

**CONDITIONAL INTERGOVERNMENTAL TRANSFERS IN ITALY AFTER THE CONSTITUTIONAL  
REFORM OF 2001**

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## Introduction

Conditional/earmarked grants have been traditionally widely used in Italy. In part this is because of the central government inclination to interfere with local government priorities and behavior. The traditional importance of conditional grants has also to be explained by the piecemeal increase of subnational responsibilities during the decentralization process that took place in most recent decades, particularly after the introduction of the regional governments. The most obvious and simple way to increase to provide finance for a newly transferred competence is to allocate specific grants (usually based on the amount previously spent by the government to which the competence was assigned). There have also been periodic transformations of conditional into unconditional grants; the most important of this took place around 2001 after a large devolution of functions from the central government to the regional and the local governments known as “administrative federalism”.

Bergvall, Charbit, Kraan and Merk (2006) estimate that conditional/earmarked grants represented in Italy, in the year 2002, 75 percent of total intergovernmental grants to local governments and 25 percent of total grants to regional governments. These rather large figures have oscillated widely before and after the year to which the quoted figures refer.

Possibly, the future will be different. At a first reading of the reformed constitutional text of 2001 conditional grants seem to have disappeared from the panoply of revenue sources available. The new constitution lists (article 119) five sources of finance for all levels of subnational government.

They are:

- a. own taxes and fees;
- b. shared taxes, meaning that a share of nationally collected taxes are distributed according to the place where they are generated (origin principle);
- c. equalization grants;
- d. specific grants paid to distinct subnational governments for economic development equalization and social cohesion purposes, for natural disasters and for financing functions delegated to them by the central government.<sup>1</sup>
- e. borrowing.

This list of financing instruments for subnational governments refers to all levels of subnational government, and does not include earmarked/conditional grants, at least in their

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<sup>1</sup> Article 119: “The State shall allocate supplementary resources and adopt special measures in favor of specific municipalities, provinces, metropolitan cities and regions to promote economic development along with social cohesion and solidarity, to reduce economic and social imbalances, to foster the exercise of the rights of the person or to achieve goals other than those pursued in the ordinary implementation of their functions”.

prevailing interpretation- transfers of money available in principle to all local government units on a matching or not-matching base to fund specific functions assigned to them. At the same time, the list includes two other categories of grants (items c. and d.). The obvious conclusion to infer from the new constitutional text is that conditional grants are no more included in the panoply of intergovernmental financing instruments. Otherwise, they would have been explicitly listed.

The new discipline has been the source of immediate problems, considering the large number of existing programs that became suddenly no more constitutionally viable. For example, grants for kindergartens from Regions to Municipalities have been in danger of being discontinued, and were preserved through an extensive interpretation of the new constitutional text by the Constitutional Court (see Section 4.below).

*De facto*, many conditional programs have been kept working, waiting for their reshaping in accordance with the new constitutional discipline. But since they are kept at the borderline of the legality, there is almost no information about them and they are kept almost hidden in the budgets of the paying and the recipient governments.

There was also criticism of the fact that the new constitutional text had gone too far ahead in recognizing the importance of subnational autonomy by excluding conditional grants. In fact, the move was somewhat unexpected, but to understand this one has to remind a few facts of the recent Italian political evolution. The reform of 2001 was the work of the centre/left coalition governing at that time. Traditionally, the Italian centre/left political parties and coalitions have been skeptical on decentralization, but they were forced to give increasing attention to it to counteract the growing appeal on the Northern regions electorate exerted by the Northern League and its secessionist/strongly autonomist stance. The constitution of 2001 is the political and legal response to the competition from the Northern League. As such, it had to sponsor the decentralization cause, although the sponsors were not personally fully in tune with it. Elimination of central government controls over subnational governments was a central component of the reform, which gives a constitutionally autonomous status to all subnational government units. In this framework the elimination of conditional grants became an obvious component of the reform, taking also in account the European Charter of Local Government that recommends using them as little as possible.

