

Central government influence on sub-central governments: the case of Italy

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1. Foreword

The focus of this paper is Central Government influence over Regional Governments' revenue-raising and expenditure policies and, in more general terms, over their budgetary management.

This is an interesting case study because the way Central Government influence has been implemented has undergone a process of evolution which, from the point of view of the auditing methodology employed, can be clearly divided in two phases: the "chain" phase, and the "electronic tag" phase.

The "chain" phase ran from 1970, the year in which the regional tier of government enshrined in the 1948 Constitution finally became a reality, to the early 1990s. The financial autonomy of the regional governments was burdened down by a whole series of highly invasive constraints which, while fairly ineffective as far as budgetary restraint was concerned, were also very evident – hence the reference to the "chain" – because they were easy to detect from reading the regional accounts.

During that period, the ordinary statute regions played an important part in the economy and in government: their expenditure accounted for 8% of GDP and they managed about 23% of the total of the consolidated public spend. Yet they lacked:

- autonomous tax-raising powers (own tax revenues only accounted for about 2% of their total revenues);
- autonomous spending powers. In every area falling within their jurisdiction they were financed from central government tied transfer payments, the amount of which was decided annually in terms of the central government's own spending requirements. This was also the case with other more important areas even in those days, namely, hospital care – initially – and subsequently, after 1978, all health care.

Not only did total dependence on central government transfers weaken the regions' accountability but ultimately it gave central government sole responsibility for covering the regional deficits, since the regional authorities were unable to increase the taxes levied on their citizens. Moreover, these deficits were also facilitated by the comparative lack of transparency of the regional accounts, for whose drafting the government had left a great deal of discretion to the regions, probably in the belief that they were not particularly important planning and policy documents.

It was during the 1990s that a raft of ordinary central government laws were enacted to address these problems and rebalance public accounts, looking ahead to Italy's entry into the euro area, and radically reforming the regional financing system. This reform also included the ways in which central government continued to exert its influence – and, incidentally, to do so more effectively – over regional budgetary policies. From that moment onwards, the constraints were only partly traceable to the regional budgets because they had been, as it were, mainly hidden in sectoral legislation and in the budgetary measures

adopted every year to deal with every area of government in order to guarantee compliance with the European Stability and Growth Pact.

This marked the transition from the “chain” system to the “electronic tag” system, that is to say, to one that was probably a more effective, and certainly a more discreet, approach than the previous one, based on the assumption that there was a certain readiness on the part of the controlled entity to cooperate. Provision for this approach was enshrined in Title V of the Constitution by the 2001 reform, and has been broached once again, as we shall be seeing shortly, in the recent reform of the financing system of the regions and the local authorities, pursuant to delegated law no. 42/2009.

This paper analyses the evolution of financial controls and audits, focusing attention on certain areas of relevance to the subject-matter of this conference:

- constraints on autonomous tax-raising powers;
- constraints on autonomous spending powers;
- strategies for guaranteeing consistency between the resources at the disposal of the regions and the cost of their functions, particularly with reference to health care;
- the emerging areas in which the regions can play a part in the matter of local finances.

2. Constraints on autonomous tax-raising powers

2.1 Prior to the 2009 reform

Before 1990, the ordinary statute regions had no tax-raising powers, as could clearly be seen from an analysis of their accounts. For barely 2% of their total current revenues came from own taxes, in so far as the regions were able to manoeuvre them, at least in terms of tax rates.

In the years that followed, a radical change occurred. In 2005, for example, own tax revenues in the regional budgets accounted for 45% of total current revenues, which was equivalent to the OECD average, and it was certainly not a negligible proportion. This growth in the volume of own tax revenues was due to the reform of the taxation system introduced in 1990, 1992 and 1995, and above all in 1996, when two specific and particularly important regional taxes were introduced, becoming effective the following year: the *Regional Surcharge on Personal Income Tax* (RSPIT) and the *Regional Tax on Productive Activities* (RTPA). Virtually no more changes have been made to the regional taxation system since this latter reform.¹

As already indicated, RTPA and RSPIT are now the main regional taxes: they raise 74% and 15%, respectively, of total regional tax revenues (the 2009 revenues were, respectively, 36 billion and 8 billion). 19% of the remaining 11% came from the Regional Tax on Vehicles (RTV) and 2% from a various minor taxes.

