

Federalism and Social Policy

Patterns of Redistribution in 11 Democracies

Edited by Scott L. Greer and Heather Elliott

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Immobilism by Design

Fiscal Devolution and Territorial Inequality in Italy

Julia Lynch and Rebecca Oliver

Even before decentralizing reforms that began in the late 1990s, the Italian welfare state was well known for large differences in the level of protection offered to residents across the country's twenty regions (Fargion 1996). When constitutional reforms devolved fiscal and policy autonomy to sub-national regions, many observers expected this inequality in social provision to grow even wider (Arachi and Zanardi 2004; Franco 2010). A series of legislative reforms granted greater autonomy to regions and recalibrated domains of legislation and social service delivery mechanisms. Contrary to expectations, however, no noticeable increase in regional inequalities in social spending has occurred since the onset of these reforms. Particularly in light of the fact that the reforms are taking place in a context of pronounced regional differences in wealth, fiscal capacity, and economic development (Del Pino and Pavolini 2015), this is a surprising finding. Partisan competition and legislative gradualism have yielded an underlying stability in the inequality between regions on social spending.

There are several good reasons to expect that reforms aimed at creating greater regional autonomy and deepening fiscal federalism would generate increasing inequality in regional social spending. First, several cross-national studies have found that political decentralization is associated with increased regional spending disparities (Canaleta, Arzoz, and Garate 2004; Ezcurra and Rodríguez-Pose 2013; Kyriacou, Muinelo-Gallo, and Roca-Sagalés 2015).¹ Single case studies of Colombia and Australia, too, have found evidence pointing in this direction (Bird and Tarasov 2004; Bonet 2006).

Second, considerable research has documented historical differences

in growth and productivity between Italy's wealthier northern regions and less affluent southern areas (Leonardi, Nanetti, and Putnam 1987; Triglia 1992). Numerous studies have identified a persistent "fiscal gap"—that is, a gap between expenditure needs and own revenues—in a number of regions (Unioncamera Veneto 2009, 2013). If historical patterns of revenues and spending remain in place, fiscal decentralization is likely to generate increasing inequality between regions in social spending.

Third, since the 1994 start of the Second Republic, which coincided with the rise to prominence of a political party that strongly criticized fiscal redistribution, decentralization has been a leitmotif of national politics. Many of Italy's devolutionary reforms were either spearheaded by or done in reaction to demands by the Northern League (Lega Nord), which has consistently campaigned against redistribution of tax revenues from North to South and in recent years has aggressively advocated a federal system and greater fiscal independence of the North (Groppi and Scattone 2006, 132). When in the ruling coalition, the Lega Nord has demanded that fiscal decentralization be a government priority. However, even initiatives occurring under center-left coalitions that excluded the Lega Nord were influenced by the political threat posed by the party.

A fourth reason to expect that the decentralization in Italy would create growing divergence in social spending patterns between regions is the specific nature of the decentralizing reforms, which consisted of measures devolving significant policy and fiscal autonomy to local governments. Prior to the first initiatives, regional prerogatives had been rather limited, with a strict hierarchical structure and limited delegation to regional authorities.² In 1997, the center-left government of Prime Minister Romano Prodi was the first to undertake decentralizing reforms. These reforms, known collectively as the Bassanini Laws, changed administrative structures and allocated a number of administrative functions and civil service positions to regions, provinces, and municipalities. The major constitutional reform of 2001, which modified Chapter V of the constitution, also introduced by a center-left government under Prime Minister Giuliano Amato, primarily involved a reallocation of legislative competences between the central government and the regions. Any function not reserved for the central government or shared between levels of government was granted to the regions.

Along with these new responsibilities for local administration, the amended Article 119 of the constitution also introduced some safeguards against too much regional divergence. One of the reserved powers that remained with the prerogative of the central government was the determi-

nation of "essential levels of services concerning civic and social rights which must be guaranteed across territory" (Cento Bull 2002, 187). The rewritten Article 119 stipulates the establishment of a financial equalization fund to compensate economic disequilibria between northern and southern regions (Alber 2014, 149). Nevertheless, the central government relinquished authority to suspend regional legislation, and the next law on fiscal federalism (42/2009) granted even greater revenue autonomy to regions and local authorities.

The 2009 law was introduced and passed by the center-right coalition government led by Silvio Berlusconi, which included the Lega Nord. Regional and municipal authorities were granted chief responsibility over social services and education (subject to providing an "essential level of provision" set by agreement with the central state). In an effort to further devolve the locus of fiscal responsibility, regions were granted a share of the nationally collected value-added tax and the entirety of revenues from and the right to modify (within bounds) the personal income tax and tax on business. Municipalities gained a segment of value-added tax, income tax, and the right to levy certain new property taxes. Law 42/2009 also specified that grants to the regions from the central government be cut in proportion to these increases in local fiscal capacity.

For all of these reasons—the theoretical expectations that federalism will produce growing divergence, the highly disparate economic bases and social provision patterns in Italy's regions prior to the reforms, the political impetus for greater regional autonomy in taxing and spending, and the significant fiscal and policy devolution implied by the reform legislation—it would be reasonable to expect that the decentralization of the Italian welfare state would result in growing inequalities between the regions in social spending. But this has not been the case.

Territorial Inequality in Social Spending

Several different levels of government and administrative entities undertake social protection in Italy. EU guidelines (which are reflected in the Italian accounts; see Istat 2011) classify social protection spending under a wide range of functions ranging from the quite marginal (social assistance to the elderly, parental leave benefits) to substantial expenditure items (old-age pensions, health care). In Italy prior to decentralization, subnational governments were generally responsible for providing social services and assistance for the neediest. The regional governments were

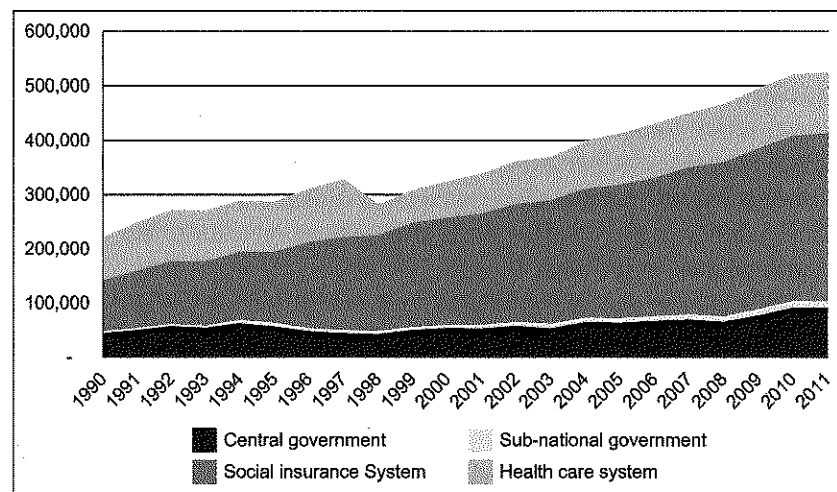


Fig. 1. Percentage of Total Social Protection Spending by Administrative Unit (millions of current euros)

Source: Data on social protection spending from Istat 2014b; data on health spending from Istat 2014e.

charged with administering health services to be paid for largely by pass-through spending from the central government (details in France 2014; Toth 2014). The central state oversaw programs related to the labor market and some forms of disability. The social insurance system disbursed funds collected from employers, employees, and the self-employed to the major social insurance programs (old-age and widows' pensions, some disability pensions, family allowances, and a minimal unemployment insurance benefit). Primary, secondary, and postsecondary education is funded primarily by the Ministry of Education, University, and Research, which provides monies for teacher and staff salaries (86 percent of education spending in 2009) (Sibiano and Agasisti 2013, 14). The maintenance of school facilities and integrative projects, student aid, and vocational training are regionally funded.

