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The Italian Road to Fiscal Federalism

Luca Antonini - Andrea Pin

Abstract: .The recent law on fiscal federalism opens the path to the real introduction of federalism in Italy. The Italian State's evolution towards federalism began in the 1990s and led to constitutional reform in 2001. Nevertheless, for the following years regions and local bodies have hardly been able to profit from the new powers they were endowed with, since they have continued to rely on the previous model of financing expenditures. This model was very centralistic, because it accorded regions state grants rather than powers to levy taxes. This system has fostered, in a concrete way, political and financial unaccountability; because the regions that did not tailor their expenses according to the state funding were given extra grants by the State. Moreover, it has not provided equal public services throughout the country, because the regions in deficit often offered worse services than those provided in the regions that complied with the budget they were allocated. This model was finally substituted with the new one this year. The new model attributes to regions and local bodies real tax powers, together with moderate grants to ensure basic social right. It aims at achieving greater accountability at regional and local levels, through a system of innovative incentives, disincentives, and sanctions.

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Luca Antonini * – Andrea Pin **

I. *The Italian Issue: the Separation between Taxing Power and Spending Power. Fiscal Federalism as the Remedy*

The Act regulating fiscal federalism, which was recently delivered by the Italian parliament (l. n. 42/2009) and that delegates vast powers to the executive, is of great importance for both the institutional and political life of Italy. Italy has seen a meaningful process of empowerment of regional and local bodies which started in the 1990s. However, the financial resources of regional and local governments still rely on the old system of state grants. In reality, with the "third decentralization", in 1997, many administrative functions were transferred from state to regional and local authorities (municipalities and provinces). The constitutional reform carried out in 2001 (constitutional law n. 1/2001) completed the process, strongly increasing, in particular, the legislative competences attributed to the regions. Despite this development, the financing model for regions and local authorities remains that introduced one year earlier by delegated legislation (decree n. 56/00). Due to defects both of drafting and application, such delegated legislation left the state grants system untouched. It thus did not put an end to the lack of regional and local accountability.

In this sense, the Italian issue is very similar to the situation of Spain in the 1980s; the Spanish Constitution gave important legislative and administrative functions to the *Comunidades Autonomas* but did not entrust them with the power of levying taxes. This separation between spending power and levying power damaged Spanish public finances. This trend was created by the post-Franchist federalist process, which began with the 1978 constitution: the *Comunidades* were not restrained in their spending, because was the state who was actually paying. The successful remedy for Spain came from fiscal federalism, which was introduced over a relatively short time span. The Spanish evolution during the 1980s closely reflects the present Italian situation; Italian public expenditure is equally shared by the state on one hand, and local

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and regional authorities on the other. However, the latter have only 18% of tax raising powers. If the state remains the only real payer of public expenditure, the budget will remain out of control and the taxpayer will not be able to understand who is responsible for the deficit and for the scarce level of the services delivered by the Italian welfare state.

The new law of fiscal federalism enacted in 2009 brings in many innovative solutions, which were largely inspired by a variety of studies and official reports carried out during recent years. Between 2003 and 2006 a High Commission on Fiscal Federalism provided documents and opinions on this subject. In the two years that followed many workshops were held. Eventually, in Summer 2007 the government delivered a draft bill on fiscal federalism that was abandoned because of the parliamentary elections from which a different political majority emerged. However, the ideas and remedies debated during this period were largely shared by the different political forces. It could be argued, therefore, that a common opinion was reached with regard to some critical points and this is confirmed by an official document delivered by the Conference of Regions Presidents. In particular, the act of parliament owes much to the previous government's draft bill which was also based on the equalization theme. However, it simplifies some measures which aim to achieve decentralization and strengthen regional autonomy. In short, the act largely reflects both the regions' document and the proposals shared by many of the studies which focus on fiscal federalism, whilst at the same time introducing some innovative solutions which were proposed in other recent draft bills. These premises explain the successful path of the bill and the large parliamentary consensus which it obtained. Last but not least, it is the first piece of legislation which implements the new Article 119 of the Constitution, as modified in 2001, and carries out a true state reform led by fiscal federalism and focusing on the principles of responsibility and accountability.