However, at the more careful reading of the constitution outright elimination of earmarked/conditional is in doubt. Also, the recent governmental practice of grants allocation and the recent framework law implementing the constitution (so- called “Fiscal Federalism” law) indicate that earmarked/conditional grants will remain a largely used

instrument for financing local governments, although with somewhat different characteristics and aims.

There may be more. Conditional/earmarked grants have been evicted by the constitution because they were meant to interfere too deeply with local autonomy. The new system of grants, however, may end up with a new system of grants with a higher potential of interference, be they classified as either conditional or unconditional. This is because the constitution and the present implementing legislation intends to ensure a rather ambitious system of standards (“essential levels” of service provision) for a set a basic services whose responsibility is shared between the central and the subnational levels. This is likely to require financing instruments that allow interference by the central government into subnational governments’ choices, as it is clearly the case with conditional/earmarked grants.

The paper tries to single out the implications of the new constitutional text and illustrates the recent practice. It is divided into four sections. The first section illustrates very briefly the Italian system of territorial government. The second section presents the emerging system of equalization grants, part of which will consist of block grants whose characteristics make them very close to conditional grants. The third section will be devoted to the illustration of the new practice of transfers for regional development and social cohesion purposes. The fourth section singles out the transfers from Regional to Local Governments.

### **Italian intergovernmental relations after the reform of 2001<sup>2</sup>**

There are four main levels of territorial government in Italy; namely, the Central Government, the Regions (20 units), the Provinces (103 units) and the Municipalities (8134 units). Furthermore, the constitution introduces the possibility for the big metropolitan areas to create metropolitan city governments through the merging of existing municipalities.

All levels of government have the same constitutional status; making Italy close to a federal system of government. Equality of constitutional status increases the difficulties of managing the system, because of the need to apply the same legal discipline to extremely different government units.

Regional governments have legislative powers. The assignment of responsibilities between the central and the regional governments parallels the German system, where the central/federal government and the Regions/Laender have both exclusive and concurrent powers. Exclusive powers means that Regions (and the central government, obviously) have complete autonomy to define their competences through legislation. Concurrent powers

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<sup>2</sup> See, for introduction, Bibbee (2007), Brosio and Piperno (2008) and Giarda (2001),

imply the responsibility of the central government for framework legislation, while the Regions are empowered to pass the implementing legislation. Existence of concurrent powers may have some bearing on conditional grants because it empowers the central government to intervene in areas of local responsibility. Intervention may also materialize into the structuring of intergovernmental grants.

The share of subnational expenditure on general government expenditure to the exclusion of pensions and social security funds has slowly increased over the years, but it still represents less than fifty percent of the total. The main item is health care that is managed by the Regions.

**Table 1. Share of expenditure by different levels of government<sup>o</sup>**  
(in percent of total general government expenditure)

	<b>1990</b>	<b>1995</b>	<b>2006</b>
State	63	60	54
Regions	23	23	26
Provinces & Municipalities	14	17	20
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Ministry of the Economy, Country General Economic Report, various years.

<sup>o</sup>Consolidated data: transfers from one level of government to the others are included in the expenditure of the recipient level. Expenditures by Social Protection Funds are not included.

On the revenue side the increase of the expenditure has been paralleled by an increase of subnational tax autonomy, particularly since the early 1990's. Local taxes played a marginal role until 1990, as reported in Table 2. They have substantially increased afterwards, reaching a share larger than 40 percent of total revenue for the municipalities and the provinces and reaching almost 60 per cent for the Regions.

**Table 2. Structure of revenue of local governments**

	<b>Regions</b>		<b>Provinces</b>		<b>Municipalities</b>	
	1990	2005	1990	2005	1990	2005
Revenues						
Own taxes	8,5	59,2	19,4	52,5	1,6	39,9
Fees and user charges	0,5	0,9	9,8	11,9	0,1	0,1
Grants	85,5	33,3	65,1	26,0	97,7	59,3
Non tax revenues (*)	5,5	6,6	5,7	9,6	0,6	0,7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: Ministry of the Economy, Country General Economic Report, various years.

