. If, on the contrary, the situation does not change or the worst-case scenario applies, Catalonia would risk experiencing a turnaround.

Table 2.5 – *Regional per capita GDP.(EU15=100, in purchasing power standard). Year 2010*

Yearly fiscal deficit reduction	Without reduction	1% GDP	3% GDP	5% GDP
Catalan GDP per capita (PPS) (EU-15=100)	97-101	108-112	120-130	135-150
European regions with similar indexes (year 2000)	Rheinhald-Pfalz (97) Saarland (97) Bratislavsky (98) East Wales (98) Balears (98) Eastern Scotland (100) Basque Country (101) Umbria (101)	Liguria (108) East Anglia (109) Hampshire (109) Madrid (110) Nordrhein-Westfalen Vlaams Brabant (112)	Piemonte (120) Praha (121) Baden-Wurttemberg Valle d'Aosta (123) Groningen (124) Bayern (124) Antwerpen (125) Hessen (129) Emilia Romagna (129)	Lombardia (135) Trentino-AltoAdige Utrecht (140) Bremen (143) Uusimaa (143) Stockholm (147) Darmstadt (149)

Source: Eurostat and other data

The research concludes that **in the absence of a significant reduction in the fiscal residue, within he next ten years Catalonia will not complete its process of convergence towards the levels of development of the most advanced European regions** (Table 2.5). Considering only the per capita GDP, on the other hand, if the fiscal residue decreases by 1% of the GDP, in 2010 Catalonia will achieve a result of 108-112, against the EU15 average =100. If the reduction is 3%, the result could be in an interval between 120-130. Finally, if the reduction was 5%, the per capita GNP would increase to between 135-140.

This scenario would place Catalonia among the most dynamic regional economies in Europe; however if no reduction in the fiscal residue occurs, stagnation could continue for the entire decade.

In the light of these results and possible future scenarios, it is to be hoped that Italy waste no time in implementing fiscal federalism. A draft bill presented by the outgoing government did allow some steps forward on some points, for example it provided for the progressive elimination of the "historical spending" method. On the whole, however, it truly mortified regional and local taxation autonomy, strongly limiting the possibility to develop innovative policies. The epitome of this logic is the false 'regionalisation' of the IRAP tax – namely Italy's local tax on production activities - put forward by the 2008 Finance Bill. The name has changed but not the substance, and the Regions have no room for manoeuvre on the new, falsely regionalised IRAP: they will have to carry the burdens (of formally collecting the tax from citizens) without carrying any advantage (of being able to determine fiscal policy). Different solutions are needed, which give new opportunities to the regional autonomy.

The new bill (the so-called "Calderoli Draft"), which appears to be more responsive to primary demands and expectations, and the dialogue the current government has initiated with the regional and local institutions are revealing of a climate of substantial agreement on the fundamentals, which leaves room for hope for a rapid implementation of a "good" form of federalism.

Chapter 3 Towards the implementation of fiscal federalism[24]

3.1 Recent proposals

The recent amendment of title V of the Italian Constitution has formally introduced the concept of fiscal federalism into the Italian legal framework. According to Article 119, Regions and Local Bodies are free to decide on receipts and spending backed by own revenues and co-participation in revenue taxes. However, the regulations on fiscal federalism have not been implemented yet. The Executive Council presented a proposal to the Council of Ministers on August 3rd 2007, but it remained unheeded due to the subsequent political events and the new elections.

The path towards a federalist system regained momentum with the new majority in Parliament. Some suggestions made against this new political scenario have contributed to rekindling the debate on the implementation of Article 119 and more generally on federalism. They include the following:

a) a bill on the "New regulations for the implementation of Article 119 of the Constitution" (known as the "Formigoni" law) that was approved by the Lombardy Regional Council on June 19th 2007 and that has become topical as its contents are echoed in the programme drafted by the coalition that won the last general elections;
b) the draft bill on the "Implementation of Article 119 of the Constitution: delegation to the Government of issues related to federalism" (known as the "Calderoli Draft") dated July 24th 2008 (reviewed on September 3rd 2008), which is the Government's current working proposal;
c) the "Proposal by the Regions and the Autonomous Provincial Districts for the implementation of Art. 119 of the Constitution" that was unveiled during the Conference of Regions held on July 30th 2008, that goes into further depth and expands the issues presented in the "Document on the principles of implementation" dated February 7th 2007.

All together, these documents provide a draft for an Ordinary Law on the definition of the general principles of the new fiscal and spending regime for Regions and Local Bodies, specifying that the detail of the contents and the tools to translate the principles of the draft law into fact will be provided by subsequent Legislative Decrees. Without disregarding the importance of these bills, it is clear that real fiscal federalism will only be achieved once a decision has been made on the standard price of basic services, on the mechanisms for establishing the part of the taxes that will be allocated back to Regions and Local Bodies and on the rules for financing the tax equalisation fund.

Lombardy Regional Council's proposal is less detailed than the other two. Its main feature is that it concentrates on the regulations on revenues,

[24] The paragraphs 2,3,4 of this chapter are drawn up by Luca Antonini

while it only provides scarce and very general provisions on the spending side. The project allocates the bulk of fiscal revenues to 'ordinary' Regions (80% of VAT generated in the regional territory, 15% of Irpef (Personal Income Tax), duties on gambling and tobacco, and excise duties) and outlines a tax equalisation fund for the Regions with lower fiscal revenues. The tax equalisation fund would partly cover (50%) the needs of "needier" Regions: as a result, the scenario traced by this proposal is objectively unsustainable for the needy Southern Regions.

Unlike the "Formigoni" bill, the Government draft (like the draft proposed by the Regions) mainly focuses its federalist endeavour on the spending side, emerging as a result as the most comprehensive and most viable proposal.

3.2 A turning point for federalism: the "Calderoli Draft"

The plan recently presented by Minister Calderoli for the implementation of fiscal federalism provides an in-depth assessment of main issues and suggests innovative solutions. It supplies an excellent overview of the work performed over latest years[25]: the precious work performed by the High Commission for the assessment of fiscal federalism between 2003-2006, by the working groups that were organised under the last Government and the discussion that followed on the issue that led to the Legislative Decree approved in Summer 2007 by the Council of Ministers. This process provided the Regions an opportunity to develop a common and founded position on a number of decisive issues as highlighted in the official document issued by the Conference of Presidents. However, despite some welcome choices, the text drafted by the Prodi Government is spoiled by some rather centralist positions that do not give regional autonomy the consideration it is due.

The new bill accepts the good solutions of the Prodi text, also on the issue of equalization, but removes all the excessively centralising positions, bringing regional autonomy back to the forefront. It also takes into account the document drafted by the Regions, embraces the various in-depth surveys performed, accepts some bold innovative solutions drafted in other recent proposals and acknowledges the positions of Anci (National Association of Municipalities) concerning the issue of property tax.

On the specific issue of equalization, **the new bill restates the need to leave behind the 'historical spending' model and replace it with a model that sets the standard costs of healthcare, social services and education.** This appears to be the most suitable choice and finds strong consensus in all the quoted documents. The allocation of finances based on historical spending has undermined the decentralised financing system for decades and has in fact rewarded the least careful administrators. The allocation for a specific year was based on the amounts spent the previous year, meaning that historical

[25]The issues mentioned here refer to the first version of the bill "Attuazione dell'articolo 119 della Costituzione: delega al Governo in materia di federalismo fiscale" of July 24th 2008.

spending covers both real needs (i.e. standard needs) and actual inefficiencies. While covering real needs is socially significant, paying for inefficiency cannot be condoned. The (non-integral) equalization of fiscal revenues would cover non-basic services – which are a lesser item in the regional balances.

