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FISCAL FEDERALISM IN ITALY TWENTY YEARS AFTER THE CONSTITUTIONAL REFORM: AN APPRAISAL

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ABSTRACT

One of the pillars of the reform of Title V of the Italian Constitution has been the implementation of fiscal federalism via the devolution of taxation from the centre to the regions and local governments. By conducting a statistical analysis of revenues and financial resources transfer by central government to support regional spending (central government transfer), we demonstrate that despite twenty years having elapsed since the reform the regions are yet to acquire real financial autonomy. The ratio for central government transfers to the regions is analysed here, assessing revenues between 2008-2020 in conjunction with an evaluation of the trend in these same aggregates during the pandemic period. The re-centralization process during the pandemic emergency increased the reliance of the regional system on transfer of finance from central government. Thus, inadequate regional fiscal autonomy is reflected in the ongoing dependence on central government funds. The dependence of regional budgets on central government transfers did not reduce over the period examined, but rather tended to increase from 2008 onwards, especially in the case of the southern Regions. Over this period this led to decreased regional financial autonomy. The data correlates with a process of re-centralization of legislative spaces and financial autonomy to address, the financial crisis of 2009 and the sovereign debt crisis in Europe in 2011, causing the pendulum of regionalism to swing towards the State.

Keywords: fiscal federalism; regional fiscal autonomy; central governments transfers; central governments – regions disputes; financial crisis.

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I. INTRODUCTION

The 2001 revision of Title V of the Italian Constitution was intended to reshape the relationship between central and subnational government, in accordance with the principles of so-called fiscal federalism. Article No. 119 was amended to introduce a basis for shifting the power of taxation from the centre to regional and local governments into the Constitution. The reform set out steps for the gradual implementation of the process of fiscal federalism through a series of ordinary legislative measures to enhance subnational governments' autonomy in revenue and expenditure, to enable the localities to finance and implement their own policies. It was intended to reduce the region's reliance on resources transferred from the centre, facilitating co-participation in raising both central government's tax revenues and their own taxes and revenues. However, today it is apparent that the expected fiscal autonomy of the regions and local governments has manifested incompletely and unevenly. The reform aimed to encourage subnational governments to obtain the revenues required for financing local public services from their own territories, so they would pursue appropriate economic and fiscal policies. The so-called legislation of crisis, introduced to tackle the financial crisis of 2009, initiated a period of re-centralization, with the implementation of measures to return some of the regulatory tools of regional (and local government) autonomy to the realm of central government budget and public finance coordination. Furthermore, the strengthening of financial constraints by the European Union, especially for Member countries with high public debt, further contributed to this re-centralization process. The result has been curtailment of the fiscal federalism reform, such that, today fiscal federalism remains largely unimplemented (Filippetti & Tuzi, 2020).

Within this framework, an analysis of central government transfer of financial resources to the regions to support regional spending, and revenues raised locally (dating from the 2008 financial crisis to the present), could offer useful insights into the implementation of fiscal federalism in Italy, clarifying the real extent of any financial autonomy acquired by the regions. Additionally, specifically focusing on these same aggregates during the pandemic period would verify how regional dependence on central funding has evolved. For the purpose of this study, data regarding central government transfers and own revenues were extracted from the SIOPE[1] (Information System on Public Entities Operations), which is the primary source of information for monitoring public accounts. The dataset obtained was sufficiently detailed to facilitate the reconstruction of time series data for each region regarding the total amount of central transfers and own revenues.

The remainder of this article is structured as follows: the second section briefly reviews the milestones that led to the current development of the Italian regional system. Section 3 provides some background to explain national public finance according to key indicators such as debt and spending by different levels of government. Section 4 discusses the constitutional provisions required to realize fiscal federalism, the principles guiding this process, the regulatory instruments implemented to achieve it and their state of implementation. Section 5 highlights the role and actions of the Constitutional Court within this pathway. In section 6 the ratio of central government transfers (current transfers) to the regions and their own revenues, collected during the period 2008-, is analysed to highlight the dependence of regional budgets on central funds. The dependence of the regional system on the central government funds, even to fulfil basic requirements such as health care, is examined in the section 7. The paper then offers some conclusions regarding the last twenty years of (attempted) regional financial autonomy, in terms of implementation of the decentralization process and the dependence of the regions on central government funds.

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1. https://www.siope.it/Siope/

II. HISTORY AND THE DEVELOPMENT OF REGIONALISM IN ITALY

Italy is a relatively 'young' country with a frail national identity. It has historically been characterized by strong regional and local identities, unified through a top-down political processes that took place in the second half of the nineteenth century, ending in 1861 with the unification of the Italian Kingdom. Its character has been informed by "cultural differences between regions, the developmental gap between north and south, the lack of a national language until the late nineteenth century, and the weakness of central authority relative to social institutions such as families and the Catholic Church" (Casaglia et al., 2020, p. 14).

Regionalism became relevant again after political and social turmoil led to the formation of the Italian Kingdom during the drafting of the Italian constitution, immediately following the Second World War. The founding fathers of the Italian constitution, which was released in 1948, introduced the regional level of government departing from the centralized model of the unitary state, offering a compromise between unitary and federalist forces. The allocation of political and administrative powers at the regional level, was also included in the Constitution to impeded the possible reemergence of fascism. The formal establishment of the Italian Regions took place as recently as 1970, and the regional governments were initially characterized by inadequate political influence and insufficient financial autonomy.

Italian regionalism has coexisted with a developmental gap between north and south, which remains unresolved. Since the unification this gap has never been addressed through significant political and economic efforts, with the result that Italy is subject to more significant income disparities across its regions than any other European country (Asso, 2021). The dispersion index of regional per capita GDP versus the national average (Eurostat - Regional economics accounts) provides indications of the regional gap within a given nation. The value of the index is zero if regional per capita GDP values are the same across all regions, while values other than zero indicate the presence of different levels of development within the country. For Italy, the dispersion values are quite high (the index shows values of about 25 percent) and highlight a decline in convergence between different regions over the period 2008-2017, due to the economic crisis at that time (Mangiameli et al., 2020).

The issue of regional economic disparities and the agendas of some political movements have become progressively interlaced, leading to the emergence of secessionist groups in the north of Italy at the beginning of the 1990s. Lega Nord (Northern League) is the most significant example of this. During the 1990s the Lega Nord encapsulated northern entrepreneurs' dissatisfaction regarding high taxes and central state bureaucracy, as well as the national political class, proposing secession of the Northern regions from the Southern regions, which it accused of being lazy and hanging on the coat-tails of the productive north.

The starting point for political discussions regarding secession included requests for a stronger regional autonomy, which eventually led to a reform of the Constitution in 2001. The new constitutional provisions reshaped the relationship between central government, and regional and local governments. It granted the regional governments a stronger political legitimacy, legislative powers over several aspects, and financial autonomy (Keating & Wilson, 2010). The direct election of regional governors has played a key role in growing their importance, and today, these governors are outstanding political figures in the national political landscape: "directly elected territorial leaders have become assertive political actors vis-à-vis the central government, introducing a further centrifugal dynamic in the system that counters the centripetal tendency of national parties" (Palermo & Wilson, 2013, p. 2). The constitutional reform of 2001

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also allowed for complete autonomy of the regions over several policies. Furthermore, several other policies that were concurrent, were to be managed together with central government, while justice, education, defense, and several others remain in the hands of the central government. The shared competences, according to the Italian Constitution, provide for the vertical allocation of powers between central government and regions; the former establishing primary principles, while the regions themselves were responsible for the programming, organization and delivery of services. The result of this reform (and consequent legislation) was the transformation of the structure of the state from unitary to 'regionalized unitary', similar to Spain.

The 'regionalization' process has been affected by several conflicts regarding the allocation of powers between central government and the regions, resulting in intensive work by the Constitutional Court to fundamentally rearrange regional competences. Meanwhile, decisions by the Court led to the fulfilment of the principle of mutual and loyal co-operation between central government and the regions, so central government began to consult with the regions about an increased number of matters, including not only regional concerns, but also items of general politics and economic policy (Palermo & Wilson, 2013).

In more recent years, some regions (e.g., Lombardy, Veneto, and Emilia Romagna, and some others) have started the process of acquiring further competences and financial autonomy from central government, based on the provision of Article 116 third paragraph of the Constitution[2]. This process has been interrupted by the pandemic, but requests have started again, providing evidence of the growing political ambitions of the Italian regions.

