



# Net fiscal flows and interregional redistribution in Italy: A long-run perspective (1951–2010)



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## ABSTRACT

This paper carries out a long-run reconstruction of a discontinuous time series of net fiscal flows for Italian regions and macro-regions from 1951 to 2010. This evidence is the basis to put forward an assessment on the intensity of interregional redistribution operated by public sector. The main result of the paper is that even if the amount of resources transferred to Southern Italy from the rest of the country has been significant and increasing over time (at least up to the end of the 1990s), redistribution cannot be judged disproportionately large, in the light of income differences among regions, the public commitment in regional policies and the constitutional principles of equal access of citizens to the basic public services. Secondly, historical analysis of data and inspection of facts indicate that the relationship between the intensity of interregional redistribution and the financial effort of regional policies is weak. This supports the view that increasing NFFs have little served the purpose of regional convergence; rather, the rise of imbalances seems to be mainly connected to the overall escalation of public expenditure, following the institutional break occurred in mid-1970s with the establishment of Regional Governments.

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## 1. Introduction

The dualistic structure of the Italian economy is unique among the countries of the European Union, for both the width of the gap between rich and poor regions and the geographic size of the relatively underdeveloped area, the so-called Mezzogiorno, which accounts for more than 40% of national territory.<sup>1</sup> Despite more than 60 years of regional policies, in 2014 Southern regions still show values of GDP per capita and GDP per worker at respectively 53.7% and 75.6% of Centre-North, and an unemployment rate nearly twice as much as the national average, i.e., 20.5% versus 12.7% (SVIMEZ, 2015).

The presence of large and long-lasting differences between North and South of Italy in many indicators of economic and social

development has urged public intervention and a strong financial commitment by central and local governments for the implementation of policies sound to promote regional convergence and territorial rebalancing, at least since the 1950s. Characterized over time by different strategies, intermediate objectives and financial constraints, any public policy designed to fill the economic gap and apply the constitutional precepts of citizens' equality in accessing essential public services and progressivity criteria in income taxation has to some extent involved an inevitable redistribution in favour of Mezzogiorno from the more affluent Northern regions. This has originated an ongoing debate on the size of the Southern Net Fiscal Flow (NFF), i.e., the difference between public revenues raised from Southern regions and total public expenditures targeted to that area,<sup>2</sup> as well as on the burden imposed on contributing regions, its economic sustainability and even possible consequences on country stability, territorial conflict and incentives to secessions.

The relevance of this issue is clearly not restricted to the Italian case, which is both a particularly controversial one and peculiar

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<sup>1</sup> Mezzogiorno includes the Southern peninsular regions of Abruzzo, Molise, Campania, Apulia, Basilicata and Calabria and the islands Sicily and Sardinia. In this paper we use the words Mezzogiorno and South as synonyms. Also, following the literature, we employ the typical geographical aggregation of Italian regions in the four macro-regions named North-West (Piedmont, Aosta Valley, Lombardy, Liguria), North-East (Veneto, Trentino Alto Adige, Friuli Venezia Giulia, Emilia Romagna), Centre (Tuscany, Umbria, Marche, Lazio) and Mezzogiorno.

<sup>2</sup> Postponing details on the definition of NFF to Section 3, it is however the case to recall here that in the literature NFF takes on a variety of other names, such as fiscal residuum, fiscal balance, net fiscal transfer and so on.

since Italy is not even a federal country. A flourishing literature on the interregional redistribution operated through fiscal flows (see for example Bayoumi and Masson, 1995; Barberán et al., 2000; Bosch et al., 2002; Rodden et al., 2003; Bosch et al., 2010) has pointed out how the issue is multifaceted and contentious in many countries, especially for the difficulty to single out how much of vertical (from central to local governments) and horizontal (from rich to poor local governments) transfers are worth (i.e., can be actually ascribed to the genuine purpose of offsetting geographical disparities) or instead unjustified and due to other motivations (political interests, lobbying, corruption and inefficiencies in the provision of local public services).

The subject of this paper is closely connected to this debate. Our main objective is to carry out a historical reconstruction of regional NFFs in Italy throughout six decades (1951–2010), with the purpose of supplying an evaluation of the size of interregional redistribution operated by the public sector. To the best of our knowledge, it is an unprecedented attempt, since the existing literature has dealt with short time spans so far.<sup>3</sup> The main result of our investigation is that the amount of resources transferred to Southern Italy from the rest of the country has been significant and increasing over time (at least up to the end of the 1990s). Nevertheless, comparisons with the results of the extant literature on a number of other countries point out that redistribution among Italian regions cannot be judged disproportionately large, when taking into account actual inequalities among regions, the public commitment in regional policies and the constitutional principles of equal access of citizens to the basic public services.