It has finally set up a system to reward the virtuous bodies **and it includes the principle set by the German Constitutional Court in 1999 stating that equalization shall not change the ranking of Regions** (causing wealthier regions to rank below poorer regions as a result of equalization). An important role is given to the so-called "Conference on Coordination" (in full the "Permanent Conference for Local Finance") that, amongst others, provides a horizontal check (i.e. between regions) on flows arising from equalization and their effective use. Regional fiscal independence is wisely enhanced, enabling Regions and Local Bodies to develop policies to promote distinctive manufacturing and social features through exemptions, benefits and rebates decided at the political level. Tax incentives for certain areas of industry, for compliance with environmental standards or for no-profit entities performing social functions are finally fully entitled to be part of regional fiscal policies. It enables regional fiscal independence to move "top-down" as an incentive to the local territory. This autonomy will however also be forced into a "bottom-up" development, causing taxes to increase in areas that are badly managed due, for example, to the inability to cut the standard cost of spending for specific services, i.e. where there is no strategy to remedy the inefficiencies that cause a specific service to cost a lot less in another Region while ensuring the same standard of quality.

This system provides a virtuous cycle where autonomy and accountability are inter-related. It enhances both the ability to rationalise spending and the democratic control exercised by constituents. This is necessary: the federalist model envisaged by the 2001 Constitutional reform (that decentralised important legislative powers but maintained the derived finance model) would have left the Country in a limbo: it would not have sized down centralisation and Regions and Local Bodies would still have lacked accountability. Fiscal federalism is the remedy to this otherwise devastating standstill; it promotes the rationalisation of public spending which in turn can provide a "dividend" to be used to boost development.

With these premises, the new bill has a good chance of becoming the first broad implementation in Italy of the new Art. 119 of the Constitution and bring about the reform that is the mother of all other reforms: the stakes are a real State reform made possible by the implementation of fiscal federalism.

The most important point to highlight is that the **bill of law acknowledges broad autonomy in the management of own taxes to encourage innovative models of fiscal subsidiarity,** fully in line with the provisions of the "Document on the principles of implementation of Article 119 of the Constitution" endorsed by the Regions in Rome on February 7th, 2007.

At this point it is worth taking a closer look at Art.4 of first draft of the bill:

"Art. 4 (Guiding Principles and Criteria on Taxes levied by Ordinary Regions and Co-participation in Receipts from Revenue Taxes)

1. The Legislative Decrees referred to in Article 2 govern Regional Taxes based on the following guiding principles and criteria:

a) Ordinary Regions resort to taxes and the co-participation in receipts from revenue taxes to finance expenses borne while exercising their functions in the areas in which, by Constitution, they have residual or concurrent competence;

b) Regional taxes include:

1. derived own taxes that are established and governed by state laws but are collected by the Regions;

2. the rates allocated to the Regions calculated on the taxable basis of revenue taxes;

3. own taxes established by the Regions with own laws in reference to taxable assets that are not already subject to taxation;

c) for most of the taxes listed under items 1 and 2 of letter b), the Regions may pass Regional Laws to change the principles for calculating the taxable base and may change the rates within the maximum threshold for increases established by the national law; they may also provide for exemptions, allowances and rebates and introduce special benefits. All the above in compliance with the structural elements of taxation and consistent with the principle of simplification".

Similar provisions also cover local finances: Art. 9 (Guiding Principles and Criteria on Co-ordination and Fiscal Autonomy of Local Bodies) states that:

c) within the limits set by the regulatory framework, Local Bodies have the power to change the rates of the taxes assigned to them by the same framework, and to introduce benefits.

In addition, Art.2 mentions, amongst the general principles of co-ordination:

v) the definition of rules on regional and local taxes also to grant the full application of horizontal subsidiarity".

As a result, regional and local autonomy on own taxes is broadly and wisely emphasised, and is expected to foster the introduction of innovative fiscal policies at the regional level based on tax relief and incentives, as will be described anon. The levy system combined with the dividend generated by rationalising spending and by a wiser redistribution of resources would be used locally to reduce taxation and to promote economic and social development, thus achieving one of the virtuous cycles of fiscal federalism.

3.3 Fiscal federalism for businesses and families

In Italy, the so-called "own taxes" envisaged by Art. 119 of the Constitution are in fact a non-entity: as far as Ordinary Regions are considered, this class of taxes only includes the (very low) regional taxes on gathering truffles! The incredible result of the Constitutional Court's 2003 sentence defining own taxes as taxes established by regional law was to freeze the Regions' fiscal power, awaiting a national law on the co-ordination of public finances.

Nevertheless, these taxes (be they autonomous or derived) could provide fertile ground for the application of the principle of subsidiarity, by enabling Regions and Local Bodies to develop their own autonomous fiscal policies through rebates, allowances and changes to the taxable basis. The freedom to actually lower the fiscal burden would also allow Regions and Local Bodies to implement a broad basis for implementing subsidiarity. In addition, the nationally established co-ordination principles would guide this local and regional freedom of government providing ample downward of flexibility while restricting any upward changes, i.e. by setting ceilings on any increases.

In other words, the aim would be to leverage own taxes to encourage innovative fiscal subsidiarity policies.

There are at least two possible lines of development, respectively targeting the welfare and businesses.

The former exemplifies the subsidiarity principle applied to the public administration and implies using taxation to facilitate the performance of specific social services by private and semi-private facilities: concrete examples include the directly applied allowances on Irpef (Personal Income Tax) or on other local taxes, family benefits (for the elderly, for education, the disabled etc.), that are little used today due to the associated red tape. In the transition from a Welfare State to a Welfare Society, the role of the institutions is to resort to social players that can independently provide an answer to their needs and those of society. Their role is also to prefer "incentives aimed at giving incentives", rather than simply doling out state aid. The principle of subsidiarity thus requires, where possible, the recourse to fiscal instruments to assist the players, such as families and no-profit businesses, that already contribute to the social fabric[26]. Note that many regions have already taken advantage of the leeway provided by the old Art. 119 of the Cost. to move in this direction.

Broad assessments made on regional legislations show the numerous initiatives launched already by Regions and the very different directions taken in the area of fiscal policies. [27]. The Regions for example have broadly used the powers they are granted in reference to the Irap (Regional tax on production activities), to significantly change the applied rates. Generally speaking, their regulatory action has followed different models, sometimes changing the rates on a territorial basis, or per field of industry or company type, or choosing between temporary or permanent

[26] ACoFF Final Report, 54.

[27] On the fiscal subsidiarity practices implemented by Regions resorting to the few powers granted to them by the national laws, see PIN, "Che cosa hanno fatto le Regioni", in Federalismo fiscale, 2007, 2531 and following.

measures. The application of the subsidiarity principle has especially benefited no-profit entities that provide fundamental social services to the institutions.

This makes sense if we consider the definition of the Irap (Regional tax on production activities) that implicitly suggests benefits for the third sector: this levy on productive activities is justified by the consideration that "productive units […] benefit of public services, thus generating costs borne by the local community"[28]. As a result, the Irap tax is expected to "compensate" the public administration for the "non-sellable services through which it contributed to the production process and the costs generated by the productive activity and borne by the local community"[29]. **It is therefore reasonable to reduce the taxes on activities performed by no-profit bodies that contribute to society by supplying quality social services and thus relieve the Public Bodies from having to bear the burden of those same costs.** The Regions have thus carefully assessed the reasoning underlying the Irap and the contribution provided by the third sector. In the name of a horizontal principle of subsidiarity, practically all Regions have created forms of tax relief for this sector, mainly concentrating on the organisations registered as ONLUS (non-for-profit organisations) and those registered as social co-operatives. Many Regions have even granted rates abatement : some have extended exemption to all ONLUSes[30], while others have decided to introduce different tax rates, with full exemption being granted to just some organisations[31]. There are many examples of Regions that have simply cut the tax rates, often based on the type of body or the area in which they provide their services. For example Basilicata helps ONLUSes and social co-operatives with a tax rate of 3.25%[32]; Emilia-Romagna applies a tax rate of 3.5% to ONLUSes [33]; in Latium there is an 0.5% reduction for social co-operatives providing different types of social services [34]. ONLUSes and social co-operatives are not the only bodies to have benefited from these allowances; some Regions have designed other models to support the third sector. Emilia-Romagna for example has favoured benefits for NGOs[35], Liguria helps associations for social promotion [36], Sardinia helps all non-for-profit organisations on its territory [37]. The support provided by many regions to the third sector testifies to the new awareness of social issues, confirming that with the course of time the no-profit sector has gained credibility and skills, becoming a reliable partner for the public institutions for the provision of services. The trend has thus been for the regional welfare models to

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[28] In the wording of the Report by the Survey Commission on Fiscal Decentralization established by the Ministry of Finance, whose conclusions were included in the drafting of the Delegated Legislative Decree on the establishment of Irap (Regional tax on production activities). The full report is published in Il Fisco, 1996, p. 5379 and following.