Grants were dominant for all levels of subnational government until the end of the last century, but are on a substantial decline afterwards, particularly in the case of grants to regional governments. Recent government decisions, however, are only partly reflected in the numbers and are likely to alter the trend. More precisely, the central government has eliminated in 2008 the local property tax levied on the first residence (that occupied by the owner). It also intends to eliminate the main tax source for regional governments, namely the IRAP, which ensures a large share of health financing.

### **1. Block grants for essential services (health, education and social protection,..): a) the new system**

The new system of block grants for essential services will emerge from two distinct constitutional provisions. The first one is the already mentioned list of article 119 and the already quoted list of financing instruments. The relevant ones are own and shared taxes and equalization grants (borrowing – that is restricted to capital expenditure - and specific grants for regional development and social cohesion are obviously excluded).

The second constitutional provision is article 117.m. that assigns to the exclusive competence of the central government the definition of “essential levels of service provision” for a set of services that are necessary to guarantee equality of basic individual and social entitlements across the whole nation.<sup>3</sup> These services, whose provision is a shared responsibility between the central government and the Regions and/or the Municipalities, have still to be precisely identified, but they include health, education and social protection, plus a still undefined set of services provided by local governments (Municipalities and Provinces).

In essence the constitution makes a distinction between two sets of subnational policy responsibilities: those that are subject to the “essential level of service provision” constraint and those that are not, implying that the level of service provision for the latter can vary across the national territory.

As a consequence, two distinct systems of finance have to be introduced. The framework law for subnational government financing- the so-called “Fiscal Federalism “ law, legge n.42/2009 - that has been recently passed by the Italian parliament, sets up the main

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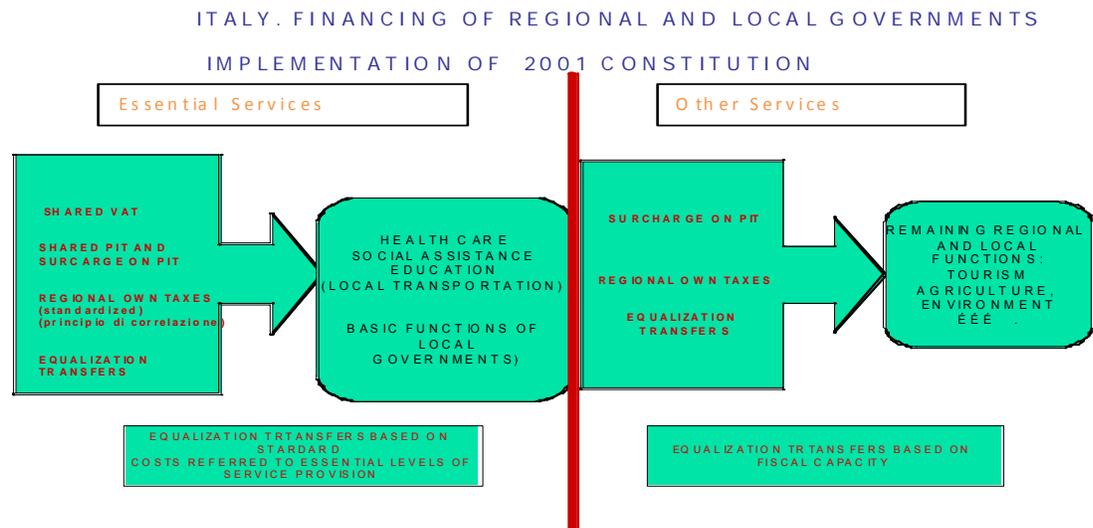
<sup>3</sup> Article 117 is difficult to understand and even more to translate into English. The official translation of the constitution made by the Italian Parliament reads as follows: “determination of the basic level of benefits relating to civil and social entitlements to be guaranteed throughout the national territory”.

characteristics of the two systems, that will have to be defined through government decrees. More precisely, it introduces a dual system of equalization transfers; namely a set of block grants for essential services and a general equalization system for all the remaining functions.