Figure 1 shows the share of social spending in Italy carried out by the four administrative units from 1990 to 2011. The figure illustrates that the vast and rapidly increasing bulk of social spending in Italy is carried out through the social insurance system and not by either the national or sub-national governments or even by the health care system. Subnational governments' share of social spending has risen since decentralizing reforms began in the late 1990s, but that increase has been very modest relative to

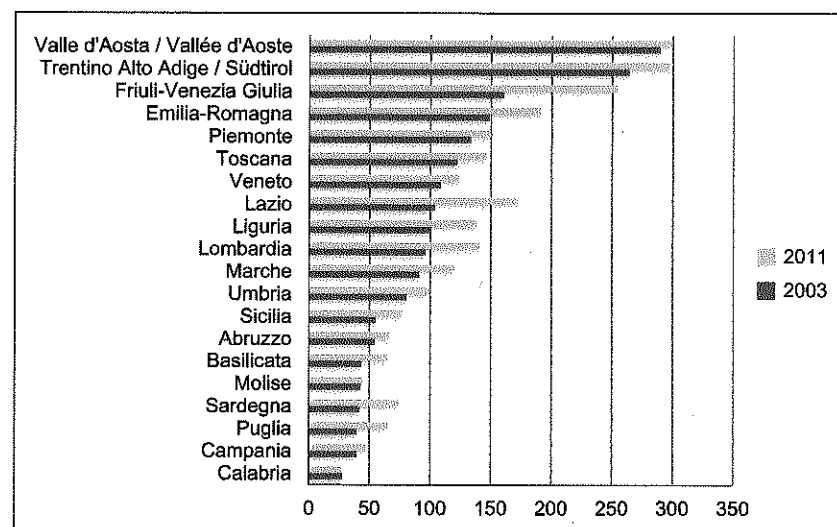


Fig. 2. Per Capita Social Expenditures, 2003 and 2011, Excluding Pensions and Health (current euros)

Source: Data from Istat 2014a.

the total amounts of spending—from 1.81 percent of total social spending in 1990 to a high of 2.29 percent in 2010.

Subnational governments nevertheless do have important roles in social spending. They are responsible for an increasing array of social and health services as well as for providing the basic social safety net. And marked variation in regional spending occurs within the competencies afforded to the regions, provinces, and municipalities. Figure 2 shows the variation across regions in social service spending and cash transfers by municipalities, which in many cases correspond to regional GDP (see Appendix for regional GDP figures).

Some version of figure 2 is the dominant image that most analysts appear to have in mind when they think about the pronounced regional variation in the welfare state across Italy. The coefficient of variation for overall social expenditures (excluding health and pensions) has a wide range between regions, with a slight decline from 0.70 in 2003 to 0.62 in 2011. Most of the larger increases in social spending during this period occurred in regions with lower overall spending, with the exception of Friuli-Venezia Giulia and Lazio, where spending rose by 58 and 65 percent, respectively.

While the data in figure 2 correspond to the dominant image of a frag-

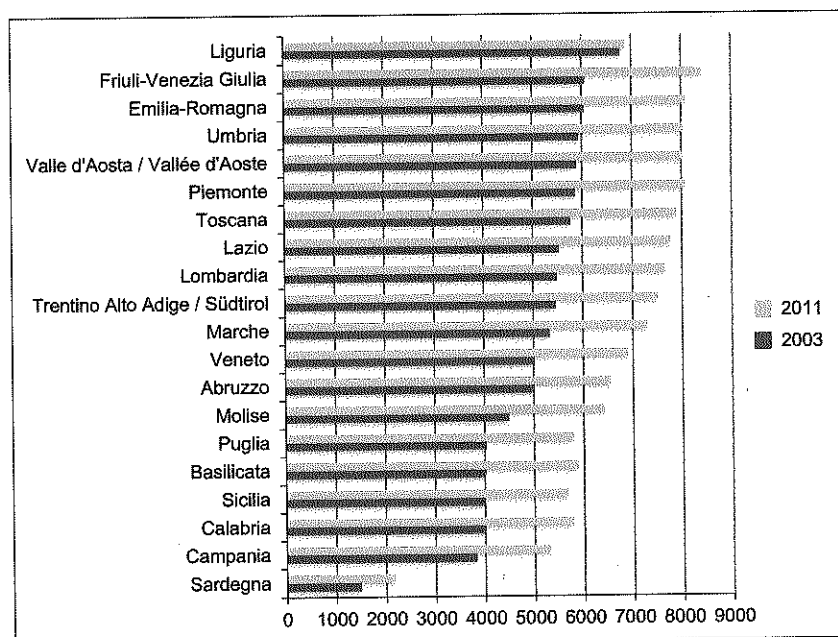


Fig. 3. Per Capita Social Expenditures, 2003 and 2011, Including Pensions and Health (current euros)

Note: Data refers to sum of per capita spending on social protection, health, and pensions. Pension per capita refers to population over 65.

Source: Pension data is from INPS (pensione ai superstiti, pensione di vecchiaia, prestazioni assistenziali); data for health spending and other social spending are from Istat 2014b, d.

mented, regionally divergent welfare state in Italy, these figures are not adjusted for the size of the population at risk of needing services in different regions and exclude health and social insurance spending. Understanding the full spectrum of social spending available to residents in different regions requires a different approach. Figure 3 shows per capita social spending in the Italian regions including health and pensions and adjusting for population demographics. Regional variation in social spending is greatly attenuated when we include a broader swath of social spending: The coefficients of variation across regions are 0.24 in 2003 and 0.21 in 2011. Most regional increases in spending are quite similar to the average—a 37 percent increase (in euros per capita). Exceptions include Liguria, where per capita social spending increased by less than 2 percent between 2003 and 2011.

Relative stability in the amount of variation in total per capita social

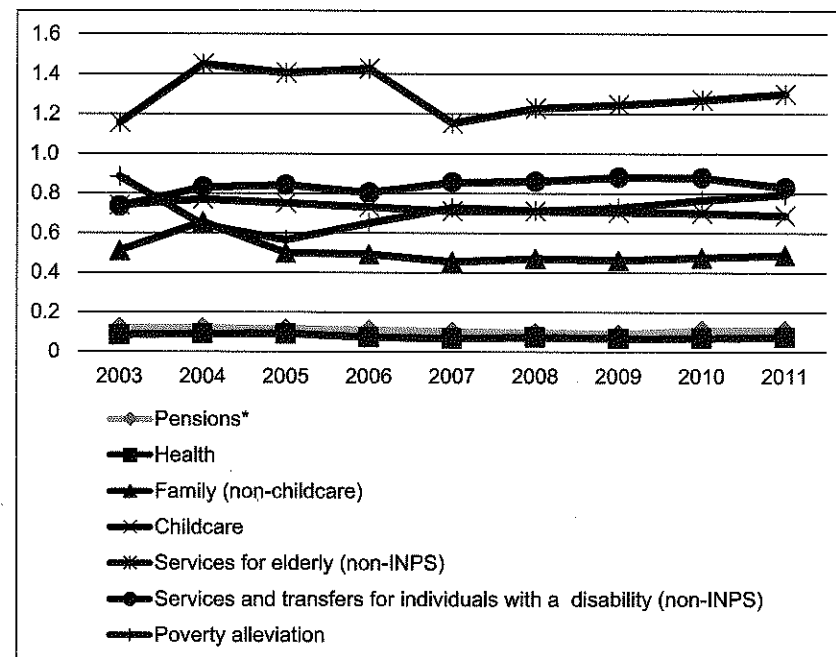


Fig. 4. Coefficient of Variation Between Regions in Standardized per Capita Social Expenditures, Including Pensions and Health, 2003–2011

Note: Coefficients of variation of per capita spending in each policy field were calculated across 20 regions for each year between 2003 and 2011. Spending per capita adjusted for appropriate population: pensions per capita based on the population 65 and over; child care per capita based on the 0–4 population; services and transfers for individuals with disabilities (which does not include spending on individuals over 65) based on the under-65 age group. “Pensions” line includes pension ai superstiti, pensione di vecchiaia, prestazioni assistenziali.

