



Consiglio Regionale
del Veneto



Unioncamere
Veneto



CALRE
Working Group “Financial Federalism”

**Financial decentralization and
regional differences in European Countries**

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1. Introduction

The following document shows the first results of the data gathering project on the Public Administrations' financial flows both at a national and local level. This project has been planned and realized in the framework of the CALRE's Working Group "Financial Federalism", coordinated by the Regional Council of the Veneto Region since 2006.

The document includes statistics from both official and unofficial sources (thanks to those European regions which have provided their own statistics): the goal is to highlight the financial flows between national and local government in some EU countries.

The paper aims to answer the questions and issues the Working Group exposed during previous meetings. The passion and the attention put into its creation demonstrate the seriousness and the conscientiousness of the work carried out in the last five years by the Working Group on the topic of financial federalism.

In order to expand that issue in the European Union grounds and increase the role that it may have in the choices between public or private economy, there is the need of detailed information on the public financial flows for each administrative level of government: national, regional and local. In fact, at this very moment, data about income and expenditure of public administrations at a local level in Europe are poor and not easily comparable.

This lack of official statistics represents an enormous gap in the European statistical system and an obstacle to the monitoring activities because it precludes the analysis of the "return's rate" (the balance between the taxes flow and the public spending in a territory).

Therefore, this project by the Working Group, coordinated by the Regional Council of the Veneto Region, has the goal of creating an homogenous framework and a continuous monitoring of these flows, usually not detected by official statistics.

2. The financial flows from the centre to the periphery in European Countries

2.1 Introduction

The past two decades have seen a general decentralisation of resources and skills in many European countries¹. The reorganisation of public assets in a decentralised manner is especially significant in Spain, Italy and the UK. The Financial Crisis, however, might freeze down this process favouring the central administration, which has the duty to balance and support the national accounts.

The current work aims to shed light on the recent trends in the financial relations between Central and Local Administrations in the eight countries that have at least one region member of the CALRE. Austria, Belgium, Germany and Spain have characteristics that allow us to define them as 'federal' such as the presence of an intermediate level of government between the Central and Local Administrations (such as the Federate State Administration). On the other hand, this report considers as 'non federal' Finland, Italy, Portugal and the UK. It is important to note that this classification is more economic rather than legislative: it is difficult to find institutional models that are either entirely federal or unitary.

2.2 The incomes and expenditures of Local Administrations

The last ten years have seen an important revenue increase of the Local Administrations. During the period 2000-2010 the eight CALRE countries have had an income increase from 14,6% to 15,5% from the GDP with a variation of + 1,2%; only Austria and Germany have experienced a reduction of the resources of their Local Administrations. During the last year, however, there has been a significant contraction in all countries except Finland (+0,2%). The more evident reductions are in Spain (-2,2 GDP points) and Italy (-1,0%). Likewise, the Financial Crisis has had the effect of reducing the local fiscal income (especially income tax and VAT) and, in some cases, has forced Central Administrations to cut funds meant for the periphery (Table 1).

Among the eight European countries with regions members of CALRE, the Local Administration of Finland has the greatest financial availability with a total income for the year 2010 of 22,2% of the GDP. The Finnish system is characterised by the lack of regional governmental levels (with the exception of the Island of Åland) thus leaving the management of the numerous administrative tasks in the hands of the municipalities and their bodies. Behind Finland we have all the federal states (Belgium 18,7%; Spain 18,1%; Germany 16,5%; Austria 15,4%); Italy holds the sixth place (15,3%), preceded by the UK (14,0%) and Portugal (6,4% of the GDP).

¹ European Commission (2010), "Decentralisation of public expenditure and investment", in *Firth report on economic, social and territorial cohesion*, p. 155-156.

Table 1 - Local Administrations income (in % of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Var. '10-'00
Austria	17,3	16,7	16,3	16,4	15,6	15,6	15,3	15,2	15,5	15,8	15,4	-1,9
Belgium	17,1	18,0	18,0	18,6	18,3	18,5	18,4	18,4	18,6	19,0	18,7	+1,6
Finland	17,9	17,6	18,2	18,5	18,5	18,9	19,3	19,0	20,0	22,0	22,2	+4,3
Germany	17,8	16,8	16,4	16,3	16,3	16,4	16,6	17,0	16,9	16,8	16,5	-1,4
Italy	13,9	14,5	14,1	14,5	14,5	14,7	14,5	14,9	15,1	16,3	15,3	+1,4
Portugal	5,5	5,9	5,9	5,8	6,0	6,1	6,4	6,4	6,5	6,6	6,4	+0,9
Spain	16,2	16,0	17,3	17,7	18,4	18,7	19,3	19,4	18,9	20,3	18,1	+1,9
United Kingdom	11,2	11,3	11,8	12,4	12,3	12,5	12,9	12,8	13,1	14,1	14,0	+2,8
<i>Average</i>	<i>14,6</i>	<i>14,6</i>	<i>14,8</i>	<i>15,0</i>	<i>15,0</i>	<i>15,2</i>	<i>15,3</i>	<i>15,4</i>	<i>15,6</i>	<i>16,4</i>	<i>15,8</i>	<i>+1,2</i>

Note: for Austria, Belgium, Germany and Spain the data regarding the Federate State Administrations (S1312) and Local Administrations (S1313) is put together

Source: Processed on Eurostat data

Regarding expenditure, the average of the Local Administrations of the CALRE countries has passed from 14,3% of the GDP in 2000 to 16,5% in 2010 with a total variation of 2,2 GDP points. Noteworthy is Spain's trend (+5,6% of GDP) – the European country that has made the greatest progress towards fiscal decentralisation. Only the Austrian and German Administrations have negative results compared to the year 2000 with -0,6 and -0,3 GDP points respectively (Table 2).

During the last year, in all countries taken into consideration the Local Administration expenditure demonstrates a downturn of an average 0,3 GDP points. The greatest drops are seen in Spain (-0,8% of the GDP) and Italy (-0,6%) following the trend regarding local income. For the year 2000, local expenditure was higher in Finland and Spain (21,9% and 21,7% of the GDP respectively), with high levels in Belgium, Germany, Austria and Italy as well.

Table 2 - Primary expenditure of Local Administrations (in % of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Var. '10-'00
Austria	17,0	15,8	15,7	16,1	15,3	15,3	15,2	14,9	15,2	16,6	16,4	-0,6
Belgium	16,7	16,8	17,9	18,3	18,1	18,2	18,3	17,8	18,3	19,6	19,2	+2,5
Finland	17,1	17,4	18,1	18,8	18,9	19,2	19,0	18,6	19,8	22,1	21,9	+4,8
Germany	16,9	17,0	17,0	17,1	16,6	16,3	15,9	15,3	15,5	16,7	16,6	-0,3
Italy	13,7	14,3	14,6	14,6	15,2	15,2	15,1	14,6	15,1	15,9	15,4	+1,6
Portugal	5,8	6,2	6,3	6,1	6,0	6,3	6,4	6,5	6,8	7,2	7,0	+1,2
Spain	16,1	16,2	17,5	18,1	18,2	18,7	18,9	19,5	20,6	22,5	21,7	+5,6
United Kingdom	11,1	11,1	11,5	11,9	12,1	12,5	12,6	12,5	13,1	14,1	14,0	+3,0
<i>Average</i>	<i>14,3</i>	<i>14,4</i>	<i>14,8</i>	<i>15,1</i>	<i>15,0</i>	<i>15,2</i>	<i>15,2</i>	<i>15,0</i>	<i>15,6</i>	<i>16,8</i>	<i>16,5</i>	<i>+2,2</i>

Note: for Austria, Belgium, Germany and Spain the data regarding the Federate State Administrations (S1312) and Local Administrations (S1313) is put together

Source: Processed on Eurostat data

2.3 The financial flows from the Central Administrations

The financing of the Local Administration expenditure is done on three levels: own income, the share of state revenue and the public transfers from another governmental level. The first category includes all service taxes and proceeds, that is, the income where the agency can intervene for the definition of at least one element among applied rate, tax base, passive subjects, deductions and detractions. On the contrary, the share of revenue (usually national) received does not allow any intervention by the Local Administration, which benefits solely from a fixed amount of the income. Lastly, the transfers are financial flows arriving from another governmental level not tied to any source of income and are decided upon annually at the approval of the budget.