This point is increasingly reflected in public opinion. In contrast, until a few years ago, when fiscal federalism was mentioned many different concerned were expressed. People feared that fiscal federalism may give rise either to further growth of the public deficit, or to an large increase of tax rates, or, even worse, to the disintegration of Italy. These prejudices prevented institutions from giving a final solution to the lack of a real fiscal federalism. Moreover, it is now very clear that the lack of fiscal federalism caused the decline in Italian competitiveness, threatened the unity of the state, and was one of the main causes of the steady growth of the public deficit. Without fiscal federalism, the

state's bureaucracy does not diminish, notwithstanding the decentralization of many legislative and administrative powers. Nor can regions and local authorities become accountable, although they received new functions with the third decentralization as well as with the 2001 Constitutional reform.

Even the Constitutional Court had repeatedly affirmed the urgent need of implementing art. 119 Cost. In particular, in a recent judgment, the Court expressed the view that "It has become evident that the application of the Constitutional article n. 119 is urgent in order to make the provisions of the new Constitutional Title V a reality" [1]. Thus, the Court was also in no doubt that the new constitutional framework required a fiscal process and that without it, it would have been useless. However, several years had passed without reaching the goal of fiscal federalism. This produced several negative consequences. Although the Constitutional reform of 2001 entrusted all regions with much greater legislative competences, the system of equalization through state grants was left unchanged. All this created a dangerous habit, as the tax levying power was separated from the spending power. Not only was the improvement of the public budget impossible, but a duplication of administrative offices occurred, worsening the problems of inefficiency and unaccountability.

Evidence of this may easily be gathered through the analysis of both the regional and state budget performances. From the point of view of the state, some simple data can be cited. First, recently the expenses for ministerial executives have increased by 97.9% [2]. Second, the number of state employees has increased by one hundred thousand. Consequently, state bureaucracy has increased precisely when legislative, administrative federalism and horizontal subsidiarity should have expanded, according to the constitutional reform of 2001. As far as the regions are concerned, other elements confirm the persistent lack of accountability, especially the fact that the law decree of 2007, n. 23, and the budget law for 2008 transferred 12.1 billions of euro in order to cover the debt of some regions (Abruzzo, Campania, Lazio, Molise, Sicily). The total amount is the equivalent of 250 Euros for each Italian. It is worth specifying that 78% of health debts have been created by the regions of Lazio, Campania and Sicily. Although health pertains exclusively to the regions, after the constitutional reform, the state intervened recovering the debt at its own expense, as it had done during the 1980s. The question which thus arises is, if

[1] Constitutional Court, judgment 23 December 2003, n. 370, available on the site www.cortecostituzionale.it (our translation).

[2] *La Pubblica Amministrazione in Italia*, Roma, Eurispes, 2007.

the regions which accrue debts are rewarded by the state, why should other regions and local authorities rise their own taxes instead of getting into debt (by spending money on popular policies) and leave to the state the task of collecting taxes from the entire country in order to recover their debts?

A system made of state grants and state interventions aimed at recovering the budget deficit of the more inefficient bodies inevitably, and paradoxically, rewards the administrations which are less efficient and which created the deficit and that same inefficiency. The same happens if the system of fiscal federalism awards each body with grants which are proportionate with its previous expenditures. Such a system implies that those administrators who spent more than they could are enabled not to modify their conduct and thus to produce further deficit, while those administrators who were more efficient and spent less are obliged to maintain a low level of expenditure. It can be argued, therefore, that either this dynamic is reversed by way of incentives and sanctions, or no improvement of public expenditure is likely to occur. The experience of health services is very meaningful from this point of view. During the last ten years the costs of health have almost doubled, increasing from 55.1 billions in 1998 to 101.4 billions in 2008, notwithstanding the measures which have been introduced by the financial laws in order to reduce expenditure. Only recently has this set of problems been dealt with by the legislation which is characterized, as was noted earlier, by a large consensus within Parliament.