[29] See the same Report, paragraph 2.5.4.1.

[30] Such as Lombardy, for example, through Art. 1 of Regional Law no. 27 of 2001, and Art. 17 of Regional Law no. 10/03; Puglia, with Art. 48 of Regional Law no. 7/02; Sicily, with Art. 7 of Regional Law no. 2/02.

[31] Friuli-Venezia Giulia accorded the exemption only to ONLUSes and social cooperatives working on the inclusion of the disadvantaged: see art. 7 of Regional Law no. 23/02, art. 1 of Regional Law no. 1/03, art. 23 of Regional Law no. 19/03 and art. 1 of Regional Law 1/05. Initially Molise had granted full exemption to ONLUSes providing social services for the non self-sufficient disabled and elderly people, in addition to the co-operatives committed to the inclusion into the labour market (Art. 2 of Regional Law no. 1/04); it then granted full exemption to all ONLUS associations (Art. 15 of Regional Law 5/05).

[32] Art. 29 of Regional Law 10/02,

[33] Art. 7 of Regional Law 48/01,

[34] Art. 5 of Regional Law 34/01.

[35] with a 3.5% tax rate: Art. 18 of Regional Law 30/03

[36] Art. 2 of Regional Law 7/04: 2: 3.25%.

[37] Art. 17 of Regional Law 3/03.

encourage the implementation of the horizontal principle of subsidiarity, evidently with some differences.

The survey on the regional fiscal laws provide an overall positive image, albeit restricted to the little autonomy granted by the national law, and shows the gradual extension of areas targeted by Regional initiatives, starting from changes to the tax rate and more specifically targeting the Irap tax. Considering that the fiscal burden is one of the main factors that determine the choice of a location, the tax rate and the differences applied to different areas of the industry enable each Region to set policies based on the needs of the territory's social and economic fabric. The principle of subsidiarity has also justified a number of policies introduced by some Regions on the Irpef (Personal Income Tax) to benefit economic players with smaller power of contribution.

In short, **these measures to reduce the fiscal burden are related to a change of perspective: rather than drawing taxes and giving them back in services it is preferable to support the ability of each player to independently face up to their needs through the resources that are spared from taxation.** From this perspective, broadening the leeway given to Regions in the area of taxable bases, rebates and allowances on own taxes could promote the development of new fiscal policies aimed at implementing subsidiarity. As was mentioned above, one of the general co-ordination principles explicitly stated in the Calderoli bill in Art.2, letter v) is the "definition of the rules governing regional and local taxes to fully value horizontal subsidiarity".

Another bonus would be the direct deduction from regional taxes of all the benefits or vouchers (for the elderly, education, the disabled, etc.) developed by the regional welfare system. This would avoid all complex bureaucratic processes, leaving the money with the families and avoiding the illogical system of "removing and then redistributing" those same resources. Today, the levied taxes are collected by the central government; only a small portion is returned to the Regions that in turn use the voucher system to give it back to the tax-payer - who has to go through and application and review procedure to receive it. This is the only, very costly way for the money to return to where it was originally: in the citizens' pockets. It would be much simpler to allow the Regions to implement different policies (like the voucher system that changes based on the specific regional context) through Personal Income Tax rebates: tax-payers keep their money and spend it for the services of their choice (public or private) and deduct the costs from their tax form.

The second line of development is similar to the one described above, only that it targets companies.

Once again, the survey of the policies already implemented by the Regions shows that greater power over their taxation systems can fill in the productivity gap and bring even the most disadvantaged areas and players - including youngsters and women - back into the economic and trading scene. It is interesting that several Regions have managed to build on a resource that in recent years is increasingly affecting the market and the image of businesses: environmental sustainability and a clear awareness of the importance of the environment, working conditions and the quality of manufacturing processes. These issues are very much appreciated by stakeholders, so it is only reasonable for public bodies to include them in economic and fiscal policies.

The Region that has most forcefully driven these features is Tuscany which introduced a lower tax rates for businesses that comply with European or international protocols on environmental protection or who certify their social and ethical commitment. Marche also has rebates for businesses who certify their ethical conduct or their corporate or environmental quality. Taxation has thus been used as a lever to encourage environmental friendliness and ethical behaviours in industry.

The scenario for further development envisaged by the new legislative decree would bring back into the regional tax system all the transfers that today translate into highly bureaucratised public spending. Once again the target for the regional incentives would be the Irap (Regional tax on production activities) that would be reviewed to suit the regional reality, thus simplifying the system while transparently fostering production. This would enable regions to pass so-called "Tremonti"-like regional laws to de-tax investments in production and cut the red tape associated to state incentives. This strategy for implementing fiscal federalism, without increasing the overall fiscal burden, would cut the cumbersome red tape that still weighs heavily on businesses, thus promoting industrial development without cutting the Country in two, but rather making the local political class accountable for its doings.

3.4 Federalism and regional fiscal advantage policies

The need, in Europe, to define new models for achieving tax advantages for its regions has been sacrificed as a result of an excessively strict interpretation of the Community-wide prohibition of State aid, and more specifically of the "territorial selectivity" principle. This interpretation, to which there are just a few exceptions, has basically denied EU Member States the opportunity of suitably facing up to the issue of fiscal competition - not only vis-à-vis non-EU countries, but also in reference to new Member States of the enlarged European Union , including a number of states where the tax burden in low (e.g. a number of countries in Eastern Europe).

The Commission's restrictive stance has made it harder for the larger European countries to find suitable protection against the fiscal competition of smaller countries. Ireland, for example, in just a few years halved the overall fiscal burden mainly to the benefit of businesses. This enhanced the Irish system's competitiveness and its ability to attract investments, even and mainly from abroad. The Commission's restrictive interpretation hinders the implementation of a similar tax policy in an Italian Region – i.e. in Lombardy or Campania. Indeed, although Lombardy's GDP is four times the Irish GDP (more than 250 billion Euro against some 60 billion), according to the Commission's selectivity principle Lombardy's status as a Region that is part of a larger State would have qualified such a policy as 'derogatory' to the national policy.

This interpretation is ostensibly outdated and not in tune with the principle of subsidiarity and the federalist thrust that has emerged in many European Countries in recent years.

Nevertheless, it now seems that there may be some news: the **Commission and the European Parliament have recently approved the draft reform of the Community Law in force on State -and more specifically - on Regional aid, that is expected to explicitly introduce the notion of regional tax systems to benefit the least developed regions.** More specifically, the so-called "Hokmark Report"[38] maintains the importance of a "more efficient approach to the granting of regional aid, targeting investments on infrastructure and on horizontal aid in the less advantaged or least developed regions of the European Union, including the introduction of advantageous tax conditions", albeit just "for a transitional period not exceeding five years".

This is undoubtedly an enormous step forward, especially considered against the backdrop of the recent ruling on case C-88/03, Portugal versus Commission, through which the **European Court of Justice explicitly acknowledged that the more advantageous tax measures adopted by internal territorial authorities other than the State are fully in line with the Community Law.** This decision is important as it adjusts the excessively restrictive stance taken until now by the Commission, whereby the so-called "asymmetrical" measures, i.e. those only applicable within the region, were tolerated only as a derogation to the general prohibition of State aid laid down in Art. 87 of the ECT, as granted from time to time by the same Commission within very restrictive limits of time and "quantity".

The Court of Justice's judgement on case C-88/03, Portugal versus Commission, explicitly states that the more advantageous tax measures adopted by territorial entities, other than the State, comply with the Community Law. It is an important ruling that adjusts the previous interpretation.

Nevertheless, it is important to underline an essential prerequisite set by this Court decision. **Indeed, the Court actually turned down the claim made by Portugal** that the fiscal benefits decided by the region of the Azores should not be qualified as State aid. **However, far from following up the Commission's traditional interpretation, the sentence** embraces the innovative position put forward by the Advocate General Geelhoed whereby the fiscal measures providing a fiscal advantage adopted by Regional Bodies are "non-selective" as long as they are endorsed "within the scope of powers that are sufficiently autonomous vis-à-vis the central state".