In Italy, decentralization receives broad institutional and political support, as the decentralization program fully reflects the political climate. Thanks to prior reshaping of the division of labour between central government and the subnational levels of government, devolution not only aims to transform the role of the central government, but also appears to be a fundamental component of the whole process of modernization of the public administration (Longo & Mobilio, 2016; Lippi, 2011; Mele, 2010).

From this perspective this paper aims to explore the effectiveness of the implementation of fiscal federalism in Italy through the devolution of taxation from the centre to the regions and Local Authorities, analysing the trend in the ratio of central government transfer to the regions and their own revenues during the period 2008-2020, as well as the trend in the same aggregates during the pandemic period.

III. CONSTITUTION PROVISIONS RELATING TO FISCAL FEDERALISM

The revisiting of relations between central and subnational government, according to the principles of the so-called fiscal federalism, was one of the main goals of the 2001 reform of Title V of the Italian Constitution. article No. 119 of the Constitution reshaped

2. Article 116 of the Constitution states: *Friuli Venezia Giulia,, Sardinia, Sicily, Trentino-Alto Adige/Südtirol and Valle d'Aosta/Vallée d'Aoste have special forms and conditions of autonomy, according to their respective special statutes adopted by constitutional law.*
The Trentino-Alto Adige/Südtirol region consists of the autonomous provinces of Trento and Bolzano.
Further special forms and conditions of autonomy, concerning the matters referred to in the third paragraph of Article 117 and the matters indicated by the second paragraph of the same Article in subparagraphs (l), limited to the organization of justice of the peace, (n) and (s), may be attributed to other Regions, by State law, on the initiative of the Region concerned, after consultation with the local authorities, in compliance with the principles referred to in Article 119. The law shall be approved by the Chambers by an absolute majority of its members, on the basis of agreement between the State and the Region concerned.

the boundaries of the financial autonomy of the subnational government[3]. However, it was necessary to wait for Law No. 42 (May 5, 2009), the so-called *Delegation to the Government on fiscal federalism, in implementation of Article 119 of the Constitution*, to initiate the process of shifting the power of taxation from the centre to the regions and Local Authorities on a scale that aligned with the attributed competencies.

The principle that has guided the bestowing of greater financial autonomy on the regions and Local Authorities proceeds from the belief that autonomy in the policies of the regions assumes autonomy in terms of revenue and expenditure. That is, regions should no longer be expected to finance and implement policies based on resources transferred from the centre, but rather raise funds from co-participation in the revenue of central government taxes, or from regional taxes and revenues. This reform relies on a set of theories that fall under the so-called 'tax assignment problem'. According to this theory, in decentralized systems an overlap of spending responsibilities, on the one hand, and taxing responsibilities, on the other, must be sought. Thus, in this case, greater responsibility of the regions in terms of policies and functions must be matched by a greater emphasis on fiscal responsibility (Liberati, 2011; McLure, 1994; Bird, 1999; Oates, 2005).[4]

This approach both reinforces the political accountability of regional rulers to citizens, voters and taxpayers, according to the criterion of political representation, and enables politicians to modulate expenditures according to the demand of the region's citizens. This makes it possible to respond efficiently to fulfil local preferences according to the criterion of allocative efficiency. These are two basic elements of fiscal federalism, in that they make it possible to improve the relationship between politics and citizens (*constituency*) and generate the production of public goods and services in a manner that is responsive to local preferences, as opposed to cases of centralized production, which tend to homogenize public goods and services.[5]

One of the milestones in the implementation of fiscal federalism is overcoming the requirement to finance subnational government through central transfers of funds - except in cases where these have an institutional justification, as in the case where the central

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3. Article 119 of the Constitution states: *Municipalities, Provinces, Metropolitan Cities and Regions have financial autonomy in revenue and expenditure, subject to the balance of their budgets, and contribute to ensuring compliance with the economic and financial constraints arising from the European Union system.*
Municipalities, provinces, metropolitan cities and regions have autonomous resources. They establish and apply their own taxes and revenues, in harmony with the Constitution [53 c.2] and in accordance with the principles of coordination of public finance and the tax system. They dispose of co-participations in the revenue of state taxes referable to their territory.
The law of the State shall establish an equalization fund, with no allocation constraints, for territories with lower fiscal capacity per inhabitant.
The resources derived from the sources referred to in the preceding paragraphs enable municipalities, provinces, metropolitan cities and regions to fully finance the public functions attributed to them.
To promote economic development, cohesion and social solidarity, to remove economic and social imbalances, to promote the effective exercise of personal rights, or to provide for purposes other than the normal exercise of their functions, the State shall allocate additional resources and make special interventions in favor of certain municipalities, provinces, metropolitan cities and regions.
The Republic recognizes the peculiarities of the Islands and promotes the necessary measures to remove the disadvantages arising from insularity.
Municipalities, Provinces, Metropolitan Cities and Regions have their own assets, allocated according to general principles determined by State law. They may resort to borrowing only to finance investment expenditures, with the concomitant establishment of amortization schedules and provided that for the totality of the entities of each Region the budget balance is respected. Any state guarantee on loans contracted by them is excluded.

4. There are two strands of fiscal federalism theory: the so-called first-generation theory and the so-called second-generation theory. The former includes the classic contributions of public finance and finance science approaches, among others see Musgrave (1961); the latter includes those theories that use an economic policy approach, such as Oates (2005). For a general discussion, see Brosio & Piperno (2009).

5. For a look at the federalism model, see Zanardi (2006). For a discussion of the degree of homogeneity and differentiation of local public services in unitary and federal systems see Breton (2012).

government allocates 'additional resources' or carries out 'special interventions'. The aim here is the recovery from the territory of a large amount of revenues for financing the policies performed by subnational governments, enabling each institutional level in the exercise of spending power, as well as ensuring the 'solidaristic character of the system'. In general, fiscal policies based mainly on 'unconditional' central transfers may disincentivize subnational governments from pursuing appropriate economic and fiscal policies which then reduces their resilience to meet economic crises[6].

In Italy, the process of implementing fiscal federalism has also provided for the determination of the so-called 'essential levels of performance (LEP)' for health care, social assistance, education and local public transport in reference to capital expenditures. These basic functions of Local Authorities should have been fully financed to meet standard cost and standard requirements criterion. The slow process towards determining standard requirements has been another factor hindering the effective implementation of fiscal federalism in Italy.

The implementation of Law No. 42 introduced a complex process involving further legislative decrees. The most relevant was Legislative Decree No. 68/2011, which aimed to ensure revenue autonomy by providing for the gradual replacement of central government transfers with regional taxes and co-participation in national taxes (Nania, 2009; Buglione, 2010). The law assumes VAT revenue funds all essential levels of health, welfare, education and local public transport. Where tax revenues are insufficient, the shares of an equalization fund should contribute. This fund would then be fed through a VAT revenue and its value determined to guarantee the full financing of expenditures in each region to meet essential levels calculated at the standard cost level.[7] IRAP (regional tax on productive activities) should have been another relevant tax revenue supporting regional financial autonomy. The surtax on national personal income tax (IRPEF), should have provided the other major source of revenue for the regions. The 68/2011 Legislative Decree stipulated that the IRPEF surtax be recalculated to guarantee covering the total amount of central transfers that would then have to be eliminated. To this minimal level of IRPEF surtax the regions could then add surcharges. Finally, a very residual role would be played by regional taxes that would not concern items already subject to taxation by central government.

Up to date fiscal autonomy, as outlined by Law No. 42 of 2009 and Legislative Decree No. 68 of 2011, which defined a system of financing regional spending based on the above-mentioned sources – i.e. VAT revenue sharing, IRAP revenue, IRPEF surtax, shares of the equalization fund and own revenue - has not been implemented. Nor has the overall process of fiscal federalism, which was only partially and differentially achieved for municipalities, provinces and metropolitan cities and regions.[8]

Today, it can be observed that VAT revenue sharing is the main tax revenue supporting regional budgets, providing 60 percent of the total tax revenue of the regions. This tax is intended to cover expenses incurred by maintaining the health care system. IRAP weighs 24 percent of total regional tax revenues, and even this tax is used substantially

6. On the genesis and (partial) implementation of fiscal federalism in Italy, see among others Filippetti & Tuzi (2020); Mangiameli (2011); Ferrara & Salerno (2010); Carabba & Claroni (2012); Antonini (2014).