Source: Data from Istat 2014a, c, d.

spending between regions over time could obscure important changes in different policy areas. Figure 4 shows the coefficient of variation of spending among the regions in different policy domains, including those that are administered centrally and those delegated to the municipalities. Disaggregation by policy area allows for more appropriate population adjusters to estimate per capita spending. Within each of these policy areas, we measure the coefficient of variation between regions for a given year. This permits us to compare regional variation over time in a given spending area and across policy fields.

Overall, we observe considerable stability over time in the magnitude of regional differences in social spending. This trend is particularly salient in two of the largest spending areas, health and pensions, where cross-

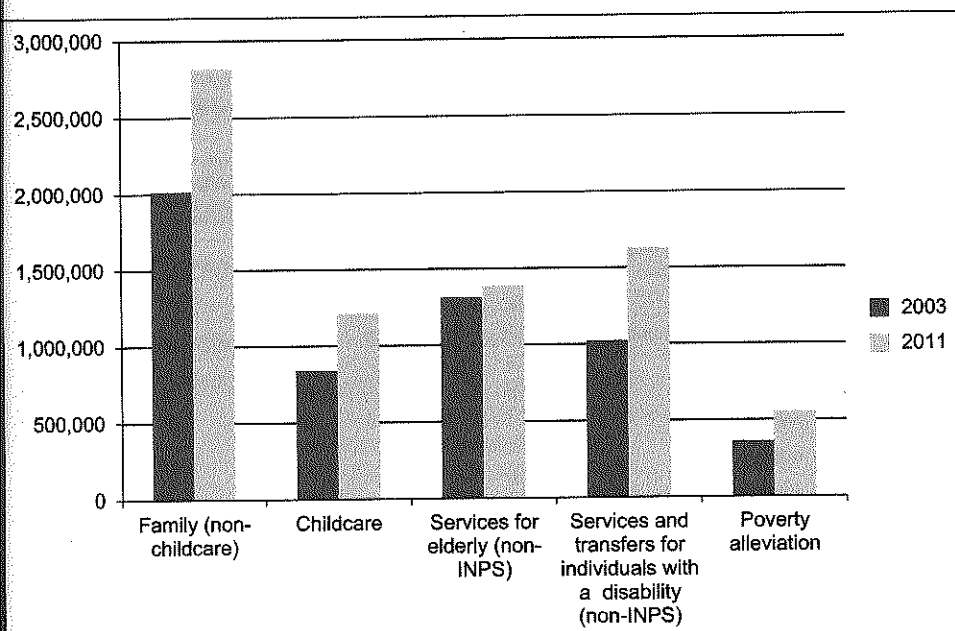


Fig. 5. Italian Total Spending on Assistance and Social Services by Municipalities, 2003 and 2011 (thousands of euros)

Source: Data from Istat 2014a, c, d.

regional differences in spending are both very low and very stable over time. Despite the fact that the Italian National Health Service is administered at the national level, it provides universal access to medical care that is funded via general revenues collected at the national level (Toth 2014). Old-age pensions are financed by social contributions levied on employers, employees, and the self-employed that are set at the national level and administered by the Istituto Nazionale Previdenza Sociale (the National Social Security Institute).³ Perhaps not surprisingly given the centralized administration of financing in these two policy areas, regional inequality in health and pension spending is low once we adjust for the demographic structure of the population.

Social spending on assistance and social service provision at the municipal level (Istat 2014b) presents much greater cross-regional variation with distinct dynamics for different policy fields. Figure 5 illustrates the per capita spending on these different measures aggregated at the national level.⁴ Those spending areas in which the regional differences are greatest (as seen in figure 4)—poverty alleviation and social assistance to the elderly—are also the policy areas that receive the fewest resources.⁵

Most spending on poverty alleviation is directed toward services and other direct interventions, including shelters for the homeless, services for domestic abuse and for former inmates, and some psychiatric services. The amounts are typically low, with high variation between years. Cross-regional variation in poverty alleviation has remained relatively stable with the exception of a low in 2005 and a high in 2003. Municipal services and transfers for users with physical, mental, or sensory disabilities (including people living with HIV or affected by TB) do not include spending directed toward the elderly and have been quite stable over time.⁶ Absolute spending on these services has increased (figure 5) but has done so rather evenly across regions and thus with stable levels of regional dispersion (figure 4).

Municipalities finance a number of services and transfers directed toward the elderly, including social assistance, mobility assistance, and home care.⁷ Outside of pensions, regions differ markedly in the scope and the type of services offered for the elderly. Variation is more substantial in this arena than in other policy fields, as signaled by the high starting point and persistently higher coefficient of variation (CV) than for other policy areas. Barbabella et al. (2013, 32–33) distinguish five regional profiles in terms of continuous care for the elderly, one of the main spending areas in elder care, based on the “intensity” of assistance offered and the use of residencies versus a reliance on cash for care and the employment of in-home attendants. They also note significant regional differences in the integration of health services with municipal care options: many wealthier regions have a stronger track record than less affluent ones. A close examination of the changes in the annual per capita expenditure amounts in a given region indicates that the decline in cross-regional variation in spending on services for the elderly stems not from broad spending increases as southern regions catch up to their northern counterparts but rather from stability, with minor increases in some southern regions and a modest decline in some northern regions (while others have stable expenditures).

Change over time in the degree of regional inequality in the field of family policy has generally been less pronounced than in the areas of services for the poor and elderly. Spending on both child care and other family policies rose considerably between 2003 and 2011 (figure 5). The decline in regional variation in child care spending, from a high of 0.77 in 2004 to 0.69 in 2011 took place in the context of an increase in overall spending on public child care across Italy (Oliver and Mätzke 2014). The number of municipalities offering child care services also broadened from 32.8 to 50.7 percent between 2003 and 2013 (Istat 2014c). Cross-regional

variation in non-child-care family services, which include community centers, municipal shelters for teenagers, social work, home care for families with young children, foster care, and cash transfers (notably family income supplements and housing assistance) was quite stable over time with the exception of a peak in 2004 (Istat 2013, 8).

In sum, the fiscal and administrative decentralization of Italy's welfare state prompted many to fear and some to hope that increasing cross-regional inequalities in social provision would occur. In the context of a dualistic economy and strong political pressure for greater regional fiscal autonomy, these expectations have rarely been questioned. However, remarkably little increase has occurred in the differences between regions in social spending since 2003, the earliest date for which we have reliable data. One reason for this is that the vast bulk of social spending in the regions actually consists of health and pension spending, which is relatively invariant across regions (after adjusting for demographic structure) and quite stable over time.