Before considering the act in greater depth, a last point must be mentioned. The reform of fiscal federalism aims to modify radically the habit that all actors (state, regions and local authorities) have of blaming each other, which has become very common in recent years. The mayor blames the region for local deficit because the region has not transferred the money for kindergartens and public transportation; the region blames the state for not according the funds for health services, and so on. The result of this phenomenon can be seen in the Naples garbage affair, where no one seemed to be responsible. This is but an example, of course. Some regional deficits are entirely unreasonable, as anyone can see from the Court of Auditors dossiers: it is inconceivable that in Calabria a blood bag costs four times more than in Emilia Romagna, or that the cost of a CAT scan may vary between 500 and 800 Euros, or that the cost of a place in a kindergarten in Rome amounts to 16,000 Euros, while in Modena the cost is 7,000 Euros. The difference is even more incomprehensible because Modena has a kindergarten model that is internationally recognized. Anyone can see that these differences do not

depend on the richness or on the morphology of the territories: they are simply unjust gaps, which all Italian tax payers are called to support. The reform of fiscal federalism will enable institutions and public opinion to understand who is responsible for what. All citizens and taxpayers will know why and how their money is spent, and can judge politicians through elections.

II. *The New Legislative Framework: the Fundamental Principles*

Let us now consider the contents of the reform. To begin with, it is worth emphasizing that fiscal equalization must overcome the criteria of historical expenditure and introduce the new criteria of standard regional expenditure for health, social security and education. This choice seems very appropriate. As a matter of fact, all studies and reports concerning fiscal federalism have agreed on this point. The criteria of historical expenditure is influenced by the real needs, as well as by inefficient management. Real needs must be socially and financially sustained, but bad management cannot be supported. For the other regional expenses – which are not essential and represent a small part of the regional budget – the act contemplates a partial equalization based on fiscal capacity. These latter functions do not have a primary importance from a social and political point of view, so the standard expenditure parameters, as well as complete equalization, do not fit. A simple partial equalization, based on the fiscal ability of each territory, guarantees a reasonable difference in resources between the territories. Finally, local public transportation is financed according to the standard expenditure criteria and according to the needs of a good level of service, which must be delivered in the whole country: equalization is also based on fiscal capacity in the transportation field.

This model completely supports the basic services pertaining to social and civil rights (health, education and social security) on a standard basis and, in part, local public transportation. Resources are collected through the IRAP tax (which is levied on corporations and professional people), until this tax is substituted with a surtax on the personal income tax (IRPEF), a sharing on the VAT, a part of the equalization fund and full regional taxes. Those taxes will be defined by the executive by way of legislative decrees, and according to the principle of "correlation". As a result, any territorial authority has the power to tax only those subjects that are affected by its functions, intended in a broad sense. The remaining expenditure will be financed by regional tax income and

by equalization, in open accordance with the principle of fiscal ability. Finally, the systems of state aids, the aim of which is to support those expenses, will be abolished.

According to this system, health, social security and education, on which the state must define the "essential level of the service" in order to grant a uniform minimum standard across the country, are accorded an appropriate level of protection throughout the country. As regards the remaining services, a unique national standard is not necessary. On the contrary, it seems better to leave regional and local authorities the autonomy to carry out their own policies according to the specific needs they have identified. Thus, for this kind of function equalization must have a lower impact.

In addition to this new conception of fiscal equalization, other innovative principles are introduced. First, equalization cannot modify the classification of fiscal abilities. As a consequence of this, a richer region cannot become poorer than a poor one, by way of the equalization. It is worth mentioning that the German Constitutional Court introduced the same principle in a judgment on November 11th, 1999, which formed the basis of the German fiscal federalism's reform.

Second, the act modifies tax powers, by prescribing that each region will receive the true income yielded on its territory, and not only a virtual one. To clarify this point, it may be observed that currently VAT income, for example, is quantified on a statistical basis of exchange, with the consequence that territories with high tax evasion are rewarded.