Nevertheless, there isn't a clear cut distinction between the three categories, especially in the case of the share of revenue. It is possible to claim that the classification of the budget data does not represent, in a detailed enough manner, the exact structure of the income in each country.

Anyhow, the elaboration using Eurostat data allows us to make an interesting, although partial, analysis of the financing procedures of the local authorities of the European countries. This data shows that the transferred grants from the Central State to the Federal and Local Administrations have increased by and average one GDP point between 2000 and 2010 (+0,8%), even though during the last year there has been a drop of 0,3% (Table 3). This trend has involved to a greater extent 'unitary' countries like Finland (+2,7 GDP points), the United Kingdom (+2,2%) and Italy (+1,6%).

This analysis, however, has to be deepened bearing in mind the distinction between the Federate State Administrations and the Local Administrations into which the federal states are divided. In Austria, the fall of transfers in the past ten years is more evident in the Regions (-1,1% of the GDP), whereas the central resources for the local authorities have undergone a less significant fall (-0,3%). In Belgium, the drop of financial flows from the Central State (-0,2% of the GDP) actually regards only the level of governance of the Federated State Administrations (-0,5%) since the local authorities have seen a growth in resources (+0,3%).

The German case, however, is to some extent anomalous. Between 2000 and 2010 the financial flows from the Central State have remained almost stable (+0,1%). Furthermore, the central transfers to the Local Administrations are practically inexistent. In fact, in Germany there is what we can call a 'top-down' system: a good part of the resources given by the state to the Landers is actually passed to the local bodies. In other words, the Central State does not finance directly the local bodies as that function is done through another governmental level, that is, the Landers.

In Spain, the central intervention towards the Local Administration has been strengthened regardless of the steady processes of fiscal decentralisation of the last decade. In ten years the transfers in favour of the Autonomous Communities have increased by 1,1% of the GDP: if we add to that the flows towards the local bodies (+0,3%), the movement of resources from the Centre to the Periphery has risen by 1,5 points of the GDP.

In the 'non-federal' (or unitary) states a more expansive trend is observed, especially in Finland (+2,7%), the UK (+2,2%) and Italy (1,6%); in Portugal as well the financial flows from the Central State to the Local Administrations have increased but by just 0,2 GDP points.

Table 3 - Transfers from Central Administrations to Local Administrations (as % of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Var. '10-'00
Austria												
Fed. State Admin.	2,9	2,9	3,2	3,2	2,9	2,9	2,8	2,8	2,5	1,7	1,8	-1,1
Local Admin.	0,6	0,7	0,6	0,6	0,6	0,7	0,7	0,7	0,7	0,4	0,4	-0,3
Total	3,6	3,6	3,8	3,9	3,5	3,6	3,5	3,5	3,2	2,1	2,2	-1,4
Belgium												
Fed. State Admin.	10,2	10,9	9,6	9,9	9,7	9,8	9,6	9,7	10,0	10,1	9,7	-0,5
Local Admin.	0,7	0,6	0,7	0,8	0,8	0,9	0,9	0,8	0,9	0,9	0,9	+0,3
Total	10,9	11,5	10,3	10,7	10,6	10,6	10,5	10,5	10,9	11,1	10,7	-0,2
Finland												
Local Admin.	3,8	3,9	4,7	5,0	5,2	5,3	5,5	5,4	5,7	6,4	6,5	+2,7
Germany												
Fed. State Admin.	1,7	1,6	1,6	1,7	1,6	1,6	1,5	1,5	1,4	1,7	1,9	+0,1
Local Admin.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	+0,0
Total	1,8	1,7	1,6	1,7	1,6	1,6	1,6	1,6	1,5	1,7	1,9	+0,1
Italy												
Local Admin.	5,6	6,3	5,8	5,8	6,0	6,2	6,1	6,1	6,6	8,2	7,2	+1,6
Portugal												
Local Admin.	2,0	2,1	2,2	2,1	2,2	2,2	2,2	2,0	2,0	2,2	2,1	+0,2
Spain												
Fed. State Admin.	4,1	4,1	4,2	4,1	4,3	4,1	4,3	4,5	4,7	5,7	5,2	+1,1
Local Admin.	1,4	1,4	1,4	1,4	1,3	1,2	1,4	1,4	1,4	1,9	1,7	+0,3
Total	5,5	5,5	5,7	5,6	5,6	5,4	5,6	5,8	6,1	7,6	6,9	+1,5
United Kingdom												
Local Admin.	7,7	7,7	8,1	8,6	8,6	8,8	9,0	8,8	9,1	9,9	9,9	+2,2
<i>Average</i>	<i>5,1</i>	<i>5,3</i>	<i>5,3</i>	<i>5,4</i>	<i>5,4</i>	<i>5,5</i>	<i>5,5</i>	<i>5,5</i>	<i>5,6</i>	<i>6,2</i>	<i>5,9</i>	<i>+0,8</i>

Source: Processed on Eurostat data

As we read such analysis, we should not forget the effects of the nominal GDP which, starting in 2008, has undergone heavy drops in many countries, thus causing the worsening of all indices based on the GDP itself.

The drop of Central transfers in Austria has resulted in a reorganisation of the importance of state funding in the Local Administrations' budgets (an aggregate that consolidates the two levels of the sub-central government present in all federal states, that is, the Federated State Administrations and the Local Administrations). The incidence of the central transfers on the total income of the peripheral bodies drops from 20,6% in 2000 to 14,0% in 2010 (-6,6%). This, however, does not denote any greater autonomy, as we have already seen that the income of the Austrian Local Administrations have dropped by almost 2 GDP points in the last 10 years (Table 4). In Belgium the state funded resources are over 57% of the income of the Local Administrations. This value is basically stable as it has not witnessed any significant variations since 2002.

Table 4 - Incidence of Central transfers on the Local Administrations' income (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Var. '10-'00
Austria	20,6	21,5	23,3	23,6	22,6	23,3	23,0	22,9	20,4	13,5	14,0	-6,6
Belgium	63,8	63,8	57,4	57,5	57,7	57,5	57,1	57,2	58,8	58,2	57,2	-6,6
Finland	21,4	22,2	25,9	27,2	28,0	28,2	28,8	28,2	28,5	29,2	29,5	+8,1
Germany	9,9	9,9	10,0	10,4	10,0	10,1	9,5	9,1	8,6	10,3	11,5	+1,6
Italy	40,4	43,3	41,1	40,1	41,1	42,2	41,7	41,0	43,5	50,4	47,2	+6,9
Portugal	35,7	36,0	36,2	36,9	37,0	35,6	34,2	31,4	30,2	32,7	33,5	-2,2
Spain	33,8	34,3	32,6	31,6	30,4	28,8	29,3	30,2	32,3	37,5	38,4	+4,5
United Kingdom	69,0	68,4	68,9	69,7	70,0	70,1	69,4	69,0	69,7	70,4	70,9	+1,9
<i>Average</i>	<i>36,8</i>	<i>37,4</i>	<i>36,9</i>	<i>37,1</i>	<i>37,1</i>	<i>37,0</i>	<i>36,6</i>	<i>36,1</i>	<i>36,5</i>	<i>37,8</i>	<i>37,8</i>	<i>+0,9</i>

Note: for Austria, Belgium, Germany and Spain the data regarding the Federal State Administrations (S1312) and Local Administrations (S1313) is put together

Source: Processed on Eurostat data

3. The regional variations in revenue and public spending in European Countries

3.1 Introduction

As extensively documented in the work of the Observatory for Federalism, the implementation of federalism can not be affected by the quantity of detailed statistical information, which is often quite limited and hinders any research and specific examination.

