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**Decentralization and Regional Development: Challenges and Issues for the
Italian Parliament**

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INTRODUCTION

Territorial government in Italy historically breaks down into four layers. Sub-national governments comprise of 20 regions, 103 provinces and 8,100 municipalities.

While provinces and municipalities have been established since the country came into being, regional governments are a relatively new entity, as regions were established only under the 1948 Constitution.

Regions are provided with legislative and administrative powers, particularly relevant in the fields of agriculture, commerce, public health, tourism, public works and long-distance public transport. Five regions - the large islands (Sicily and Sardinia) and areas close to national borders (like Trentino Alto Adige, divided into the two Autonomous Provinces of Trento and Bolzano, and Valle d'Aosta) with sizable non-Italian speaking populations - are called 'Special Statute' regions. Four of them were established in 1949 (the fifth, Friuli Venezia Giulia, was established in 1964) to reduce the threat of separatist movements and ethnic tension.

They have far wider competences - for instance in education and the promotion of industrial activities - than those of the other 15 Ordinary Statute Regions, which became operational only in 1970.

The central government still retains a strong regulatory power mainly on ordinary regional governments which it exercises through the various central institutions. For example, for every field of responsibility assigned to regional legislatures, the national parliament determines the principles that regional laws have to follow.

On the other hand, the national executive can veto a regional law when it considers that national principles have been overpassed. Conflicts of competence between the central government and the regions brought to the Constitutional Court have been consistently decided in favor of the central government, which appoints all constitutional judges.

THE REFORM AND THE FISCAL LEVER AS A PROMOTER FOR DECENTRALIZATION

With a first reform, promoted by the government in 2001, the attempt to balance the powers of central government on one side and territorial development on the other was partly achieved; especially through fiscal policy, unanimously seen as a multiplier and a promoter of benefits for local autonomies in a process of equitable decentralization.

Fiscal federalism is a form of multi-level organisation of the government system and of the financial relations between institutions different from simple administrative decentralization. Federalism implies decentralization, but assumes as distinctive feature that the local government institution has its decision-making autonomy in establishing and managing the resources - particularly proceeds from taxes - to fund its government actions.

The economic theory provides no definite conclusions on the trade-off between decentralization and centralization, that is on which of the two options guarantees - in all circumstances - more efficiency, hence more economic well-being for the community as a whole.

However, whichever the governance system is, it must be based on the principle of accountability of all institutional bodies contributing to the implementation of public policies.

The process of decentralization - which started in Italy since the creation of the Ordinary-Statute Administrative Regions (and, even before, of the Special-Statute Administrative Regions) and peaked with the 2001 reform of Title V of the Italian Constitution - has followed an accidental, though continuous, path characterized by a gradual introduction of federalist components within the institutional setting. Those components had a growing impact on the decentralized financial system, passing through (even chronologically) different phases, namely the attribution to local bodies of a growing role in the management of fundamental services for citizens - *in primis* health care - and the gradual enlargement of administrative responsibilities (for instance with the so-called *Bassanini Laws*), as well as with the recognition of new forms of autonomy in collecting the necessary resources to fund new competences.

Though with the limitations and cautions pointed out by some authors¹, there is no doubt that the newly-amended Title V of the Italian Constitution marks a significant leap forward, or at least provides an important opportunity to enhance the trends which have been characterising the government's powers framework in the three pre-reform decades and which were sketched - with particular reference to fiscal autonomy -.

¹ Giarda P. (2003a), *Quale modello di federalismo fiscale nella nuova Costituzione italiana?*, Relazione presentata alla XLIII riunione scientifica della Società Italiana degli Economisti, Ferrara, 25 ottobre 2002, versione rivista il 17.3.2003.

Title V redraws the fundamentals of the institutional framework by assigning wider and more precise responsibilities to local government institutions.

As a prerequisite of the new institutional framework, the opening article of Title V, n. 114, affirms the full equalization of central and local government institutions, stating that “*the republic consists of Municipalities, Provinces, metropolitan Cities, Regions, and the State*” and that those bodies “*are autonomous entities with their own statutes, powers, and functions according to the principles defined in the Constitution*”.

