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**Financial autonomy of Italian municipalities.
Some aspects**

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Abstract

Management choices pertaining to local governments' functions and services arise even from their autonomy degree; such a degree is also due to the process of constitutional revision and reform. Over recent years administrative decentralization caused a growth of local governments' (in particular municipalities) financial autonomy through an initial process of fiscal federalism. Anyway, as it happens for many fiscal and financial issues, the provision for decentralized functions had to face a remarkable difference between the original plan and the actual reform.

This paper will focus on the chosen path, by trying to outline different periods and those choices which characterized them, as well as local governments' behaviour aimed to a higher responsabilization as for own choices and expenditure policies with respect to citizens and electors' evaluation.

KEYWORDS: Local Government, Intergovernmental Relations, State and Local Taxation.

JEL CLASSIFICATION: H7, H72, H77

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1. It is well-known that the decentralization trend is economically grounded; just think about a recognized higher allocative effectiveness performed by lower-tiers of government, which is supplemented by good efficiency when expenditure accountability is coupled with funding accountability.

However, in the framework of the new asset of finance within different government levels, where the degree of local authorities' autonomy was considerably widened, it was really difficult to check budget dynamics. Some accounting instruments (balances, expenditures and debts) were gradually introduced until culminating, at the end of Nineties, with the Domestic Stability Pact (DSP). In the meanwhile, though, two constitutional reforms were conceived and introduced in order to change the system of function and funding allocation amongst different levels of government¹.

It appears that such a trend for a decentralized function and tax autonomy may be explained on efficiency grounds, as well as by a "political" inclination of central government to pass as much as possible those economic (and electoral) costs of drawing onto local government. On the other hand, the need to comply with commitments in Europe encouraged a higher focus on budget monitoring, thus trying to further restrain local autonomy.

However, it still seems particularly difficult and confusing to coordinate the finance of Public Administration within the EU framework.

If, on one hand, the widened functions of local governments prevent us from properly evaluating both needs and extents of local budgets², on the other local governments respond to such an indeterminate condition as well as to contradictions between allocations of new powers and limitations to competences by strengthening conflicts about the interpretation of rules, even through appeals to the Constitutional Court.

Such a difficult evaluation about novel expenditure needs pointed out that governments, in order to face poor funding tools, tried either to improve available resources or to more and more employ financial instruments conceived to meet spending estimates³.

¹ But interpretations as well as costs linked to such changes are not sure.

² Such a state of uncertainty is both due to objective difficulties in making quantitative evaluations, and to a rundown in the implementation process of the Constitutional text. Amongst others, see [Isae (2005) e Bordignon e Cerniglia (2004)]. Just think about the extent of staff to be displaced, or the cost of new functions, or even the duplication of functions themselves.

³ Even if the Constitution allowed debt for decentralized bodies only if linked to investment expenses, novel room was created for a legal argument against the government, regarding the definition of investment and debt. About this issue, see Isae (2005). The system of funding for local bodies, originally characterised by a high degree of autonomy, provided, during the mid-Thirties, that all expenditure funding was to be ascribed to local income. The degree of financial autonomy has been more and more

In such a complex situation local governments looked for “financial survival strategies”⁴, trying to counterbalance a reduction of central transfers. The following crisis of liquidity gave thus rise to a massive resort to debts aimed to fund investments⁵.

It was observed how it is possible to read in a sort of “evolutionary” way the local growth of national debt, to be almost interpreted as a marker for local institutions’ “maturity”, in the perspective of further responsabilizing them. Therefore such a higher weight of statements caused a sort of widespread increase of local governments’ finance as well as many experiments concerning different forms of active management of the debt. Moreover, liability instruments – *in primis* the Domestic Stability Pact – have been continuously modified, thus losing much of their motivating powers as well as enhancing likely conflicts in interpretations⁶.

Add to this that the extensive debate about the Stability and Growth Pact’s efficacy⁷, together with some loosening as for interpretation of “liability”, seem to open the way to further remarks about opportunity, compatibility⁸ and efficiency of such liability.

With this fragmented framework it is our goal to observe the current context pertaining to dynamics and constraints which are typical of local governments’ budget, with particular reference to municipalities.