Thus, the Regional Council of the Veneto Region has promoted, together with the current Presidency of CALRE, a project aimed to collect data on financial flows of public administration at each level of government for the regions that are part of CALRE. This project allow us to have a single framework and a constant monitoring of financial flows at local level, that today are not detected by the official statistics.

As a matter of fact, our data on revenue and expenditure of the public administration, at national, regional and local level, in the whole Europe, are still scanty and difficult to compare.

The aim of the project, following a bottom-up approach, is to establish a database that will permit to conduct studies and research on public accounts at a European level, in order to fill an information gap on the socio-economic characteristics of the European regions members of the CALRE.

Recently, the Regional Development Committee of the European Parliament, chaired by the former Commissioner for Regional Policy, Danuta Maria Hübner, pointed out that no progress has been made regarding the collection of data on public expenditure at NUTS 2 level, despite cooperation with Eurostat and the negotiations over the last four years. This fact undoubtedly reduces the ability of the European Commission and of other stakeholders to undertake comprehensive and reliable national policies and, in particular, patterns and trends in public spending and public investment at a regional level.

Exhorted by the words of the representative of the European Commission, the Regional Council of Veneto Region has sent to all member regions of CALRE a survey form to be filled with data taken on revenue and expenditure of the central, regional and local government level, in a single territory, on the basis of certain criteria contained in a special methodological note.

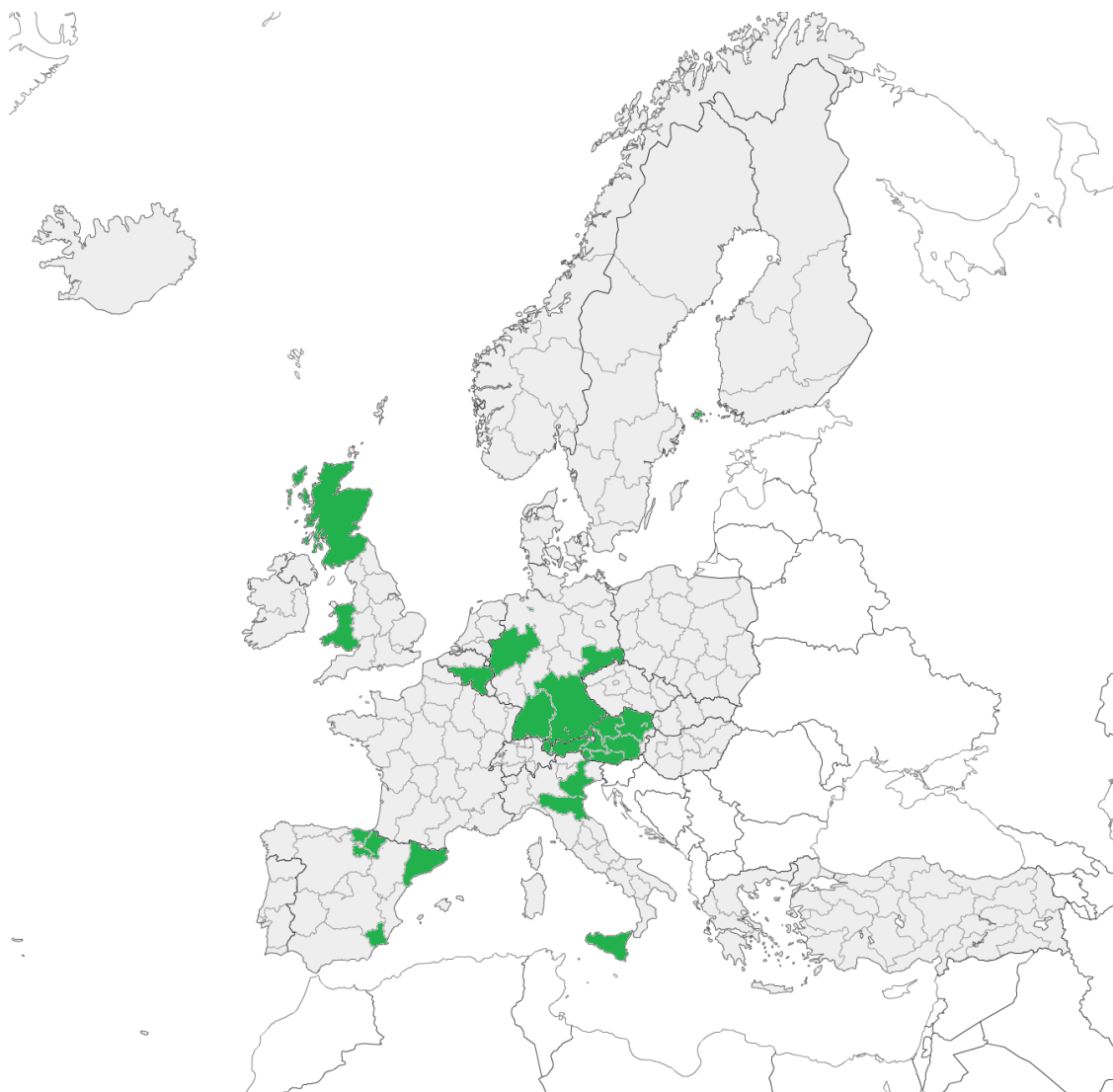
The agreement between the European Commission and the CALRE has fostered an excellent result. Today 25 out of 75 European Regions member of CALRE replied to the survey:

- | | |
|---------------------------|------------------------------|
| 1. Aland – FI | 10. La Rioja – ES |
| 2. Baden-Wurttemberg – DE | 11. Lower Austria – AT |
| 3. Bayern – DE | 12. Murcia – ES |
| 4. Bremen – DE | 13. Nordrhein-Westfalen – DE |
| 5. Burgenland – AT | 14. Netherlands – BG |
| 6. Carinthia – AT | 15. Salzburg – AT |
| 7. Catalonia – ES | 16. Saxony – DE |
| 8. Emilia-Romagna – IT | 17. Scotland – UK |
| 9. Wales – UK | 18. Sicily – IT |

19. Styria – AT
20. Tyrol – AT
21. Upper Austria – AT
22. Veneto – IT

23. Vienna – AT
24. Vorarlberg – AT
25. Walloon – BG

Map of European Regions that have replied to the survey



To complete with the missing information from European regions and have comparable values, we have used, where possible, the information available on the websites of the Statistical Departments of these regions. In particular we have used data from the **Spanish** Secretaría de Estado de Hacienda of y Presupuestos, DG Financiera de Coordinación with las CC.AA. y las EE.LL., Liquidación de los de las Comunidades Autónomas Presupuestos; data from **Germany's** Federal Statistical Office and the Statistical Offices of the Länder for **Austria** data Rechnungsabschlüsse Statistics Austria, and, for **Italy**, data of the Court of Auditors and Istat.

Here the data is presented referring to the **Federal Public Administration** (European System of Accounts ESA 95: S.1312 classification), which includes separate institutional units exercising some of the administrative functions to a level below the central government and above that of the local institutional and administrative units.

Sixty-six European regions were analyzed in total. In particular, the 20 Italian regions, the nine Austrian Länder, the 19 Spanish Autonomous Communities, the 16 German Länder, Åland, the autonomous province of Finland and the Belgian region of Wallonia. Given the peculiarities of the United Kingdom's political-institutional framework and the lack of data available, these regions were not included in the analysis.