What Has Caused Regional Inequalities to Remain Stable?

Despite the apparent priority placed by successive governments on pushing forward decentralization of the Italian state, devolution has in fact been delayed or deferred. This contrast between the rhetoric and the reality of decentralization bears partial responsibility for the stability in cross-regional social spending patterns in recent years. Partisan contestation and self-decelerating implementation measures have yielded a halting development of legislation and have ultimately sustained a pattern of cross-regional redistribution that limits growth in interregional inequality in social spending.

Partisan Wrangling over the Content of Reform

Throughout Italy's Second Republic, both the center-right and the center-left have been consistently committed to comprehensive devolution. The Lega Nord and several northern regions pressured all sides to include decentralization in their policy plans. For the center-right, a viable majority coalition necessitated the partnership of the Lega Nord. Center-left politicians, for their part, were unwilling to cede the issue of devolution, and with it possible support from voters in northern cities, to the center-right or the Lega Nord. However, even within

the two main coalitions, let alone between them, there have been vastly different ideas about the appropriate articulation of such reform. Alternation in government between the center-left and center-right during the Second Republic has thus introduced multiple parallel paths to reform, delaying decisive progress toward devolution and postponing concrete implementation even of those reforms that have been passed. Painstakingly slow negotiations also occurred within coalitions, particularly those involving the Lega Nord, further contributing to delays in implementation.

The first major period of reform began in 1997 with the Bassani Laws and culminated in a 2001 constitutional reform. The center-left was in power at the national level but had recently suffered major electoral defeats in regional elections in the North, where the Lega Nord, allied with the center-right, performed strongly. Two northern regional presidents had proposed popular referenda to pressure the government to devolve fiscal and administrative power to the regions (Keating and Wilson 2010, 10). The timing of the center-left reforms suggests that they were unwilling to cede the issue of decentralization to the Lega Nord and its center-right allies (Mazzoleni 2009, 143–44), but the Italian Left had long supported some forms of decentralization, ensuring that these reforms did more than simply pay lip service to the issue (Masseti and Toubeau 2013, 366). At the closing of its term, in the spring of 2001, the center-left Amato government used its narrow majority to pass the constitutional reform through both houses of Parliament.

The reform passed without legislative support from Forza Italia, the Lega Nord, or other center-right parties, however, and when a center-right coalition claimed victory in the May 2001 elections, members of the coalition called for a referendum opposing the constitutional reform.⁸ The parties of the center-right were divided, however, in their approach to decentralization. During the campaign leading up to the 2001 constitutional reform, Umberto Bossi, the leader of the Lega Nord, referred to the center-left's reform as "false federalism" (cited in Keating and Wilson 2010). Premier Berlusconi also opposed the reform while simultaneously committing to undertake a further devolutionary change (Keating and Wilson 2010, 11; Massetti and Toubeau 2013). But his Forza Italia party was decidedly split on the question, particularly at the regional level: some regional presidents supported the measure as a necessary incremental step (e.g., Roberto Formigoni in Lombardia, Raffaele Fitto in Puglia), while others actively opposed it (e.g., Giancarlo Galan in Veneto) (Keating and Wilson 2010, 13). And Alleanza Nazionale (National Alliance), the third

member of the center-right coalition, opposed the 2001 reform because it had gone “too far and risked penalizing the less developed regions of the Mezzogiorno” (Massetti and Toubeau 2013, 368).⁹

These disagreements within the Right about the proper nature of decentralization would hinder effective action to overturn the center-left’s 2001 reform. The center-left, having just lost the election, nevertheless managed a coherent rally to protect its reform from the referendum to overturn it. Moreover, in 2001, public opinion appeared to strongly favor a reform. In an Italian National Election Studies survey, almost 80 percent of respondents agreed that “more autonomy should be given to the regions” and 62 percent concurred with the statement that “tax money should be given to (and administered on their own by) the regions” (cited in Massetti and Toubeau 2013, 369).¹⁰ In the October 2001 referendum, 64.2 percent of voters endorsed the constitutional reform, with majorities supporting the measure in every region except Val d’Aosta (where turnout, at 35.8 percent, was low).

After the referendum, the center-right’s time in office was marked by difficulty negotiating an alternative reform plan as well as by some substantive work toward developing a law to implement the 2001 reform. However, the Berlusconi government, elected just after the reform went into effect, “did not show any interest in completing the constitutional framework inherited from its predecessor” (Palermo 2012, 242). Nevertheless, the minister for regional affairs wrote up a small part of the enabling legislation, clarifying the allocation of competencies and transferring some limited administrative responsibilities to regions (Laws 131/2003 and 11/2005). However, this legislation constituted a drop in the bucket of measures requiring legislative clarification before implementation could take place (Palermo and Wilson 2013, 10), and the center-right’s main interest with regard to devolution during its 2001–5 term was devising an alternative to the center-left’s reform.

Bossi, the leader of the Lega Nord and minister of institutional reform in the Berlusconi government, was in charge of developing the center-right’s counterproposal, known in Italy as the “reform of the reform.” Bossi’s proposal was sweeping in scope, containing changes to 53 articles of the constitution (Palermo 2012, 243). Among other things, it proposed expanding the regions’ exclusive competencies in the fields of health, education, and public safety and eliminating the central government’s capacity to overrule regional laws.¹¹ In 2005, after long and tense intracoalition negotiations, members of the center-right coalition parties in Parliament approved the counterproposal—and then promptly lost power to Prodi’s center-left coalition.

In 2005, the center-left sponsored a referendum on the reform of the reform, calling it “grossly incoherent and socially divisive” (Palermo and Wilson 2013, 11). Opposition to the counterreform extended beyond the traditional center-left constituents to include, among others, the regional president of Campania, who denounced it as “egotistic regionalism that lacks solidarity” (Keating and Wilson 2010, 13). In this referendum, 61.3 percent of voters opposed the counterreform: it received support from narrow majorities in the northern regions of Veneto and Lombardia but decisive opposition in central and southern regions (Keating and Wilson 2010). The center-right’s attempt to rewrite the 2001 constitutional reform had failed.

When the center-left returned to power under Prodi, the government drafted a law aimed at executing the reform provisions to modify the system of regional equalization funds that determined the allocation of revenues controlled by the central government. The legislation was an essential step and was likely also motivated by acute concerns about losing electoral support in the North. Members of the center-left government emphasized that “the underlying principle of the draft was solidarity, contrary to the envisaged rather competitive federalism at variable speeds of the center-right” (Alber 2014, 148). The proposed legislation endeavored to balance concerns for administrative efficiency with those of interterritorial solidarity (Alber 2014, 147). While the measure was silent on questions of regional taxation, it set out clear language on equalization (Palermo and Wilson 2013, 11) and would have been an essential component of any substantive fiscal decentralization. However, when the government coalition lost support of a few small parties, snap elections were called in 2008, and the draft law was submitted to Parliament but never debated or adopted (Alber 2014, 147).