Last but not least, "revolutionary" (in comparison with the Italian tradition) principles are introduced with regard to the accountability of public institutions. Not only are incentives provided, with a view to rewarding good management, but new measures are introduced, aimed at sanctioning inefficient administrations, even by reducing their autonomy. It is particularly important, in this respect, that the sanction of "political failure" has been introduced for those politicians who have led their institutions to bankruptcy. There is a clear analogy with the market, in the sense that, as the failed entrepreneur cannot go back to his business immediately, a "failed" mayor cannot be elected immediately as a member of either the Italian or the European Parliament.

III. *Reconsidering Regional and Local Power to Levy Taxes*

Other relevant provisions regard the regional power to levy taxes. The act adopts the expression "autonomous tax" (*tributo proprio autonomo*), to designate those taxes which are introduced by regional law. It follows, therefore, the logic of the Constitutional Court. Another expression, that of "derived taxes" (*tributi propri derivati*), is instead used to designate the taxes that are created by state law and the income of which goes to the regions.

It ought to be clarified, at this stage, that the financial support of the regions is basically formed by derived taxes and sharing of state taxes. The sharing should guarantee a good part of the income, but should also keep the level of income quite flexible; the derived taxes and surtaxes should make the budget even more flexible, and are aimed at making the managers and politicians really responsible for the finances. Autonomous taxes play a minor role, because they can only be introduced where the state does not levy taxes, but this is also common abroad - e.g. in Spain.

Regions are also entrusted with important tax powers . They are able to develop specific tax policies shaped on their social and economical characteristics because they can introduce exemptions, allowances and deductions on derived taxes. They can define true regional tax policies by introducing incentives for no profit corporations or environmentally sensitive initiatives. This would give regional taxation a propulsive role in economy and society. Regions will be able to create their own tax policies and introduce deductions for investments, family expenses and horizontal subsidiarity (this latter principle is mentioned in art. 2 of the bill). However, if a region is not able to manage its own budget like others, to keep the expenditure within the standards and overcome its inefficient management, it will be obliged to raise taxes. This system should bring autonomy and accountability together in order to limit expenditure and make politicians and managers accountable before the electors.

As far as provinces and municipalities are concerned, the new act aims to give them a certain amount of autonomy, while at the same time placing them under the power of coordination, which regions share with the state, according to the constitution. More precisely, the act creates an equilibrated balance between regional and local powers. In each territory, regional and local bodies will discuss decisions regarding equalization: regions will be able to define expenditure and the standard income of local entities, within limits that will be fixed by the state. If one region does not distribute the equalization

funds among the local bodies, the state will take this role, assuming its substitutive powers.

According to the scheme that has been conceived for regions, the resources of local authorities are classified as follows: a) expenses for fundamental functions (art. 117 Cost., par. 2, lett. *p)*); b) expenses for other functions; c) expenses that are financed through special contributions, European contributions or national co-financing measures. This scheme of local finances follows the constitutional provisions: municipal and provincial taxes will receive state taxes (a part of them, or for their whole income), flexible surtaxes (which they can vary according to their dimensions), sharing of state and regional taxes. Delegated legislation will have to specify the autonomous taxes of local bodies, fixing their objects, taxable bases, payers, standard rates.

Finally, the act confers on both municipalities and provinces the power to raise taxes which have the aim of raising money for a specific purpose. It also introduces rewards for unions or fusions of townships, thus replicating a successful measure that has been implemented in other countries, such as France which was able to encourage little townships join together. Regions have the power to create new townships and province taxes within their territory, according them defined powers, provided that the new taxes do not touch state taxable bases. Consequently, some regions may decide to introduce local green taxes. The resources of local bodies for their fundamental functions and for the essential level of their services are calculated on a standard basis.This local entities' power to levy taxes will include flexible rates and allowances, provided that the regional law fixes the fundamental elements of the taxes, in accordance with art. 23 Cost.