¹ On the evolution of the regional financing system in the 1990s see Bosi & Tabellini, 1996; Strusi, 1999; Arachi & Zanardi, 2000; Giarda, 2000. For the earlier period, see Buglione, Pierantoni, 1990.

Box 1 summarises the the substance of the tax-raising autonomy of the regions in respect of the three main regional taxes.² This paper will focus on only three aspects:

- the fact that all the current regional taxes were instituted and partly regulated by central government legislation. The regional governments can enact legislation of their own to modify certain aspects of the tax, but they are under an obligation to levy it;³
- the basic RSPIT and RTPA tax bands set down in central government legislation can be raised up to a given ceiling. RTPA can also be reduced to a minimum floor while the room for manoeuvre is symmetrical (+/- 1% of the basic rate). RTV is a special case, and the regions can modify the basic rate by 10% a year, without any ceilings;
- central government may always enact legislation to abolish all the current regional taxes or change the rules governing them. For example, in the case of RTPA the standard rate has been reduced (from 4.25% to 3.90%) and the tax base has been changed several times;
- the central government may oblige any regions running up substantial health care deficits to levy RSPIT and RTPA at the maximum allowed rates. When it is necessary to balance the budgets, the government may directly intervene by introducing extraordinary rates above the maxima;⁴
- lastly, to prevent increases in the national tax burden, for several years now central government has prohibited the regions from raising RSPIT and RTPA rates, except in regions with substantial health care deficits.

BOX 1 - Range of tax-raising powers vested in the Regions on their principal own taxes

Range of powers	Principal Own Taxes		
	RTPA	RSPIT	RTV
Possibility not to levy the tax	No	No	no
Possibility to choose the tax rate (inside a range determined by CG)	Yes	Yes	yes
General tax rate at which the tax must be levied if Regions do not choose a different one	3.90% of the value of the tax base	0.9% of the value of the tax base	2.80 euro/Kw (*)
Permitted range of tax rates	max 4.82% min 2.98%	up to 1.4%	+/- 10% per year
Possibility to vary the tax rate for specific categories of tax payers	Yes	Yes	yes
Possibility to decide some aspects of tax management	Yes	No	yes

² On the way this autonomy has actually been used by the Regions, cf. Buglione & Maré, 2010.

³ The only exception relates to minor taxes, like the regional surcharge on petrol consumption, provided by central government law but only applicable at the discretion of the regions (at the present time it only applies in seven regions, and in all instances it is levied at a rate close to the permitted maximum of 2.6 eurocents per litre).

⁴ So far, this central government power has only been used against one region in Central Italy (Lazio) and three regions in Southern Italy (Campania, Calabria and Molise), with the maximum rate of RSPIT and RTPA increased from 2010: the first tax has been raised by 1.7%, and the second by 0.15%

Possibility for CG to oblige Regions with budget deficits for health care to apply the tax at the maximum rate and above	Yes	Yes	yes
Possibility for CG to independently change tax regulations or abolish the tax	Yes	Yes	yes

(*) Example of standard tax rate for cars in the pollution class euro 2, with no more than 100 kw.

We might therefore say that as far as the ordinary statute regions are concerned, there has been a transition from no tax-raising powers (the ‘chain’ phase) to a situation in which this autonomy exists formally, but is subject to a series of statutory constraints imposed by the laws governing individual taxes, or other measures such as the Budget Laws (the ‘electronic tag’ phase).

2.2 In the wake of the 2009 reform

At the present time, some 48% of the ordinary statute regions' current expenditure is financed from revenues raised in their own territory, obviously with wide differences between the North and South due to the different levels of economic development that still exist between these two areas.⁵ Legislative Decree No. 68/2011 – implementing the principles enacted in Law No. 42/2009 on the financing of the ordinary statute regions – was intended to further raise the geographical revenues.⁶ This aim will be achieved by sharing VAT revenues with the regions on the basis of the territorial distribution of end sales, and by boosting own taxes in terms of both their revenue-raising capacity and their manoeuvrability.