In terms of legislative functions, there is a complete reverse of trend compared to the previous drafting as, in art. 117 of the Italian Constitution, not only state and regions are set on an equal footing (“*legislative power belongs to the State and the Regions in accordance with the Constitution*”), but regions have exclusive legislative power with respect to any matters not expressly reserved to the state or not subject to concurrent legislation of both the state and regions.

Besides, the areas subject to concurrent legislation, for which the state must set the basic reference principles that regions must respect in issuing their by-laws, comprise very important matters - also from a financial point of view, such as education -. Generally speaking, one may state that the distribution of matters to the (either exclusive or concurrent) regional competence follows criteria in keeping with the theory of fiscal federalism whereby local government institutions should be empowered with the decision-making and management responsibility concerning the services and benefits provision of individual nature to citizens and to resident economic units.

Besides, it is worth underlining that art. 117 introduces a completely different approach compared to the one adopted by the previous Title V concerning the question of financial autonomy. Indeed, among the matters subject to concurrent legislation there is the “*harmonization of the budgetary rules of the public sector and coordination of the public finance and the taxation system*”, while the competence on the non-state taxation and accounting system is recognised by regions.

A large debate, involving not only politics but also the civil society and Italian opinion-makers, is currently going on in Italy. The objective is to provide a deeper framework for fiscal autonomy and federalism in order to enhance the capacity of investment of local administrative layers.

The trade-off to be considered is that Italy has considerable economic and social development differences, above all between the northern part of the country and the south – the so-called Mezzogiorno. That’s why, administrations from the north ask for a more autonomous way of collecting – through local taxation – money and to invest it in the territory, through models for social welfare and economic development.

The key question in balancing this upcoming reform will be how to conciliate this autonomy with an equitable fund provision to the Mezzogiorno regions, where unemployment, social restraint and economic poverty are still widespread.

CONCLUSION

In conclusion: fiscal federalism is a form of multi-level organisation of the government system and of the financial relations between institutions which significantly differs from simple administrative decentralisation.

Federalism implies decentralisation, but assumes as distinctive feature that the local government institution has its decision-making autonomy in establishing and managing the resources - particularly proceeds from taxes - to fund its government actions.

The economic theory reaches no univocal conclusions on the trade-off between decentralization and centralization, that is on which of the two options guarantees in all circumstances more efficiency, hence more well-being. However, whichever is the governance system, it must be based on the principle of accountability of all institutional bodies contributing to the implementation of public policies.

The comparative analysis of the various institutional systems, of the forms decentralization may take up, of the main indications coming from the economic literature and from the direct Italian experience, shows that:

- in the presence of a decentralized organisation, fiscal federalism is more efficient - from different viewpoints - than the mere administrative decentralization;
- the forms of institutional decentralization towards which the system should evolve strictly depend on the specific historical heritages and the economic situations of the areas concerned: thus, there is not a “magic formula” for any situation;
- in this respect, the fundamental distinction lies in the starting points: whether the federal-like setting be the outcome of an aggregation process of separate states (federations coming-together) or the result of a process of power devolution within a unitary state (holding-together federations);
- for Italy, the fact that the latter option holds true, the experience accumulated before the reform of Title V of the Constitution, together with the awareness of the high degree of diversification structurally characterising Italian regions, lead one to think that if, on the one side, fiscal federalism in a close sense is a better solution, with the attribution of fiscal autonomy to local government institutions, on the other side strong offsetting (i.e. equalisation) mechanisms are necessary and they must be automatic and not discretionary. The option in favour of a “solidarity-based federalism” envisaged by the 2001-amended Italian Constitution proved to partially fit the Italian situation. Besides, it is estimated necessary to “close” the reform by amending the present institutional array so as to effectively involve all government levels in the national (legislative and executive) decision-making process in order to foster further accountability and cooperative spirit. This reform will necessarily imply a reform of

national institutions too. In particular, the redrawing of Parliament is considered necessary, where the current bi-cameral system is proving to block and to “overload” the legislative activity.

The project for reform aims at enhancing the powers of the Lower House of Parliament and creating a “Federal Senate”, where regions shall have their own representatives to discuss the implications of national legislation at a local level and can propose laws of local and national interest².

² A good on-line library on legislation and political debate about decentralization in Italy is at <http://www.astrid-online.it/Dossier-r/La-riforma/>