To evaluate the aspects of the legislative framework concerning regional and local tax powers, the various factors that play a role in the relationship between the regions and local bodies must be considered. This prospective has not been clarified enough by the constitutional reform of 2001. Indeed, such reform did not resolve the old conflict between the regional and the local polarization of powers, which is highly relevant to the federalizing process. This issue also touches on fiscal federalism and demonstrates how delicate such an institutional equilibrium is, given that it can be endangered by state interventions: the elimination of the local land tax in 2008 is the clearest example of how the state can influence the whole national budget equilibrium.

The new legislative framework regulating fiscal federalism relies to a great extent on the contribution of the Constitutional Court. With regard to

local taxation, its jurisprudence underlined that two different models are conceivable: one working at three levels, which are composed of a state law intervention, a regional law intervention, and local by-laws, and another one working at two levels - regional law and local by-laws, or state law and local by-laws. The Court also highlighted the need to define the relationship between region and state in making the legal frame of local taxes on one hand, and, on the other hand, to defining the limits of the local bodies' autonomy. Both these issues must accommodate the need for ample room for local bodies' powers, as well as for the constitutional need of law provisions to create taxes [3].

Moreover, the autonomy in collecting resources must go along with other principles and values, like the unity of the national tax system, the need to simplify the number of taxes, and the aim to maintain and even to reduce the general level of taxation.

It is reasonable to believe that autonomous local tax powers will be exercised by varying the rates of the taxes set by the state and to introduce allowances within limits that the state law fixes. But this implies that the state should leave ample room to autonomous local decision-making.

The taxes that the local bodies may want to introduce within the limits and the provisions of state and regional laws (since local authorities are not entrusted with the power to create new taxes, due to the lack of legislative powers) will probably play a major role in shaping a proper, distinctive local tax policy. However, the system conceived by the act gives an essential power to state and regions, which must define the elements of local taxes. The majority of these taxes will come from the state, while the regions will have a little part in setting taxes in provinces and municipalities: this depends on the state, which has given local entities virtually all the imposition powers they own, and probably will want to keep their important role in local taxes.

The structure and the level of flexibility of local taxations will depend much more on the contents of delegated legislation, enacted by the executive, than on regional law. For example, the bill does not exclude the possibility that some local sharing on regional taxes may exist. However, this would be the least "federalist" option, although it is quite simple and adequate in order to assure the simplification and the coordination between various government levels.

[3] Constitutional court, judgment n. 12 January 2005, n. 30, available at the site www.cortecostituzionale.it.

If one considers the resources and the functions of the local bodies, the following hypothesis may be advanced:

a) the income of the taxes accorded by the state, as well as the sharing on state taxes can finance the standard expenditure for the essential local functions;

b) sharing on regional taxes, as well as local taxes created by the regions (mainly having a specific purpose or created to compensate some public service) can finance, instead, the fundamental functions that arise over standards, as well as other local functions (mostly the functions that the regions delegate to the local bodies).

Such a structure of taxation could provide local authorities with an adequate degree of flexibility that allows the creation of tax policies focused on the attraction of investments and on the compensation of environmental effects of industry. Two further elements support this view. First, although Article 23 of the Constitution lays down a "*reserve de loi*" with regard to the power to tax, the Constitutional Court has traditional carried out a less strict scrutiny, when it concerns taxes which have a specific purpose or are intended to compensate some public service. Second, the institutions of the European Union seem more inclined to be tolerant when considering state aids, as it will be argued in the following paragraph.

IV. *The Use of Taxation to Attract Investments*

Another important effect of the new boost that the act gives to the fiscal autonomy of both regional and local authorities consists in creating the conditions which allow them to use their power to tax in order to attract investments, corporations and exchanges. This can modify the whole system of public subsidies : public tenders aimed at distributing public money would be substituted with lower regional tax rates for corporations and families.

In this context, several provisions of the act are worth considering briefly. First, Article 8, paragraph 1, *f)*, establishes that state aids to regions will be substituted with taxes, whose income will go to regions, which will also have the power to modify the rates. Second, Article 7, paragraph 1, rules that the derived taxes (like IRAP) and a part of state taxes (like a part of the personal income tax and/or the income surtax) will be at the disposal of regions, which will have the power to diminish the rate, or to introduce deductions and allowances (another relevant provision in this respect is Article 7, paragraph 1

c)). Third, their income will be spent without any limit of purpose (Article 7, paragraph 1, *e)*). These provisions should overcome the bureaucratic regime of state aids and lead to the adoption of a new kind of measure which is actually helpful for the economy of each region.

