

EVOLUTION AND TRANSFORMATION OF THE ITALIAN FEDERALISM

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1. I would first of all like to express my thanks to the London School of Economics and to my friend, Bob Leonardi, for inviting me to give a talk on Italian federalism. It is an honour to speak at such a prestigious university and a stimulating experience to talk to you about the evolution of Italy's institutional and administrative system within a globalized context. The present government considers the modernization of the country a top priority, not only as far as the stabilization of public accounts and the liberalization of the markets are concerned, but also as regards a genuine modernization of our political system, starting with our electoral laws. In fact we deem that a truly modern State, which is close to its citizenry, needs an institutional structure and public administration which is properly suited to the needs of its citizens and business enterprises. This is why Federalism provides an important conceptual framework for interpreting the changes occurring in Italian politics during the past decade and those coming in the near future.

Brief historical background

2. Italian federalism does not originate in an aggregation of separate state entities but on the internal reform of a pre-existing unitary State. The individual Regions were not united into a federation but created as subdivisions of the Italian Republic in a top-down process. We are referring to a long process of change that led to a significant reform of the Italian Constitution in 2001. We must remember that in the Constitution we had a pluralist and autonomous profile based on a strong unitary and egalitarian structure. These are the principles that led to the implementation of constitutional norms. The 2001 reform, despite its respect for these basic principles, breaks new ground because it introduces the principles of differentiation of powers, competition among regions, and subsidiarity. Some of these principles were already inherent in the 1947 Constitution but had only been selectively applied within the strong unitary and homogeneous approach of the Constitutional Court and the political Establishment.

3. The principle of strong local and regional government autonomy is already present in the 1947 Constitution where Article 5 establishes that the Republic “.....recognises and promotes the local autonomies and implements the widest possible administrative decentralisation in the services that depend on the State.” and Article 117 attributes legislative powers in many important sectors to the Regions (from agriculture to tourism, from health to territorial development). But in 1947 the drive towards autonomy reflected different approaches to the State and

responded to different cultural-historic traditions that merged together to draft the Constitution.

The long-standing Italian tradition of local government which was considered a bulwark against the oppressive centralisation of the fascist dictatorship was particularly strong among Christian Democrats. To this was added the desire for political autonomy, together with the protection of linguistic minorities living in Trentino-Alto Adige, Friuli Venezia Giulia and Valle d'Aosta; similar forces present in Sardinia and Sicily also demanded greater autonomy. All the above mentioned special cases were provided recognition by the Constitution while the rest - i.e., the other 15 Regions – did not come into existence until 1970 .

These particular regions were strongly supported by the Constitution itself, which established the creation of special statutes for them to enjoy autonomy also in financial terms, this being the necessary precondition to maintain their link with the unitary State.

In particular, during the early years of the Republic's life the communist culture, less sensitive towards the autonomous drive and strongly anchored to the sense of State unity, put a brake on the process, out of its concern that the State was too young and fragile to give regions and local communities administrative and even legislative powers. This is why the municipalities and provinces were for so long the only beneficiaries of a truly autonomous organisation. This caused an excessive administrative fragmentation as well as a very strong sense of local identity, thus making the municipalities for so long the only institutional reference for Italian citizens.

The birth of the Regions:

4. By the 1970s Italian democracy had been consolidated and the unity of the country was no longer in question. However, two problems were becoming increasingly evident. The first was the incapacity of the public administrative structure to respond to the varying needs of society and an increasingly expanding public sector. The other was the political problem of having excluded the Communist Party from any role in the central Government.

The creation of the 15 ordinary regions led to a national system of regional governments that supplemented the existing 5 “special regions” and provided a response to both problems by bringing the administration of public policies closer to the people and allowing the PCI to manage power at the regional level.

The process of empowering the regions with the prerogatives outlined in the Constitution began in 1972 and underwent a qualitative leap in 1976/77. From then on the administrative culture changed considerably. Article 117 of the Constitution attributed the responsibility of defining general administrative principles to the national level but allowed the regions during the subsequent twenty years to create different policies and differentiated administrative structures. Given the varied economic, social and political characteristics of the regions, they were allowed to adopt different policies and administrative responses to local needs. The regions also displayed different administrative capacities and levels of efficiency. The historic north/south divide thus resurfaced in regional administrative practices.