A special stress should be given to the comparison between budget dynamics and constraints commanded by central governments, thus trying to verify their effectiveness and efficiency both in terms of global containment for Public Administrations and as for the quality of feasible policy. As for quality is concerned, finally, particular attention should be devoted to the evolution of debt emissions by local governments as an element for evaluating the chance to find resources for investments, as well as an opportunity to approach the so-called “creative finance”.

reduced, until the Seventies, through the Tax Reform: a system of derived finance characterised by a higher and higher decentralization of expenditure functions as well as by a marked centralization of revenue responsibilities. Such a system, grounded onto a complex system of transfers, showed over time to be inefficient – maybe exactly because of the lack of incentives to be reconnected to the asymmetry between expenditure responsibility and responsibility for fund-raising – thus facing a deep reform process at the beginning of the Nineties.

⁴ See the Court of Accounts (2004).

⁵ Though encouraged by a steady decrease of interest rates, as well as by law openings introduced into this sector.

⁶ See Balassone, Zotteri (2001).

⁷ See Balassone, Franco, Zotteri (2001).

⁸ See Balassone, Franco (1999); Balassone, Franco, Zotteri (2004).

The growing debate about the efficacy of the Stability and Growth Pact (SGP) suggests some thoughts in terms of opportunity, compatibility and efficiency of constraints, at the same time suggesting the huge fragmentation of the current context, where we need to place the situation of local governments and especially of municipalities⁹.

2. It is to be reminded that the Budget Law represents for governments a special moment, since particular focus is put onto the contradictory between central government and local governments, even with relation to the promotion of rules stated by the Domestic Stability Pact (DSP), imposed by the State onto decentralized administrations.

In Italy the DSP was introduced for the first time by the 1999 Budget Law, to the end of involving all government levels in the pursue of the public Finance goals endorsed by Italy, following the compliance with the Stability and Growth Pact within the EU.

Someway the DSP came to be the paradigm of a centralization process permeating many European countries precisely when some of them were facing a deep, though opposite, process of decentralization as for tax function performance and liability.

Such a framework characterised by clashing trends is to be read as a sort of “role game” starting between centre and periphery every time that from the above are imposed rules deemed to be tight, complex, and often seen as unfair constraints to the expenditure of local’s competence.

To take stock of local governments’ situation (with particular reference to municipalities) means to observe some basic aspects regarding the enforcement of DSP’s rules. In this specific field and to the above mentioned end we should at least take into account and to analyze:

- the evolution of legislation during the period (ten years) of law enforcement;
- the compliance with such rules by local governments in different parts of the country;
- the trend in debt and expenditures during the period of DSP enforcement.

It is obvious that, in order to have a picture of the Pact’s effects, we should evaluate how far each novel definition/version of the DSP differently affects local finance; we should also analyze the growingly critical situation both during the process of enforcement and as for contents of the Pact with respect to the assigned goals.

⁹ Amongst the features characterising local governments we must not neglect exactly that one relating to the evolution of debt as an element for evaluating the chances to raise funds aimed to investments, as well as for entering the “creative finance”.

3. The goals implied by the DSP's rules preserved their primal program nature; indeed, the improvement in outcomes for public finance was a permanent goal, even if local administrations are provided only with constraints to respect and not with ways to adopt in order to achieve such goals.

In fact, the formulation of the DSP has been changed year by year¹⁰ with reference to definition and estimate of the program objective¹¹, to the system of incentives by prizes or sanctions, to the governments involved.

On the whole, which changes were referred to:

- *those Governments which were subjected to the DSP*: the number of bodies involved decreased. While in 1999 all local governments had to comply with budget rules, more recently, in order not to administratively burden even smallest municipalities, the Pact regards just municipalities with more than 5.000 inhabitants¹².