With regard to autonomous tax-raising powers, the decree empowers the regions to enact new own-taxation legislation provided that this does not affect the taxable bases already subject to central government taxation. The regions may also abolish some of the present minor own taxes. Lastly – and this is the most important innovation – the margins of manoeuvre have been expanded for the two main existing own taxes, namely, RTPA and RSPIT. For RTPA, the standard rate (3.9%) set by central government, and the ceiling for the increase left to the discretion of the regional governments (+1%), remain unchanged; conversely, the ceiling on tax reductions has been abolished (so after 2013 it will even be possible to reduce the tax to zero). For RSPIT, the central government will raise the standard tax rate (currently 0.9%) in order to levy enough tax revenues to guarantee the regions sufficient revenues to replace the transfers which are to be abolished

⁵ In Northern Italy, in 2009 the percentage of current expenditure covered by local taxes rose to 54%, while in Southern Italy the figure stood at 33%.

⁶ Law No. 42 of 5 May, 2009 is a complex piece of legislation affecting many areas, laying down a series of general principles to be implemented according to specific governmental regulations. The law sets out a root- and-branch reform of the system for financing the ordinary statute regions and local authorities. It also lays down measures for coordinating public finances and the taxation system, instituting new liaison bodies between central government and the regional governments, establishing a transitional procedure for instituting a new tier of government – the metropolitan cities – vesting the city of Rome, as the capital of the Republic, specific functions and special financial autonomy. The law also includes eight implementation measures to be adopted within two years of the date of entry into force of the law, namely, by May 2011 (although this deadline has been extended). The decrees implementing the law that have been brought into force so far include Legislative Decree No. 68/2011, which is mainly designed to reform the system of financing the regions. For the overall examination of the substance of this law see Soriero 2009; Ferrara & Salerno 2010. On the decree implementing the measures governing regional financing, see Buratti 2011; Jorio 2011.

according to the decree.⁷ The manoeuvrability of this rate has also been expanded: it may be increased, albeit only in the case of regions that have not increased RTPA, up to 2.1% (from the present 0.5%); it may also be reduced, but in this case there are no restrictions, except that the yield may not fall below the present level of the regional transfers to municipalities.⁸ Exemptions and deductions may also be granted. Independently of the tax, any reduction in tax revenues must at all events be covered by the region implementing it. Lastly, when assessing their fiscal capacity for the purposes of equalisation, the decree requires reference to be made to standard tax revenues in all instances.

Decree No. 68/2011 certainly broadened their autonomous tax-raising powers, but the regional governments appear to be finding them difficult to implement. The first reason stems from the fact that the introduction of new autonomous taxes must not affect the taxable bases already taxed by central government. To satisfy this obligation remains indeed very difficult, unless central government leaves room for the regions to intervene (which is difficult to imagine). Secondly, as far as the two main own taxes (RTPA and RSPIT) are concerned, the new areas of manoeuvrability opened up by the reform refer above all to cutting standard tax rates. The ability to implement policies of this kind, however, remains mainly theoretical. For the standard rates will be set by the central government in a way that the resulting yield – added to the revenues coming from the new VAT-sharing arrangement provided by the reform and the allocations from the equalisation fund – matches the expenditure needs deemed to be sufficient to guarantee standard levels of service in the matter of health care and in certain other priority sectors (welfare, education, local public transport) throughout the country, and in every region.

3. Constraints on spending autonomy

3.1 Prior to the 2009 reform

The transition from the "chain" to the "electronic tag" phase – or in non-metaphorical terms, from a state of an obvious lack of autonomy to one of apparent freedom – becomes even more evident with regard to the possibility that the ordinary statute regions have to take decisions regarding the functional allocation of the resources included in their respective budgets.

Prior to 1990, the ordinary statute regions not only had no significant own taxes, but 80% of their total revenues came from central government transfers classified in the regional budgets as specific grants. Central government power to influence the management of the functions devolved onto the regions was therefore evident and very wide-ranging, to the point that they could quite rightly be considered central government "agencies".