In 2009, Berlusconi’s new center-right government began to formulate and pass its own legislation on fiscal federalism to fill in the framework laid out in the 2001 constitutional amendment. At the time, the Lega Nord’s electoral support had surged, and Forza Italia promised devolution to secure a coalition with the regionalist party (Alber 2014, 148),¹² which had campaigned for a legislative slate for fiscal autonomy that would “safeguard the financial interests of northern taxpayers” (Palermo and Wilson 2013, 12). However, parties in the center-left coalition also supported the passage of fiscal federalism legislation, which they viewed as simply enacting the 2001 constitutional reform. The Berlusconi government managed to produce legislation on fiscal federalism, but during the arduous process of negotiating the law, the center-right faced splinter movements, particularly from representatives from southern re-

gions (R. Lombardo, leader of the MpA, cited in Massetti and Toubeau 2013, 374). Further splits emerged when the leader of Alleanza Nazionale spoke out resolutely against the reform, “stressing the need to give more weight to the principle of solidarity” (Massetti and Toubeau 2013, 374). Division within the center-right meant that the government lost its majority within those committees charged with writing the legislative decrees to enact fiscal federalism, which in turn meant that measures underwent a more protracted negotiation process and were ultimately “diluted” (Massetti and Toubeau 2013, 375).

The center-left Democratic Party’s Matteo Renzi revived constitutional questions relating to the structure of federalism immediately after becoming prime minister in 2014. Initial versions of the reform received support from Forza Italia, but this agreement fell through as the proposal evolved and it became clear that Renzi would seek a confirmatory referendum on the reform rather than attempting to piece together the two-thirds majority required to pass it without a popular consultation (Bianchi 2017).

Early versions of Renzi’s proposal for constitutional reform made apparent his government’s desire to boldly reimagine constitutional frameworks rather than merely completing the work begun by his predecessors. The final proposal represented a far-reaching overhaul of Italian political institutions and an “attempt to simplify the institutional circuit and to speed up the legislative process” (Pasquino and Valbruzzi 2017, 148). Most prominently, the sweeping proposal included eliminating symmetric bicameralism by reducing the scope of the Senate’s legislative power, removing the Senate vote of confidence, and modifying the body’s composition from 315 directly elected members to 100 indirectly elected members (councilors and mayors elected by regional councils). Other parts of the reform directly affected the relationship between regions and the central government strongly in favor of the latter by promoting legislation that favored the principle of “state supremacy,” thereby allowing the central government to intervene in regional jurisdiction when matters of “national interest” were involved (Cardilli 2016; Ceccarini and Bordignon 2017; Draege and Dennison 2017; Pasquino and Valbruzzi 2017). The proposed amendments also included abolishing provinces (the subnational unit below the region) and introducing a new electoral law.

Most important for territorial dynamics, the proposed amendment modified Article 119, which governs the allocation of resources to municipalities, cities, and regions to finance their assigned public functions. The proposed reform introduced a phrase explicitly linking resource allocation to reference cost indicators to “promote conditions of efficiency”

(Servizio Studi Camera dei Deputati 2016, 36). In other words, the proposed amendment constituted another in a long line of attempts to resolve how resource allocation should be affected by historical expenditure patterns versus desired levels of spending, with the attendant consequences for the distribution of resources across regions. This amendment could have launched a new round of implementation laws changing in the cross-regional distribution of resources tied to service provision, but the December 2016 referendum on the matter did not pass, with 59.1 percent of voters rejecting the packet of proposals.

Veneto and Lombardia held consultative referenda in October 2017 on the prospect of greater regional autonomy. In both cases, the initiative was taken by regional presidents from the Lega Nord who activated Article 116 of the constitution, under which regions may request more autonomy. After considerable back and forth on the phrasing, especially in Veneto, where an early version of the question was deemed unconstitutional, voters were asked if they would like their region to undertake institutional initiatives to further “forms and conditions of autonomy.” In both cases, the results were broadly supportive, with 95 percent (38 percent turnout) in Lombardia and 98 percent (57 percent turnout) in Veneto (*Economist* 2017). These referenda offer a popular mandate for the initiation of negotiations on greater autonomy, thereby introducing a new moving part to the still-open issue of fiscal federalism.

Contrasting objectives and a lack of decisive political will have meant that the process of decentralization in Italy is being drawn out over a lengthy period. Leaders from both the Left and the Right have been constrained by the opposing pressures of, on the one hand, acknowledging the demands for change within wealthy northern regions (formulated decisively by the Lega), and on the other, avoiding blame for major disruption to the status quo. Differing views over the form devolution should take meant that initiatives by one coalition were often met with a consultative referendum aimed at reversing the initiative and/or a laboriously produced, comprehensive counterproposal. No single set of reforms had the broad cross-party endorsement that would avoid triggering lengthy consultative measures. In part as a consequence of protracted intracoalition negotiations, sometimes involving regional figures, reforms tended to be introduced at the tail end of a government’s term, with enactment left to the opposing coalition, which was frequently unenthusiastic about building on its political opponents’ initiatives. Thus, the enduring partisan wrangling on the precise content, scope, and goals of devolution produced astonishing time lags between devolution initiatives.

The political deadlock surrounding decentralization had important consequences for cross-regional inequalities in social spending. While each party sought to be associated with decentralization in some form, leaders were also wary of enacting decisive changes to the cross-regional redistribution of fiscal revenues that would lead to worsening provisions for less wealthy and efficient southern regions. A decisive, comprehensive reform of cross-regional fiscal allocation mechanisms has repeatedly been delayed. In the absence of a decisive reform, the existing mechanisms for allotting revenues from the center to the regions and compensating for economic differences between regions have remained the default practice. This has guaranteed a degree of de facto stability in the resources available to regions despite de jure changes in the degree of fiscal autonomy and responsibility of regional governments.

Self-Decelerating Mechanisms

Built into the process of decentralization in Italy were a series of mechanisms that deferred decision making, required varying levels of consultation, and ensured time delays that slowed the pace of real reform. No reform on fiscal devolution was self-implementing or even complete when passed as a law or a constitutional reform. In most cases, the legislation passed by the legislature was incomplete, necessitating a string of enabling laws and enactment decrees before the reform could take effect. This results in part from the Italian legislative process, which generally outlines broad principles in framework legislation but requires additional enacting legislation and legislative decrees to trigger the legal standing to begin implementation. Further, reform legislation often specified a time delay or a transitional phase, both of which may delay implementation. In the absence of an upper chamber representing regional interests, passing a reform relevant to regional prerogatives entailed consultation with a series of ad hoc committees and bodies with multiple veto players.¹³ Finally, a legal vacuum resulting from the delayed implementation of devolution reforms opened space for regions to contest arrangements, taking matters to the Constitutional Court and entailing further delays.

Much of the reallocation of legislative powers between the central government and regional governments in the 2001 reform had immediate force of law (Palermo and Wilson 2013, 9–10). However, the vast bulk of the reform legislation was sufficiently vague that it could not go into effect without subsequent implementation law and enacting decrees that re-

quired nonbinding regional consultations and administrative regulations. In particular, Article 119.3 establishes that the state shall provide for a general equalization fund to support territories with lower per capita fiscal capacity, while Article 117 specifies that the central government's competencies include "determination of the basic level of benefits relating to civil and social rights that must be guaranteed throughout the national territory." Each of these concepts lacks concrete operationalization in the reform bill. As Barberis (2010) emphasizes, the constitutional text does not specify how essential levels of service should be constructed or whether they include levels of performance or a list of protected rights, either in principle or in practice (Barberis 2010, 97). Furthermore, there is no language regarding how the cost of provision of essential services will be offset by the equalization fund.