Data processing allowed to obtain a comparative analysis of local public finances between areas. More specifically, **the study analyzed the distribution of revenue and government expenditure in the individual regional areas of six European countries** (Italy, Germany, Spain, Austria, Belgium and Finland). These values have been compared to the population residing in each region and the regional GDP. With the availability of data flows in the years 2005-2009 we measured the average value during the period and the change in the five-year period.

3.2 Regional government revenue analysis

In the European ranking of areas with the highest per capita regional income the first place is occupied by the Italian region of Valle d'Aosta (11.756 Euros per capita in the period 2005-2009). The revenue collected from the region corresponds to an average of 1.475 billion Euros, that is the 39,4% of regional GDP. From 2005 to 2009 there was an increase in revenue collected in the region of +10,1%. The second place is occupied by the autonomous province of Åland in Finland with an average revenue per capita amounting to 10.458 Euros. However, both these regions are characterized by a very small territorial dimension.

The Spanish autonomous community of Navarre (6.614 Euros), the Austrian province of Vienna (6.427 Euros), and the three German Länder of Berlin (6.228 Euros), Hamburg (6.038 Euros) Bremen (5.129 Euros) have all an average of more than 5.000 Euros per capita. Most Italian regions have fewer autonomous resources available per capita. Together with the Walloon region of Belgium, which has collected over the period 2005-2009 almost six billion Euros by the regional administration (1.747 Euros per capita), several Italian regions have in fact recorded very low revenue compared to other European regions.

The analysis of the average value of the public revenue for regional governments in the period 2005-2009 related to regional GDP, shows that in the first three positions are the Valle d'Aosta (39,4%), the Autonomous Community of Extremadura (28,2%) and the autonomous province of Åland (25,4%).

Restricting the analysis to the regions with the highest regional GDP for the period 2005-2009, we notice that among the areas that are "richer" the Italian regions occupy the last place regarding the collection of revenues. Tuscany, Emilia-Romagna, Veneto and Lombardy recorded, during the five years considered, resources collected per capita lower than 2.400 Euros. The

German Länder and the Spanish Comunidade, our competitors, have collected much more resources from the territory.

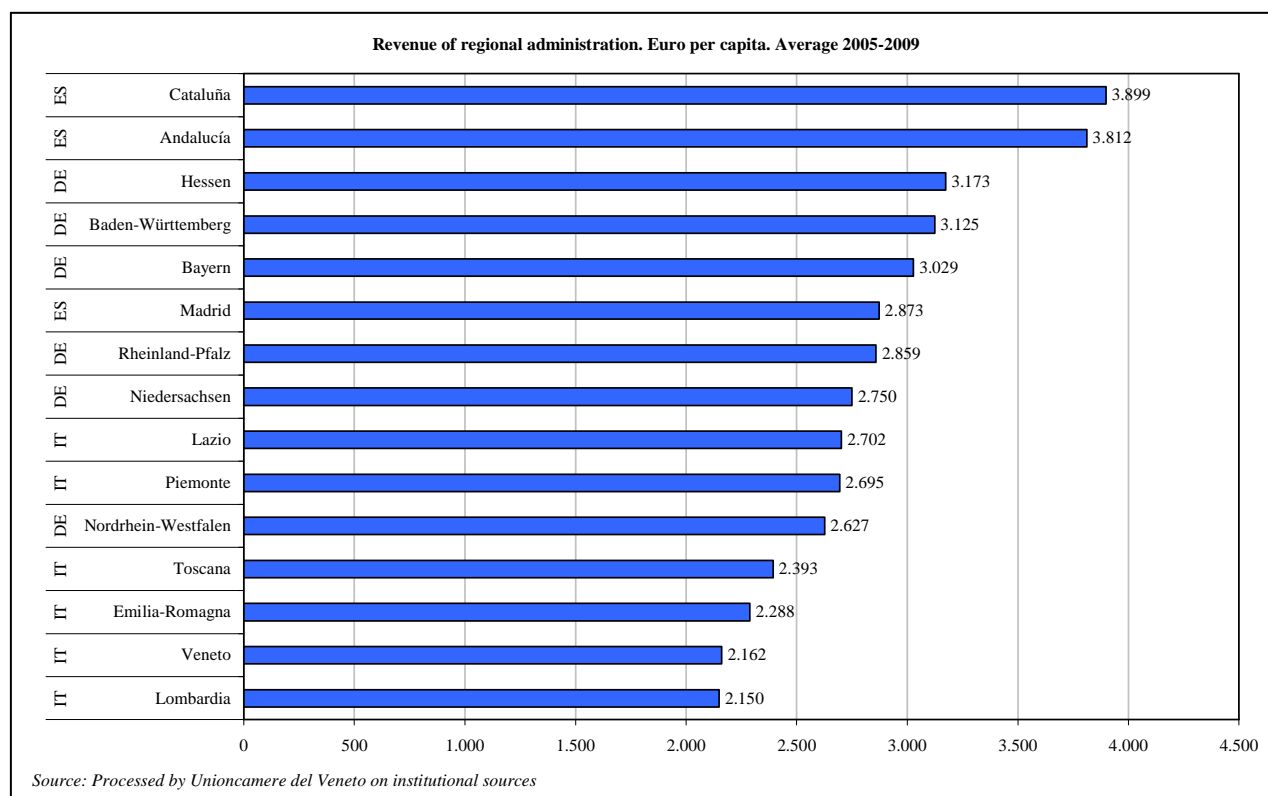
Revenue of regional administration. Data ordered by GDP value. Average 2005-2009

Rank	Country	Region	million of euro*	Var. % 09/05	euro per capita	GDP**	Revenue/GDP
1	DE	Nordrhein-Westfalen	46.699	7,8	2.627	522.184	8,9
2	DE	Bayern	37.503	18,7	3.029	426.722	8,8
3	DE	Baden-Württemberg	33.050	11,1	3.125	349.512	9,5
4	IT	Lombardia	20.651	14,6	2.150	319.238	6,5
5	DE	Hessen	18.904	6,4	3.173	213.250	8,9
6	DE	Niedersachsen	21.943	21,4	2.750	204.764	10,7
7	ES	Cataluña	27.808	37,9	3.899	191.501	14,5
8	ES	Madrid	17.587	36,1	2.873	181.708	9,7
9	IT	Lazio	14.894	36,9	2.702	167.148	8,9
10	IT	Veneto	10.394	13,3	2.162	144.533	7,2
11	ES	Andalucía	30.435	34,2	3.812	140.943	21,5
12	IT	Emilia-Romagna	9.750	16,6	2.288	133.746	7,3
13	IT	Piemonte	11.812	6,3	2.695	123.324	9,6
14	DE	Rheinland-Pfalz	11.427	7,8	2.859	102.608	11,1
15	IT	Toscana	8.763	10,5	2.393	102.404	8,6

* For Spain, the value of regional administration's expenditure is referred to the average 2006-2009, the value is not available for 2005.

** Regional GDP for 2009, not yet released by Eurostat, is estimated.

Source: Processed by Unioncamere del Veneto on institutional sources



3.3 Analysis of regional administration costs

Even in the ranking of European areas with the highest per capita regional administration costs, the first place is occupied by the Italian region of Valle d'Aosta (12.847 Euros per capita in the period 2005-2009). The expenditure in the region corresponds to an average of 1.612 billion Euros, 43% of regional GDP. From 2005 to 2009 there was an increase in expenditure of +14,6%. Following is the autonomous province of Åland in Finland with expenditure amounting to 8.805 Euros per capita. Over an average of more than 5.000 Euros per capita are at the Spanish autonomous community of Navarre (6.671 Euros), the Austrian provinces of Vienna (6.427 Euros), and the three German Länder of Bremen (6.201 Euros), Berlin (6.139 Euros) Hamburg (5.949 Euros).