7. On the evolution of regional and local government finance in recent years, see the various editions of A.A.V.V. La finanza territoriale, different years, Rubettino.

8. It should be pointed out that Law 42 gave rise, in addition to Legislative Decree No. 68 of 2011, to other decrees implementing it, such as, among others, the decree on state-owned federalism (Legislative Decree May 28, 2010, no. 85), the legislative decree on the transitional order of Roma Capitale (Legislative Decree No. 156 of September 17, 2010), the legislative decree on municipal fiscal federalism (Legislative Decree No. 23 of March 14, 2011), and the legislative decree on the harmonization of budgets (Legislative Decree No. 118 of June 23, 2011.

to finance health care (83 percent of total revenue). Starting in 2014, several measures have gradually compressed the tax base in the labour component, creating a significant impact on overall revenue. In fact, together with the effects of the economic crisis, the measures to sterilize the cost of labour generated a revenue loss of 30 percent between 2008 and 2018 (Ferretti et al., 2021). The regional surtax on IRPEF (national income tax) accounts for 11 percent of total tax revenues in the regions. However, the regional use of this tax to replace central government transfers could amplify the problems that already plague the national IRPEF, and are mainly attributable to evasion and territorial disparities (Lagravinese et al., 2018).

The OECD taxonomy (Fiscal decentralization database) is useful to better understand the level of autonomy of subnational governments in Italy. This classification is based on five macro-categories that represent in a decreasing manner the level of autonomy of territorial governments[9]. The typology of tax revenues of subnational Italian governments is characterized by a system basically polarized into categories B and D and, in particular: i. Discretion on rates within upper/lower bounds (52% as share of subcentral tax revenues), ii. Tax sharing arrangements where revenue is a split set with subnational governments consent (32% as share of subcentral tax revenues). Only 14% of subnational governments have discretion over rates and reliefs.

However, between 2008 and 2011, because of the economic crisis, there was a freeze on the processes that should have led to fiscal federalism. Attempts to establish the process of financial autonomy were partially hindered by central government legislation enacted during that period to cope with the delayed economic crisis and reduce public spending and net borrowing. The regions, as well as local governments, were asked by the central government to make a considerable financial effort to contribute to the country's financial balance, as pursued by the Stability Pact (Mangiameli, 2013). The result of such interventions has been to reduce both the autonomy of the regions 'own' taxes and the taxable amount of revenues.

IV. THE ROLE OF THE CONSTITUTIONAL COURT

Constitutional jurisprudence has played an incisive role in determining the path of implementation of fiscal federalism, especially since 2008, due to national policies aimed at consolidation of the public finances (Filippetti & Tuzi, 2020). The Court's decisions on the financial autonomy of the regions and Local Authorities were decisively affected by Constitutional Law No. 1 of 2012 and Reinforced Law No. 234 of 2012, which were enacted to make the constitutional dictate operational, extending the principle of balanced budgets between revenues and expenditures and the principle of debt sustainability to territorial autonomies, in compliance with the provisions of the European Union (Rivosecchi, 2016; Salerno, 2012).

The quantitative analysis of the Constitutional Court's decisions in the central government-region disputes provides for useful information concerning the path of implementation of fiscal federalism. The Constitutional Court's decisions are analysed by employing a novel dataset developed by the authors, collecting decisions from the Court regarding disputes between the central governments and the regions during the

9. A) Autonomy over tax rates and reliefs; B) Autonomy over tax rates; C) Autonomy over tax reliefs; D) Tax sharing arrangements; E) Central government sets tax rates and reliefs; F) None of the above. The category A codes characterize taxes over which subnational governments have the highest level of tax autonomy, setting both tax rates and tax reliefs. Categories B and C cover situations where subnational governments could set either rates or reliefs, but not both. Category D covers tax sharing arrangements. Categories E and F cover situations in which subnational governments have no tax autonomy, or to which the other codes do not apply.

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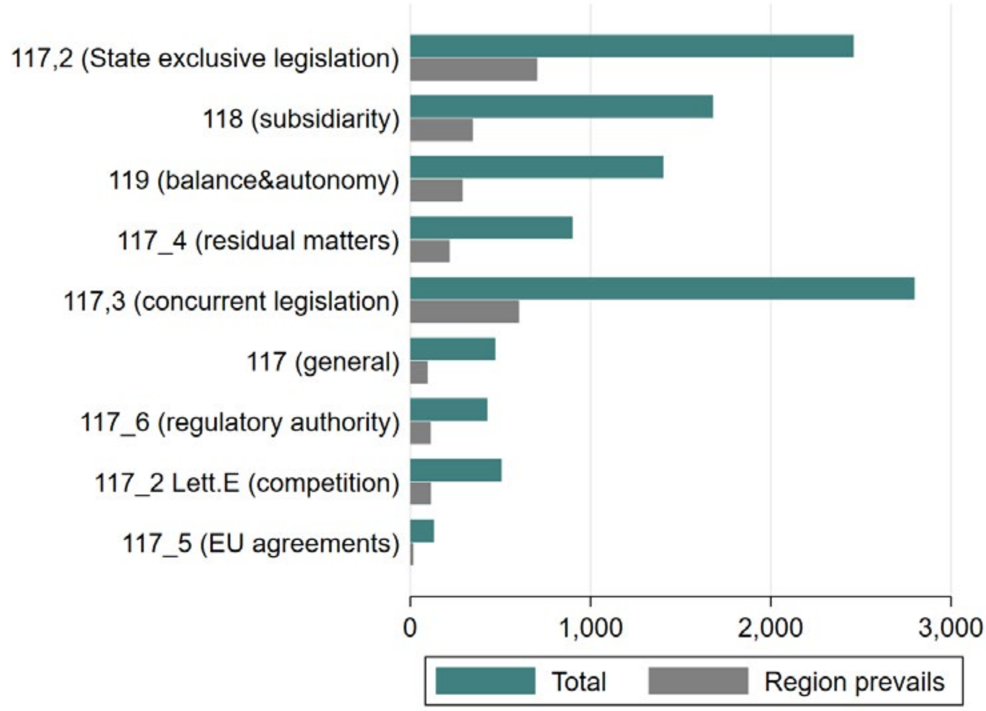
period 2001-2022. The single records present in the dataset are the single rulings within each decision.[10] For each record the following information was gathered: the plaintiff, the defendant, the subject, and the outcome of the dispute. Each ruling examined different items relating to the disputes and could involve different regions. Consequently, the ruling is disaggregated into different observation units relating to each item of the dispute, and subsequently these units are further disaggregated considering the regions involved in the dispute. For this reason, based on total decisions ("sentenze") analysed (about 2,340), the number of rulings become about 5,500.

The next graph (fig. 1) illustrates how the Court's decisions regarding matters of public finance (Const. articles 117 c. 2, 117 c. 3 - coordination of public finance and the tax system, 119 - about budget balance) are among the most abundant.

Figure 1. Number of central government-region disputes by subject matter (number of rulings)

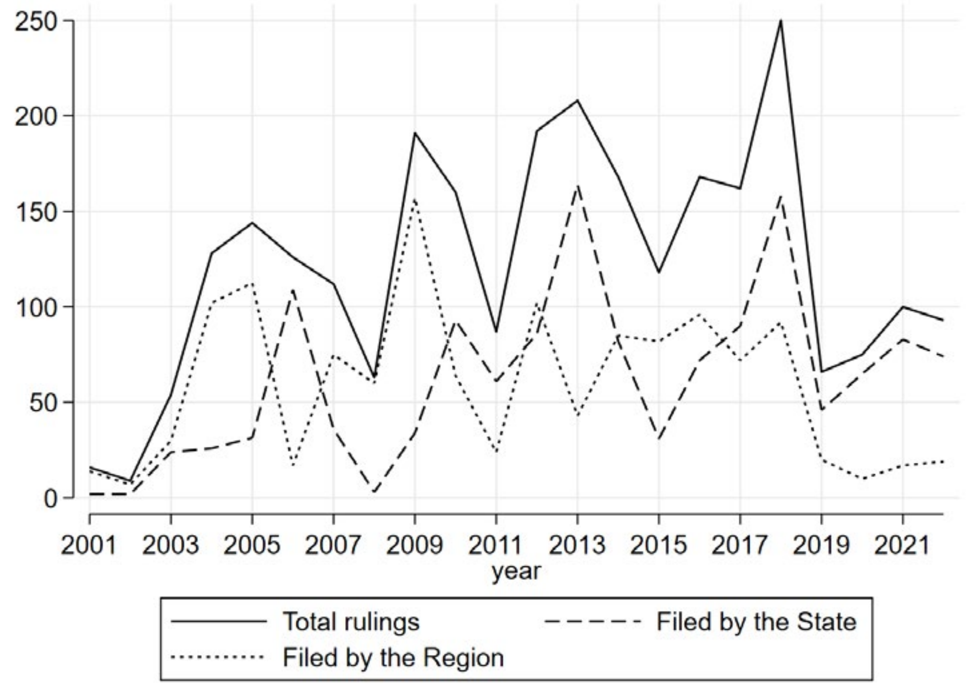


Source: Issirfa - CNR dataset. Own elaboration.