The reforms implemented during the 1990s, culminating in Legislative Decree 56/2000, radically changed the situation in formal terms. Most of the tied transfers, and primarily those to be used to fund health care, were replaced by general purpose revenues, that is to say, the new taxes referred to in the previous section and the allocations from the equalisation fund established by the same decree No. 56.

⁷ To avoid increasing the burden on taxpayers, central government personal income tax rates will be simultaneously reduced.

⁸ The decree requires the regional governments to replace their existing transfers to municipal authorities by a share in RSPIT revenues.

The ordinary statute regions therefore seem to have succeeded in acquiring wide-ranging expenditure autonomy: since 2001, 80% of their total budgeted revenues came from sources of financing that were not subject to any constraints on their use, compared with barely 20% in 1990.

Simultaneously with the liberalisation of tax-raising powers described above, central government put new strategies in place to influence more discreetly, but no less effectively, the way the regions exercised their functions and, more generally, the way they managed their budgets, in order to ensure that they were able to meet two priority needs: to bring regional (and local) finance management into line with the public finance policies decided at the national level, and to guarantee Essential Service Levels (ESL) throughout the country for certain devolved functions.

The National Stability Pact (NSP) was introduced for the first time in Italy in 1998 to make sure that the regional governments and local authorities played their part in complying with the Italy's undertakings under the European Stability and Growth Pact.⁹ The PSI is the main instrument for guaranteeing the coordination of public (central, regional and local government) finances, and for balancing them. Through it, the regional governments (as well as the local authorities) were required not only to achieve specific budget balances, but also: to contain current capital expenditure within given limits; to reduce particular expenditure items, such as expenditure on institutional organs, personnel, the procurement of goods and services, missions and consultancy services; to contain borrowing; not to raise own tax rates; to offset cuts of central government grants only by reducing expenditure and/or by improving efficiency. There are specific instruments for monitoring compliance with the Pact, and penalties for breaches by the authorities.

For the regional governments, there is also a specific Stability Pact for the healthcare sector aimed to reduce, and where possible to away with, the scourge of budget deficits, that is to say spending without financial coverage. Great progress has been made in this area. Firstly, since 2002, healthcare financial needs and their territorial distribution have been decided under agreements between the central and the regional governments, in order to avoid subsequent recriminations about the amount of the costs in terms of the services to be guaranteed. Secondly, since 2005 a whole raft of strategies have been agreed to make the regional governments accountable for their deficits: central government financial assistance, which must be repaid, is only available if the regional government submits a financial recovery plan (staff cuts, reduction in beds, monitoring and auditing) and only if the plan is approved by the government, and by the Central-Regional Governments Conference; regions running up a deficit are obliged to levy their own taxes at the maximum rates and, in the most serious cases, the government will also introduce extraordinary tax rates. If the objectives of the recovery plan are not met, the regional health care service can be entrusted to a central government-appointed administrator to run it.

Equally invasive are the constraints connected with the ESL guarantee. The current Constitution gives the central government the exclusive power to identify the functions for which regional (or local) authorities are required to guarantee the ESL. At present, this has only been done in the field of health care in reference to which a long list of Essential Care Levels (ECL) were drawn up by agreement with the regions as long ago as 1999, coming into force in 2002. Every year, bearing in mind, primarily, the need to balance the public accounts, the following are established: the financial requirement to guarantee them; the portion of the requirement to be covered by the regional governments with the standard yield coming from their two principal own taxes (RSPIT and RTPA); and the amount of the equalisation fund needed to cover the balance of the funding requirement. In practice, considering the constraints imposed by the LCS, most of the tax

⁹ In this connection, see Barbero, 2006; Balassone *et al.* 2002.

revenues and the proceeds of the equalisation fund must be deemed to be tied revenues, even though in the budgets they are classified as generic revenues. Once again, therefore, the 'chain' is being replaced by the 'electronic tag'.

3.2 In the wake of the 2009 reform

Law No. 42/2009, and in particular Legislative Decree 68/2011 implementing it, confirmed and strengthened the approaches established prior to the reform.