The analysis of the average value of regional public expenditure for the period 2005-2009 related to regional GDP, shows that the first three positions are held by the Italian region of Valle d'Aosta (43%), the Spanish autonomous community of Extremadura (27,8%) and the German Länder of Berlin (24,7%).

Analyzing the European regions with the highest GDP, we can see that even regarding the expenditure issue, the Italian "disadvantaged" areas such as Piedmont, Tuscany, Emilia-Romagna, Veneto and Lombardy, had a lower level of per capita expenditure than the "richest" regions.

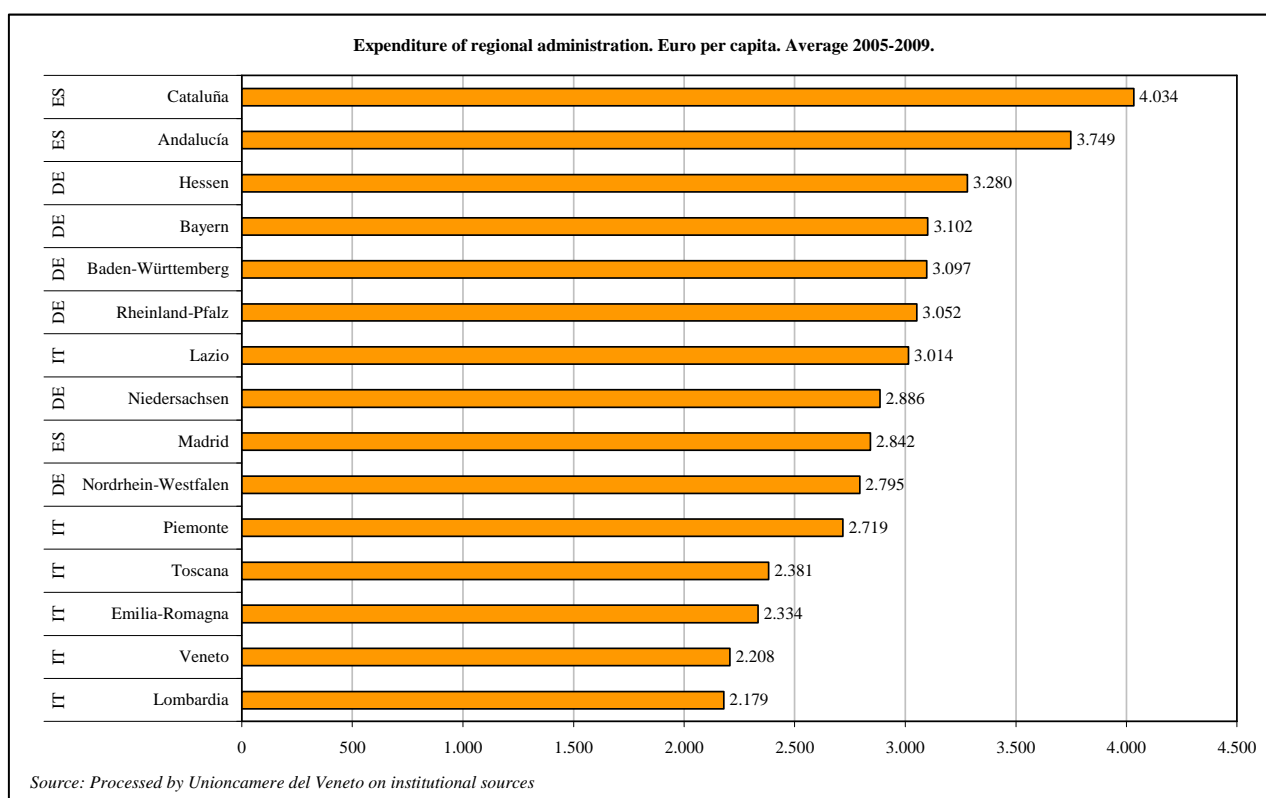
Expenditure of regional administration. Data ordered by GDP value. Average 2005-2009

Rank	Country	Region	million of euro*	Var. % 09/05	euro per capita	GDP**	Expenditure/GDP
1	DE	Nordrhein-Westfalen	50.290	2,7	2.795	522.184	9,6
2	DE	Bayern	38.764	37,6	3.102	426.722	9,1
3	DE	Baden-Württemberg	33.275	9,4	3.097	349.512	9,5
4	IT	Lombardia	20.934	11,5	2.179	319.238	6,6
5	DE	Hessen	19.925	17,2	3.280	213.250	9,3
6	DE	Niedersachsen	23.023	13,0	2.886	204.764	11,2
7	ES	Cataluña	28.785	46,2	4.034	191.501	15,0
8	ES	Madrid	17.401	35,6	2.842	181.708	9,6
9	IT	Lazio	16.615	42,6	3.014	167.148	9,9
10	IT	Veneto	10.618	15,0	2.208	144.533	7,3
11	ES	Andalucía	29.941	40,4	3.749	140.943	21,2
12	IT	Emilia-Romagna	9.949	23,1	2.334	133.746	7,4
13	IT	Piemonte	11.917	8,7	2.719	123.324	9,7
14	DE	Rheinland-Pfalz	12.342	13,6	3.052	102.608	12,0
15	IT	Toscana	8.724	14,8	2.381	102.404	8,5

* For Spain, the value of regional administration's expenditure is referred to the average 2006-2009, the value is not available for 2005.