10. For each dispute between the central governments and the regions the Court issues a decision ("sentenza") that could include more rulings ("capo di dispositivo") because the plaintiff may raise different items, each requiring a distinct ruling.

The temporal dynamics of the conflicts in terms of the plaintiff (fig. 2) concerning the issues of finance show a greater activity among the regions towards preserving or seeking greater spaces of autonomy.

Figure 2. Trend of central government-region public finance disputes (number of rulings)

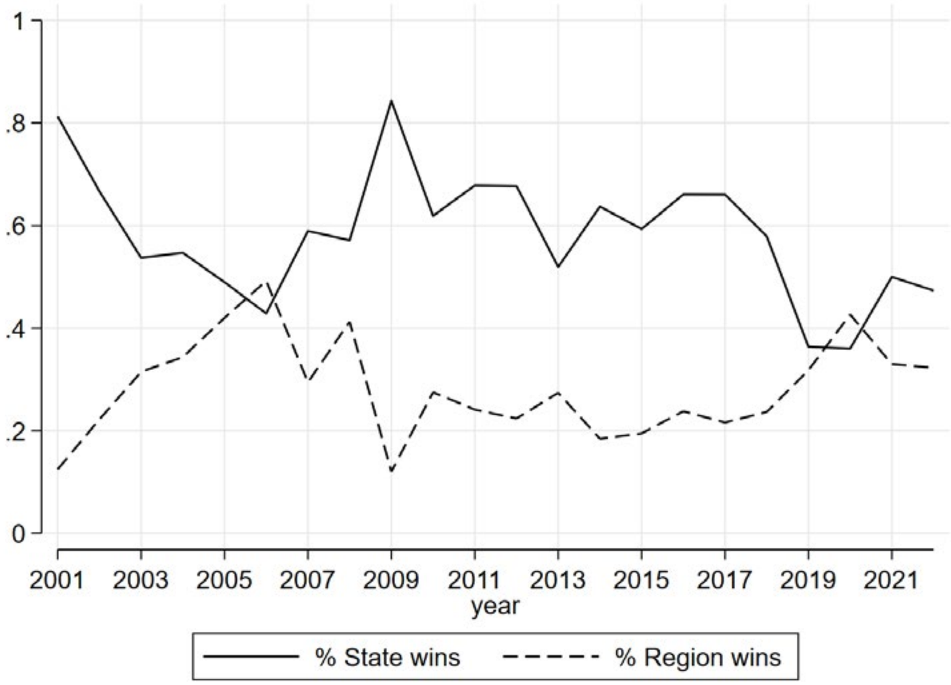


Source: Issirfa - CNR dataset. Own elaboration.

The temporal dynamics of conflict outcomes concerning financial matters (Fig. 3), results in a significant prevalence of decisions that are favourable to central government, as well as a slight extending of the gap over the time. The increasing potential of the regions to win the petition in the years following the Title V reform is noteworthy, as is the process of closing gap during the COVID crisis. Another relevant aspect is the presence of a significant difference in the number of disputes before 2011 and after 2012. In the former case, the number of rulings averages about 100 per year; whereas, from 2012 onward, the number of rulings increased considerably, remaining above 200 per year in the years 2012-2014, and then declining. This suggests that in correspondence with the re-centralization process, that started with the so-called legislation of the crisis from 2011, financial aspects become particularly relevant in central government-region disputes. This was consistent with the fact that the legislation of the crisis acts in an important way to influence aspects concerning the allocation of finance coordination to central government, also in compliance with new financial constraints imposed by the European Union.[11]

11. On September 2010, the so-called Six Pack was approved; on 2012, the Treaty on Stability, Coordination and Governance (TSCG) so-called Fiscal compact was signed by EU member states.

Figure 3 - Trend of disputes won by in public finance (% of rulings)



Source: Issirfa - CNR dataset. Own elaboration.

The data seem to confirm the Court persistently supports central government measures affecting regional finance issues. This can reasonably be attributed to the fact that the Court systematically allows central government to adopt financial coordination measures that are conditioned by obligations imposed by the European Union aimed at safeguarding the stability of the public finances (Filippetti & Tuzi, 2020).

V. THE FINANCIAL CRISIS IN 2008 AND THE EVOLUTION OF SOME KEY INDICATORS

Article 117 of the Constitution, as amended in the 2001 law, provided for the central government's competences on public finance coordination by committing the regions and local governments to contribute to public finance targets. More explicit obligations were provided for by the novel formulation of Article 119 of the Constitution, as amended by Constitutional Law No. 1/2012, which was aimed at introducing the principle of a balanced budget. The latter, in addition to specifying that the financial autonomy of territorial entities (municipalities, provinces, metropolitan cities and regions) is ensured by the balance of their budgets, provides that subnational governments contribute to ensuring compliance with the economic and financial constraints that arise from Italy's membership of the European Union. The possible ways in which subnational governments contribute to public finance can differ (e.g., cutting central transfers, spending reviews, obligations to contain specific items of expenditure, etc.). To meet its European commitments under the Growth and Stability Pact, central government pursued the goal of improving the sustainability of public finance. Among the goals to be achieved were to bring the ratio of public debt to a level where it does not exceed 60% of GDP.

The next figure (4) shows the trend in the ratio of public debt to GDP for two levels of government; e.g., central government and the regions, since the early 2000s. The dynamics for central government show a steady increase after 2008. The process of

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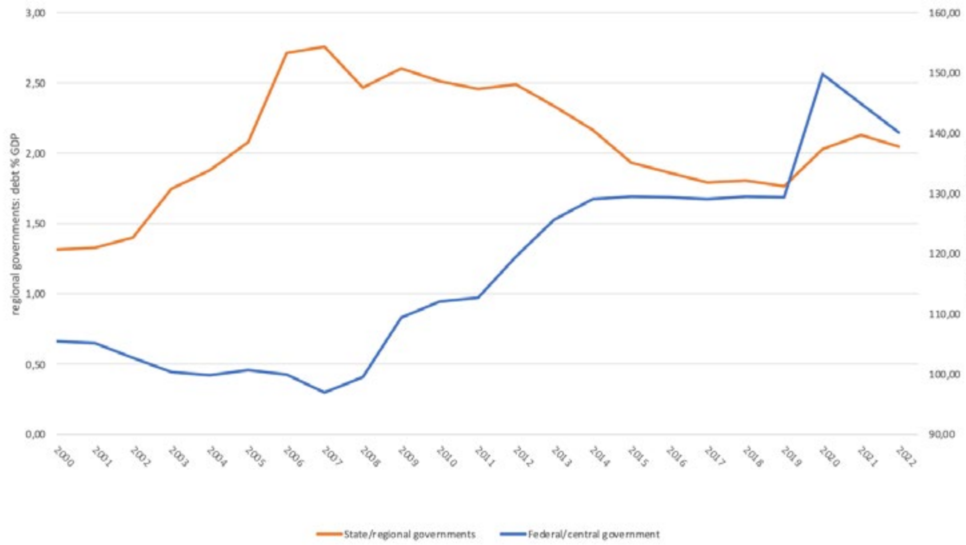
progressive reduction of this ratio, undertaken in the first years after the signing of the Maastricht Treaty, ceased abruptly with the outbreak of the crisis in 2008, at which point the ratio started to grow again. The recent health crisis led to a further increase in the debt/GDP ratio, and was substantially related to the contraction of production due to the economic crisis generated by the pandemic. The data for the regional governments exhibits a different pattern. In fact, the debt/GDP ratio of the regions increases significantly in the first decade of the 2000s until the crisis erupted in 2008. After that it reduced significantly in response to the tightening up of the local stability pact, which was enhanced by central government.