The system of block grants for the Regions is illustrated in figure 1. On the left hand side of it are the essential services. The equalization/block grants are determined through the following steps:

- a. Definition for each service of the essential level of service provision (LEPs);
- b. Estimating for each subnational unit and for each service the standard cost corresponding to the essential level.
- c. Summing the cost for all the concerned services.
- d. Calculating the revenue deriving from levying, at a standardized rate, the own taxes notionally assigned to these functions, the revenue from the surcharge of the Personal Income tax, and the revenue from a still to be determined share of the VAT and other shared taxes notionally pre-assigned to these services.
- e. Determining the net transfer through the difference between d. and c.

In essence, this equalization system will be based on a set of block grants. More specifically, individual gross block grants will be determined by estimating for each function a sort of standardized expenditure determined by applying the standard costs to the essential levels. The net amount, the net equalization total grant will be determined by the difference between the total block grants and the notionally assigned tax revenues.



### 1. Block grants for essential services (health, education and social protection,..): b) determining Levels of Essential Services

The new system is extremely complex, if not almost impossible to implement, because of the analytical, technical difficulties -and likely game-playing – of defining essential levels and the standard costs associated to them.

Determining viable and meaningful LEPs will require a very cumbersome and time consuming procedure, which will be carried on under continuous pressures by Regions, Provinces and Municipalities. The procedure set up by the Framework Law will also allow a wide scope for lobbying and political bargaining<sup>4</sup>.

<sup>4</sup> Both LEPs and standard costs will be determined by a government decree<sup>4</sup> with the support of a Technical Committee (Commissione tecnica paritetica) where representatives of the central government and of the regional and local authorities will seat in equal numbers. The decisions will then be subject to control by a bi-cameral parliamentary committee.

Coming briefly to the substance of LEPs, a number of issues come to the front immediately. LEPs must be more than minimum levels, otherwise the constitution would have termed them *minimum* levels of service. They have also to be *sustainable* levels of service provision, compatible with keeping financial equilibrium.<sup>5</sup>

There is little experience in Italy on these issues. There has been some practice with a similar concept: Essential Levels of Assistance (LEAs) for health services. LEAs are simply a list of services that any Region must supply to citizens. LEAs do not imply either quantitative or qualitative targets (such as maximum length of queues). There is also no correspondence between LEAs and their financing. The present block grant for health care services is on a per capita basis, takes account the structure by age of the population and makes some adjustment for inter-regional patient mobility.<sup>6</sup>

It is easy to predict that LEPs will be set up in a very bureaucratic input-based way, with scarce consideration to quality issues. This will accommodate the demand of funds by the Regions without promoting effective convergence and homogeneity of levels of service delivery among them.

### **1. Block grants for essential services (health, education and social protection,..): c) trade-off between local autonomy, efficiency and compliance**

The new system of block grants will also raise a trade-off problem between regional/local autonomy, on the one hand, and efficiency and compliance with essential levels, on the other. Assuming that the level of efficiency is the same everywhere and that each Region is providing a level of service that corresponds precisely to the legally mandated essential level, then each Region would spend exactly the total amount of gross block grants it receives and there would be no problems. But this will be a very rare occurrence. Regions are more likely to be over or and especially under performing in terms of efficiency and/or compliance with essential levels of service provision, as is the present case (see Table A.1. in the Annex that reports data on consumer satisfaction and health care by Regions. It is easy to observe wide gaps in satisfaction, which are not explained by differences in per capita expenditure).

Figure 2 illustrates the four possible combinations.

Case 1 has no problems. An efficient a compliant Region could even spend less than the grant and reduce levels to the essential norm and redirect the savings to other functions.

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<sup>5</sup> See also on these issues Buratti (2009)

<sup>6</sup> See also Brosio and Piperno (2008) on these grants

Case 2 is a problem for the concerned Region, since it has to spend more than the grant. Problems arise with case 4: efficient Regions provide less than essential levels and, especially, with case 3 –likely to be the most common case - Regions that are non efficient and non compliant with levels.