- *definition and estimate of the program objective*: changes are surely more relevant but even more destabilizing for governments. Bonds of improvement of the balance on financial accounts were supplied with a further ceiling for the growth of current expenditure (in 2002), subsequently reintroduced as a single bond for the global expenditure (after a 3-years suspension). In 2006 such a bond is preserved but with a distinction between recurring expenses and in capital spending, while in 2007 the logic of balance on financial accounts was restored¹³. The regulations of the DSP for 2008-2010 seem to substantially confirm those mechanisms which came into force in 2007, though modified as regards few specific matters as for calculation procedures¹⁴.

- *monitoring and sanctioning system* which, over the years, showed to fluctuate between a loosening in rules and an opposite trend aimed to tighten them.

¹⁰ For a comprehensive review of these issues, see Patrizii V., Rapallini C., Zito G. (2006).

¹¹ Balance, current expenditure, year of reference, entries to be considered or not, cash-basis or accrual-basis of accounting principle, etc.

¹² But many governments have been several times included or excluded over the years.

¹³ Even if influenced by the expenditure ceiling and by keeping in mind a different definition of the goal with respect to the kind of local government involved.

¹⁴ Outcomes arise somehow from a preliminar agreement where government, municipalities and provinces substantially came to an understanding about some fundamental issues, such as:

- the goal of reference is the budget balance according to the criterion of mixed basis of accounting
- a drive to employ reductions of current expenditure for investments
- to secure multi-year-lasting DSP rules, in order to support local planning.

On this, see Irpet (2008), p. 126.

Were Italian local governments, notwithstanding continuous changes in regulations, able to implement the Pact? Data coming from the Ministry of the Interior recently highlighted those governments (municipalities and provinces) which over the years 2004-2006 were unfulfilling; however, such data are incomplete, since they are just referred to those governments which communicated their failure to implement the Pact¹⁵.

Ministry's data shed also light on the growing number and percentage incidence of the "unfulfilling" ones. Even on a local level differences are high. The reason of such stress is due to a much more difficult way for local governments to face particularly constraining rules.

The Pact's logic has been deeply changed: to quit the monitoring on closing balances as well as to shift towards expenditure ceilings implies that the rule is not completely consistent with the rules agreed within the EU, and that it is furthermore incompatible, or at least strongly clashing, with the more and more establishing principles of fiscal federalism. Such a federalism should instead guarantee the governments with a full capacity of action within their autonomy area. However, just think that the expense containment overlapped the freeze – indeed precisely decreed during that period – of the rise of local surtaxes, thus also affecting the faculty to face local investments.

4. To analyze balances of public finance with reference to debt trends, as well as to trends in public administrations' expenditure just means to verify a long-lasting experience in Pact implementation. In fact, it is not possible to compare such trends and results with what could have been accomplished by different governments in absence of the Pact itself, that is without constraints from the above.

Contributions by local administrations differ over the years, when there can be noticed different shares and/or levels with respect to the global debt, even if, of course, the most solid part of debt is due to central administrations.

However, we can observe that a growth in local expenditure happened at a higher rate, if compared with other administrations, both as for current expenditure and for investments. As

¹⁵ Sample estimates by the Court of Accounts, available since 1999 (but, year by year, with reference to differently-sized regional samples), highlighted instead that the number of governments in order has generally been increasing over the years for both typologies of body. For example, in 2004 the percentage of provinces and municipalities in order was by large above 90%.

a consequence, such a trend reinforced and raised the weight of local administrations on global public expenditure¹⁶.

Results in terms of net debt and local expenditure, as well as their trends over the years 1999-2007, somehow explain the choice to involve local governments in DSP according to more or less constraining rules. Even if it's the role of central administrations to determine both aggregations' trends, local governments and administrations were required to face great efforts¹⁷, though supported by some changes to ISP's rules, to the end of contributing to the goal of a preservation and improvement of accounts.

In recent debates local governments are deemed accountable for the public deficit: we must not forget that expenditure containment had already been launched some years before by a call for agreement to DSP, as well as by some decrees for expenditure cuts.

It was observed¹⁸ that, "in practice, in 2007 the system of decentralized finance, if globally considered, fairly cancelled its debts, which instead were increased between 2004 and 2006 (more specifically, in 2006 the local debt was around one third of the total amount), thus causing a reaction by the central government, that was an imposition of a ceiling on local expenditure"¹⁹.