Figure 4. Debt as percentage of GDP (%)



Source: Bank of Italy for the Debt data and Istat for GDP data. Own elaboration.

All countries experienced a decline in GDP after the financial crisis struck. By 2014, Italian GDP per capita was 15.6 percent lower than it pre-crisis peak (Bozio et al., 2015). The recent health crisis and subsequent economic crisis, both of which caused significant contractions in production worldwide, further increased the debt-to-GDP ratio. As for the subnational levels of government, the upward trend in the debt-to-GDP ratio was interrupted soon after the crisis, due to the introduction of very severe central government regulatory measures for the regions and local governments, who were seeking to keep debt under control.

During the years of the economic crisis, the requirement for public resources to cover debt and contain budget deficits meant that successive governments developed economic-financial measures that severely affected regional autonomy, which is responsible for providing the majority of services to people (Mangiameli, 2013).

The Italian decentralization process has adopted characteristic features that differentiate it from that of other countries. The trend in central government spending has not declined consistently with the decentralization process; on the contrary, the curves for the ratio of spending to GDP by central and local governments tend to diverge (fig. 5). This is in contrast to what happened in other countries, where the process of decentralization led to a clear substitution effect between the two levels of spending (Tuzi, 2016).

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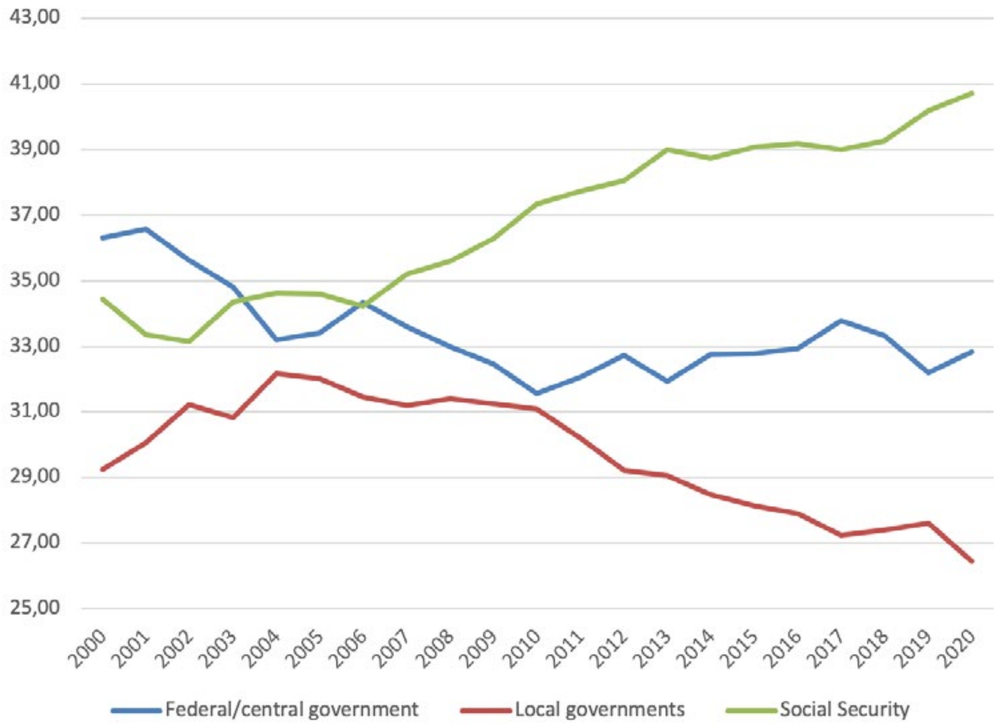
Figure 5. Consolidated public expenditure by administration (as % of total public expenditure)



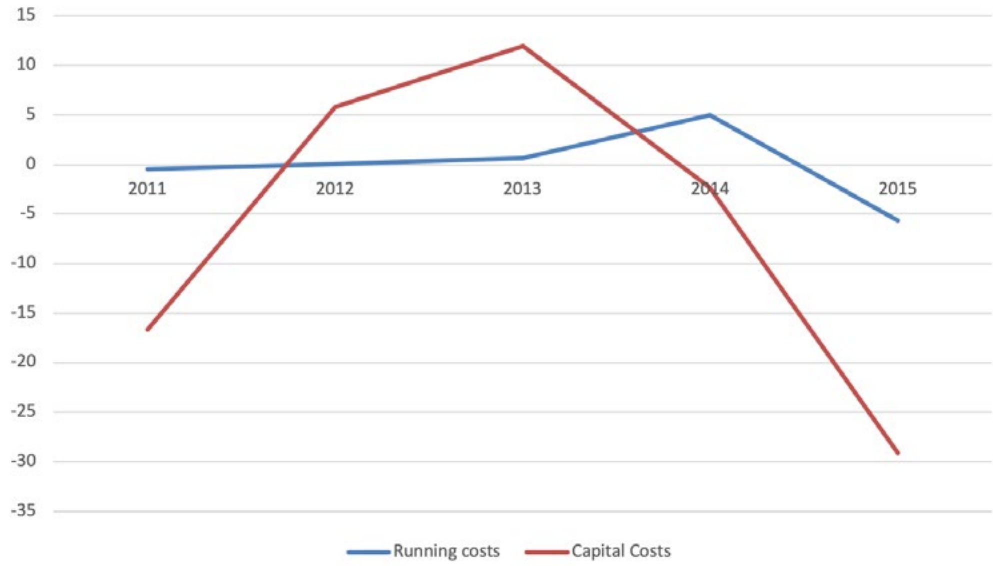
Source. OECD (Fiscal Decentralization Database - Consolidates expenditure by government functions - Consolidates COFOG expenditure using the Spent by approach - Table 22).

Expenditure on obligatory social security and welfare benefits, charged by central government, is the largest item affecting public finance, and is constantly increasing. For this reason, obligatory social security has been the subject of legislative measures aimed at reducing its impact on public finance over time. Contributing heavily to social security spending are welfare benefits, such as civil disability, accompaniment, social allowances, war pensions, and additional welfare benefits that supplement the social pension, such as minimum wage supplements, social surcharges, additional amount, and fourteenth month pay, which also depend on the inefficiency of the administrative apparatus[12].

Meanwhile, the requirement to participate in achieving public finance targets led the regions to engage in considerable financial efforts to contribute to the country's financial balance. Exemplifying this was the case of the contribution made by regions with ordinary statutes in terms of expenditure reduction in the post-crisis period. As shown in Figure 6, in the period 2010-2015, current spending fell by only about 2 percent, whereas the decrease in capital spending was significant, contracting by about 32 percent. Thus, regions with ordinary statutes coped with public finance manoeuvres by minimally reducing spending, implementing the largest cuts to investments.

12. Itinerari Previdenziali study and research center - Tenth Report - "The Balance Sheet of the Italian Social Security System - Financial and Demographic Trends in Pensions and Assistance for the Year 2021".

Figure 6. Regional spending trend (as % variation from 2010)



Source: Ministry of Economy and Finance - Report for the Parliamentary Commission for the Implementation of Fiscal Federalism. Public finance measures to be imposed on the regions and local governments 2018.

The results of these cuts has been that all reductions achieved in public spending in Italy have been achieved through cuts in spending on public services, leading to a decrease in the level and quality of the services provided (Bozio et al., 2015). Through a peculiar interpretation of the concurrent subject matter "coordination of public finance" during the crisis, every form of central government intervention in terms of resource cuts was legitimized to the point of preventing regions from performing the administrative functions assigned to them. The direction of this economic policy was maintained over the following years, thereby weakening the financial capacity of the regions.

VI. CENTRAL GOVERNMENT TRANSFERS AND THE REGIONS' OWN REVENUES

The complete implementation of financial autonomy should have involved overcoming central government transfers to the regions, except in cases where these had an institutional justification. To better understand the complex path towards financial autonomy since the beginning of the economic crisis of 2008, the ratio between current financial transfers from the central government to the regions and own revenues over the 2008-2020 period as well as the performance of the same aggregates during the pandemic period is analysed here.