Two implementation laws related to the 2001 constitutional reform were passed in 2003 and 2005, but the bulk of enacting legislation was not initiated until 2009. For eight years, then, a legal void left open to interpretation how the amended Article 119 on fiscal federalism should take effect. Law 42/2009 was advanced to fill this void. However, this piece of legislation itself was only a "framework law," which meant that it contained key directive principles of fiscal federalism but that multiple subsequent enactment decrees were necessary to spell out the distributional allotment procedures.

The use of enactment decrees to flesh out the body of major legislative initiatives in Italy is common despite the original constitutional constraints requiring that decrees be reserved for exceptional circumstances.¹⁴ The implementation law on fiscal federalism has required 9 enacting decrees and 70 administrative measures (Conpaff 2013). These decrees are themselves not self-executing; most do not come into effect without a series of consultations and executive rules that can take as long as seven years (Palermo and Wilson 2013, 14).¹⁵ More often than not, the decrees also contained self-activating time delays, with a specified transitional phase and then a future date on which a given provision will be operational. For example, elements of fiscal federalism came into operation in 2016 after a transitional phase that began three years earlier (Palermo and Wilson 2013, 15; see also Valdescalici 2014, 79).¹⁶

The passage of an enacting decree related to decentralization is far from a simple task, requiring two or three levels of consultation. First, all members of the governing coalition must support the decree, a proviso that has proven particularly difficult in instances where the Lega Nord has staked out an extreme position. Second, any government decree necessi-

tates “the compulsory, but not binding, opinion of parliamentary committees” (Capano 2005, 19). With a decree regarding regional matters, there is an additional obligation to consult with regional bodies. The 2001 constitutional amendment specifies that until the completion of the reform of the Senate, regions and local governments must be consulted through parliamentary committee (Keating and Wilson 2010).

Further complicating implementation, several additional consultative committees exist for such subject matter that involves the joint participation of representatives from central, regional, and local levels of government (Ceccherini 2008, 219): the Conference of the State, Regions, and Autonomous Provinces (Conferenza Stato-Regioni), the State-Municipalities-Local Autonomies Conference, and the State-Regions-Autonomous Provinces-Municipalities-Local Autonomies Conference (Ceccherini 2008). The Constitutional Court has deemed consultation with these bodies compulsory in a number of instances, particularly policies “concerning areas of regional competence and expertise” (Ceccherini 2008, 223). Between 2002 and 2010, the court issued 23 decisions on the subject of fair collaboration (Ceccherini 2008, 220).

The joint conferences have been instructed to consult on matters beyond legislative degrees involving regional provisions, including matters

on the state legislative guidelines pertaining to matters of immediate regional interest; on the national economic planning objectives for financial policy and State budget; on the general criteria affecting the exercise of the programming and coordinating power (in which case the Conference’s opinions were binding) . . . drafting process of several guideline documents (if only to reach a weak agreement). (Ceccherini 2008, 223)

In some instances, mandatory but advisory and nonbinding consultation has meant that the central government has adopted initiatives despite the position expressed by the conference.¹⁷ Yet extensive and lengthy consultations on contentious distributional issues have often delayed legislation or administrative regulation on matters related to devolution.

One of the most important sources of delay is that the concepts of essential levels of service (LEPs) and equalization around which legislation on fiscal federalism has been constructed have not been adequately defined. These concepts were cited in and were central to the 2001 constitutional reform. Regions were to provide essential levels of social, educational, and health services derived from the 1948 constitution, but fiscal

equalization between regions would be carried out by the central government to provide additional financing when a region’s revenues proved inadequate. However, the reform did not define or establish methods for measuring LEPs or specify precisely how or how much equalization between regions ought to occur.

Only in May 2009 did the law on fiscal federalism (42/2009) broach the subject of how to implement the LEP. In attempting to allocate greater autonomy and fiscal responsibility to regions, this law specified that the costs or “allowable” expenditures for LEPs should be based not on a region’s previous spending for service provision (historic expenditure) but rather on a metric of “standard costs”—that is, the costs that would be required by a well-functioning government to produce such services. While the expression evokes notions of uniformity and efficiency, the law itself was resolutely silent on how standard costs for essential levels of services were to be established and measured. The definition of LEPs, especially outside of health, remained unsettled.¹⁸ Examining the period from 1985 to 2009, Buglione (2014, 321) underscores that despite the increased taxing capacity of northern regions, “the solidaristic character of the Italian fiscal federalism model has so far been safeguarded” as GDP per capita resources for a given region are derived from the sum of equalization transfers (higher for southern regions) and tax revenue (approximately double for northern regions).

Legislative decree 216/2010, passed by center-right government in November 2010, took a step toward clarifying these concepts but did not actually define the essential levels of services or establish measures to evaluate standard cost (Disposizioni in Materia 2010). Rather, the decree set out a detailed set of steps that were required to establish metrics for LEPs. The decree identifies the “basic functions” of local government and a provisional list of services. It enunciates a methodology for determining the LEP and the related cost analysis without using the criterion of historic expenditure. The decree specifies that the standard requirements for each basic function will be determined through a five-step process involving the identification of information and data required for accounting through questionnaires to be completed by municipalities, individuating quantitative levels of performance, cost analysis, statistical model development, and a definition of indicators to access adequacy of services (Disposizioni in Materia 2010; see also Vitiello 2014). The decree established 2013 as the deadline for determining essential levels of service, which would then be used to generate payments to regions during a three-year transitional period beginning in 2014.

At this stage, the full severity of the financial crisis was becoming apparent. In August 2011, leaders from the European Central Bank urged the Italian government to take far-reaching measures to redress shortfalls in public finances (Lynch 2014, 384). In December, the newly appointed technocratic government led by Prime Minister Mario Monti (which also included representatives from center-right and center-left parties) put forward the €30 billion “Save Italy” austerity plan designed to reduce the national debt (De la Porte and Natali 2014; Del Pino and Pavolini 2015, 257; León, Pavolini, and Guillén 2015, 195–96; Ganesini 2014, 160–61). It included important pension reforms (increasing the retirement age and introducing more stringent conditions for early retirement) and launched major labor reform negotiations (Agostini and Sacchi 2015; De la Porte and Natali 2014, 744; Lynch 2014, 383; Picot and Tassinari 2015).

Despite swift action in other realms, the enactment of the LEPs continued to wind its way slowly through the process. Slides from a July 2013 meeting with the IMF delegation indicate that the central execution measures were still absent at that point (Conpaff 2013, 18). Only at the eleventh hour, on 23 December 2013, did the Commissione Tecnica Paritetica per l’Attuazione del Federalismo Fiscale (Joint Technical Commission for the Implementation of Federalism) approve and publish 10 methodological notes for the implementing decree (Disposizioni in Materia 2010). The methodological notes individuate precisely which services fall into the category of fundamental function, establish formulas for determining service needs for local entities, and include calculations for defining standard costs (Conpaff 2013, 21). However, a 2014 decree (16/2014) delayed the beginning of transitional application of the standard requirement to 2015. And an April 2015 legislative report explicitly states that, with respect to determination of LEPs and the essential performance level, “State law required by the provision in question has not so far intervened” (Camera dei Deputati 2015, 12). Not until December 2016 was the methodological note determining the calculation procedure for the estimated tax capacity of each municipality adopted (Commissione Bicamerale 2018).

In the legislative session that ended in January 2018, methodological notes for calculating standard needs and requirements for functions related to education and social services were approved by decree of the President and Council of Ministers. While no implementation can take place without these lengthy methodological notes, the completion of the notes does not itself bring to an end the process of adopting changes to the practice of fiscal federalism.