** Regional GDP for 2009, not yet released by Eurostat, is estimated.

Source: Processed by Unioncamere del Veneto on institutional sources

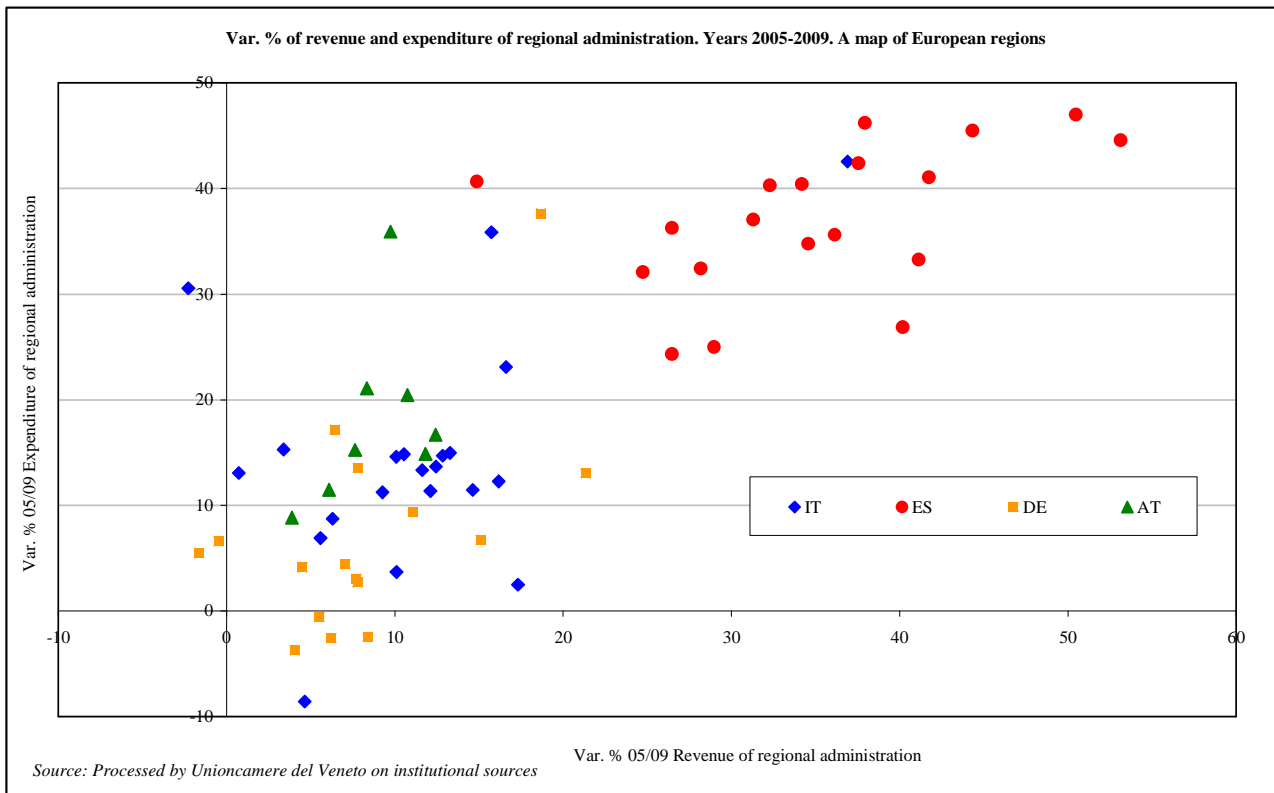


3.4 Correlation between the variation in revenue and expenditure of regional governments in the period 2005-2006

From the time series analysis of revenue and expenditure of the European regional administrations in the period 2005-2009, we note that the Spanish Autonomous Communities have recorded the strongest growth of both revenue received and expenditure made. Italian regions, German Länder and Austria have scored in the period 2005-2009 lower variations.

Public expenditure of four German Länder (Berlin, Saxony-Anhalt, Mecklenburg-Vorpommern, Thüringen) and of one Italian region (Molise) decreased during the period, while registering an increase of revenues just a little bit lower than 10%. On the contrary in the German Länder of Hamburg and Saarland, the increase in expenditure of the regional administration was accompanied by a reduction in revenue (-1,6% and -0,5% respectively in the period 2005-2009).

In the Austrian region of Burgenland (outlier) in this period there was a strong decrease in both revenue and expenditure of the regional government (in the years 2005-2009 a decrease in expenditures of -33,3% and in revenues of -26 %).



Revenue of regional administration. Data ordered by per capita value. Average 2005-2009

Country	Region	million of euro*	Var. % 09/05	GDP**	Revenue/GDP	euro per capita
IT	Valle d'Aosta	1.475	10,1	3.746	39,4	11.756
FI	Åland	283	3,6	1.115	25,4	10.458
IT	Provincia Autonoma Bolzano	4.374	12,4	16.403	26,7	8.910
IT	Provincia Autonoma Trento	4.010	11,6	15.332	26,2	7.849
ES	Navarra	3.980	24,7	17.343	22,9	6.614
AT	Vienna	10.767	6,1	71.504	14,8	6.427
DE	Berlin	20.798	6,2	84.800	24,5	6.228
DE	Hamburg	10.262	-1,6	84.031	12,2	6.038
DE	Bremen	3.334	7,7	26.414	12,6	5.129
AT	Lower Austria	7.275	11,8	41.870	16,9	4.556
ES	Extremadura	4.828	26,5	17.075	28,2	4.485
AT	Burgenland	1.244	-26,0	5.959	20,7	4.423
ES	C.-La Mancha	8.446	44,3	34.664	24,3	4.312
IT	Sardegna	7.115	-2,3	32.337	22,0	4.280
IT	Friuli V.G.	5.199	15,7	34.994	14,8	4.264
AT	Styria	5.019	9,7	33.580	14,6	4.165
DE	Mecklenburg-Vorpommern	6.986	8,4	34.225	20,4	4.153
ES	País Vasco	8.530	14,9	63.590	13,4	4.010
AT	Carinthia	2.245	10,7	15.267	14,4	4.010
ES	Galicia	10.934	26,5	52.699	20,7	4.007
DE	Sachsen-Anhalt	9.631	4,0	51.019	18,9	3.995
DE	Sachsen	16.603	7,1	91.528	18,1	3.968
ES	C.-León	9.826	29,0	54.940	17,9	3.942
DE	Thüringen	8.858	5,5	48.215	18,4	3.905
ES	Cataluña	27.808	37,9	191.501	14,5	3.899
DE	Brandenburg	9.717	4,5	52.314	18,6	3.874
ES	Aragón	4.943	37,5	31.881	15,5	3.841
AT	Tyrol	2.691	7,6	23.445	11,2	3.839
ES	Cantabria	2.165	28,2	12.990	16,7	3.818
ES	La Rioja	1.176	41,1	7.561	15,5	3.814
ES	Andalucía	30.435	34,2	140.943	21,5	3.812
AT	Salzburg	1.995	8,3	19.322	10,1	3.781
ES	Asturias	3.948	34,6	22.283	17,7	3.729
IT	Molise	1.156	4,7	6.207	18,7	3.603
IT	Sicilia	18.007	17,3	82.618	21,8	3.582
AT	Vorarlberg	1.276	3,9	12.327	10,1	3.487
ES	Canarias	6.946	32,3	40.720	17,0	3.444
AT	Upper Austria	4.752	12,4	44.469	10,4	3.378
IT	Basilicata	1.980	0,7	10.987	18,1	3.344
ES	Illes Balears	3.331	40,2	25.551	13,0	3.236
ES	Ceuta	233	50,5	1.525	15,2	3.231
DE	Hessen	18.904	6,4	213.250	8,9	3.173
DE	Baden-Württemberg	33.050	11,1	349.512	9,5	3.125
ES	Murcia	4.262	41,7	26.397	16,1	3.062
DE	Bayern	37.503	18,7	426.722	8,8	3.029
ES	Melilla	205	53,1	1.409	14,5	2.981
ES	Madrid	17.587	36,1	181.708	9,7	2.873
DE	Rheinland-Pfalz	11.427	7,8	102.608	11,1	2.859
ES	C. Valenciana	13.541	31,3	99.793	13,6	2.812
DE	Niedersachsen	21.943	21,4	204.764	10,7	2.750
DE	Schleswig-Holstein	7.660	15,1	71.365	10,7	2.733
IT	Liguria	4.362	16,2	42.422	10,3	2.710
IT	Lazio	14.894	36,9	167.148	8,9	2.702
IT	Piemonte	11.812	6,3	123.324	9,6	2.695
IT	Calabria	5.384	12,8	32.737	16,4	2.684
DE	Saarland	2.682	-0,5	29.749	9,0	2.643
DE	Nordrhein-Westfalen	46.699	7,8	522.184	8,9	2.627
IT	Abruzzo	3.357	5,6	27.729	12,1	2.546
IT	Umbria	2.213	10,1	21.049	10,5	2.514
IT	Campania	14.301	3,4	94.509	15,1	2.465
IT	Toscana	8.763	10,5	102.404	8,6	2.393
IT	Puglia	9.598	9,3	67.739	14,2	2.355
IT	Marche	3.607	12,1	40.144	9,0	2.331
IT	Emilia-Romagna	9.750	16,6	133.746	7,3	2.288
IT	Veneto	10.394	13,3	144.533	7,2	2.162
IT	Lombardia	20.651	14,6	319.238	6,5	2.150
BG	Walloon	6.004	17,5	77.305	7,8	1.747

* For Spain, the value of regional administration's expenditure is referred to the average 2006-2009, the value is not available for 2005.