On the one hand, any central government specific grants that still exist will be abolished and replaced by revenues that are formally free of any constraints on their use. The grants to be abolished are all those – current and capital – currently allocated on a continuous basis to all regions. The replacement payments will come from regional taxes¹⁰ and from the equalisation fund which the reform has retained, even though major changes have been made to it. On the basis of the budgetary data, then, expenditure autonomy will be further increased.

However, alternative instruments to monitor expenditure management will be strengthened.

To gain a fuller appreciation of this aspect, it should be recalled that the reform divides regional expenditure under two main headings: 'fundamental expenditure', and 'other expenditure'. Fundamental expenditure items – which currently account for about 70% of the regions' overall expenditure – include healthcare and welfare, education and local public transport. For all these functions – and not only for healthcare, as at present – ESL will be defined, together with the expenditure which the country can sustain to guarantee them, given the public finance deficit-reduction demands. For these functions, and only for them, the central government also guarantees each region that it will fund the difference between the sustainable expenditure and the standard revenues from the taxes "dedicated" to funding them,¹¹ by establishing a special section of the new equalisation fund introduced by the reform.

For what concerns expenditure autonomy, this means:

- extending the obligation to guarantee essential service levels for a wider range of functions than presently exist;
- requiring every region to allocate the bulk of the revenues to financing fundamental functions;
- requiring every region to avoid exceeding the admissible expenditure ceiling laid down at the central level, because higher expenditure can only be covered by raising the tax burden on taxpayers.

Since this is coupled by a confirmation and a tightening of the constraints deriving from the National Stability Pact and the related rewards and penalties, one might conclude that central government ability to influence the management of the main functions falling within the jurisdiction of the regional governments,

¹⁰ Tax revenues comprise income from the RSPIT increased standard rate, as already mentioned, and from the new VAT sharing agreement. The overall amount of the transfer payments due from central government will be subsequently identified, as well the new RSPIT standard rate and the share of VAT revenues.

¹¹ The "dedicated" tax revenues comprise the standard RTPA revenues and the geographical breakdown of VAT instituted by the reform.

and to manage their budgets overall, will not be weakened by the reform, but will actually be given a new lease of life.

4. How to guarantee adequacy of resources to meet the costs of the regional governments' functions.

In the long period of the "chain", namely from 1970, when the ordinary statute regions were instituted, to the early 1990s, the only judge of whether the cost of the regional governments' functions was adequately covered by the resources allocated to them, was the central government. For each of the numerous tied transfer payments existing at that time, the central government autonomously decided on both the overall amount of the fund and its distribution across the regions, estimating the expenditure requirement on the basis of parameters connected with the specific intervention to be funded. There was also an equalisation fund, known as the "Common Fund", which had been established in 1970 and then modified in 1976. This fund was structured in such a way as to provide the regional governments with a degree of certainty regarding the amounts they would receive, since its total amount was linked to the yield of certain consumption taxes. However, the rules were frequently adapted to meet the needs of the central government budget, and yet the fund had a very minor impact on overall regional revenues.

The only exception to the rule of total dependence on the central government to establish the amount of resources needed to perform their functions was in the field of health care. In that period, health care was also financed from a specific health care fund, but the initial amount allocated to the individual regions was systematically changed at year-end, because of the very widespread practice of central government compensating any regional government overspend. It was therefore an "open-ended" fund which eventually adjusted to the actual expenditure of the individual regions, but without following any rational plan for the division of resources.

Under the reforms of the regional financing system implemented from the beginning of the 1990s, major changes were introduced, also in respect of the matter discussed here. More specifically, there was a tendency, which became consolidated across time, to more closely involve the regional governments in establishing the adequacy of the resources in terms of the functions to be performed.

One emblematic case here is the health care sector which is of particular relevance, for a variety of reasons:

- the volume of public expenditure earmarked to it (currently about 110 billions);
- the fact that this is the sector for which there is the greatest degree of decentralisation of public expenditure (the regions disburse about 98%);
- the fact that this is a sector in which the regions have been required, since 2002, to guarantee essential levels of care uniformly throughout their territory;
- the fact that this is the very sector in which the regions have run up huge deficits, jeopardising the policies for rebalancing public budgets.