An additional problem during the 1970s and 1980s was the effect of decentralisation on public finances. The regional and local administrative activities were not based on a direct system of financial and fiscal responsibility. Constitutionally, the Regions did not have the right to introduce taxes and the fiscal reform of the early 70s significantly centralised all local fees and taxes. As a result, the Regions and local governments were financed by state transfers based on an ex-post accounting of their expenditures. Such a system did nothing to promote financial restraint or efficiency. On the contrary, it stimulated a continuing and uncontrolled expansion of budgetary expenditures, which was one of the factors that produced an increase in public spending and the resulting size of the public debt.

The transformation of the 1990s

5. With the opening of the markets (Objective 1992 and the first step of the European monetary unity) Italy had to choose whether to continue to finance its growing public debt and face the prospect of exclusion from the European Monetary Union, or try to meet the Maastricht convergence criteria. The latter would have meant Italy's continuing to accept the unwritten pact between North and South in which the North used devaluation as a means of maintaining its competitive edge in Europe, and the South used public expenditure as a means of stimulating consumption within a depressed economic context. The need to reduce the public debt and overall public expenditure determined the unsustainability of the pact. This break generated a tax revolt in the North which undermined the

equilibrium between northern and southern regions with regard to regional expenditures and taxation. Accordingly, this was the moment when the theme of fiscal federalism for the northern regions as advocated by the Northern League assumed centre stage in the national political debate. The parallel collapse of the old political order helped to increase the pace of these changes and the ongoing fiscal crisis made the introduction of a number of vital structural reforms even more urgent

The reforms of the 1990s

6. It is within this overall context that, during the 1990's were introduced some electoral and administrative reforms which determined:
 - 1) reduction of the public debt and public spending;
 - 2) the imperative to bring together power and fiscal responsibility at all levels of government;
 - 3) the introduction of electoral rules that favoured the role of the national, regional and local levels of government;
 - 4) the push for greater decentralisation of powers from the national to local levels; and
 - 5) a reduction in the presence of the State in the national economy.

The reforms listed served to reorganise the State, by putting positive emphasis on single territorial characteristics, social pluralism and economic liberalization. As from 1993 some reforms have been passed that we can divide into three main categories:

- **electoral reforms.** The country initiates its long transition towards bipolarism. The reform process begins with direct elections from

mayors up to regional presidents, the reinforcement of their roles and the appearance of a new leadership class.

- **administrative reforms.** The 1993 - 1996 process moves within the context of the Bassanini reforms which maximize decentralisation through ordinary legislation without changing the Constitution. The simplification of administrative procedures goes hand in hand with the decentralisation of responsibility. With these changes a form of administrative federalism is introduced.
- **Constitutional reform.** The subsequent step was the rewriting of those parts of Constitution dealing with regional legislative powers and the administrative responsibilities of different levels of government: the reform of section 5 of the Constitution was approved by parliament in 2001 and subsequently ratified in a referendum that same year.

The 2001 constitutional reform changed the administrative architecture of the Republic by placing the State, Regions, Provinces, Metropolitan Cities, and Cities on the same level. A functional and territorial differentiation replaced the former hierarchical relationship. In addition, the attribution of powers to the State and the Regions was based on the following rule: all the functions not explicitly attributed to the State are the responsibility of the Regions.

Another change was the parallel responsibility for legislative and administrative matters. Administrative competencies were now attributed according to the principles of proximity, subsidiarity and the capabilities

of the administrative level closest to the citizenry. The State has exclusive competence over:

- public order and security,
- defence,
- foreign policy,
- monetary policy and savings,
- justice,
- electoral rules and citizenship,
- immigration and relations with religious institutions,
- general norms on education,
- social security,
- protection of the environment and cultural resources.

The State determines the essential level of civil and social services, guarantees citizens' rights and the principle of solidarity between areas with different levels of development.