More specifically, the measures must be decided by bodies that have a three-fold autonomy:

a) institutional autonomy: i.e. the measures are adopted by a "regional or territorial authority, the political and administrative regulations of which are constitutionally granted and independent from those of the Central Government" ;
b) decisional autonomy: the measures must be adopted "excluding any direct intervention by the Central Government" as to its contents;

[38] See European Parliament, Resolution on the reform of State aid for the 2005-2009 period (2005/2165(INI)), dated 14th February 2006 (specifically item 37). This provision is available (in Italian) on the web page http://www.europarl.eu.int..

c) financial autonomy: the measures "may not be compensated by subsidies or taxes raised in regions or by the Central Government".

Compliance with the above requirements, says the European Court of Justice, proves the absence of the territorial selectivity requirement and consequently rules out the application of any regulations on State aid. In the case of the Azores, the prerequisites on autonomy were lacking, so the European Court of Justice rejected the Portuguese position.

It is a decision that affects also the Italian context where the issue of fiscal advantage policies (especially for the Southern regions) was recently re-launched by both political sides. However, to avoid losing the opportunities opened up by this Court ruling it will be necessary to seriously face up to the issue of implementing Art. 119 of the Constitution on fiscal federalism. A sound model of regional/local financial autonomy is in fact one of the pre-requisites set by the European Court of Justice to legitimise regional and local fiscal advantage policies. Indeed, this was the reason for turning down Portugal's claim.

More specifically, it is necessary to prove that there is no direct connection between the tax cuts made by one body subordinate to the Central State and the latter's budgetary policies: i.e. that the lower tax receipts due to the cuts are not offset by transfers or by other forms of direct financial subsidy from the central State.

As things are today in Italy, the situation is far from complying with this prerequisite, as the coffers of the local authorities are largely dependent on the State.

Looking at the future, **the government's recent proposal on fiscal federalism would indeed provide an unprecedented opportunity to the South.** A regional fiscal advantage policy would only be acceptable by the Community if a reliable model of fiscal federalism were in place: this is the 'must' dictated by the Court of Justice. Lacking such a model, the regional fiscal advantage policies would be declared invalid by the European Court as, pursuant to the territorial selectivity principle, it would be interpreted as state aid. A regional fiscal advantage policy would also promote the transition from a system based on state handouts to a system that rewards skills, by introducing a new means for supporting the southern regions and make a break from the ruinous system adopted in the last decades.

In fact, the draft bill already envisages this option for the Regions with special statute status. Art. 17 (Co-ordination of Finances of Regions with special statute status and of Autonomous Provincial Districts) states that:

"1. Within the boundaries set by their respective Special Statutes, the Regions with special statute status and the Autonomous Provincial Districts of Trento and Bolzano shall contribute to the achievement of the aims and participate in the system of equalization and solidarity while exercising the rights and duties arising from those same Statutes; they shall also fulfil the duties set by the European Community's legal framework, pursuant to the principles and methods laid down by their Statutes' rules of implementation, to be defined through the procedures envisaged by the same Statutes, within the terms of issuance of Legislative Decrees pursuant to Article 1, paragraph 2.

2. The rules of implementation envisaged in paragraph 1 shall take into account the financial capacity of said Autonomous Regions and Provincial Districts in reference to: the overall public finances, the functions they actually perform and the expenses associated thereto, bearing in mind their permanent structural disadvantages, if any, and the pro-capita income in their territory, or part of the same, *compared to those borne for the same functions by the State, all the regions and, for the Autonomous Regions and Provincial Districts performing functions associated to local finances, of Local Bodies. These same rules of implementation also govern the specific means for the State to ensure the accomplishment of the constitutional aims of equalization and solidarity for the Regions with special statute status, whose per capita income is below the national average. They also bear in mind the need to foster economic development and the removal of economic and social unbalance, while also envisaging, pursuant to the European Community Law, tax policies to promote development".*

Although explicitly targeting Regions with special statute status, the implementation of fiscal federalism and the new derived finance model is expected to pave the way for autonomous fiscal advantage policies also for the Ordinary Regions[39].

[39] On this point see Antonini L. (edited by), *Prospettive della sussidiarietà: la fiscalità regionale di vantaggio*, Napoli, 2007.

Chapter 4 Federalism or "special statute": which form of autonomy is appropriate for the Veneto region?

4.1 Introduction

The debate on whether some areas of the country should have special status is topical: the discussion on the implementation of Article 119 of the Constitution regularly brings up the issue of the autonomous regional administrations that are envisaged by the Italian legal framework and that enjoy greater powers than the Ordinary Regions. The 2001 reform (Constitutional Law 3/2001), and the reform envisaged by Const. Law dated 18th November 2005 (repealed by the 2006 referendum), actually confirmed the existence -still today - of the grounds that caused the Founding Fathers of the Italian Constitution to grant broader autonomy to some regions (as guaranteed by a Special Statute on their autonomy, in turn approved by a Constitutional Law). However, the 2001 reform stated that the Ordinary Regions could request additional forms and types of autonomy on issues falling under the concurrent legislative competence of State and Regions (paragraph 3, Art. 117), in addition to some issues falling under the exclusive competence of the State[40].

Pending new developments in the implementation of fiscal federalism, **some Regions (Lombardy, Veneto, Piedmont) have applied, or are about to apply, for a negotiation with the Central Government on the so-called "differentiated federalism",** i.e. the option of being granted additional exclusive legislative competences that are currently shared by State and Regions.

The implementation of fiscal federalism is inevitably associated to the role of the Special Autonomous Entities. **The Veneto is the only Italian region that borders with two Autonomous Regions** (Friuli-Venezia Giulia and Trentino-Alto Adige), **a position that regularly raises the issue of whether the Veneto should be appointed as the sixth Special Statute Region.** Interest in this topic (and more generally in the issue of fiscal federalism) has recently been attracted by the demand expressed by some municipalities in the Veneto to become part of Trentino-Alto Adige or Friuli-Venezia Giulia, as envisaged by Article 132 of the Constitution, whereby municipalities are allowed to "switch" from one Region to another. These events testify to the widespread unease felt in the Veneto's social fabric: between May 2005 and March 2008, twenty municipalities of the Veneto organised a referendum pursuant to Art. 132 to switch to Friuli or to Trentino resulting in sixteen municipalities approving the change. Although some municipalities have started up the bureaucratic process that

[40] On this issue see Zanardi A.: "Per lo sviluppo. Un federalismo fiscale responsabile e solidale", (Il Mulino, 2006)

is expected to enable them to move to the Regions of their choice, it is not yet clear whether they will actually achieve their aim or not.

Nevertheless, the issue of the fleeing municipalities would not be resolved by the establishment of a new Special Statute Region, as the problem would just shift further south to Emilia Romagna, or further west to Lombardy. The solution, not only for the Veneto but for the whole Country, would be to implement a fiscal federalist model to satisfy the territory's need for greater autonomy, the duty of solidarity towards disadvantaged areas and the general balance of public finances. Consequently, the proposals that require Special Statute Regions to contribute, in the framework of the implementation of Art. 119, to the realisation of the principles of solidarity and territorial redistribution seem very reasonable (currently only the Ordinary Regions contribute to the tax equalisation fund).

Although not very realistic, the scenario that sees the Veneto as a Special Statute Region remains fascinating, even if it is mainly used as a driver for the debate on the future of Italy's institutions and the financial and administrative relationships between the Centre and the local level. It is worth recalling that in the Autonomous Regions the central authority is replaced by local government authorities and that the regional institutions have broader powers and larger financial resources available than in Ordinary Regions (typically 'centralised' expenditure items, such as education and financing local bodies, are directly borne by some Regions with special statute status).