Indeed, following an analysis of results pertaining to the evolution of the financial framework between 2002 and 2007²⁰, Italian municipalities seem to have improved, even thanks to the 2006 and 2007 Stability Pacts, their results from current expenses by appealing to operating expenses (such as staff, goods and services)²¹, which means not only by undisputed policy for rationalisation of expenditures, but also by likely cuts to services.

But limits of analysis about finance and local governments trends are affected by and even more arise from the process of presentation of the accounts, suffering by an almost two-years

¹⁶ Investments support even more such a trend; indeed, the role of investments on a local level has become a driving force if compared with the choices for public investments, so as to represent, in 2007, about three quarters of investments on their whole.

¹⁷ They must share the efforts aimed to improve balances and they are stimulated to cut internal inefficiencies and wastes.

¹⁸ Irpet (2008), p. 5 e ss.

¹⁹ "The worst outcome over the last ten years was in 2005, when the net debt of Public Administrations exceeded 4% of the gross domestic product. The improvement seen during last two years is also a result of a recovery achieved by central Administrations on the current side of their budget. As a matter of fact until 2005 central Administrations entered a current account deficit, but since 2006 their balance was positive, though still lower than that of Local Administrations or of public welfare agencies (Irpet, cit., p. 5).

²⁰ Dexia-Crediop, *La congiuntura della Finanza degli Enti territoriali*, Roma, 2008.

²¹ While the investment level was steady. On the other hand, even the reduction of the resort to debt may be read as an outcome of the investment stagnation instead of as a goal of improvement for the management of budgets.

delay as for available balances and for a centralization of governments' budgets. It's often impossible to correlate budgetary documents to homogeneous information about other issues of governments' finance (such as debt, taxation, etc.) since available data are not comparable or are incomplete. It's then important to unitarily manage data in order to "reconstruct" governments' aggregated budgets by providing and integrating analysis on budget trends – both with reference to final balances and through surveys on sure even if incomplete data (i.e. some tax revenue) – with extra-accounting economic and financial data²², as well as with data and evaluations from external actors and sources. Such a reconstruction could then provide a comprehensive and updated framework which could be useful²³ in order to appraise both phenomena and trends under way.

5. In some audits the Supreme Audit Institution stresses the issue of local governments' debt level, with particular reference both to Title V of the Constitution and to the strategic value of such an issue in Europe as for the compliance with the Pact governing budgeting of public administrations. It is the Pact adopted by the 2007 Budget Law which requires local governments to reduce their debts through a new mechanism grounded on some budget balances different from past ones.

Both trends and performances of local governments' debts were disclosed by Mef²⁴ in the 2006 general report on the economic situation of the Country. However, if we examine the resource and expenditure accounts both of municipalities and provinces, we can notice non-coherent and often clashing trends of debts and capital expenditure .

The introduction of expenditure ceilings as a mechanism conceived to fix a target within the ISP determined for these governments since 2005 a remarkable reduction for capital expenditures if compared with the previous year²⁵. There was not, however, a corresponding contraction of resorts to debt which, on the contrary, increased. Between 2004 and 2005 municipalities resorted even more to credit in a percentage of 10.7.

Moreover, Mef data show even as the expenditure ceilings mechanism, though often criticized, did not contribute to debt reduction at all. In fact, regardless of revenues, it lead to a reduction in investments as well as to an increase of debts.

²² In order to evaluate such basic trends owing a remarkable financial impact (such as investment trends).

²³ This surely is one of the qualifying goals put forward by the Dexia-Crediop survey, cit.

²⁴ Ministry of Economy and Finance.

²⁵ Equal to 24,3% for the municipalities.

Such a dynamics may be explained in two different ways. The first one arises from heavy resort to operations aimed to restructure past debts in order to benefit from the effect of a decreasing interest rate. Loan repay increased, in fact, between 2004 and 2005 more than 42%, thanks to substantial and anticipated paying-off of mortgages and loans. The second reason is due to a continued reduction of own resources to be employed for investments. In such a context a step back towards balances in order to determine DSP's goals can only further reduce municipalities' and provinces' expenditure for investments. The mechanism of balances, besides considering the evolution of own expenditure, makes the investment expenditure directly proportional to the resort to debt, as shown in the following table.