Moreover, we address the issue of the reasons behind the rise of Southern NFF, in order to understand whether the observed dynamics of regional unbalances are actually explained by the need to finance development policies. Since available data do not permit to single out the determinants of NFFs through an econometric investigation and even to make a fully reliable assessment of statistical correlation among relevant variables, we proceed to a scrutiny of facts and data by adopting a mainly historical approach. This allows us to argue that increasing NFFs have little served the purpose of regional catching up; rather, the rise of imbalances seems to be mainly connected to the overall escalation of public expenditure, following the institutional break occurred in mid-1970s with the establishment of Regional Governments.

After this introduction, Section 2 is devoted to a brief survey on the long standing debate about interregional redistribution in Italy, from its origins to recent contributions. Section 3 deals with the long-run reconstruction of regional NFFs, carried out by building up discontinuous time series of public revenues and expenditures for regions and macro-regions. Section 3.1 presents methodology and data; Section 3.2 comments on the results of NFFs reconstruction; Section 3.3 supplies an assessment on the intensity of the redistributive effort in favour of Mezzogiorno, by applying some techniques proposed by the literature. Section 4 investigates on the most likely causes of the observed dynamics of regional NFFs. Section 5 concludes the paper. Finally, Appendix A shows the series of regional per capita public revenues and expenditures as yearly averages on 11 periods between 1951 and 2010, and gives further details on the methods used for reconstruction.

<sup>3</sup> The only exception is the recent paper by Buiatti et al. (2014) where the ratio of Government Surplus to GDP is estimated for North, Centre and South for the period 1963–2007. However in that case the estimation method is based on an indirect reconstruction operated from national account data, and results only partially coincide with ours.

## 2. The North-South interregional redistribution: a long standing discussion

The discussion on interregional redistribution operated by public sector in Italy has developed since national unification in 1861 and proceeded in parallel with the debate on the North-South gap.<sup>4</sup> Early empirical studies on the issue date back to Pantaleoni (1891) and Nitti (1900). According to these studies, unification led to increased fiscal pressure in the provinces of the South, due to the extension of the fiscal system of the former Kingdom of Sardinia – approximately consisting of present Liguria, Piedmont and Sardinia – to the other pre-unitary states. As a consequence, Southern regions of the newborn country were called to contribute to financing national public budget to a higher extent than the North, despite their lower per capita income and population. On the other hand, the governments of the time targeted the North with relatively high levels of public investment for infrastructures aimed to support the ongoing industrial take off of local economies, while for the South an agricultural-based model of development was preferred. Thus, in the post-unitary period (1861–1900), the South suffered from a substantial drain of resources.<sup>5</sup>

After Nitti (1900), due to the difficulty of getting a reliable evaluation of the regional distribution of public spending, most of effort was devoted to the estimation of fiscal pressure at the regional level, and the debate focused on size and direction of the implied fiscal redistribution among the macro-regions of the country (Bernardino, 1928; Zingali, 1933). Later on, the availability of data allowing for more appropriate regional sharing of fiscal burdens (in particular, regional data on consumption were released permitting to estimate the geographic distribution of indirect taxes) stimulated new interest. Employing this additional information, but using different methods to evaluate the regional incidence of taxes, De Meo (1955) and Stamatì (1955) found starkly different results, respectively for years 1952–53 and 1953–34. According to De Meo, Northern regions, accounting for 62% of national income, contributed about 60% of total tax revenues while Central and Southern regions respectively paid 21% and 19% of total taxes, producing 20% and 18% of national income. Conversely, Stamatì (1955) concluded that the North contributed to national tax revenues by more than its own fiscal capacity.

Some years later, an attempt to supply regional estimates of both tax revenues and public expenditure is made by Tarquinio (1969). This study, using cash-flow data on revenues (collected taxed) and payments (public spending) registered by Provincial Treasuries and reported in the *Conto Riassuntivo* (Summary Statistics) of the Ministry of Treasury from 1951 to 1965, suffers from a major drawback. Indeed, Tarquinio (1969) only considers the payments settled by Provincial Treasuries, leaving out those made by the Central Treasury. Moreover, it takes into account only a share of the payments settled by the Provincial Treasury of Rome. According to Geri and Volpe (1985), omitted items imply that only 45% of total public expenditure is actually attributed to regions, while the remaining 55% is left out of the picture. On the other hand, Tarquinio (1969) presents important merits. Unlike previous investigations, it uses *actual* public finance data, rather than data *estimated* from the distribution of personal income, personal wealth or other macroeconomic variables available at the regional level. Also, considering

<sup>4</sup> Historical roots and structural changes of the North-South divide characterizing the Italian economy are spelled out in Malanima and Zamagni (2010). The debate on the origins and determinants of the gap is still animated and controversial (see, for instance, Daniele and Malanima (2014a,b) and Felice (2013, 2014)).

<sup>5</sup> Pantaleoni (1891) provides the first attempt to evaluate regional fiscal pressure relative to the regional distribution of national wealth for years 1884–1889. Nitti (1900) is the first to deliver regional estimates of the distribution of both tax burden and public expenditure for years 1893–94 and 1897–98.

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