Data regarding central government transfers and own revenues of the regions were extracted from the SIOPE (Information System on Public Entities Operations), which is an information system that tracks public administration cash receipts and payments. The SIOPE survey constitutes the main source of information for monitoring public accounts, through real-time recording of the cash requirements of public administrators, and the acquisition of information necessary for the timely preparation of national accounts statistics. Launched in 2003, SIOPE has undergone subsequent modifications and improvements, and today the system integrates accounting information relating to both cash inflows (receipts) and outflows (payments) and the stock of financial assets of institutions belonging to the public administration sector. Cash management (which is the object of SIOPE's monitoring) can provide a reliable view of the actual financial situation of the regions for the purposes of this study, because the results

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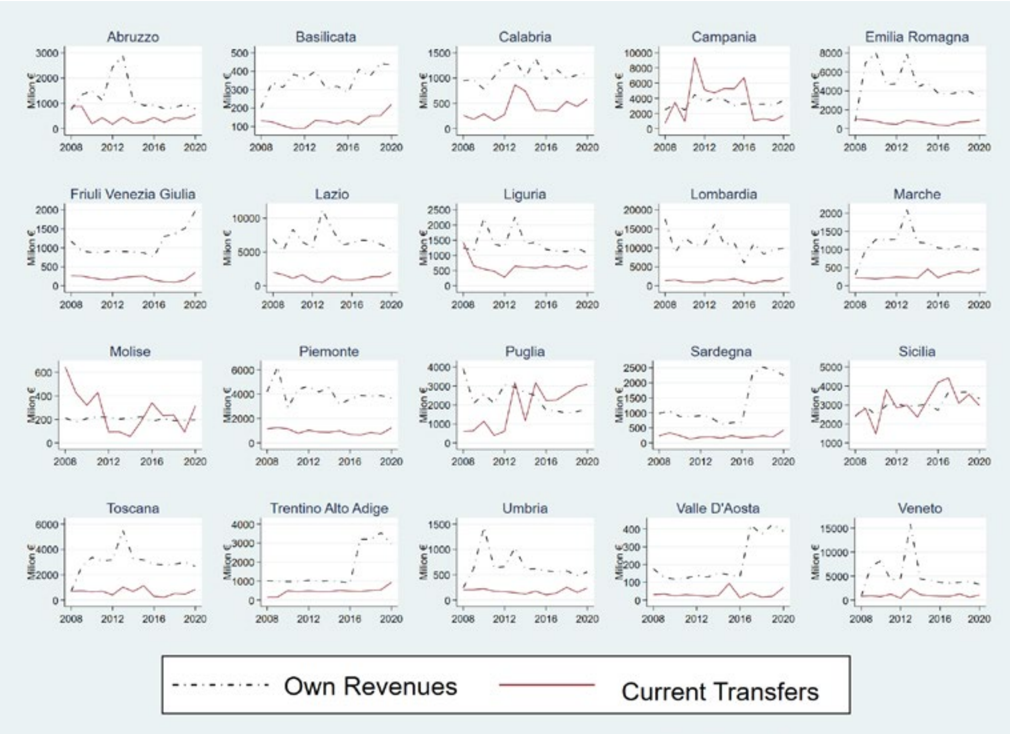
are considered over a sufficiently long time span (2008-2022). It should be noted that among the changes made to the system, as of 2012, SIOPE provides for the recognition of health management separate from general management. Consequently, in the financial analysis below, reference is made to overall regional management (both ordinary and healthcare) comparing post-2012 data with cumulative data from the previous period.

SIOPE is broken down into management codes that can allow the analysis of specific items. Consequently, the dataset was elaborated by aggregating, for each year and for each region, current transfers, capital transfer and own resources. Included in current transfer are all collected codes associated with cash inflow relating to sums transferred by central government to the regions to fulfil running costs; capital transfers comprises all codes associated with cash inflow related to sums earmarked for investment. Similarly, all codes related to cash inflow are connected to the regions' own revenues (i.e., regional tax on production activities, regional surtax on personal income tax, motor vehicle taxes, regional tax on motor gasoline...) and were aggregated to obtain the total value of their own revenues.

The dataset obtained allowed reconstruction of time series data for each regions' central transfers and own revenues. The analysis below refers only to own revenues and current transfers, because the latter type of resources, covering running costs, better highlights the weight of central fund transfers to the regions, especially during times of crisis, such as the pandemic period (e.g., health care expenditures).

Figure 7 shows the absolute value in millions of Euros of current transfers provided by the central government and the regions' own revenues over the period 2008 to 2020 for each region. Current transfers show values higher than own revenues, especially in some southern regions (Campania, Sicily, Apulia), highlighting the importance of central government funds to these regions.

Figure 7. Trend in current transfers and own revenues x region (million Euro)



Source: SIOPE - Information System on Public Entity Operations, State General Accounting Office. Own elaboration.

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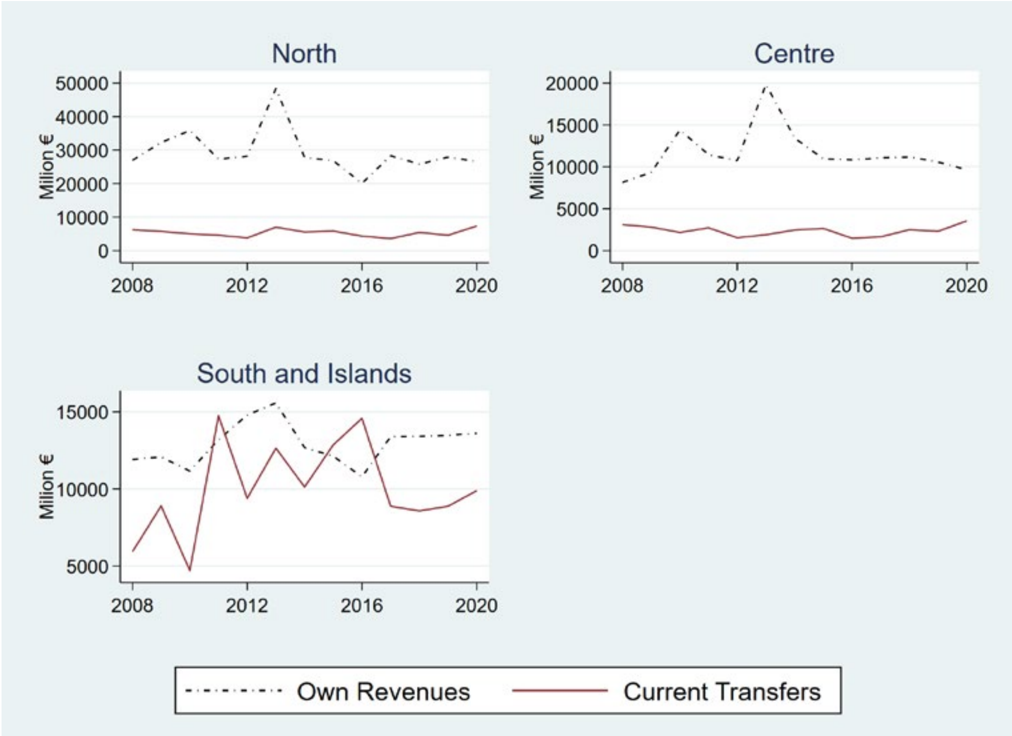
The next figure (8) shows absolute value in millions of Euros of current transfers provided by central government and the regions' own revenues over the period 2008 to 2020 by macro area. In the case of the southern regions, the total amount of current transfers increased significantly in the post-financial crisis years, i.e. from 2011 to 2016.