The aim of this chapter is to supply some data to estimate the financial effects of implementing a "special" statute also in the Veneto, to highlight a number of irregularities in our institutional legal framework. **In this context, the granting of a Special Statute to the Veneto is not so much an end in itself, as a means to highlight the extent to which this territory is penalised and to contribute to improving the distribution of public powers.** As stated, the issue of fiscal federalism, and more in general of the institutional and financial status quo of Public Administrations, does not only affect the Veneto but is a country-wide issue. The public system is called upon to provide greater efficiency to ensure the competitiveness of the entire Country. The implementation of fiscal federalism through suitable models of autonomy and accountability is an institutional solution that can enhance efficiency in the public system, with positive outcomes for both citizens and businesses[41].

[41] See Bellati G.A. (2008), "Federalismo ed efficienza pubblica: due riforme per sostenere lo sviluppo economico del Veneto", in Unioncamere del Veneto, *2007 Report on the Veneto's Economic Context,* Venice.

4.2 The Regions with Special Statute in the "Calderoli Draft"

As explained above, the proposals in the "Calderoli Draft" focus on financing and equalizing Ordinary Regions and their respective Local Bodies. Spending powers and the means for financing the Special Statute Regions are established in these Regions' Statutes on Autonomy, as approved by a dedicated Constitutional Law. However, the Calderoli draft does not only touch upon the Ordinary Regions: it envisages "public finance co-ordination" tools also for the Regions with special statute status and the Autonomous Provincial Districts. It basically calls on the Special Statute Regions to contribute to the national solidarity mechanisms. The text of the draft states that their contribution should take into account the different parameters like: public finances, permanent structural disadvantages and per capita income. It would also give Special Statute Regions the opportunity to contribute to the needs of public financing by taking on additional state powers without any additional resources, thus enabling the State to save money.

Although the exact amount of their contribution has not yet been established, the involvement of the Special Autonomies in the new relationship between the centre and the local level is absolutely timely. In a Federal State, all institutional bodies should start on an equal basis and then directly "contract" their powers with the Central State. However this solution would be hard to apply in Italy: 60 years of autonomy, with some examples of excellence in terms of efficiently and effectively responding to public needs, cannot be wiped out just like that. It is also true that the situation that has emerged, with the resulting unbalance between the powers held by Central State, Ordinary Regions and Autonomous Regions, is hard to justify and sustain. As a result, the definition of ways and means to contribute (also by increasing the devolution of central powers without any financial offset) seems to be not only the best, but also the most reasonable and fair solution.

4.3 The Veneto and Trentino Regions: public systems compared

As mentioned, the relationship between the Centre and the local level is characterised by a "dual" system: in other words, the institutional and financial relationship between the Central State and the fifteen Ordinary Regions is remarkably different from the relationship between the Central Administration and the Regions with special statute status (including the Autonomous Provincial Districts of Trento and Bolzano).

The comparison between the organisation of public institutions in Veneto and Trentino and their financial relationship with the Central State offers interesting leads for our assessment. Overall, the Autonomous Provincial District of Trento has available revenues for more than 7,000 Euro per inhabitant, against the Veneto's just over 2,100 Euro (Table 4.1). These extra resources are supposed to finance the administrative and legislative powers (for example in the area of education and financing municipalities) that are not - or are only partially - included in the competencies assigned to the Veneto Region. This detail can help understand the deep differences in the two systems under examination: **the additional powers are covered by high levels of co-participation in the revenue taxes (as established in the statute), that are higher in Trentino than in the Veneto.**

Table 4.1 - *The revenues of the Veneto Region and of the Autonomous Provincial District of Trento- budgets in comparison (amounts in Euro per capita)*

	2004	2005	2006	2007
AUTONOMOUS PROVINCIAL DISTRICT OF TRENTO				
Current incomes	**6.809**	**6.800**	**6.985**	**6.962**
Fiscal incomes	6.397	6.238	6.488	6.491
Regional taxes	846	895	905	929
Irap	*619*	*641*	*649*	*649*
Regional Irpef	*92*	*102*	*104*	*108*
Further Regional taxes	*136*	*152*	*151*	*171*
Revenue taxes sharing	5.550	5.343	5.582	5.562
Income from contribution and current transfer	234	285	358	330
Extra taxes	178	277	139	140
Incomes in capital account	**363**	**460**	**279**	**276**
Real incomes amount*	**7.172**	**7.261**	**7.264**	**7.238**
VENETO				
Current incomes	**1.691**	**1.747**	**1.813**	**1.880**
Fiscal incomes	1.536	1.620	1.670	1.761
Regional taxes	898	939	943	882
Irap	*648*	*686*	*688*	*603*
Regional Irpef	*127*	*129*	*128*	*141*
Further Regional taxes	*123*	*125*	*127*	*137*
Revenue taxes sharing	638	681	726	879
Income from contribution and current transfer	140	111	127	102
Extra taxes	15	16	16	17
Incomes in capital account	**464**	**372**	**342**	**276**
Amount of real costs*	**2.155**	**2.119**	**2.154**	**2.156**

(*) net of any administrative surplus
Source: regional budgets and ISSIRFA-CNR

In the Veneto, and generally in all Ordinary Regions, co-participation in taxes is restricted to VAT (i.e. about 30% of the taxes ascribable to the regional territory) and excise duties on petrol is intended to (partly) finance the healthcare expenditure; on the other hand, in Trentino and to some extent in all the Special Statute Regions, co-participation of local administrations in the main revenue taxes (Irpef - Personal Income Tax -, Irpeg - Corporate Income Tax, Vat, Games and Tobacco, etc.) can reach 90%.

Table 4.2 provides and easy (and brief) overview of the main competencies ensured by the Special Statute and shows the average spending, broken down by function, for the Provincial District of Trento and in the Veneto. Overall, **the Veneto spends a little less than 2,500 Euro per inhabitant, against more than 7,700 Euro managed by the Provincial**

District of Trento. The gap in the amounts is remarkable not only for functions, like education, that in the Ordinary Regions are paid by the State (660 Euro in Trento, 36 in the Veneto), but also in other areas such as social services, tourism, transport and the broad spending item for general administration.

Table 4.2 - *Spending broken down by function in the Veneto Region and in the Autonomous Provincial District of Trento. Budgets in comparison (average 2004-2006). Amounts in Euro per capita*

	Autonomous Province of Trento	Veneto Region
General Administration	1.465	64
Education and study right	660	36
Professional training	231	62
Social aid	524	144
Health board	1.740	1.385
Agricolture, wood , hunting and fishing	259	47
Industry, trade and handicraft	267	47
Tourism	159	12
Trasports	526	172
Territory	392	239
Development building	140	26
Non imputable charges	1.389	243
Amount of real costs*	**7.752**	**2.476**

Source: regional budgets and ISSIRFA-CNR

The data so far presented show the comparative differences between Ordinary and Special Regions. **Indeed, these two public systems are completely different and include a very different distribution of powers amongst the institutional players:** in the autonomous areas, the main public player is not the Central Administration, but the regional government.

As a result, the Region takes on all the roles of the Central State (except for those traditionally and generally assigned to the central authority). Such is the case, for example, of the transfers to the municipalities located inside the regional territory. Continuing the comparison between Veneto and Trentino, it is clear that the per capita amount of resources transferred to Municipal Administrations is clearly more advantageous for the latter. For example, **Trento's municipalities receive current transfers for a total of 787 Euro per citizen, against the Veneto's less than 225 Euro per capita.** As to capital account transfers, the gap increases, with 1,289 Euro allocated to Trento's municipalities against just 278 for the Veneto's administrative bodies (table 4.3).

The figures in table 4.3 shows that **in Trentino more than 90% of the finances allocated to Municipalities comes from the peripheral government's coffers, leaving a marginal role to the other institutions (including the State). On the contrary, in the Veneto there is a more equal balance between State and Region,** although the Central Administration holds firmly on to the strings of the purse of local finance, ensuring some 67% of the transfers to its municipalities. By implementing federalism, the tasks associated to the distribution and management of transfers to Local Bodies should be passed on from the Central State to the

Region, except for large municipalities (that would keep their direct relationship with the State).