MUNICIPALITIES	2004	2005	Var.% 2005/2004
Capital Expenditure	35.818	32.272	
Credit awards	7.605	10.926	
Investments expenditure	28.213	21.346	- 24,34
Raises of loans	12.466	13.797	10,68
Investments funded by mortgages and loans	44,19%	64,64%	
Loans refund	6.998	9.962	42,35

Source: Ministry of Economy (data processing)

A containment of administrations' debts as well as an implementation of the relationship autonomy-liability represent the premise for a shift from expenditure ceilings to the system of balances. However, this path should be based onto an almost customised improvement action by each local government. These are customised goals which, on the other hand, contribute to a global result, that is a reduction of debt to be achieved also thanks to an evaluation system of local budgets' virtuousness. The importance both of the novel monitoring system and of a periodical audit is further stressed by a widening of an action range involving even more than 1800 municipalities²⁶.

Local budgets' virtuousness should be concentrated on deficits, but it should also take into account those governments showing positive performances and which scarcely resorted to debt for funding investments. Moreover, such a virtuousness should also consider different evaluation parameters, such as, i.e., the incidence of staff cost on own revenues, the incidence of interests and of equities for loans and mortgages reimbursement on own revenues, as well as financial autonomy.

²⁶ By class of demographic amplitude between 5.000 and 20.000 citizens.

All this implicitly meant that local governments should have been aware of, or able to, understand that such a system goal would have necessarily implied an adjustment of their budgeting.

6. We cannot forget that the way of managing both functions and services²⁷ within municipalities' scope originates from their autonomy degree; such a degree comes also from the constitutional revision and from a reform process. Over the last years, administrative decentralization implied a growth of local governments' (especially municipalities) budget autonomy, through an initial process of fiscal federalism. The transfer of competences could not have been matched with a transfer or handover of resources from centre to periphery and/or with an acknowledgement of own taxes at the local government level as a replacement for central transfers.

However, as it happens with reference to other tax and public finance issues, the provision of decentralized functions faced a remarkable difference between the underlying plan and the reform finally put into effect²⁸.

A Dexia-Crediop²⁹ analysis carried out on a sample of municipalities with more than 100.000 citizens showed that, between 2002 and 2004, tax autonomy³⁰ was on average equal to 49% amongst Italian municipalities³¹ (to be compared with the 54% for French municipalities of the same demographic size), while tax revenues³² in 2004 were 33% in Italy and 44% in France with respect to global revenues.

²⁷ While over last years the strategy of municipalities was orientated towards an improvement of own revenues to be further employed to fund the relevant expenditure for the Pact, since mid-2000 the framework has changed: most governments tried to restrain at its most the expenditure, by containment politics as well as by externalizations. These last ones often saw actual breaking-downs of activities and transfers outside (often to companies owned by the local government itself) both of expenditure and of revenues. Besides the externalization of services on citizen's demand, it is likely an externalization of institutional activities, which are all those activities (i.e. administrative ones) without direct returns of a tariff kind, but also without a direct relationship with citizens. Such externalizations should be carefully analyzed and evaluated, even to the end of avoiding potential duplications of costs.

²⁸ Just think about the changing fortunes and the potentials which could have arisen, in terms of information and knowledge for the improvement of the taxation process, from the transfer of cadastral services to municipalities.

²⁹ La fiscalità comunale: Italia e Francia a confronto, in Public Finance, n. 5/6, 2006.

³⁰ As a tax-revenues /current revenues ratio.

³¹ The main tax for Italian municipalities is the Ici tax (44% of tax revenues), followed by the Tarsu tax (about 15%).

³² The analysis of these data stresses that, over the given period, tax revenue has been increasing by about 8%, mainly because of the growth of the Irpef tax sharing which, on the other hand, cannot be strictly considered as an autonomous tax revenue. It is in fact a revenue on which local governments (municipalities) do not have an autonomous rule of decision and choice, since they are provided of such a revenue by the "central" administration; more precisely, it is then a transfer.

