



Consiglio Regionale  
del Veneto



Unioncamere  
Veneto



CALRE  
Working Group "Financial Federalism"

Cohesion Policy and  
Revision of the ESA95

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ABSTRACT

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## **1. Introduction**

The document purposes and develops two questions to debate inside the Working Group “Financial Federalism” which the Regional Council of Veneto has been coordinating for four years within CALRE.

For the issues addressed and the proposals put forward, this work represents the following of the previous activities and it is in line with the documents presented and discussed during the several meetings of the Working Group “Financial Federalism”<sup>1</sup>. As it can be recalled, very briefly, these documents, showed that:

- a greater decentralization of responsibilities and competences to the peripheral levels of government is able to ensure a better implementation of the principle of subsidiarity, to encourage a better management of public finance and to stimulate a greater administrative efficiency;
- a greater financial autonomy can mitigate the negative effects on competition of enterprises arising from the different institutional arrangements within the Union and from the extreme variability of financial flows within each country;
- a greater institutional and decision-making autonomy can legitimize the local/regional taxation of advantage, promote innovative measures of fiscal policy for the benefits of businesses and households, reduce bureaucracy linked to the policies of incentives and to the mechanisms of “taking and redistribution” of resources, stimulate economic and social development at local level.

In light of the results achieved, in 2011 the Regional Council of Veneto intends to investigate some aspects related to financial federalism as essential lever to build and affirm the Europe of the Regions.

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<sup>1</sup> For further information please refer to the “Euskadi Declaration”, presented at the CALRE Plenary Assembly on the 3<sup>rd</sup> and 4<sup>th</sup> November 2008 in the Basque Country and to the “Innsbruck Declaration”, presented at the CALRE Plenary Assembly on the 18<sup>th</sup> and 19<sup>th</sup> October 2009 in Innsbruck.

## 2. Background

Financial federalism strongly emphasizes the role of regions and local autonomies, in total harmony with the principle of subsidiarity, enshrined in the Maastricht Treaty and fulfilled by the Treaty of Lisbon. Even among the key priorities of the European strategy, always greater depth and institutional dignity is given to regions; in particular, through the Cohesion Policy, regional and local governments have approached the Community level, focusing greater attention on European affairs and intervening in Community governance.

In order to enhance the role of regional and local authorities it is therefore necessary to listen to their needs and priorities and to ensure a full and equal partnership between the various levels of governance (multilevel governance). However some distortions remain.

The first one concerns the presence of major imbalances in public finance systems at the regional/local level in some Member States that have a negative effect on fair competition among enterprises of the European single market, one of the fundamental pillars of the Community framework. In States where there are high financial imbalances among regions (eg. Italy, Belgium, Spain, etc.) we witness the transfer of a high volume of resources on the basis of the national cohesion policy between the richest regions and the less developed ones; on the contrary, in States with lower internal imbalances, this transfer is much smaller.

Among the consequences of this situation, there is the fact that enterprises resident in rich regions of States with strong national cohesion policies suffer unfair competition from those which are resident in rich regions of States with weak national cohesion policies. In essence, different measures of equalization can favour or penalize enterprises resident in areas of the Union with similar income and wealth levels.

Italy demonstrates to be the country where public administration exerts the greatest internal redistribution of resources to achieve national cohesion: the total sum of resources that every year are transferred from more developed regions to weaker ones (the so-called fiscal residue) amounts to some 80 billion euros. Nevertheless, the weaker areas have not achieved the economic growth which has instead been achieved in other economically backward areas of the EU.

A second consequence concerns the austerity policy that the European Union has imposed on Member States to reduce public expenditure as a result of the outbreak of the Greek crisis. In Italy, the Ministry of Economy has renewed the commitment contained in the «Unified Report Economics and Finance» to cut public deficit by 1,6% points of GDP over the next two years, so as to bring the level of net debt to 3,9% by 2011 and to 2,7% by 2012. So, a two-year maneuver of 25 billion euros is expected, which could rise to 28, with an impact of 12.8 billion in 2011; the containment action will result to a large extent in cuts on current expenditure.

Some Eurozone countries, such as Spain, Greece and Portugal, have already been forcibly directed towards a maneuver of this type; others, including Italy, have started the preliminary survey with a view to the correction required by Brussels. The key word, then, is to the “cut of spending” and, above all, of wastes. However, unfortunately the cut is following the logic of the “linear cuts” (for everybody in equal measure), completely ignoring any criterion which allows to

distinguish between local and regional authorities the “virtuous “ and the “wasteful” ones and therefore, to distribute the “cuts” in proportion to the degree of inefficiency in the management of public resources. In a country where it is currently under way the comparison of the implementation decrees of a fundamental reform such as fiscal federalism, which includes among its key elements the rise of the principle of responsibility, it is necessary to abandon the old and destructive welfare dependency logic and squandering of resources out of control.