** Regional GDP for 2009, not yet released by Eurostat, is estimated.

Source: Processed by Unioncamere del Veneto on institutional sources

Expenditure of regional administration. Data ordered by per capita value. Average 2005-2009

Country	Region	million of euro*	Var. % 09/05	GDP**	Expenditure/GDP	euro per capita
IT	Valle d'Aosta	1.612	14,6	3.746	43,0	12.847
IT	Provincia Autonoma Bolzano	4.468	13,7	16.403	27,3	9.101
FI	Åland	239	41,7	1.115	21,4	8.805
IT	Provincia Autonoma Trento	4.043	13,3	15.332	26,4	7.912
ES	Navarra	4.016	32,1	17.343	23,1	6.671
AT	Vienna	10.767	11,5	71.504	14,8	6.427
DE	Bremen	4.110	3,0	26.414	15,6	6.201
DE	Berlin	20.945	-2,6	84.800	24,7	6.139
DE	Hamburg	10.457	5,5	84.031	12,4	5.949
AT	Lower Austria	7.275	14,9	41.870	16,9	4.556
IT	Friuli V.G.	5.429	35,9	34.994	15,5	4.451
ES	Extremadura	4.763	36,3	17.075	27,8	4.424
AT	Burgenland	1.244	-33,3	5.959	20,7	4.423
ES	C.-La Mancha	8.382	45,5	34.664	24,1	4.278
AT	Styria	5.019	35,9	33.580	14,6	4.165
IT	Molise	1.335	-8,6	6.207	21,6	4.163
IT	Sardegna	6.858	30,6	32.337	21,2	4.123
DE	Sachsen-Anhalt	9.965	-3,7	51.019	19,6	4.106
ES	País Vasco	8.659	40,7	63.590	13,6	4.069
DE	Mecklenburg-Vorpommern	6.829	-2,5	34.225	20,0	4.050
ES	Cataluña	28.785	46,2	191.501	15,0	4.034
AT	Carinthia	2.245	20,5	15.267	14,4	4.010
ES	Galicia	10.877	24,3	52.699	20,6	3.986
DE	Thüringen	9.066	-0,6	48.215	18,8	3.940
DE	Brandenburg	9.887	4,1	52.314	18,9	3.892
ES	C.-León	9.692	25,0	54.940	17,6	3.888
ES	Aragón	4.976	42,4	31.881	15,6	3.866
AT	Tyrol	2.691	15,3	23.445	11,2	3.839
ES	Cantabria	2.175	32,4	12.990	16,7	3.834
ES	La Rioja	1.180	33,3	7.561	15,6	3.829
AT	Salzburg	1.995	21,1	19.322	10,1	3.781
IT	Sicilia	18.889	2,5	82.618	22,9	3.758
ES	Andalucía	29.941	40,4	140.943	21,2	3.749
DE	Sachsen	15.835	4,4	91.528	17,3	3.742
ES	Asturias	3.954	34,8	22.283	17,7	3.735
AT	Vorarlberg	1.276	8,8	12.327	10,1	3.487
IT	Basilicata	2.013	13,1	10.987	18,3	3.401
ES	Canarias	6.819	40,3	40.720	16,7	3.379
AT	Upper Austria	4.752	16,7	44.469	10,4	3.378
DE	Hessen	19.925	17,2	213.250	9,3	3.280
ES	Illes Balears	3.322	26,9	25.551	13,0	3.228
DE	Saarland	3.348	6,6	29.749	11,3	3.221
DE	Bayern	38.764	37,6	426.722	9,1	3.102
ES	Ceuta	224	47,0	1.525	14,6	3.099
DE	Baden-Württemberg	33.275	9,4	349.512	9,5	3.097
DE	Rheinland-Pfalz	12.342	13,6	102.608	12,0	3.052
ES	Murcia	4.238	41,1	26.397	16,0	3.042
IT	Lazio	16.615	42,6	167.148	9,9	3.014
DE	Schleswig-Holstein	8.462	6,7	71.365	11,9	2.987
ES	Melilla	201	44,6	1.409	14,2	2.914
DE	Niedersachsen	23.023	13,0	204.764	11,2	2.886
ES	Madrid	17.401	35,6	181.708	9,6	2.842
IT	Liguria	4.500	12,3	42.422	10,6	2.796
DE	Nordrhein-Westfalen	50.290	2,7	522.184	9,6	2.795
ES	C. Valenciana	13.315	37,0	99.793	13,3	2.762
IT	Piemonte	11.917	8,7	123.324	9,7	2.719
IT	Abruzzo	3.573	6,9	27.729	12,9	2.709
IT	Campania	15.603	15,3	94.509	16,5	2.689
IT	Calabria	5.335	14,7	32.737	16,3	2.660
IT	Umbria	2.299	3,7	21.049	10,9	2.612
IT	Marche	3.692	11,4	40.144	9,2	2.385
IT	Toscana	8.724	14,8	102.404	8,5	2.381
IT	Emilia-Romagna	9.949	23,1	133.746	7,4	2.334
IT	Puglia	9.431	11,2	67.739	13,9	2.314
IT	Veneto	10.618	15,0	144.533	7,3	2.208
IT	Lombardia	20.934	11,5	319.238	6,6	2.179
BG	Walloon	6.376	32,7	77.305	8,2	1.854

* For Spain, the value of regional administration's expenditure is referred to the average 2006-2009, the value is not available for 2005.

** Regional GDP for 2009, not yet released by Eurostat, is estimated.

Source: Processed by Unioncamere del Veneto on institutional sources

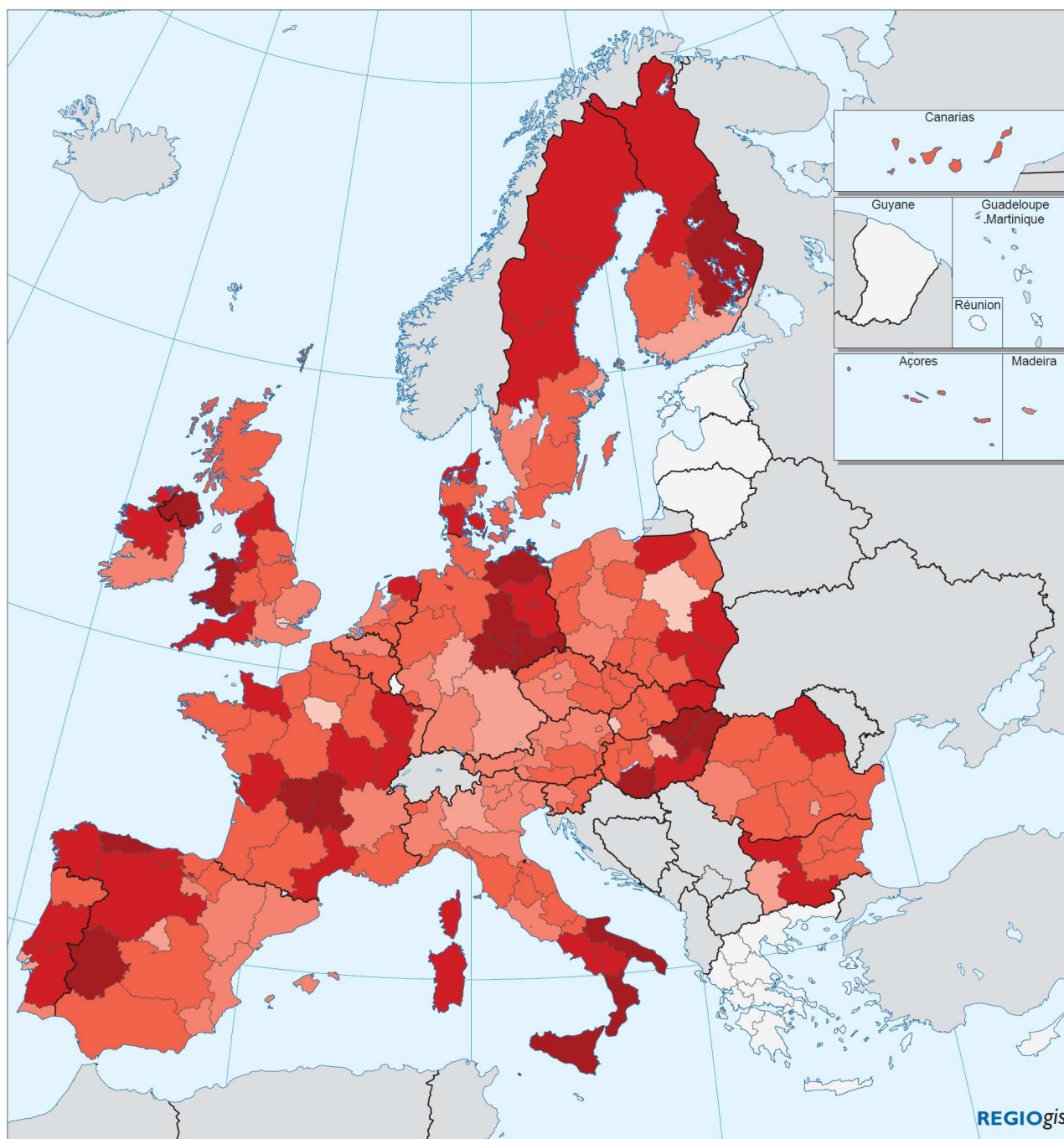
4. The net effect of taxes and public transfers²