Then we have a vast grey area where there is a sharing of responsibilities between the State and the Regions. In the field of education the State only establishes the “general rules”, while in the fields of cultural heritage and the environment it has exclusive jurisdiction, although the regions are entrusted with their valorization. As for health services, the regions have increased decision-making power, while it is up to the State to establish the essential standard levels. Other concurrent matters are work safety, professions, scientific research and technology, health protection, food safety, sporting regulations, civil protection, large infrastructure networks,

communications and the production, transport and distribution of energy supplies, and pensions.

The Regions instead have legislative responsibility for significant policy areas, such as:

- local development,
- social services,
- agriculture,
- building permits,
- urban planning,
- education and professional education.

The administrative structure of this 2001 reform is strongly focused on the local level. In particular, the role of the Municipalities or Communes has become fundamental.

Finally the reform not only establishes in the Constitution the principle of vertical subsidiarity within the institutional levels of power, but also the horizontal within public and private sector, by increasing the role of individuals, associations and business enterprises.

To enforce this principle, my Ministry drafted a bill for the liberalization of local utilities and public services which is now one of the most important issues on the political agenda.

Fiscal federalism.

7. On paper the set of functions and tasks transferred to the regional and local levels is impressive and vast resources are to be allocated here. The calculation is that the transformation foreseen by the reform of Title V

reallocates 70 billion euro from the national to the local level. The 2001 reform breaks with the past, seeking to strengthen the fiscal capacity of local governments while at the same time creating an equity fund to safeguard the national goals of solidarity and unity.

Let us look at the significant aspects of the reforms: art 119 firstly affirms (comma 1) the fiscal autonomy of local governments, then it identifies the resources necessary for the appropriate implementation of their functions. They are: local taxes and user fees; sharing in the national taxes, and in the 'equity' fund which is allocated to those regions with lower fiscal capacity. The national government reserves the power to further intervene in regard to specific objectives when the local levels are unable to act on their own. Finally, debt financing is allowed only to finance investment projects.

If fully implemented, these norms introduce a rather significant form of fiscal federalism, one which is however concerned with maintaining the system's cohesion. This is particularly important in the Italian context because regions are not states aggregated into a federation, rather they are articulations of the Republic.

It follows that fiscal federalism is not just a piece of the reforms puzzle, but is the very essence of the game. Only through the implementation of fiscal federalism is it possible to achieve an efficient working federalism, and at the same time find the right balance between differences and equality, between local demands and national goals. But fiscal federalism is the most sensitive political issue, because it calls for a new system based on the autonomy and efficiency of each territory as well as on very different economic and administrative systems, while maintaining social

cohesion and equality of rights, all of this within a context of public finance which is characterized by a high level of public debt.

The current government admits that this is a difficult challenge but intends to meet it in the short term, being fully aware that the new constitutional setting would be incomplete without fiscal federalism because it would be a model where power and responsibility do not coincide. The government is also aware that only fiscal federalism can be the basis upon which to rebuild national cohesion, by redefining the pact between North and South after the crisis of the 1990s and our entry into the Eurozone.

The implementation of the reform.

8. The reform process which we have profiled was interrupted during the period 2001-2006. The centre-right government headed by premier Berlusconi proposed a new reform, inappropriately called ‘devolution’, strongly desired by the Northern League Party, but which was defeated by the constitutional referendum of 2006. This reform proposal envisioned a new model of federalism whose principal innovation was the total transfer (‘devolution’) to the regions of health and education, the two policy areas which are the core of the welfare state. The popular rejection of this proposal indicates how deeply rooted the principles of solidarity and territorial unity are in the Italian electorate. The commitment of Mr. Prodi’s government is to fully implement the 2001 reform and find the right balance between any two exigencies: autonomy and solidarity, valuing territorial self-government by recognizing differences in territorial potentials but also safeguarding fundamental social rights.

In our view the federalist reform is the key to make a public administration simpler, more accessible and accountable, that is a fundamental condition for increasing competitiveness and productivity

In my quality of Minister for Regional and Local Authority Affairs, I am committed to implementing the federalist reform. For this objective we are working on various fronts:

I) To guarantee the working of the new decentralized system, inter-institutional coordination is the key. In the Italian constitutional system there is no ‘Chamber of the Regions’, we have instead the Conference of State-Regions-Local governments, presided over by the Minister of the Regions on behalf of the Prime Minister. This Conference is the principal *forum* for dialogue, collaboration, and political negotiation among the different governmental levels. The 2001 reform has strengthened its role of mediation and conflict resolution, interpretation of competencies and tasks, as well as definition of common strategies. We are working on simplifying the Conference system, and making it more efficient but also ensuring a parliamentary follow up to the decisions taken. The role of the Conference should be enhanced so that it becomes an ‘incubator’ for the future Chamber of Regions.