Figure 2. **Combinations of efficiency and service delivery levels**

	4. Efficient, but not compliant with levels	1. Efficient and compliant
Average efficiency	3. Non efficient and non compliant with levels	2. Non efficient, but compliant
	Essential levels	

The alternative in both 3 and 4 is between: a) to accept regional autonomy and to leave voters (and other political mechanisms) to solve the issue, and b) to intervene with controls and penalties. There is a propensity among scholars and central government officials in Italy to opt for the second option, but its implementation will be hard, because curtailment of grants can increase efficiency, but it would make Regions even less compliant with levels. Implementation would even be harder in political economy terms, considering the large number of non efficient and non compliant Regions that will pressure simply for increase in financing.

These political economy considerations receive more strength – although with differences from sector to sector - from a distinct point of view that considers the effective degree of political decentralization of Italy. Let us introduce briefly an index of decentralization that one of the present authors has developed elsewhere (Brosio 2007) and that is reported in Annex 2 below.

Essentially, this index maintains that (de)centralization of a service, or of a policy, does not refer to the institutional assignment of it to the central government, but to the probability of

re-election for the central government deriving from the level of provision of this service. For example, health care can be constitutionally decentralized, but it will still be centralized if the probability of re-election for the central government also depend from the level of health care provision.

The general perception in Italy (but not only there) is that voters consider that health care is still largely a central government responsibility. Hence, the latter is likely to intervene massively with funds to ensure compliance with LEPs (and to a smaller extent with efficiency). Of course, to explain homogeneity of service provision one has also to assume that equalization is a basic responsibility of the central government.

Other services, for which the LEPs regime will also apply, may be less centralized than health according to this index. Then, possibly for them the levels of central government intervention and expenditure will be lower.

Finally, the choice between local autonomy and efficiency and compliance has also a bearing on the assignment of these block grants either to the conditional or to the unconditional types. According to largely shared definitions<sup>7</sup> block grants are non-matching central government grants to local governments that give them broad flexibility into the design and implementation of designated functions. Current definitions also imply that central government monitoring and oversight are light. To a large extent the assignment of block grants to the conditional or the unconditional type depends from budgetary procedures, that is from the capacity of the government that allocate them to control via the budget of the recipient government if the block grant has been spent for the function for which it has been allocated and in the ways prescribed.

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<sup>7</sup> For example Finegold, Wherry and Schardin, (2004) use the following one:” Block grants are fixed-sum federal government grants to state and local governments that give them broad flexibility to design and implement designated programs”. Federal oversight and requirements are light, and funds are allocated among recipient governments by formula. Most federal aid is currently distributed to state and local governments as categorical grants, which may also be allocated by formula but can only be used for rather narrowly defined purposes”.

## 2. **Grants for regional development and social cohesion purposes**

There has been in Italy a huge effort after II World War to fill regional economic disparities with a massive transfer of public resources in favor of the poorer areas. This has been carried on with the use of different policy instruments, such as inflating public sector employment in the less developed areas, transfers to local governments and a general rule that mandated that at least 40 per cent of all public sector investments had to be executed into the Southern regions (that account for about 30 percent of the population). Investments of State owned companies and central management and financing of public infrastructure projects were a strategic component of this policy, which was based on the assumption that filling the infrastructural gap between the rich and the poor regions would have brought convergence in their rate of growth. Privatization of state companies put obviously a stop to their use as a regional development instrument and the special agency in charge of public infrastructure projects (Cassa per il Mezzogiorno) was eliminated in the year 1992 (mostly because it had become too independent from political parties). Most of the investment effort was subsequently shifted on the shoulders of regional and local governments helped by centrally provided capital investment grants. This effort was supplemented by the direct financing of projects by the Ministry of the Economy. Most of EU financing through the Regional and Social Funds was also directed to the same aim. No much as been achieved, however.