Disparities in disposable income per head across regions are narrower than in either GDP per head or primary income in all Member States as a result of government taxes and transfers redistributing income. The same applies across the EU as a whole. Regional disparities in disposable income across regions are about 18% less than disparities in GDP. Average GDP per head in the 10% of regions with the highest levels in PPS terms was 4,5 times the average in the 10% of regions with the lowest levels in 2007. In terms of disposable income, it was 3,9 times higher³. The redistributive effect of taxes and transfers is especially large in Denmark which, as a result, has the narrowest disparities in disposable income per head across NUTS 2 regions in the EU. The effect is only slightly smaller in Sweden, Austria, France and the Netherlands. By contrast, the redistributive effect is relatively small in Spain, Italy and Romania which have the widest income disparities across regions in the EU, along with Hungary, Slovakia and Bulgaria⁴. It is equally important to take account of the effect of transfers in kind which is not captured by these figures. In all countries, education and healthcare are provided free of charge and, accordingly, contribute significantly to economic, social and territorial cohesion. The quality of these services varies both within and between countries which should ideally be taken into account when assessing income disparities. Equally, social services, such as child or elderly care, are provided free or well below cost in some countries — the Nordic countries especially — but not in others, so effectively adding to income much more in the former than the latter. Ignoring these services distorts comparisons across countries — and in some cases across regions — though lack of data makes it difficult to incorporate them in the analysis. Sixteen of the 20 regions in which taxes and transfers have the most effect are either Convergence or Transition regions, government interventions increasing disposable income per head by at least 9%. These include Asturias in Spain, Calabria in Italy, Wales and Northern Ireland in the UK, the Finnish region of Itä-Suomi and the two eastern regions of Hungary. In four of the East German Länder, the increase is over 15%. The number of NUTS 2 regions (132) in the EU in which disposable income per head is increased relative to GDP per head is much larger than the number (50) in which it is reduced, reflecting the greater concentration of economic activity than of population. In sum, household income per head in the EU is significantly more equal across regions than GDP per head, principally because of the net effect of taxes and transfers. This effect, however, varies markedly across countries, as does the scale of commuting, which is important in transferring income generated in capital city regions in particular to surrounding areas in a number of countries. Developments since 2000 indicate a gradual reduction in regional disparities in the EU in both income and GDP.

² European Union (2010), Report from the Commission. Fifth report on economic, social and territorial cohesion. “Investing in Europe’s future”. November 2009. In http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion5/index_en.cfm

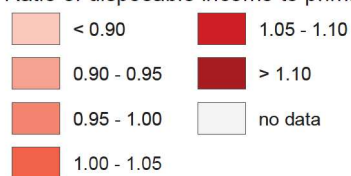
³ The 20% of regions with the highest and lowest levels of GDP per head and income per head is here calculated in terms of population rather than the number of regions so as to take account of the very different population sizes of NUTS 2 regions.

⁴ There are no data available for Greece.



2.4 Net effect of taxes and public transfers, 2007

Ratio of disposable income to primary income



The ratio is in relation to the national average

Source: Eurostat, DG REGIO

0 500 Km

© EuroGeographics Association for the administrative boundaries

5. Conclusion

The progressive devolution of powers and resources from the Center to the Periphery is a common element in many European countries, especially since the Nineties. The reorganization of public structures in a decentralized way can be interpreted as a consequence of the increasing importance of the subsidiarity principle in the EU and, from a practical point of view, as a solution to increase and strengthen the process of rationalization of public spending.

The recent Financial Crisis, however, has slowed, if not completely blocked, this process. The analysis of the public accounts of Local Administrations in European countries reveals a regression of the revenue and expenditure over the past two years. This is also due to the reduction of financial flows which, in many countries, were subject to restrictive measures in order to correct the trend of the national public accounts. In this sense, the fiscal and administrative decentralization in Europe risks to become a victim of the current Financial Market Crisis.

The map of revenues and expenses of the European regions confirms the analysis of fiscal aggregates: between 2005 and 2009, government expenditure on a regional level has grown to a greater extent than revenue. This trend can shed light on a situation of suffering and weaknesses in Local Governments in Europe: as a matter of fact, there is the risk that the mismatch between revenue and expenses will expand further with the continuing Financial Crisis, resulting in increased exposures of regional debt.

Evidently, the size of regional budget is a function of both assigned responsibilities and fiscal resources allocated (especially depending on whether it is the case of federal countries or “non-federal countries”). Furthermore, they significantly affect the size of the territorial population and the amount of the wealth produced. However, although the disparate views of the powers and size of budget, the levels of regional government in Europe have in common the gradual shift in recent decades, but also the risk that this devolution process of powers and resources could be interrupted for a long time.

In order to support the competitiveness of the economy during this period of acute crisis, the policies of local government should take into account not only the transfer of resources that come from the national government to local authorities. Through state legislation on tax, social security and welfare, there are in fact forms of indirect transfer of resources to areas that act on the disposal income of individuals, by reducing regional disparities with regard to fiscal capacity. If the conditions for fiscal consolidation are not based on a transparency logic, there is the risk that these financial flows alter the competitive capacity of the most economically dynamic areas.

6. Proposal and developments

The Project has showed that the gathering of statistical data on these matters requires a great deal of planning, standardisation and, most of all, promptness. Also, the data gathered is not always perfectly comparable due to the differing national legislations concerning public finances. There are still some critical points to overcome which require a lot of work and collaboration from the CALRE regions and everyone else.

This is why the work of the Financial Federalism Working Team has to continue in the following years. The Veneto Regional Council has invested a lot on this topic and we will thus be glad to continue the 'journey' we have started in October 2006, by putting forward the following proposals to:

- **create inside the Financial Federalism Working Team a network of representatives with statistical and financial training, suggested by the CALRE regions with the aim of comparing and exchanging data and metadata regarding the financial flows between the various governmental levels in each region;**
- **activate and improve the monitoring and benchmarking systems of the CALRE regions for the measuring and comparison of federalism realisation and administrative decentralisation;**
- **plan and carry out a study on the distortion effects on the regional economies deriving from situations of financial unbalance between rich and poor areas of each country (high fiscal residue differentials).**

The proposal to create a network of regions to deal with these matters, if implemented, could serve to strengthen the role of the CALRE itself in the European area. At the same time, the network would become a tool for the launch of a true European regional policy thus enhancing the fundamental role of Regional councils.

The main principle that the Working Team aims to promote is that by joining our forces, and having a good organisation, we can achieve what would otherwise require years.

The Working Group intends to share the contacts with the DG of the EU Commission with all the Presidents of regional assemblies CALRE, officially inviting them to participate in the meetings of the Working Group. In order to ensure an adequate representation of the different member countries, the Regional Council of Veneto is going to expand the Working Group to the other regions.

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