II) In the process of decentralizing administrative functions duplications and overlaps must be avoided. But this is a major challenge - each governmental level is better at acquiring new functions and less so in disposing of old ones! In Italy we have 8,000 municipalities, half with less than 5,000 inhabitants. A new law will ensure that at the

local level, functions will be carried out in a much more efficient and effective manner. Therefore, the important reality represented in Italy by the small municipalities will not disappear: they will, rather, find incentives to aggregate. By the same logic, nine ‘metropolitan cities’ will substitute the old provinces. We call our approach to reform ‘administrative federalism and variable geography’, where variability is suggested by the search for administrative efficiency and economic equilibrium.

‘Horizontal subsidiarity’, affirmed as a constitutional principle, up to now has been left to the discretion of local governments. The proposal for the reform of local public services which the government has formulated is now before parliament. It introduces competition as the criterion to allocate such services, and the local government is the regulator, comptroller, and guarantor of the level of service.

We expect 4 main advantages from this reform:

- a) a more economical management of services,
- b) a strengthening of local government regulatory roles,
- c) increased competitiveness in the utilities sector and its subsequent economic growth, and
- d) greater wellbeing for the citizenry.

III) The last great chapter of ongoing reforms is the implementation of fiscal federalism. The relationship between the national and local levels of government in terms of public finances over the last few years has been marked by the need to adhere to both the European

Stability Pact and the mechanism by which the State transfers its constraints onto local governments. Public finance in Italy is now being restored to health, as affirmed by a number of international financial and political organizations. Within the improved macroeconomic context and dialogue between the national and the lower levels of government, the implementation of Title V is promising.

The government is shortly to present a Bill which contains the fundamental principles of the new system:

- i) a relationship between autonomy in both expenditures and fiscal resources;
- ii) safeguards for the general system through equity measures; and
- iii) the co-responsibility at all institutional levels to contribute to the objectives of economic policy and adherence to the budget constraints.

The key elements being finalized are:

- a) the finance system will be based on the strengthening of local fiscal power: national taxes will become local; regions will have the discretion to adopt new taxes/fees and will partake of the national resources collected at the regional level;
- b) the equity driven redistribution of resources will be measured against the basic level of services to deliver. Thus, deficits which may have been accrued because of inefficient management will not be included; at the same time, the redistribution is to be directed towards the territories with less fiscal capacity and in an amount to

guarantee a basic standard of services to its citizens. Incentive mechanisms to increase efficiency will play an important role in these reforms.

Conclusions

The political transition in Italy has been long and difficult. As the events of the last month prove, the political and institutional scenario is still hostage to an incomplete bipolar system. Public finance in Italy is now in a much healthier state. What follows as the primary objective becomes the efficiency of public administrations and of essential services so as to achieve higher productivity and competitiveness.. The federal model which Italy is pursuing is also the pathway to these objectives meaning a more accountable administration closer to the citizenry. It also means an administration which contributes to economic growth in the new, less costly service economy. We believe that the framework of federalist reforms is an integral part of the progressive vision for Italy as well as for Europe.

Federalist model that Italy is experiencing may also represents an interesting and positive answer to the problem of how to manage contemporary complexity. That's why we see that more and more European states are adopting forms of decentralisation. In Italy as well as in Europe we have now to build an efficient multilevel governance to combine the autonomy of local collectivities and the capacity to face global challenges which is the crucial task of national and European institutions. Federalism can also be the right answer to integrate the

traditional values of solidarity and equality with the positive acknowledgement of differences, of efficiency , of competition. Federalist reforms can give Europe and Europeans a more optimistic vision of the future, a sense of optimism in a highly competitive world by incorporating those traditional values into the new global context.