The constitution of 2001 retains the traditional approach to regional development based on filling gaps in the stock of infrastructure and assumes that general equalization transfers to local governments are not enough to ensure economic convergence among Regions, even if they are meant to ensure equal provision of service delivery. Hence, the constitutional provision of special grants (literally contributions) allocated to distinct subnational governments for regional development and social cohesion. The constitution neither mandates sectoral constraints over these grants, nor has a clause implying that they have to be used only for investment.

The practice shows an increasing use of this instrument. The FAS (Fund For Underutilized Areas) is the instrument for the implementation of article 119 of the Constitution concerning regional convergence and social cohesion. The FAS includes three types of expenditures: a) subsidies to business firms; b) grants to Regions, allocated mainly, but not exclusively, for the building of infrastructure and c) infrastructure funding of projects selected and/or managed by the central government including the so-called strategic ones.

Grants to Regions are allocated presently to all of them – instead of selectively as indicated in the constitution - for political expedience. However, grants to rich Regions are concentrated on their declining industrial areas and have a much smaller size. Table 3 reports the budgeted amount of these grants for the period 2007-2013. There are also grants

to fund interregional projects. It is important to remark the large share allocated to the Southern regions that amounts to  $\frac{3}{4}$  of the total. The allocation is based on a partial/discretionary matching base, meaning that the Regions have to supplement the government allocations with their own funds.

There is no precise matching rate, but the matching rate proposed by the recipients is a preferential criterion for the allocation of grants among Regions. The grants are not only used for infrastructural or regional development projects, but can also be used for funding service provision in distinct sectors. In the year 2007 part of the allocation has been used in fact to finance health care and social service provision in the Southern Regions.

**Table 3. Allocation of grants for regional convergence and social cohesion purposes. 2007-2013.** (million of Euros)

<i>Piemonte</i>	889.2	3,8
<i>Valle d'Aosta</i>	41.6	0,2
<i>Lombardia</i>	846.6	3,6
<i>Bolzano</i>	85.9	0,4
<i>Trento</i>	57.7	0,2
<i>Veneto</i>	608.7	2,6
<i>Friuli Venezia Giulia</i>	190.2	0,8
<i>Liguria</i>	342.1	1,4
<i>Emilia Romagna</i>	286.1	1,2
<i>Toscana</i>	757,0	3,2
<i>Umbria</i>	253,4	1,1
<i>Marche</i>	240.6	1,0
<i>Lazio</i>	994.6	4,2
<i>Abruzzo</i>	854.7	3,6
<i>Molise</i>	476.6	2,0
<i>Campania</i>	4.105.5	17,3
<i>Puglia</i>	3.271.7	13,8
<i>Basilicata</i>	900.3	3,8
<i>Calabria</i>	1.868.5	7,9
<i>Sicilia</i>	4.313.5	18,2
<i>Sardegna</i>	2.278.6	9,6
<i>National total</i>	23.663	100
<i>Total for North central Regions</i>	5.544	23,4
<i>Total for South Regions</i>	18.069	76,6

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Source: Ministero dell'Economia, Delibera Cipe 166 del 21/12/2007

Finally, but more importantly, these transfers are used to finance specific projects presented by the regional governments and that will be run by them. The share allocated to each Region derives from a basically jointly shared central/regional decision, but the selection of distinct projects is done by the central government (Ministry of Economy). These grants, being no sector-specific, but project-specific, have a much higher level of conditionality than the usual conditional matching grants, where the selection of programs and projects to be financed is taken by the recipient local government.

### **3. Transfers from Regional to Local Governments**

The ban on conditional grants introduced by the 2001 constitution seems, at a first glance, to be applicable to all levels of governments. This was also the prevailing interpretation of all stakeholders. Obviously, the ban raised immediate and huge concerns, since it was implying that all existing conditional grants programs had to come to an end. The issue was immediately brought up to the constitutional Court with reference to the case of ongoing regional grants to kindergartens. The Court stated<sup>8</sup> that the grant program could be continued because, while the Constitution forbids the allocation of grants for specific functions, the ban cannot be applied to Regions since it would imply the curtailment of their policy-making and financial autonomy that is also constitutionally protected. Kindergartens are a responsibility that Regions and local governments share with the central government. However, according to the ruling of the Constitutional Court, the central government has only “a few discretionary powers” (our translation) in this sector.