It is precisely the need to contain the deficits that led to involving the regions in defining the volume of resources required to guarantee the services laid down in central government legislation. One of the reasons

why these deficits arose originally was the fact that these resources were decided unilaterally by the central government. So the regional governments did not consider them a real maximum within which contain actual expenditure.

After 2002, the practice was introduced whereby the amount of the funding needed to guarantee the services, and its distribution throughout the territory, was established on the basis of a central government proposal, and decided under agreements concluded with the regional governments at the Central-Regional Governments Conference. The regional governments were also required to agree on deficit-reduction strategies in regions where substantial deficits were still being run up, as well as on systems for monitoring expenditure and the effectiveness of the services delivered (an area in which great progress is being made). It is also interesting to note that, at the behest of the central government, the most virtuous regional governments have been asked to offer their consultancy services to regions whose health care expenditure management gives rise to particular problems.

This new strategy seems to be producing positive results. For firstly, agreement has always been found on the resources to be allocated to health care, taking account of the public finance constraints, sometimes despite considerable difficulties.¹² Secondly, the latest available data show that the recovery plans implemented in some regions seem to be effective in reducing their massive health deficits.

The fair cooperation strategy – used also to reduce conflicts of powers between the central government and the regions, as has already been highlighted in the paper by Professor Mangiameli – is nevertheless finding difficulties to become entrenched, to establish the adequacy of resources outside the health sector and, in more general terms, for the distribution between different tiers of government of the public expenditure containment targets. The government Bills in this field are put to the Conference for examination, but very little time is allocated for issuing an opinion on them and, at all events, where opinions have been expressed, central government has tended to ignore them.

The 2010-2013 budgetary measures are a good example in this regard. In July 2010, the central government issued a decree law introducing deep cuts in regional transfer payments. At the Central-Regional Governments Conference, the regional authorities criticised the cuts, claiming that they were out of all proportion to the share of public debt caused by them, and at all events that they were of such a magnitude to jeopardise their ability to continue delivering such important services as local transport and welfare. Yet the government dug its heels in, and the decree was duly enacted into law. Only *in extremis* have the regions been able to ease the burden of the budgetary measures that they have to bear, and then only by a happy coincidence: the adoption of the decree implementing Law No. 42/2009 on regional financing, namely, decree No. 68/2011 which has been mentioned several times already. The positive opinion of the regions on this measure was traded with a reduction of the scheduled cuts.

However, decree No. 68/2001 should help to permanently resolve the problems relating to regional participation in public financing decisions affecting them. One important measure here was the institution of the Public Finances Coordination Standing Committee, comprising representatives of the central, regional and local government authorities (art. 35). Among the numerous functions of the Committee the following are of particular relevance here: the distribution between different tiers of government of the public financing targets, continuing monitoring of the effectiveness of the new financing model, ascertaining the adequacy of

¹² For example, the negotiations for financing the LCS for the three-year period 2011-2013 were particularly complex, both between central government and the regions to define the expenditure admissible at the national level, and between the regional governments for the distribution between them.

the resources in terms of the functions attributed, oversight over the rewards and penalties connected with the results of monitoring compliance with the National Stability Pact.

4. Possible openings for regional intervention in the matter of local finance.

As we have already seen, the strategy for involving regional governments in decisions relating to public financing adopted at the national level had already been adopted before the fiscal federalism model reform under Law No.42/2009, particularly in the area of health care, which is extremely important in economic and social terms. This reform, confirms that strategy, but it also opens up new and interesting opportunities for participation in the matter of public financing, in this case between regions and local governments.