Figure 8. Trend in current transfers and own revenue x macro area (million Euro)



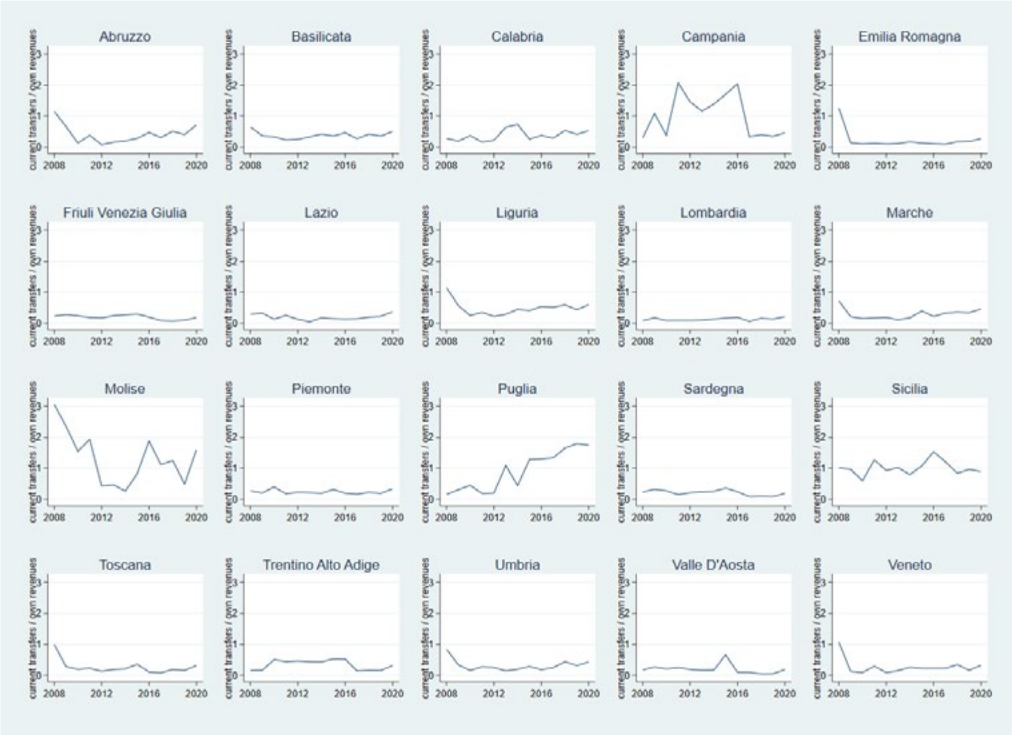
Source: SIOPE - Information System on Public Entity Operations, State General Accounting Office. Own elaboration.

Below, the trend in ratio of current transfers to own revenue measures each regions' fiscal autonomy. The higher the value of the index, the greater the magnitude of the current transfers relative to own revenues, and the lower the financial autonomy of the region.

Figure 9 shows the index is higher in the case of the southern regions, confirming the importance of government funding for these regions. This is even more evident in the next figure (10), where the trend in the ratio of current transfers to own revenues by macro area is shown.

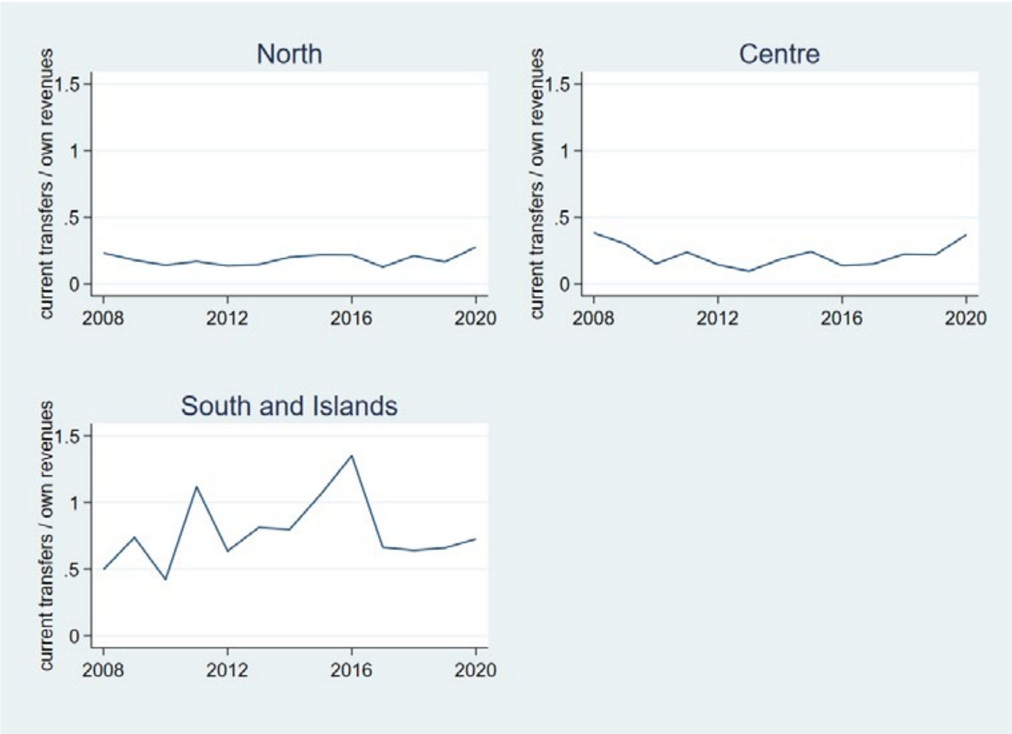
Dependence on central government is marked, especially for the southern regions: in the most severe phase of the financial crisis, transfers account for more than 100 percent of own revenues, reaching 140 percent in 2016. Conversely, in the case of the northern and central regions this share always largely remains below 50%.

Figure 9. Trend of ratio current transfers versus own revenues by region (%)



Source: SIOPE - Information System on Public Entity Operations, State General Accounting Office. Own elaboration.

Figure 10. Trend of current transfers versus own revenue x macro area (%)



Source: SIOPE - Information System on Public Entity Operations, State General Accounting Office. Own elaboration.

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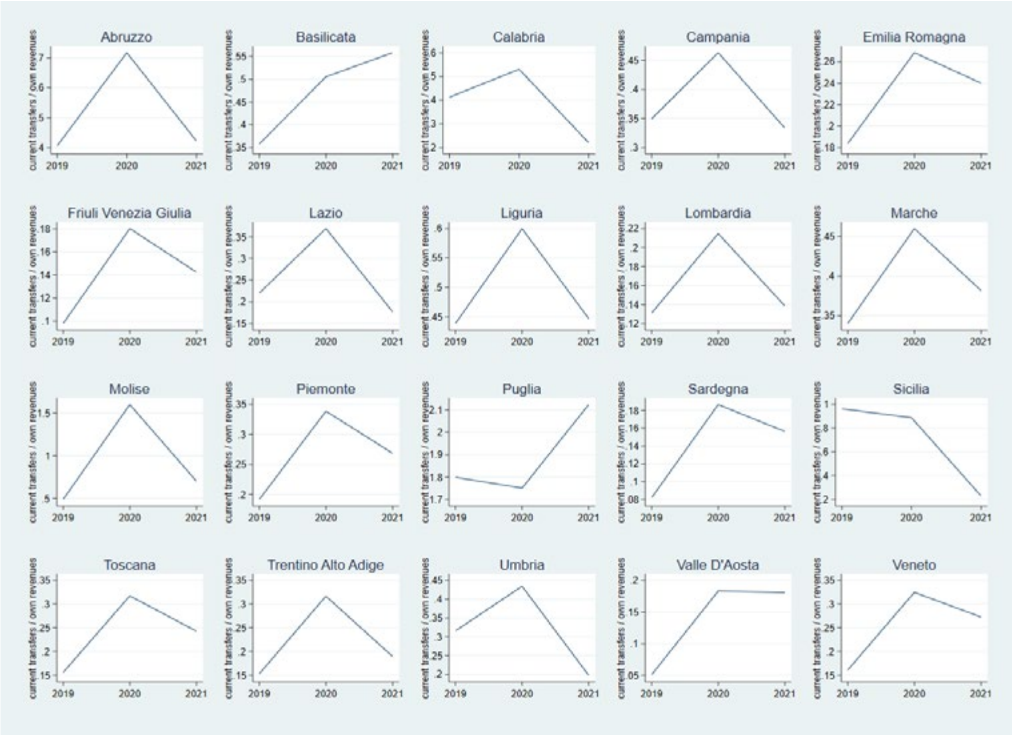
VII. CENTRAL GOVERNMENT TRANSFERS DURING THE PANDEMIC

The lockdown phase linked to the pandemic emergency had extraordinary repercussions for economic activity, with a contraction in gross domestic product that was unprecedented since World War II. This led to a fall in tax revenues, which was compounded by various central government measures that allowed the deferral of tax payments. This led to a fall in taxable income at the central level, as well as at regional and local levels.