The ruling of the Constitutional Court has implications that extend beyond the kindergartens, because it can be –and has been - applied to all existing similar conditional grants programs.

The practice since 2001 shows that conditional grants from Regions have not diminished. The trend is partly observable in Table 4 that reports the share of recurrent and capital grants allocated to the Municipalities by the central and the regional governments. Grants for recurrent purposes from the central government include equalization non-conditional grants and show a large reduction of their relative importance. Grants for recurrent expenditure from the Regions and grants for capital purposes from both levels of government are definitely conditional and have increased their importance over the years.

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<sup>8</sup> Ruling N. 370 of 17 of December, 2003

**Table 4. Grants from the central and the regional governments to the Municipalities. Share on total revenue, selected years.**

	1996	2000	2001	2006	2007
Grants from the central government recurrent purposes	22,7	20,2	19,1	8,9	13,2
Grants from Regions for recurrent purposes	3,4	5,7	5,9	5,4	6,0
Grants from the central government capital purposes	1,6	2,1	1,6	1,5	2,3
Grants from Regions for capital purposes	2,3	3,0	3,5	4,9	5,0
<b>Total Revenues</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

## Conclusions

The reformed constitution has eliminated earmarked/conditional grants from the panoply of instruments for financing regional and local governments. The intent behind the elimination was to give more regard to subnational government autonomy.

At the same time, the constitution and the legislation implementing it intend to promote equality of service provision across all areas for a set of basic services, including health, education and social protection. The constitution also intends to promote regional economic convergence.

This is likely to increase the need to use financial instruments that can impact negatively on the autonomy of the recipient governments, as in the case of earmarked/conditional grants.

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## ANNEX 1

**Table A1. Italy. Consumers' satisfaction and percapita expenditure on hospital care by Region. 2000 and 2005**

Regions	Index of Satisfaction				Percapita Expenditure	
	Medical	Other	Medical	Other	Euros	Euros
	2000	2000	2005	2005	2.000	2005
<i>PMN</i>	<i>1,63</i>	<i>1,73</i>	<i>1,62</i>	<i>1,64</i>	<i>942</i>	<i>1.644</i>
<i>LOM</i>	<i>1,75</i>	<i>1,73</i>	<i>1,71</i>	<i>1,80</i>	<i>1.012</i>	<i>2.073</i>
<i>TRN</i>	<i>1,42</i>	<i>1,42</i>	<i>1,60</i>	<i>1,52</i>	<i>1.000</i>	<i>2.101</i>
<i>VEN</i>	<i>1,76</i>	<i>1,76</i>	<i>1,67</i>	<i>1,59</i>	<i>1.000</i>	<i>1.637</i>
<i>FVG</i>	<i>1,4</i>	<i>1,33</i>	<i>1,75</i>	<i>1,82</i>	<i>1.053</i>	<i>1.633</i>
<i>LIG</i>	<i>1,72</i>	<i>1,65</i>	<i>1,47</i>	<i>1,51</i>	<i>1.042</i>	<i>1.616</i>
<i>ERO</i>	<i>1,61</i>	<i>1,61</i>	<i>1,62</i>	<i>1,60</i>	<i>1.000</i>	<i>1.702</i>
<i>TOS</i>	<i>1,64</i>	<i>1,65</i>	<i>1,71</i>	<i>1,64</i>	<i>994</i>	<i>1.667</i>
<i>UMB</i>	<i>1,77</i>	<i>1,62</i>	<i>2,00</i>	<i>1,90</i>	<i>1.093</i>	<i>1.629</i>
<i>MAR</i>	<i>1,8</i>	<i>1,74</i>	<i>1,70</i>	<i>1,67</i>	<i>1.034</i>	<i>1.542</i>