Table 4.3 - *Resources transferred to the Municipalities of the Veneto and Trentino. Amounts in Euro per capita (2006)*

	Current	Capital/ C	Total
TRENTO (year 2004)			
from State	2	0	2
from Region	609	648	1.257
from Regions for delegated functions	82	0	82
from community and international bodies	0	0	0
from Provinces	39	37	76
from other public bodies	4	11	15
Total	**736**	**696**	**1.432**
VENETO (year 2005)			
from State	56	41	97
from Region	38	38	76
from Region for delegated functions	9	0	9
from community and international bodies	1	0	1
from Provinces	1	2	3
from other public bodies	4	7	12
Total	**108**	**89**	**197**

(*) for the Veneto it includes the co-participation of Municipalities in the Personal Income Tax (Irpef) that is in fact a transfer (entered under current transfers)
Processed on data supplied by the Italian Statistical Office - Istat

The comparison between the two different public systems is eloquently summarised in tables 4.4 and 4.5 that describe the revenues and the expenditure ascribable to the two territories. **Overall public revenues ascribable to Trentino correspond to 51% of the provincial GDP, i.e. some 15,000 Euro per inhabitant, whereas the figures for the Veneto amount to some 47.7% of the regional GDP, i.e. approximately 14,000 Euro per inhabitant.** Please note that this amount includes not only tax revenues (taxes and duties), but also other receipts (i.e. revenues from the sale of real estate). The internal breakdown does not in fact show any remarkable differences between the Veneto and Trentino: in the Autonomous Provincial District, about 81.5% of revenues are collected by the State, while 11.1% is collected by the regional level of government and 7.4% by Local Bodies. These percentages are basically confirmed in the Veneto: 84.1% is collected by the Central State, 10% by the Region and 5.9% by the Municipal Administrations.

The figures presented have been consolidated in order to avoid double counting financial items within the different levels of government. The adopted principles allocate the receipts to the 'owner' of the tax (mainly the Central State) and the expenditure to the body that orders it (mainly the Regions and the Local Bodies). **Although the Regions with special statute status and the Autonomous Provincial Districts have enormous "own" resources available, it is the State that 'owns' these taxes: in fact, most of these Regions' finances mainly come from the revenue taxes that refer to the regional territory.** In brief, although these are State taxes, the same

State - through the Statutes on Autonomy - grants individual Regions the power to withhold specific percentages thereof.

Table 4.4 - *Consolidated public revenues in the Provincial District of Trento and in the Veneto. Year 2006*

		Total P.A.	Central Adm.	Regional Adm.	Local Adm.
TRENTO	euro Mln	7.620	6.209	848	563
	euro per capita euro	15.165	12.357	1.688	1.121
	% comp.	100,0	81,5	11,1	7,4
	% on Pil	51,0	41,5	5,7	3,8
VENETO	euro Mln	66.255	55.722	6.630	3.902
	euro per capita	13.983	11.760	1.399	824
	% comp.	100,0	84,1	10,0	5,9
	% on Pil	47,7	40,1	4,8	2,8

Processed on data supplied by Conti Pubblici Territoriali

State spending in the Provincial District of Trento accounts for 45.4% of the total spending made in the whole provincial territory, while most of the resources are directly allocated by local entities (Table 4.5); on the other hand, in the Veneto, the State is the main public player with 68.7% of resources managed directly by the Central Administration.

Table 4.5 - *Consolidated public spending in the Provincial District of Trento and Veneto. Year 2006*

		Total P.A.	Central Adm.	Regional Adm.	Local Adm.
TRENTO	euro Mln	8.126	3.689	3.156	1.281
	euro per capita	16.172	7.341	6.281	2.550
	% comp.	100,0	45,4	38,8	15,8
	% on Pil	54,4	24,7	21,1	8,6
VENETO	euro Mln	50.659	34.786	9.571	6.303
	euro per capita	10.691	7.341	2.020	1.330
	% comp.	100,0	68,7	18,9	12,4
	% on Pil	36,4	25,0	6,9	4,5

Processed on data supplied by Conti Pubblici Territoriali

Table 4.6 – *Breakdown of consolidated public spending by level of government and function. Year 2006*

	TRENTO				VENETO			
	Central Adm.	Regional Adm.	Local Adm.	Total P.A.	Central Adm.	Regional Adm.	Local Adm. i	Total P.A.
General Administration	49,6	27,5	22,9	100,0	69,4	4,3	26,3	100,0
Defence	100,0	0,0	0,0	100,0	100,0	0,0	0,0	100,0
Public security	53,8	32,9	13,3	100,0	84,6	1,5	14,0	100,0
Justice	93,7	0,0	6,3	100,0	93,8	0,0	6,2	100,0
Education	13,0	58,8	28,2	100,0	63,9	1,3	34,8	100,0
Training	1,2	98,8	0,0	100,0	14,1	81,6	4,3	100,0
Research and development (R. & D.)	5,3	94,7	0,0	100,0	77,8	0,4	21,8	100,0
Culture and regional services	25,7	33,3	41,0	100,0	63,0	2,3	34,7	100,0
Housing and Urbanism	1,2	68,3	30,6	100,0	8,8	18,9	72,3	100,0
Healt Board	0,9	99,1	0,0	100,0	0,5	99,5	0,0	100,0
Social aid	25,4	40,7	33,9	100,0	75,9	1,9	22,2	100,0
Water	1,4	0,0	98,6	100,0	5,0	78,6	16,4	100,0
Drainage system and water softening	0,0	40,1	59,9	100,0	0,5	0,0	99,5	100,0
Environment	2,7	34,3	62,9	100,0	36,0	41,2	22,7	100,0
Reconversion of waste material	0,1	21,1	78,8	100,0	0,4	0,8	98,8	100,0
Further hygienic – sanitary interventions	0,0	5,0	95,0	100,0	0,0	0,0	100,0	100,0
Job	0,0	100,0	0,0	100,0	0,0	100,0	0,0	100,0
Social security job and salary supplement	99,4	0,6	0,0	100,0	100,0	0,0	0,0	100,0
Further transport	26,9	69,1	4,0	100,0	59,3	16,1	24,5	100,0
Road network	0,0	61,2	38,8	100,0	16,1	9,1	74,9	100,0
Telecomunicazions	79,0	21,0	0,0	100,0	100,0	0,0	0,0	100,0
Agriculture	8,2	91,2	0,6	100,0	18,1	75,1	6,8	100,0
Sea fishing and acquiculture	-	-	-	-	0,0	100,0	0,0	100,0
Tourism	0,0	89,3	10,7	100,0	0,0	35,8	64,2	100,0
Trade	0,4	59,7	40,0	100,0	0,6	9,7	89,6	100,0
Industry and handicraft	6,5	67,1	26,4	100,0	22,1	33,0	44,8	100,0
Energy	0,2	99,8	0,0	100,0	67,9	32,1	0,0	100,0
Other public works	0,0	100,0	0,0	100,0	-	-	-	-
Other in economic field	7,6	43,7	48,7	100,0	34,7	0,0	65,3	100,0
Non divisible charges	93,0	7,0	0,0	100,0	97,1	2,9	0,0	100,0
TOTAL	**45,4**	**38,8**	**15,8**	**100,0**	**68,7**	**18,9**	**12,4**	**100,0**

Processed on data supplied by Conti Pubblici Territoriali

Additional details on the breakdown of spending by different levels of government are shown in Table 4.6: note that while in Trentino, except for the competencies usually allocated to the central state (defence, justice, social security and, in part, telecommunications), all remaining functions are assigned to local entities, in the Veneto most issues (with one important exception, namely healthcare) are held by the State.