How to fix these distortions? What are the solutions?

**First and foremost, it is necessary to have more detailed information, that is to say provide statistical information to local and regional level<sup>2</sup>.** In particular, statistical data on regionalized public accounts are needed at European level. In Europe, Italy is an example of fiscal transparency: it is the only Member State that has a detailed and comprehensive database on consolidated public accounts at regional level (“Conti Pubblici Territoriali”, organized by the Ministry of Economic Development)<sup>3</sup>. Considering that nowadays, on the basis of the current European System of Accounts (ESA95), each Member State is required to send to Eurostat only data on public budgets in accordance with its national system of accounts, in order to be able to proceed with comparisons and studies at European level, it is therefore essential that the new system, in force starting from 2014, allows to have detailed information on financial flows between the central government and peripheral authorities at regional level.

Given the importance that the “regionalization” of the ESA95 has for the European regions, it is essential that first of all regional institutions mobilize in favor of this action. In particular, we believe that a lobbying action should be directed primarily towards the European Parliament that is more sensitive to the demands of sub-national entities. In fact, the main impediment to the adoption of a “regionalized” ESA is the predominant orientation in the EU Council: a majority of Member States, while recognizing the merits of the need to have data on public expenditure of regional governments at disposal at European level, believes that support the creation of a mechanism to achieve such an outcome requires a large volume of resources; so, the “regionalization” of the ESA would represent an unnecessary effort for Member States. In addition, Member States argue that since the process of collecting and compiling of regional data is quite complex and poses considerable difficulties, the statistics gathered could hardly be of high quality.

In reality, Member States’ reasons do not appear so solid. In fact, both as far as the question of the costs and that of the quality of collected data are concerned, the Italian example shows how it is possible to adopt a regional public accounts system capable of providing quality data without excessive costs. In addition, it has to be considered that the availability of regional data, making possible the comparison between different realities, would make easier to identify existing problems

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<sup>2</sup> This proposal was adopted unanimously by the members of the CALRE Permanent Committee in the meeting that was held in Trento in October 2010.

<sup>3</sup> It is the European Commission itself which indicates Italy as a best practice in terms of transparency in the European panorama (see the section “Public spending and public investment at regional level” of the second chapter of the Fifth Report on Economic, Social and Territorial Cohesion). Only a few Member States have databases on regional public financial flows that can approach the level of statistical completeness of *Conti Pubblici Territoriali* of the Italian Ministry of Economic Development, such as: the United Kingdom, the four federal countries (Spain, Austria, Belgium and Germany) and France.

and the best suited solutions to address them, allowing the setting of more incisive, efficient and effective policies.

Consider, for example, the Cohesion Policy, a European policy implemented at regional level. To make this policy in future more effective and efficient it is essential to adequately assess the impact of promoted interventions, identify best practices, track down existing problems and their causes. It seems evident how in order to carry out these actions, it is necessary that the European institutions have a wide overview of the economic conditions that characterize each region and how this implies also the possibility to perform comparative analysis on regional government finance statistics.

### **3. Main goals**

The Working Group on “Financial Federalism” confirms its aim to achieve the following objectives:

- carry out lobbying activities in the European institutions in order to achieve a revision of the ESA which allows providing statistics on regionalized government accounts at European level;
- create within CALRE a network of technical referees (internal or external) with financial and statistical expertise, reported by CALRE member regions, aimed at comparing and exchanging data and metadata at NUTS2 regional level about financial flows among the different levels of government.
- support the definition of a future Cohesion Policy for all European regions, which foresees a strong involvement of regional and local actors and which is results-oriented;
- carry out lobbying activities in the European institutions in order to overcome the current system of allocation of resources in order to promote the introduction of criteria aimed at promoting a more equitable and efficiency-oriented approach, able to take into account to a greater extent of the phenomena of shadow economy and tax evasion and through which it is possible to identify and respond to other challenges in addition to the ones linked to the presence of inter-regional development gaps;
- carry out studies and analysis aimed at demonstrating the need for financial federalism, the urgency of having data at the regional level, the importance of new methods and new indicators for the allocation of resources capable of responding to the needs which have been previously identified.