

“The dynamics of European Regionalism”

Pescara, 23rd July 2011

Report of the President of the Veneto Regional Council
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Welcome everybody,

Veneto regional council is continuing the precious analysis activities on public finance and administrative devolution. Being part of the **Conference of European Regional Legislative Assemblies (CALRE)**, give us the opportunity to have a European level confrontation on problems affecting the European integration process. As “Financial Federalism” working group coordinator, I recognize the importance of the topics analyzed and presented during the meetings organized by CALRE in the past five years.

The Working group’s objective is to put into action a strategy shared among the European regional legislative assemblies aimed at stimulating both the institutions and the EU member States to adopt reforms considered by the Regions as fundamental in order to effectively become part of the EU political and administrative framework. They believe that the inclusion of the local self-governments, especially within the financial and fiscal policy framework, would certainly contribute to increase the quality of public management.

The central role of financial federalism in the European contest and the role it can play in the balance between private and public economic spheres have been stressed in many occasions.

Increasing the number of policies devolved means more independency as well as more accountability and subsidiary. The introduction of a federal system enables the governance levels closest to the citizens and to the enterprises to offer services in line with the users’ demands, as well as it guarantees a more efficient resources allocation, releasing funds to be allocated to policies targeted to support local economic development.

In particular, during the last meeting, held in Venice on the 27th May 2011, two important aspects related to financial federalism have being analyzed, a topic that represents an essential lever to build and to affirm the Europe of the Regions.

Financial federalism strongly emphasizes the role of regions and local self-governments, 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, the 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 favorite or penalize enterprises resident in areas of the Union with similar income and wealth levels.

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.

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, which, according to our studies, is inversely correlated to the level of administrative decentralization of a State.**

The aspects illustrated above show the risks caused by the lack of coordination between the European Cohesion Policy and the national cohesion policies.

We concluded that, in order to better deepen such issues, it is necessary to have more detailed information, that is to say provide statistical information to local and regional level.

With this aim the Veneto Regional Council, which coordinates the “Financial Federalism” Working Group, started, together with the current CARLE Presidency, a project aiming to collect financial flows data of the Public Administration at single intermediate governance level, for regions that are members of CARLE. This will allow having a common framework and a continuous monitoring of financial flows at sub-national level, considering that nowadays they are not measured by the official statistics.

Nowadays, data at our disposal on revenues and expenditures of Public Administrations at central, intermediate level and of the local Administration in single European areas are not sufficient or a comparison is difficult.

The aim of the project is to set up, using a bottom-up approach, a database collecting studies and researches on territorial public expenditures at European level, to plug the gap of information on socio-economic realities of European Regions members of the CARLE.

Recently the Commission for Regional Development of the European Parliament, chaired by the Former European Commissioner for Regional policies, Danuta Hubner, underlined the lack of advancement regarding the possible data collection on public expenditures at NUTS 2 level, despite the constant cooperation and negotiation with EUROSTAT in the past four years. This lack will surely affect the capacity of the Commission and of the other stakeholders to undertake a global and reliable analysis of national policies, in particular of models and trends of public expenditures at regional level. It is therefore necessary that the European statistics offer several additional data in order to better understand the public expenditures situation at regional level and the effects of the crisis on them.

To reach this goal a survey has been sent to all the regions members of CALRE. It has to be filled with data on revenues and expenditures of Public Administration at central and intermediate governance level and of the local Administration of a single area, on the basis of some criteria contained in the appropriate concept note.

The data processing will allow obtaining a comparative analysis of different areas from the local public finances perspective, with a particular reference to the relations between national and regional level as well as between Regions and local authorities. This will provide an assessment of the

fiscal deficit (i.e. the difference between revenues collected from a specific area and expenditures in the same area).

So it is necessary that each EU member State shares its regional statistics data on public accounts: relaying these information to the European Commission, national and cohesion policies will find a suitable coherence.

Even the EC has recognized this necessity. During the workshops in Venice, dr. Catalina, member of Regional Policy Administration, pointed out that the lack of expenditure data results, among other factor, from political resistance in some countries. It is essential to know the framework of national expenditure at regional level to understand on which priorities and on which areas invest the European funds. Dr. Catalina has clearly showed how the Commission intends to improve the impact of European funds, since in some regions in the last 14 years those funds hadn't any real political effect on growth and on GDP. For this reason, the SEC 95 reform is really important and the European Commission intends to collect data at sub-national level asking directly to the regions. The alliance between the European Commission and the CALRE is very auspicious and it could have concrete and tangible results for our working group. Currently two European regions part of CALRE have posted their data and we expect to close the survey by the end of September.

Recently we have pointed out several issues, like the lack of statistics on financial flows at regional level and the problem of tax evasion in a research paper "Federalism, Subsidiarity and tax evasion", in collaboration with Unioncamere Veneto in the field of regional observatory on federalism and public finance. The topics covered in this paper have a strong European spirit. As a matter of fact, Europe is seen as an important ally to complete the Italian federal reform, also through a suggested stronger control on both national and regional accounts.

Beyond this monitoring activity, three others actions are intended to be carried out in the next few years:

- A. to 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.
- B. to study new methodologies e new indicators for the subdivision of the future Cohesion Policy resources;
- C. to carry out lobbying activities in the European Institutions in order to achieve a revision of the ESA which permits providing statistics on regionalized government accounts at European level.

I'm still convinced that **financial federalism represents the easier end most efficient way to draw near citizens and policy-makers**, in a way that allow

citizens to check the relations between costs and benefits and to evaluate administrators on the basis of a comparison between tax income and provided services. Fiscal federalism promotes accountability processes and within these processes **there are still some room for the enhancement of the role of regional parliaments, taking into account their increased democratic representativeness.**

I hope that **CALRE will choose to continue this work, following the direction outlined in the past three years, giving continuity to the group activity to which I hope you will continue to give your precious contribution and attention.**