Most relevant taxes were for sure the Ici tax, the Tarsu tax (or Tia³³) and the Irpef additional tax. If amongst them we also consider the Irpef *share* (which, as we have already said, is actually a derived revenue that was adopted as a substitute of central transfers), we may notice that these four revenue typologies represent on average the 91% of municipalities' tax revenues. It is clear that if we take into account, amongst these elements, also the Irpef sharing, terms of effective evaluation of the tax revenues share (in the strictest sense) are modified. In fact, the growth which was recorded between 2002 and 2004 seems to be highly influenced exactly by the Irpef sharing trend. If we do not consider this entry, tax revenues even decrease. By the way, it is to be reminded that the Ici tax represented the main tax for municipalities, even if clearly affected by low dynamicity in its capacity to provide tax revenues³⁴.

Amongst other minor taxes, we have to include also the Additional Tax on Electricity³⁵, the Tosap tax³⁶, and the tax on advertising and of the duties on public billposting.

If we then consider the whole municipalities' revenues, we need to further list: shares, additional taxes, own revenue taxes (and revenue taxes with specific aims³⁷). In practice the trend of available resources has been decreasing, so that municipalities had to try different strategies for funding their activities. In this perspective, a consolidated praxis by local governments was to employ urbanization taxes for current expenditures instead of for expenditures aimed to investments³⁸.

In order to provide a benchmark for evaluating the measure of drawing in different locations, we can refer to *tax burden* of Tuscan local governments, just with reference to the autonomous revenues³⁹. Between 2001 and 2006 there was also a decrease of tax burden⁴⁰ due to a particular dynamics of municipalities' revenues: in practice, the trend of tax burden follows that of tax revenues in real terms. Finally, such a trend was affected on one hand by

³³ A specific public and local fare.

³⁴ The general and shared idea is that the Ici tax is an old-fashioned one. A change could maybe arise from the transfer of cadastral services to municipalities, thus allowing a rethinking of Ici's basic features. But events affecting this tax gradually detracted, until a final nullification, its relevance pertaining the "first home". The only result of such a process can just be a reduction of the "municipality"'s tax revenues. Such interferences recalled into question *in practice* the fiscal autonomy previously accepted and provided to the government.

³⁵ Based on consumption at home and different for the first and the second home.

³⁶ A tax for the franchise and/or occupation of public land.

³⁷ To be conceived as a way to improve those services which are already in existence; but these services are not conceived as such by central powers. Since they were highly criticized, the Budget Law decided to exclude them.

³⁸ The intent was to pay this way part of the debt.

³⁹ Net of the Irpef sharing.

⁴⁰ It was more marked over the last two years.

the shift of Tuscan municipalities from the Tarsu tax to the Tia and, on the other, by the ordered freeze of rates of Irpef Additional tax⁴¹.

7. Until a few time ago people was generally confident that federalism and autonomy for local authorities represented an inescapable binomial. In fact, even at the beginning federalism was conceived as both a necessary solution and an appropriate remediation in order to retrieve a responsibility for regions and other local governments. Their behaviour showed the distortion power of the refund of the expenses list and of funding based on “historical information on expense”⁴². There was a need to bring local governments back to a virtuous behaviour, as well as to restore the public finance and to allocate proper responsibilities to those authorities with respect to their own political and economical choices vis-a-vis their citizens/voters-taxpayers.

By an analysis of this path, we can identify different periods and the choices which somehow characterized them.

The first phase, during the 90s, may be defined as the “*autonomy phase*”, when autonomy levels have been more and more increasing and spreading. The second one may be recorded as the phase of “*function devolution*”, characterizing the first years of 2000 and involving a necessary and physiological increase of transfers in order to fund delegated or devolved functions⁴³. But in this period we see that the growth of autonomous local revenues stops, together with governments’ discretion, because of “*central*” provisions limiting the freedom of local authorities (prohibition to increase shares of local additional taxes), which are endowed with poorly dynamic or even decreasing taxable basis.