However, the question arises whether this use of the power to tax is coherent with other limits, stemming from the Treaty of Rome, as it has been interpreted by the Court of Justice (ECJ). For too long, in the European Community, the need of a tax benefit policy has been frustrated by a very rigid interpretation of the provisions of the treaty which govern state aids. The ECJ, in particular, has interpreted in a very strict manner the fundamental rule which prohibits state aids if they distort competition and trade within the European market. According to both the Court and the Commission "territorial selective measures" have been included among the measures that are incompatible with the treaty. This interpretation is controversial, however, since it has deprived the member states of powers to contrast extra-European and East-European tax concurrences, including the new members of the EU, which could keep lower tax rates. The larger European states have also been damaged by such a strict conception of the state aid ban, in comparison to small European states. Special tax policies in single regions, like Lombardy or Campania, would have been considered as violations of the ban, because of their derogatory regime with respect to national tax rates. This was, therefore, an anachronistic trend, which did not go along with the federalizing process that has involved many European Countries.

Fortunately, more recently, a new trend has emerged in the case-law of the ECJ. The most outstanding example of this new approach can be seen in the Judgment of September 11th 2008 [4]. It openly admitted a regional benefit taxation within a federalist environment (such as the reformed Italian one) after the introduction of fiscal federalism. The famous judgment of September 6th 2006 on Azores had already mentioned the necessary conditions which exclude the possibility that a regional measure might be considered as selective and therefore against the ban of state aids [5]. However, the requisites on the basis of which a derogation would be admissible had to be made more precise. In its judgment on Azores the Court considered three such requisites: a) institutional autonomy: the body must have a proper political and administrative autonomy, which is distinct from the state one; b) autonomy of decision: the state cannot

[4] ECJ, Joined Cases C-428/06 to 434/06, *Rioja et al*., available at http://curia.europa.eu.
[5] ECJ, Case C- 88/03, *Portugal v. Commission*. available at http://curia.europa.eu.

influence the contents of the regional tax measures; c) budget autonomy: tax measures must not be compensated by the state through aids.

This *révirement* was confirmed and specified by the judgment of 2008, concerning some Basque Provinces' provisions. Such provisions introduced a lower tax rate for corporations and special tax deductions for investments, energy savings and pro-environment measures. When considering whether such measures were compatible with the Treaty of Rome, the ECJ did not simply repeat that regional differences in corporation taxes are in accordance with the Article 87 of the Treaty. The Court took the chance to clarify some aspects. It held that solidarity and fiscal equilibrium between the different government levels did not contrast with institutional autonomy. Moreover, the Court explained that the autonomy of decisions can be consistent with agreements that aim to prevent conflicts. Finally, according to the Court, budgetary autonomy can coexist with state aids. This latter point is of primary importance, because it clearly states that fiscal equalization is not a state aid. Conversely, the Court insists that regional and local authorities cannot be refunded by the state for the tax benefits they introduce: there must not be any cause-effect relation between the regional or local benefit and state aids. All these authorities must be responsible for the "political and financial consequences of such a measure", so there cannot be any hidden state compensation. The judgment adds that the subjects who must verify that there is no such hidden compensation are the national Courts, which make judgements according to national laws.

Thus, the Court of Justice implements the Azores' judgment and makes clear that a regional benefit taxation is possible within fiscal federalism. Actually, the Italian reform of 2009 contemplates equalization forms in order to safeguard fundamental rights, whilst at the same time giving regions the power to introduce their own policies on benefit taxation. Stimulating commerce and industries through tax benefits seems to be a better way to improve economy and social welfare, as opposed to bureaucratic tenders. In this context, it is worth mentioning that the act also contemplates state tax benefit measures, the aim of which is to stimulate the poorest parts of the country. Article 14 has precisely the purpose of specifying the measures provided by the last paragraph of Article 119 of the constitution. It gives delegated legislation the power to define interventions which aim to promote economic development where this is needed most.