<i>LAZ</i>	<i>1,83</i>	<i>1,97</i>	<i>1,80</i>	<i>1,80</i>	<i>929</i>	<i>1.099</i>
<b>ABR</b>	<b>1,96</b>	<b>1,9</b>	<b>1,84</b>	<b>1,89</b>	<b>1.032</b>	<b>1.451</b>
<b>MOL</b>	<b>1,92</b>	<b>2,22</b>	<b>2,15</b>	<b>2,12</b>	<b>865</b>	<b>1.247</b>
<b>CAM</b>	<b>1,86</b>	<b>2,03</b>	<b>1,88</b>	<b>2,16</b>	<b>916</b>	<b>1.331</b>
<b>PUG</b>	<b>2,05</b>	<b>2,06</b>	<b>1,96</b>	<b>2,07</b>	<b>995</b>	<b>1.402</b>
<b>BAS</b>	<b>1,9</b>	<b>1,88</b>	<b>1,84</b>	<b>1,93</b>	<b>1.011</b>	<b>1.622</b>
<b>CAL</b>	<b>1,99</b>	<b>2,11</b>	<b>2,03</b>	<b>2,04</b>	<b>943</b>	<b>1.900</b>
<i>SIC</i>	<i>1,99</i>	<i>2,18</i>	<i>1,88</i>	<i>1,93</i>	<i>913</i>	<i>1.459</i>
<i>SAR</i>	<i>1,87</i>	<i>1,91</i>	<i>1,79</i>	<i>1,78</i>	<i>979</i>	<i>1.755</i>

SOURCE. ISTAT

NOTES. VALUES OF INDEX: 1 VERY SATISFIED, 2 SATISFIED, 3 DISSATISFIED, VERY DISSATISFIED. ORDINARY REGIONS ARE IN BOLD.

## ANNEX 2

### **A definition of the degree of (de)centralization based on political/electoral interrelations**

The degree of centralization/decentralization can be defined in political/electoral terms by referring to the probability of re-election of the central government.

Suppose a country with a central government,  $C$ , subdivided in two distinct regional jurisdictions,  $i$  and  $j$ . There are only two publicly provided goods, namely, defense,  $D$ , a purely national one, and health care,  $H$ , a mainly local and mixed one. These goods can be provided under different institutional arrangements.

The probability of re-election depends only on the level of service provision for the publicly provided goods, that is,  $P_c(\alpha D, \beta H)$ , where  $P_c$  is the probability of re-election of the central government and  $\alpha$  and  $\beta$  are the discount factors, assigned to the arguments, with  $0 \leq \alpha, \beta \leq 1$ . This probability is related to the probability that each voter will grant his/her consent to the incumbent politician. In turn, this probability is a function of the utility of each voter. For simplicity, we assume that voters' utility function has only two arguments, namely defense and health care provision.

The degree of decentralization can be inferred – according to this approach – from the value of  $\alpha$  and  $\beta$ . When  $\alpha = \beta$  the system is completely centralized, since voters consider that the central government only is responsible for both goods. In fact, in a purely centralized system the two arguments are discounted equally by the central government. This is because, independently from constitutional and/or other legal regulations voters consider that the central government has the full and exclusive responsibility for their provision. When  $\alpha > \beta$  the system is decentralized. When  $\beta$  equals zero, the system is completely decentralized and the central government bears no responsibility whatsoever for the provision of the local good. A completely decentralized system implies that the probability of re-election depends for each unit of government from the single good for which the voters hold them responsible. The probability of re-election will depend for each layer of government from the level of service provision for a single good.

An essential point has to be made. The degree of decentralization defined here does not depend on equalization (regional redistribution) issues. In other words, according to our definition the central government is evaluated by citizens in the areas assigned to the responsibility of subnational government independently of equalization issues. This means that even in those jurisdictions, which do not benefit from equalization grants, voters consider the central government has a role to play. For example, providing insurance against possible failures in the service provision by their regional government.