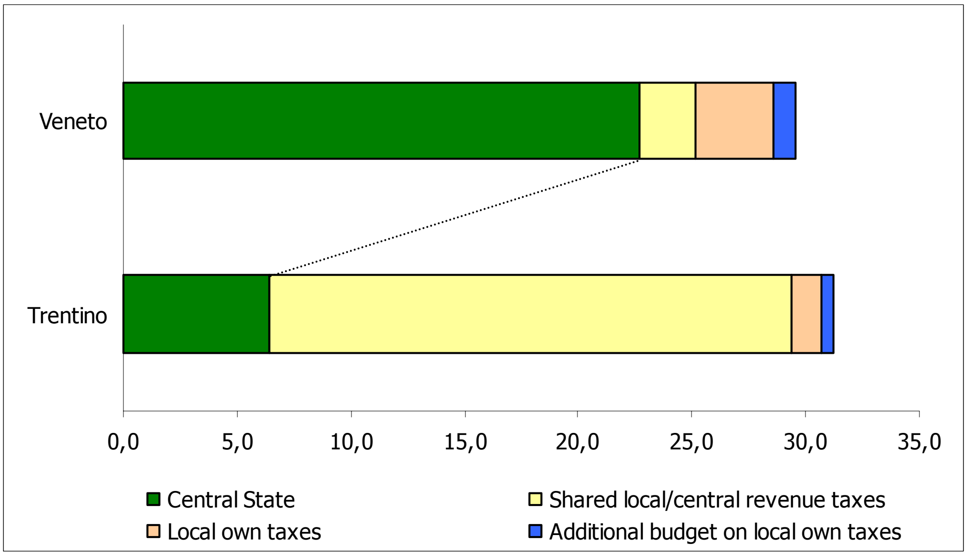
The anomalies however do not end here. The territory of Trentino can benefit from a level of expenditure amounting to 54.4% of the regional GDP, while the Veneto has to make do with some 36.4% of the region's GDP.

4.4 A possible scenario for the Veneto

The introduction to this paper hinted to a possible scenario where the Veneto would be a “Special Statute Region”: it highlighted all the issues and consequences of such a choice. However, just as an exercise, some data enable us to outline the effects of a theoretical implementation of an "autonomous" statute (more specifically the statute applied to the Provincial District of Trento) to the Veneto Region. Although it is based on questionable methods and despite some material limits, this estimate is useful to at least quantify a hypothetical shift of public resources from the Central State to the local authorities.

The total fiscal revenues collected by the Public Administrations in Trentino amount to approximately 31.2% of the GDP: just 6.4% ends up in the State's coffers, while 24.7% is available for the local authorities (more specifically 22.9% through co-participation in revenue taxes, 1.3% from own taxes and 0.5% from local taxes). **In the Veneto, the taxes levied amount to 29.6% of the GDP: the State collects some 22.7% of the GDP and the remaining 6.9% is collected by local authorities.** Local fiscal revenues comprise co-participation in revenue taxes (2.4%), own taxes (3.5%) – i.e. Regional tax on production activities (IRAP) , Local property tax (ICI), and locally applied tax rate strategies (i.e. the Municipal surtax linked to the Personal Income Tax) for a smaller percentage - 1.0% of GDP.

Graph 4.1 clearly illustrates the differences between the two public systems under assessment: the estimates show that **Trentino leaves some 20-21% of tax resources levied from citizens and businesses to the Central State, against the Veneto's 76-79%.** The burden is exacerbated by the fact that the Veneto's taxpayers benefit from (Central and Local) public spending for just over 36% of the regional GDP.



Graph 4.1 - *The public administrations' own taxes in Trentino and the Veneto. Average 2002-2006 (%/GDP)*

Processed on data supplied by Conti Pubblici Territoriali, Italian Statistical Office - Istat, ISSIRFA-CNR

Table 4.7 shows the estimate of the financial effects of the hypothetical adoption of this “special” statute in the Veneto. Note that this operation would affect not only the Regional Government, but also all the other local bodies in the regional territory. As a result, the estimates have been calculated based on the overall public system (both central and local) in the Veneto. The forecasts considered the competencies mainly or exclusively assigned to local authorities pursuant to the Statute adopted in Trentino and applied those same parameters to the Veneto.

The Veneto's current outlook is very clear: the Central State is the main public player with State collections and State spending amounting respectively to 47.9 and 33 billion Euro. If we were to apply the system adopted in Trentino, the scenario on the receipts side would change drastically, bringing the regional and local administrations to prevail over the Central Government as far as both own and devolved taxes are concerned. As to expenditure, note that transferring important functions from the State to the Region (including education) contributes to a situation that definitely favours the local authorities. The spending of the Veneto's regional and local administrations would increase from 14.6 to 35 billion Euro.

Table 4.7 - *Veneto: Consolidated profit and loss account of public administrations. Effects of the hypothetical adoption of the Statute implemented in Trentino* - Data in Euro/mio.*

	Total P.A.	Current situation		Trento's projection	
		Central Adm.	Regional and Local Adm.	Central Adm.	Regional and Local Adm.
Total incomes	59.878	47.922	11.956	27.049	32.829
Own and devolved taxes	*38.237*	*28.655*	*9.582*	*7.782*	*30.455*
Further incomes	*21.641*	*19.267*	*2.374*	*19.267*	*2.374*
Total costs	47.653	33.001	14.652	12.574	35.079
Public Balance	**12.225**	**14.921**	**-2.696**	**14.475**	**-2.250**
Procapite public balance	*2.636*	*3.217*	*-581*	*3.121*	*-485*
Public balance on %Pil	*9,5*	*11,5*	*-2,1*	*11,2*	*-1,7*

(*) estimated on the average data for 2002-2006
Processed on data supplied by Conti pubblici territoriali

4.5 Final remarks

The issues and the limits to the application of a solution extending the "Special" status to one or several Ordinary Regions (remember that the Statute requires approval by a Constitutional Law) clearly draw attention to the issue of implementing fiscal federalism, possibly even involving the Regions with special statute status.

The recent debate on the new institutional framework has emphasised a number of positive issues that deserve special attention.

The federal reform must necessarily respect the Constitutional requirement of protecting civil and social rights. These matters are clearly highlighted in the Calderoli Draft when it mentions healthcare, social services and education. Nevertheless, even the most thorough implementation of the constitutional text could hardly justify the full coverage of all expenses borne in these areas regardless of the delivered quality. Indeed, the text of the Calderoli Draft states that the "fair" value of these services will be covered (services delivered efficiently and suitably) without mentioning the full coverage of the same. It thus brings up the notion of a "standard price" that would become a reference parameter for financing the expenditure for basic functions. This enables compliance with the constitutional text while creating a scenario that encourages the "less virtuous" administrators to use the resources they have been allocated as carefully as possible.

Once each Region has been given the resources it needs, the solution could be (also to square public finances) to target a form of "differentiated federalism". It is, very specifically, a question of implementing Article 116 of the Constitution that enables the Regions to ask the Central State to extend the functions they are being allocated (as Lombardy and the Veneto have already done). **This solution would grant the Regions sufficient resources and the management skills typical of Special Statute Regions, with the advantage that they would not have to resort to a Constitutional Law.** The "differentiated federalism" model would enable the Regions that are able (and want) to, to manage additional competencies, while other territories will continue to grant the delivery of "conventional" services on a standard price basis.

The Constitution also mentions the principle of national solidarity. As a result, it would be reasonable to opt for the broader participation of Special Statute Regions to the national solidarity system, while fully respecting their Regional Statute. It is not a question of limiting their autonomy, or of denying their special social, language and territorial conditions that caused the Constitution's Founding Fathers to envisage a "Special" status for them. Nevertheless, considering the data highlighted in this report and the issues facing the national public finances, it seems appropriate for the territories that until now have benefited (and will continue to benefit) from special autonomous conditions, to start to more incisively carry their weight. **The most reasonable solution (as outlined by the Calderoli Draft) seems that of giving Special Statute Regions such additional functions that do not require any further transfers from the State.** The Central State's extra resources would then be used to integrate the transfers to "poorer" Ordinary Regions and/or relieve the "wealthier" Ordinary Regions from the heavy tax burden.

One further consideration must be made, again in reference to the Special Statute Regions, on financing strategies. As was broadly proven above, the expenses borne by Autonomous Regions are mainly covered by their co-participation in the collection of revenue taxes. The **excessive dependence on sources of finances that cannot be directly handled (and co-participation in national taxes falls within this category) could in fact hinder any further examples of efficiency in the public service.** As a result, the regional expenditure should be covered also by resorting to a sizeable percentage of own taxes. **The latter are easier to manage through tax policies as there is a direct relationship between taxes paid and services provided, meaning that administrators will be more likely to efficiently manage the public machinery, clearly to the advantage of citizens and businesses.**

Conclusions: Ten rules for the implementation of federalism

The heated debate on the cost of not implementing fiscal federalism has highlighted the critical issues associated to the current standstill which, as illustrated in this report, continues to damage the most dynamic Regions that have greater fiscal capacity. On the other hand, the current territorial solidarity mechanism does not encourage Public Administration to be efficient, nor does it stimulate economic convergence in the Southern Regions. More specifically, the current equalizatio system and the lack of fiscal autonomy in Local authorities are detrimental to the accountability and full autonomy of local governments in covering the public spending needed to ensure the services falling under its competence.