During this period of acute austerity, even seemingly stringent budget-

ary constraints that pushed regions toward greater fiscal self-reliance contain language on equalization. For example, the balanced budget rule enacted in 2012 (243/2012) requires central, regional, and local governments to maintain balanced budgets (Ministero dell’Economia e Finanze 2012, 2), in line with the debt rule from the European Union Stability and Growth Pact, which requires an annual reduction in debt-to-GDP ratio (OECD 2013, 22). At the same time, the law stipulates that “in downturns, the Central Government activates a system of transfers to balance the decrease in local revenue with reference to the local expenditure functions for which the Central Government sets minimum standards.” Thus, in addition to built-in delays, much of the recent Italian lawmaking on fiscal decentralization continues to expressly require rather extensive cross-regional redistribution.

In February 2014, Prime Minister Renzi entered office, planning swiftly to take on reforms geared at promoting economic recovery and placating European Commission officials. In October 2014, Renzi rolled out the draft of his first budget bill, which included more than €15 billion in cuts to government spending, with €4 billion of that amount directed toward regions, from 2015–2018 (Del Pino and Pavolini 2015, 257; Disposizioni per la Formazione 2014). The prime minister’s office pressed for budgetary reductions to largely take the form of 3 percent across-the-board cuts to regions, municipalities, and ministries (Rogari 2014). The rhetoric surrounding the bill depicted unilateral deep cuts to regional spending, and regional leaders adamantly objected, claiming that the cuts were entirely untenable (Rubino 2014; Del Pino and Pavolini 2015, 258). The president of Piemonte renounced cuts, arguing that they were unsustainable without addressing health care spending, and the president of Lombardia underscored that the budget did not apply standard costs, which would have “favored and rewarded the virtuosity of the Lombard region” (Regioni.it 2014). The budget law passed in late December 2014, which included a reduction of the development and cohesion fund by €750 million, affected available resources for social spending in poorer regions. But the largest budget cuts in this area targeted health spending (Mobili, Trovati, and Turno 2014). The budget called for the implementation of the 2014–16 Health Pact, a three-year agreement between the government and the regions that would allocate funds for health policy in accordance with the “standard cost” procedures established by legislative decree 68/2011 (Ministero dell’Economia e Finanze 2015, 23; see also France 2014).¹⁹ In February 2015, the text of the agreement between the central government and the regions (Intesa Stato-Regioni sui Tagli) finalized budget cuts, specify-

ing recalculated regional contributions and central allocations (Conferenza Permanente 2015) while nevertheless ensuring that essential levels of assistance be maintained across regions.

Austerity budgets have brought about cuts to spending but do not appear to have hastened or circumvented the long-delayed implementation of essential levels of services. Long-standing practices of cross-regional subsidization consequently buffered the potential for growing interregional inequality in service provision. The enactment of the 2001 constitutional reform and 2009 law on fiscal federalism turned on the designation of standard cost requirements for essential levels of social service provision. The operationalization of the fiscal autonomy of regions in line with their respective fiscal capacity requires that these cost metrics take on a legal enunciation.²⁰ Constitutional reforms and critical legislation on decentralization either failed to specify or delayed to a future date decisions on core parameters relating to cross-regional distribution.

The preface to the January 2018 report of the Bicameral Parliamentary Commission on the Implementation of Fiscal Federalism (Commissione Parlamentare per l'Attuazione del Federalismo Fiscale) included minutes of an 18 January 2018 meeting. The president of the commission began by discussing how the report documents all modifications to fiscal federalism from the previous report and constitutes "a very useful recognition of the various open questions" (Commissione Bicamerale 2018, 3). Other members of the commission are even more explicit about the unfinished nature of implementation. One member cites multiple concerns, noting that "completion the implementation of Article 119 of the Constitution is still lacking" and that the regional consultative referenda represent a "sudden acceleration of alternating opposing signals" (Commissione Bicamerale 2018, 4). Perhaps unsurprisingly, the report's first subtitle is "An Enduring Transition [Una Perdurante Transizione]." The section concludes by stating that "the basic challenge remains: to complete the process of implementing Article 119 and put the word *end* on the enduring transition" (Commissione Bicamerale 2018, 12). In closing, the report references the multiple "open questions," such as the financing of municipalities, ordinary regions, and special regions and harmonization of budgets and standard requirements and fiscal capacities that remain to be resolved before fiscal federalism can be truly achieved.

In sum, Italian decentralization reforms have contained explicit self-decelerating mechanisms—time lags and transitional periods, lengthy consultative mechanisms with nebulous requirements about adhering to decisional outcomes, and an apparently intentional lack of key conceptual

details that would be needed to enact implementation legislation. As a result, although the constitutional reform and major legislation on devolution are often referred to as framework legislation, the apt parallel seems less a construction frame than an unfastened tarp: present but decidedly nebulous in form.²¹

In the case of fiscal devolution, the devil is indeed in the details, which were systematically delegated to forthcoming deliberation. The 2001 constitutional reform and 2009 law on fiscal federalism turn on the implementation and thus designation of standard cost requirements for LEPs with respect to social services. The operationalization of regional fiscal autonomy in line with fiscal capacity requires that these cost metrics take on legal definition, which has yet to occur. In the absence of such definitions, previous budgetary practices were simply carried forward, with equalization funds directed toward regions that had fiscal gaps regardless of whether these gaps would have been justified under a system of LEP. The lag in specification of important details related to decentralization thus has important consequences for social spending in the Italian regions. It has allowed regional budgets generally to default to existing practices and spending levels and has likely prevented major divergence among regions' social spending.

Conclusion

With heavy pressure from supporters of greater fiscal autonomy for Italy's wealthy northern regions, governments of both the right and the left during the Second Republic have mounted what promised to be sweeping reforms toward fiscal federalism. Given that Italy's regions are marked by deep and long-standing differences in per capita wealth and economic development, there is every reason to expect that a more locally based welfare funding and administration would quickly give rise to growing regional inequality in social spending.

The onset of the financial crisis might well have been expected to accelerate the pace of change of devolution and/or to heighten existing inequalities between regions. If the poorest regions are seeing their resources cut and lack alternative means of generating funds, regional spending differences might grow. Conversely, reductions in overall social spending budgets might lessen regional inequalities if wealthier regions have less means to pursue discretionary measures. Despite forecasts of an imminently transformed map of regional power and responsibility, though, It-

aly has not yet witnessed the expected growing divergence among regional welfare states. The combination of partisan divisions over the form of decentralization and extensive built-in self-decelerating mechanisms in the reforms that have been adopted have meant that bold announcements of transformation do not and likely cannot yield sharp upsurges in inequality between the wealthy regions with strong fiscal capacity and those without. Instead, a pattern of immobilism and reversion to the status quo ante of significant regional redistribution has emerged.