We could add a further phase when, in the face of a progressive reduction of central transfers, local governments tried to fund supplementary functions with own revenues, such as taxes and fees. Such a path would have necessarily required the provision for local governments of new fiscal instruments, in addition to a strengthening of old ones. Many of the debates about this phase discussed the opportunity to introduce novel local taxes, such as on tourists or on mobility⁴⁴, or taxes with specific aims, etc.

⁴¹ Introduced by the Budget Law for 2002 and still in force for 2006

⁴² Economic literature stresses that, in order to reduce the chance of moral hazard by decentralized governments, it is necessary to charge lower authorities with a high fiscal responsibility, as well as with a fair autonomy margin (by reducing though not suppressing the vertical fiscal gap) and, at the same time, to make expensive the central government’s bailout.

⁴³ See Irpet (2008), cit.

⁴⁴ See what suggested by different works about this subject, i.e. Botarelli S. (2008).

The debate over the possibility to adopt some of the above mentioned solutions have been continuing, while the actual framework within which they could have been placed remarkably changed: we can see a steady decline both in local tax revenues and in transfers, together with an expenditure containment due to DSP constraints.

Most events regarding the trend of autonomous revenues gradually weakened, until its abolition, the Ici tax on the “first” home; at the same time they caused problems in evaluating compensating transfers, as well as inevitably modified⁴⁵ municipalities’ autonomy. Such happenings seem to be still lacking of shared solutions. As we have seen, in such an impasse, and waiting to better understand the direction to be chosen, municipalities tried to think of different revenues sources, even by more and more employing “taxes for urbanization”⁴⁶.

Someway this last phase/period could be defined as a sort of “*transition and expectation phase*”⁴⁷: a phase characterized by a reduction both of available resources and of expenditure levels, a phase which could face different solutions and evolutions. In fact, we could go towards a strong affirmation, once public finance is restored, of fiscal federalism, or, on the contrary, towards an affirmation of centralist powers, characterized by lowest degrees of real autonomy for local governments.

A further question still to be answered is linked to the coherence and efficacy of constraints: did the internal constraint allowed a compliance with the external one?

The continued modification of such constraints caused remarkable differentiations year by year, so as to seriously hinder a comparison between historical series.

In fact, the database built on final balances⁴⁸ stressed a high number of local governments in compliance with the constraint⁴⁹. But the set of rules, though obeyed by many local governments, did not contribute to the compliance with the external constraint: we know that local governments represent a circumscribed part of the Public Administration’s consolidated balance sheet. It’s the central administration which governs the trend.

⁴⁵ Just think about the behaviour of municipalities which, over the years, more and more tended to “customise” the application of the Ici tax with respect to local population.

⁴⁶ An indiscriminate employ of such taxes may lead to undesirable and poorly verifiable effects, with respect to the use of land and to choices of territorial policy. Such an employ of taxes for everyday needs instead of for investments nullifies every possible correlation between the drawing and the financing of investments for a municipality’s area. Moreover, territorial variability and incidence of the tax are particularly high even within single regions, thus strengthening gaps instead of reducing them. On this, see Irpet (2008), cit. Moreover, such burdens were one of the most dynamic revenue entries in 2006.

⁴⁷ Irpet (2008), cit.

⁴⁸ See Brugnano C., Rapallini C. (2007).

⁴⁹ Even if characterized by different trends with respect to the data stressed by the Supreme Audit Institution (Corte dei Conti)

If we have a look to the global debt of local administrations we may ascertain that municipalities represent a significant share, though characterised by vacillating trends. Which are the consequences? It is fairly difficult to envisage a hypothetical coordination of public finance without considering municipalities' debts and behaviour.

Of course, this is not an exhaustive account of the problems linked to public finance and relationships between different levels of government; indeed, many issues are still open or could arise as a consequence of new potential rules of the DSP, thus involving not only the choices but also prospective influences on the composition of local expenditure⁵⁰.

⁵⁰ It is to be reminded that some quietly tight correlations have been stressed between net debt and expenditure for investments; at the same time the behaviour of small municipalities didn't look particularly virtuous when they have been let off Pact's constraints. Moreover, in view of possible new articulations of the Pact, both size and regional collocation of municipalities may prove to be relevant.

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