The Veneto contributes heavily to the national solidarity system: the fiscal residue exceeds 15.5 billion Euro, thus generating a gap between what the taxpayers pay into Public Administrations (both central and local) and what they receive in services. The surplus generated in the Veneto, Lombardy, Emilia Romagna and more recently also in Latium are allocated to even out the deficit accrued by all the other regions, but mainly the Southern regions. This corroborates the idea that the current equalization system does not benefit anyone.

Nevertheless, despite the restriction of equalization and the current way in which institutions are organised, the Veneto has managed to achieve the same economic results of regions situated in Federal States. The implementation of fiscal federalism would thus enable the Veneto to achieve greater economic development and a quality of services clearly exceeding European standards.

Federalism also generates greater administrative efficiency. In Federal States, the rational allocation of public spending often generates a reduction in unnecessary tax burdens and inefficiencies. Indeed, in those Countries where public spending is decentralised, the running costs incurred by the administration is lower, on average, than in other Countries.

For all these reasons, the proposals to accelerate the implementation of federalism in Italy are similar to those already made in the past[42], i.e.:

1. **state the principle that there is a relationship between taxed and administrated assets:** this principle reinforces the link between administrators and citizens, as the latter can directly assess whether or not the amount of taxes paid is justified by the quality of the supplied services;

2. **define "who does what",** i.e. establish the (legislative and administrative) tasks allocated to Central State, Regions, Provincial Districts and Municipalities, in order to avoid duplication of functions (and costs);

[42] See Unioncamere del Veneto (2007), Unioncamere del Veneto (2008), op. cit.

3. **identify a suitable "standard price"** for each individual function allocated to the regional and local administrations. Any amounts in excess of the standard will be covered resorting to local resources and general taxation. The application of this principle would reduce operating costs in Ordinary Regions by 2.2 billion Euro (approximately 45 Euro per inhabitant).

4. **redesign equalization following the European model,** linking it to actual needs and not to historical spending, to avoid unfair competition between businesses and the loss of competitiveness of the regional economy in the EU. The solidarity tool between territories should solely cover the difference between the standard price of the allocated functions and the actual fiscal capacity from citizens and local businesses, without damaging the regions with a virtuous per capita resources;

5. **implement the German model of "horizontal" subsidiarity,** whereby equalization is accomplished through direct transfers from the Regions with less needs/greater fiscal capacity to the benefit of Regions with greater needs/lower fiscal capacity. The flow of resources between regional institutions would be fully transparent, which in turn would ensure greater control over financial flows;

6. **launch saving initiatives not only in Local Administrations** (Municipalities, Provincial Districts, Mountain Communities) but also in the central functions: reducing staff numbers in Local Bodies would not solve the problem of the excessively high levels of public spending in Italy, as most civil servants work in the central government;

7. **implement the transfer of civil servants from Central administrations to local administrations,** thus avoiding the recruitment of new resources and cutting costs that would translate into new taxes for citizens;

8. **reschedule public spending to cut "fixed" costs,** namely staff salaries and charges on interests, to the benefit of expenditure for investments, i.e. resources for services such as education, healthcare, building infrastructure, protection of the local environment;

9. **act to cut the fiscal residue to the levels of other European regions:** the Veneto's 15 billion Euro of residue are untapped resources that could ensure performance in terms of competitiveness, improving the quality of transport, supporting businesses, increasing the income available for families even higher than the European standards;

10. **shift the function of collecting tax revenues to be allocated to the regions to the same Regions, by** "regionalising" the Revenue Agencies. The implementation of fiscal federalism must necessarily envisage the transfer of the control over revenues from the State to the

Region: this would ensure the Region's accountability and encourage them to more effectively comply with their fiscal obligations through consulting services to taxpayers and also through direct checks against tax evasion. The State's role in this scenario would be to monitor and control the smooth administration of locally based central offices to ensure a specific standard of efficiency and effectiveness.

Some of these proposals have been embraced in the new bill of law on fiscal federalism that, as explained in this paper, presents novel solutions and cleverly summarises all previous suggestions that have emerged over the years.

This assessment will hopefully be functional to the national government that today faces the challenge of a difficult choice for change. We also hope that it might help our businesses and trade associations, such as the Chambers of Commerce, whose aim is to promote growth and the competitiveness of the regional economic system.

Glossary

Central administrations: area of the Public Administration that includes the State, the Bank for Deposits and Loans, Social Security Bodies (Inail, Inps) and other Bodies associated to the central government. They are collectively referred to as the Central State.

Local administrations: area of the Public Administration that includes Provincial Districts, Municipalities, Mountain Communities, Chambers of Commerce, Universities, Bodies for the Right to Tertiary Education.

Local authorities: this definition includes both Local and Regional Administrations.

Public administrations: this area brings together the institutions whose main functions are the delivery of non-sellable services and the equalization of the Country's income and wealth. Their main resources include the mandatory payments made either directly or indirectly by units pertaining to other sectors (source: Istat). They include the Central, Regional and Local administrations.

Regional Administrations: area of the Public Administration that includes the Regions (Ordinary and Special Statute Regions), Local Health Boards, State Hospitals.

Overall surplus and deficit: the discrepancy between overall revenues and overall spending. This term is used in reference to the implementation or the management of the balance (assets and liabilities accrued and cash balance) and measures the excess (surplus) or shortage (deficit) of resources that can be acquired or were acquired compared to the actual or possible use (source: Istat).

Court of auditors: has contentious jurisdiction over the accounts of treasurers, receivers, cashiers and agents in charge of collecting, paying, conserving and handling public moneis or to hold in custody State valuables and assets, it also has auditing functions as envisaged by the general accounting regulations on state spending.

Derived finance model: Public Bodies work along the lines of a "derived finance" model that includes the following: a) centralisation, by the State, of the collection of financial revenues; b) distribution of the thus collected finances between the Public Bodies.
The collection is centralised through the following: centralisation of the taxation system; centralisation of indebtedness; centralisation of liquidity management.
In addition to these three types of centralisation (of taxation, indebtedness and liquidity management), the «*derived finance» model* is characterised by the subsequent *transfer* of the finances from the State to the all other local bodies: these funds are the bulk of these bodies' revenues. The «transfer finance»

model sees the «lower-ranking» public body (e.g.: a Municipality) almost completely dependent from the handouts it receives from a «higher-ranking» public body (e.g.: the State)

Länder: (or, unofficially, Bundesland) the Federal States of Germany. Each of the 16 Länder is represented at Federal level in the Bundesrat, the Federal Council.

Residuum: the difference between the Public Administrations' revenues and expenditure. It summarises the financial flows between different levels of government and the local territory.

Public spending: the public spending item includes public purchases and transfers to Local Administrations, businesses and individuals (in the form of pensions and other benefits, such as unemployment benefit). It includes current public spending, namely allocated to the production and redistribution of revenues for purposes not directly associated to direct production, the consequences of which become visible during the year, and capital account public spending that directly or indirectly affects public capital formation to be used for investments.

Running costs: these include the spending for staff in addition to the so-called "general services" function (that includes all costs associated to administrative management). These resources are necessary to keep the administrative machinery going.

Subsidiarity: the principle of subsidiarity (art. 118 of the Constitution) assigns administrative functions to Municipalities, allocating all other competencies bottom-up to the higher levels of government (Provincial Districts, Regions, State) for all the issues that the Municipalities would be unable to perform effectively and efficiently alone.

Title V: part of the Italian Constitution that governs the relationships and allocates competencies between State, Regions and Local Bodies. It was amended in 2001 through a dedicated Constitutional Law (no. 3/2001) following a referendum.

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