Figure 11. Trend of current transfers versus own revenue per region (%)



Source: SIOPE - Information System on Public Entity Operations, State General Accounting Office. Own elaboration.

Figure 11 shows the trend in the index given by the ratio of current transfers and own revenues in the pandemic period. A generalized increase in the index during 2020, as compared to the previous year in all the regions is marked; the amount of current central government transfers then declines again in 2021, and consequently the index also fell. Differences between geographic areas in the values of the index given by the ratio of current transfers to own revenues persist and widen proportionally, with the southern regions remaining the largest recipients of transfers from the central government (fig. 12).

Table 1 shows how the increase in central transfers is linked significantly to the increase in funding for the National Health Fund (NHSF). In fact, notably, although in 2020 the share of transfers for the SNF increased for all geographic areas, it was the northern regions that showed the largest increase (+ 87 percent compared to 2019), followed by the central regions (+ 33 percent compared to 2019). While data for 2021 reveals a contraction in National Health Fund funding for regions in the Centre and South compared to 2019, the Northern regions continued to receive higher funding (+48% compared to 2019). This seems to reflect the geographic distribution of the pandemic, which was heavily concentrated in those regions, especially during the first wave.

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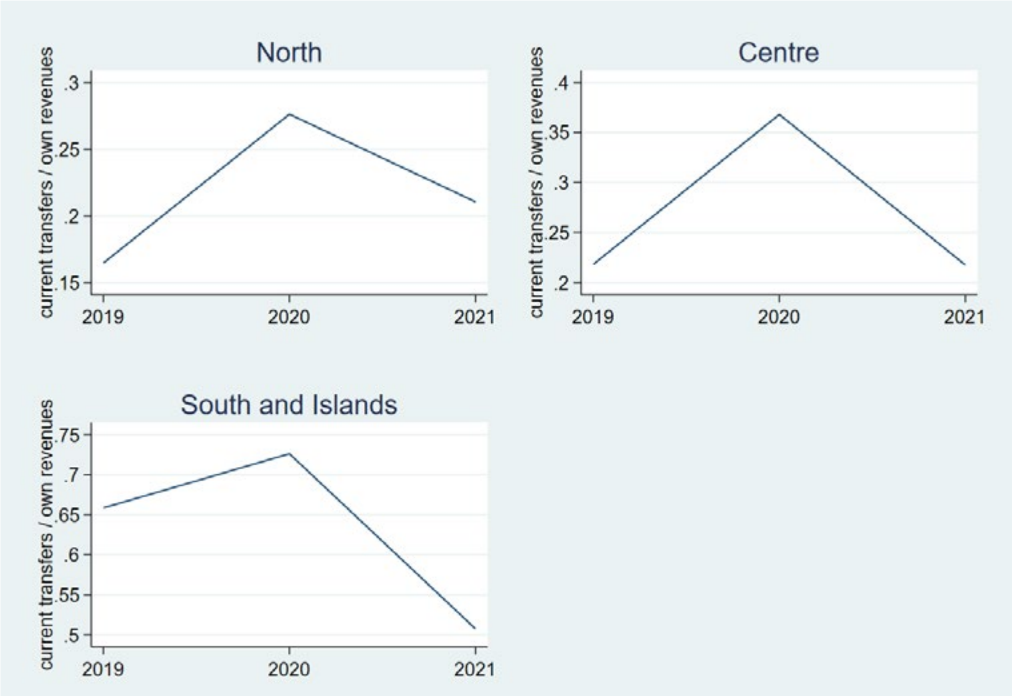
Figure 12. Trend of current transfers versus own revenue by macro area (%)



Source: SIOPE - Information System on Public Entity Operations, State General Accounting Office. Own elaboration.

Table 1. Trend in current transfers and National Health Fund by macro area (2019 index numbers)

	Current transfers	National Health Fund	Current transfers	National Health Fund	Current transfers	National Health Fund
	index numbers 2019	index numbers 2019	variation 2020 vs 2019	variation 2020 vs 2019	variation 2021 vs 2019	variation 2021 vs 2019
North	100	100	159,82	187,85	114,56	148,84
Centre	100	100	154,02	133,85	80,71	44,69
South & Islands	100	100	111,42	101,78	70,45	65,39

Source: SIOPE - Information System on Public Entity Operations, State General Accounting Office. Own elaboration.

VIII. SOME CONCLUSIONS AFTER TWENTY YEARS OF (ATTEMPTED) REGIONAL FINANCIAL AUTONOMY

The first conclusion to be drawn from the analysis presented here is that regional financial autonomy as introduced by the 2001 reform of Title V of the Italian Constitution was never fully implemented. The trend in central government spending has not declined consistently with the decentralization process, as happened in other countries. Attempts to foster financial autonomy have also been partially eroded by legislation following on from the financial crisis, with respect to which no progress has been made in recent years.

Low regional fiscal autonomy is reflected by the ongoing significant dependence on central government financing. The dependence of regional budgets on central transfers has not fallen, but has rather tended to increase since 2008, especially for the southern regions. Consequently, regional fiscal autonomy has reduced over the same period.

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The data presented are consistent with a process of re-centralization of legislative space and financial autonomy by central government beginning in the 2011-12 season, characterized as the so-called legislation of the crisis. With the financial crisis of 2009 and the sovereign debt crisis in Europe in 2011, the season of re-centralization began, sending the pendulum of regionalism back to the opposite, unitary extreme. Specifically, starting with the technical government led by Mario Monti in 2011, a series of measures were implemented introducing some regulatory tools of regional (and local government) autonomy back into the sphere of the central government budget and public finance coordination. That also occurred because of the introduction of European Union's Stability and Growth Pact, which imposed new financial constraints, especially on member countries with high public debt.

The very high and persistent debt-to-GDP ratio, linked to the continuing contraction of economic activity worsened by the 2009 crisis and meaningful interest spending, significantly deteriorated the situation of Italian public finance. Consequently, the series of central government measures implemented since 2010 have affected regional public financing, as well as the discipline of fiscal federalism. The requirement to participate in the achievement of public finance targets led regions to require considerable financial effort to contribute to the country's financial balance in terms of expenditure reduction in the post-crisis period, thereby impacting on the level and quality of the services provided.

The process of bringing regionalism back under the umbrella of central government, and coordination of public finance takes on a constitutional level with Law No. 1 of 2012, which allowed central government law to intervene, even in regional matters where financial issues were involved. The coordination of public finance thus ended up representing "the cornerstone of the entire public finance system" and allowed "recessive interpretations of decentralized financial autonomy" (Salerno, 2012, p. 8). The result has been a retreat from the form of regional financial autonomy that overlooked the fiscal federalism provisions of the Law No. 42. Today fiscal federalism remains largely unimplemented.

The pandemic crisis increased the need for central government involvement, in some ways highlighting the dependence of the regional system on central government, even for what had been considered fundamental function of the regions, such as health care. At present, regional finance remains part way between regional fiscal autonomy and central governance, as the government retains strong control over regional taxation.

The territorial divide that characterizes Italy also tends to be reflected in the implementation of fiscal federalism, as is evident for example in the strong dependence of the southern regions upon central transfers. This dependence, in the case of the southern regions, also seems to be reflected in their ability to efficiently manage public services and in general all the functions over which the regions have competencies. Health care is only the most macroscopic example, but to this can be added other functions, which are crucial for economic development, such as training and productive activities. This suggests how the resolution of the socio-economic gap between Italian regions is linked to the effective and efficient implementation of fiscal federalism and regionalism more generally.

Moreover, this also relates to the process of *asymmetrical decentralization*. Already beginning in 2006, some regions (i.e., Veneto and Lombardy), on the strength of the provision of Article 116 third paragraph of the C, began to articulately advance to the government requests for greater autonomy on certain areas of particular importance. New impetus came from referendum initiatives in late 2017 put forward by Veneto, Lombardy and Emilia Romagna, aimed at initiating negotiations with the government to recognize new and broader conditions of autonomy. The process toward greater space for autonomy, which was then halted by the pandemic, is today back at the centre of political debate (Mangiameli et al., 2020; Arabia et al., 2020; Palermo, 2019). The outcome of this process will inevitably be intertwined with the long and still unresolved journey of fiscal federalism.

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