This aspect, which is often neglected in the debate on Law No.42, appears to be particularly important in respect of one peculiar aspect of the existing fiscal federalism model. Unlike what occurs in most countries with a regional or federal structure, in Italy the ordinary statute regions have always played a wholly secondary role in the matter of local finances. For the governance of local finances has been the almost exclusive preserve of central government. Furthermore, financial transfers, particularly for the purposes of equalisation, have always been directly delivered from the centre to the individual authorities, despite the fact that the latter are particularly numerous (more than 100 Provinces and over 8000 municipalities). The rules of the National Stability Pact regarding municipalities and Provinces are also defined in a uniform manner at the central level, leaving no possibility for the regions to better share out the sacrifices required by the Pact within their territory, depending on the financial situation of the individual local authorities.¹³

This situation has been changed by decree No. 68/2011 which vests the ordinary statute regions with a range of powers over local finances. More particularly, the regions will now be able to:

- enact new legislation governing local authority taxes and set the margins within which they can act;
- change the criteria for distributing the equalisation funds transferred from central government to the local authorities, given that these transfers will pass through the regional governments' accounts instead of being allocated by central government directly to municipalities and provincial authorities;
- redistribute the constraints of the Stability Pact between the local authorities within their own territory, while leaving unchanged the contribution to balance the national budget coming from all the municipalities and Provinces in every region. In other words, the Pact for the local authorities will become "regionalised".

As has already been pointed out, the purpose of allocating these new powers is to foster close collaboration between the regional authorities and the local authorities. For they can only be exercised by the regions which manage to obtain the consent of their local authorities regarding the measures they intend to adopt. In the other regions, central government will continue to intervene directly. The forum in which these agreements will be concluded is the Council of Local Government (CLG), provided by article 123(4) of the Constitution. All the regions have laid down regulations governing this body in their own Statutes, and in

¹³ It must, nevertheless, be noted that the Special Statute Regions – particularly those in Northern Italy (Friuli Venezia Giulia, Valle d'Aosta, and the two Autonomous Provinces of Trent and Bolzano) – are already responsible for all three aspects mentioned above (regulating finances, equalisation transfers, the Stability Pact).

many regions it is already fully operational. Others regions must rapidly adjust, if they wish to exercise the new powers vested in them by decree No. 68.

5. A few concluding remarks

In the matter of public finances, the evolution of the ways in which central government influences the regions as described in this paper, suggest that Italian regionalism is now progressing towards maturity.

One crucial element here has been the shift from a totally derived and tied financing system to a system in which regional own taxes have an important role. At the present time, this is the way in which 48% of the regional current spend is being financed, including health care, and in the ordinary statute regions in Northern Italy, because of their greater fiscal capacity, this figure reaches 54%. The intention is to make this tier of government accountable for the cost of their functions, and make it possible to improve sharing the need for policies to rebalance public budgets with central government. It is precisely this sharing of general objectives – achieved obviously after some wrangling – that has made it possible to move away from the 'chain' to the 'electronic tag' system with regard to oversight and control. As we have seen, even though oversight is more discreet now, it is no less invasive of the financial autonomy of individual regions, particularly those which do not fall in line with the policies laid down at the central level under agreements between the central and the regional governments, as occurs in the health care sector in particular. But this may be considered an inevitable consequence of the fact that there is still a long and impervious way ahead to balance Italy's public finances, and the fact that the regions are responsible for functions of major social importance (such as health care) for which the need to guarantee essential levels of service delivery throughout the whole territory is (still) strongly felt.

The reform of the regional financing system, which is about to come into force, maintains and strengthens this approach. For it increases the financing of the regions' expenditure with own taxes and, in more general terms, with general purpose revenues; it creates new fora to foster the sharing of public finance policy-setting; it strengthens the mechanisms for exercising oversight over the regions which fail to comply with commitments previously entered into. And lastly, as we have seen, by assigning new powers to the regions regarding local finance, the reform also fosters a new regime for cooperation between the regions and their local authorities.

Of course there still remain many doubts regarding the way in which the new model will operate, partly because it is not yet ready in its final form.

One of these doubts has to do with the fact that by introducing greater tax-raising decentralisation the reform may widen the gap between the northern and southern regions of Italy. The latter will continue to depend massively on the equalisation fund without which they will not be able to guarantee their citizens the essential service levels required nationwide. The Northern Italian regions, on the other hand, with standard own-tax revenues and with the share of VAT revenues, will become almost self-sufficient, and one region – probably Lombardy – will be fully self-sufficient. The spending power of the central government will therefore be very weak in relation to them. Under these new circumstances, will the wealthier regions still agree to participate in the public deficit-reduction policies and the financing of the equalisation system?

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