Thus, the state will also be able to introduce local tax benefits, which has already happened in the case of the law on competitiveness which was fully accepted by the European Commission (Article 11-ter of law n. 80/2005). This bill introduced measures favouring new recruitments and deductions on IRAP for the creation of new job places. A bigger deduction was introduced for corporations working in certain poor areas: for corporations established in places for which the Treaty makes exceptions (like Article 87, paragraph 3, *a)*), the general deduction is two or four times larger.

To summarize, the EU's position now allows tax benefits and the Italian bill on fiscal federalism takes account of this opportunity, which appears to be important in order to attract corporations to operate in Southern territories. It is a real chance to leave behind the old tradition of state aids and to gain a new mentality, focused on solidarity and accountability. Subsidies are normally contaminated with politics and bureaucracy, and they risk feeding unjustified royalties or even illegal economy; on the contrary, de-taxation rewards the real economy. Only the real economic protagonists are rewarded. A strong decrease of taxes for Southern corporations would have good effects on the whole country. The South would have the same chances that Ireland has been enjoying for ten years: the Irish economic growth has been three times higher than the European average. Moreover, the tax benefits would avoid tax evasion, stimulate national production, and prevent corporations from moving their factories abroad - as Italian companies have done in East Europe where the corporations tax is 50% lower than in Italy. Northern Italy could also take advantage of this development thanks to the increase of national gross production.

V. *The Coordination of Public Finances*

A final, though by no means less relevant point, must be considered, regarding the coordination of public finances. In this respect, the act set up a specific body, the Permanent Conference for the Coordination of Public Finance. Its aim is to systematically coordinate the various governmental levels in this matter. More specifically, the Conference plays a role in defining the budget targets for each level of government, promoting the measures which are necessary to succeed. It has the power to make proposals for an index of the health of budgets, as well as for the most efficient and transparent form of

equalization. It monitors rewarding and sanctioning measures for regional and local authorities, as well as monitoring the new regional and local budgets and the financial relations between the different levels of government. Finally, it controls the financial and fiscal databases in the territory.

When considering all these powers, it soon becomes evident that the Conference could control the fluxes of equalization and their use. Since the Conference is also composed of representatives of the regions, and the interests of the regions financing the equalization is the opposite of those of the regions being financed, the aim of monitoring the equalization is efficiently pursued. The regions contributing to the equalization want that, in the least, financial resources are used efficiently. If the equalization funds are well distributed, this would increase national production and even the richest regions would take advantage of it.

A specific authority, with the aim of coordinating the different political bodies, is quite common in federal systems: in such systems, it is usual to introduce institutional co-ordinations, room for confrontations on political targets and instruments, and monitoring procedures. A comparative analysis of these solutions may be helpful to understand the Italian approach. In Spain, a relevant role is played by the Council of Fiscal and Financial Policy. In Germany, the Council for Financial Programming (*Finanzplanungsrat*), which is disciplined by Article 51 of the German Law on Budget Principles (*Haushaltsgrundsatzegesetz*), is a body that coordinates the Federation, the Länder, the Municipalities and the latter's Unions. The *Finanzplanungsrat* is relevant in counselling the budget policies of the different institutional levels, because it considers the impact of social and economical factors on the public finance. It specifically pursues the respect of the European bonds (Article 104 of the Treaty), as well as the European Stability and Growth Pact, and gives its contribution in defining the program of stability, monitoring the budgets and giving advice on expenditure policies. *Finanzplanungsrat*'s advice is not compulsory, but it is very influential on parliamentary debates, on European institutions and on markets.

The huge case-load before the Italian Constitutional Court, and the tensions between state, regions and local bodies, which have lately recurred each time the state presents its annual financial law, seem to demonstrate how fundamental such an authority is in our country, as it has been in Spain and in Germany.

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