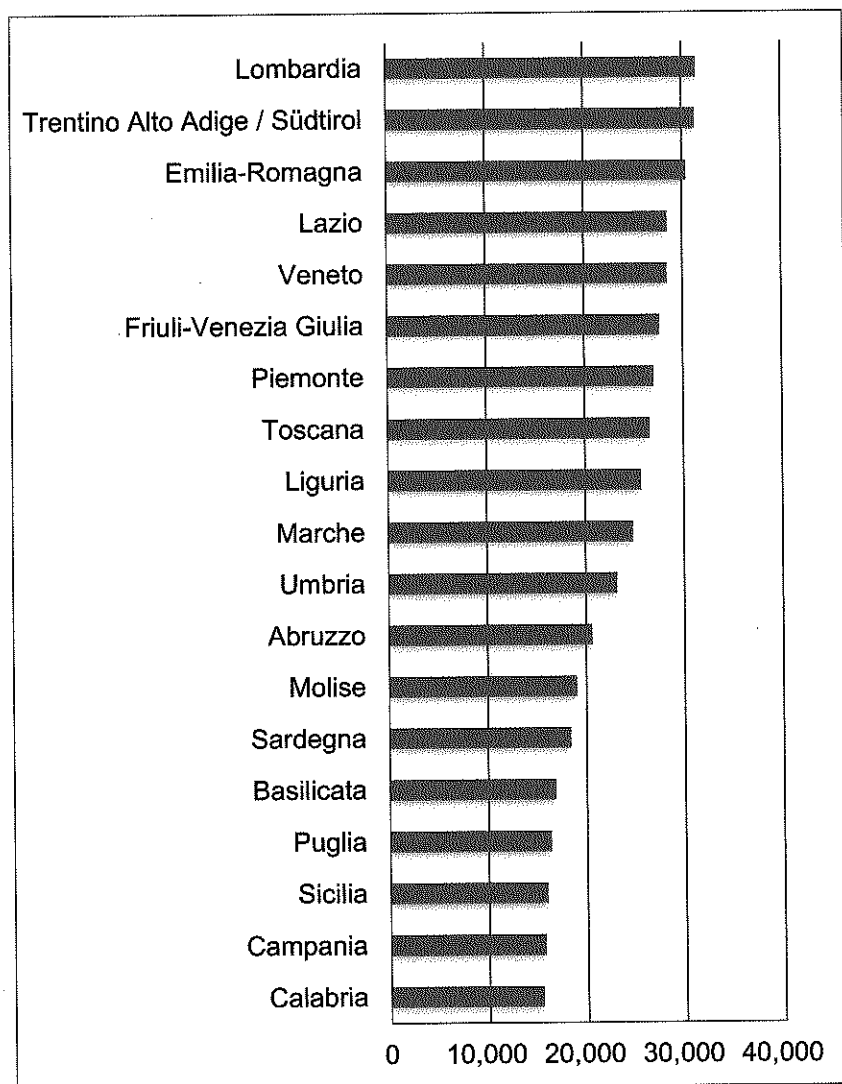
Without any strong veto points resisting decentralization, such stasis is surprising, especially given the support from both left and right coalitions for fiscal devolution. But while each party sought to be associated with decentralization, in large part as a consequence of direct or indirect pressure from the Lega Nord, no single reform received comprehensive cross-party endorsement. Reform proposals were frequently met with equally detailed and laboriously produced counterproposals following elections. The lack of broad cross-partisan support also meant that each reform attempt elicited lengthy consultative measures. The legal ambiguity stemming from partially completed or suspended reforms prompted a number of court cases brought by regional leadership, further slowing the implementation of the reform's basic principles.

The reforms also contained numerous examples of deferred decision making and built-in delays. In particular, the most contentious dimensions of reforms, those with potentially stark distributional consequences for wealthier versus poorer regions, were repeatedly underspecified and delegated to forthcoming deliberation. Leaders appeared wary of completely underwriting decisive changes on the cross-regional redistribution of fiscal revenues that would lead to a reduced share of revenues for less wealthy southern regions. The 2001 constitutional reform and 2009 law on fiscal federalism turn on designating the "standard costs" associated with providing "essential levels" of social and health services. The operationalization of the fiscal autonomy of regions in line with their fiscal capacity requires that these standard costs and essential levels be defined in law. But these matters have been tied up in broad and lengthy consultations that have yet to be concluded. And so the allotment of the regional equalization fund and real constraints on local spending, the most distributionally contentious matters, remain unstipulated.

Outside of the domain of social insurance and health, social policy across regions has historically presented differences in scope of policy development, institutional structure, and degree of spending. These differences have been all the more pronounced in the more expensive areas of

social service provision—child care and elder care—where many wealthy northern regions have pioneered high-quality assistance for elders and innovative and extensive public child care. Yet despite these initial differences, the ongoing fiscal decentralization in Italy has yet to yield a notable increase in inequality in regional welfare spending. To date, and running counter to both lay expectations and political science theories, devolution has not led to an escalation of spending inequality across Italian regions. The immobilizing influences on policy have concatenated to form a decidedly pronounced bias toward stability in the regional distribution of social spending.

APPENDIX



Average Regional GDP per Capita, 2000–2012 (millions of euros)

Source: Istat 2015.

NOTES

1. These findings are contingent on the measure of political decentralization and factors such as the quality of regional governance. Other work has found the opposite relationship (Lessmann 2009).

2. Sicily, Sardinia, Valle d'Aosta, and the autonomous provinces of Trento and Bolzano are designated as "special statute" regions and had somewhat more extensive policy autonomy prior to the decentralization.

3. We extracted data on three major types of pensions: the old-age (over-65) pension (*vecchiaia*), survivor's pension (*pension ai superstiti*), and the assistance pension (*prestazioni assistenziali*), also referred to as social allowance (only distributed to individuals over the age of 65) (EMN 2014, 20).

4. Child care per capita figures refer to the 0–4 population and thus appear comparatively quite large. To place this figure in context, public spending on child care amounted to 34 percent of municipal spending on family policies in 2011.

5. Given the debate on the wide regional variation in standard costs of provision, differences in per capita spending do not fully capture differences in provision.

6. Unlike the Istat per capita calculations, we limit the denominator to those under 65, since these services are targeted at that group.

7. Although central health services are not included, these amounts include services and transfers to elderly patients of Alzheimer's disease (Istat 2014b).

8. "Constitutional reforms approved by less than 2/3 of the parliament can be subject to a binding confirmative referendum in Italy, and this took place for the constitutional reform in October 2001" (Palermo and Wilson 2013, 9).

9. In addition, "FI's ideological flexibility, combined with its personalistic and centralised organization, allowed Berlusconi to [attempt to] bridge the divide between the LN on the one hand and the ... AN on the other, but this was not an easy feat" (Masseti and Toubeau 2013, 360).

10. In the survey, 73.7 of respondents disagreed with the statement that "poor regions should count on own forces."

11. This centralizing element was seen as a means "to balance the concessions to the Northern League" (Keating and Wilson 2010, 12).

12. Similarly, Massetti and Toubeau (2013, 361) argue that the "advancement of the LN's goal has been conditioned, first, by its capacity to set the political agenda through its exercise of blackmail and coalition 'potential'."

13. Approximately 65 percent of new policies require ministerial decrees to be implemented and consequently "often lag behind either because of the resistance of ministerial bureaucracies and pressure groups or because of internal incongruities in the law" (Maurizio Cotta and Colino 2015, 31).

14. According to the 1948 constitution, the use of decree laws is permitted only in exceptional circumstances, however the practice has become routine (Capano 2005, 19).

15. "Indeed most of the decrees are not self-executing: either they need further integration by means of executive rules or they postpone the definition of essential aspects" (Valdescalici 2014, 79).

16. Palermo and Wilson (2013, 14) argue that "this dilution in time was the political compromise needed to guarantee strong parliamentary support."

17. In such instances, the central government need only "provide adequate reasons,