



Regional heterogeneity in Italy: Transport, devolution and corruption



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ABSTRACT

In the transport related literature little attention has been devoted to the institutional aspects involved in the strategic interaction between the central government and its local bodies. This might seem surprising given the relevance of the problem. This paper analyses the impact of the devolution of administrative powers on the transport sector. Specifically, we review some recent developments in the policies adopted in the transport sector by several advanced countries. Then, we analyze the relationship between mobility and devolution from a pure efficiency perspective. We describe the Italian devolution experience and present the latest data on corruption and per capita income to testify the heterogeneity among Italian regions. The main insight of our Tieboutian's framework is that decentralization is more sensible whenever there exists a lot of heterogeneity among regions in terms of per capita income and in the corruptibility of public officials, as this is the case for Italy. However, the Italian decentralization process might have been slow-downed due to fairness considerations.

1. Introduction and background

A strand of the public economics literature has emphasized the role of the devolution of power in providing more market-oriented services and an increase in productive efficiency, in the transport sector (Oates, 1972, 1999; Canning et al., 2010). The public goods literature lays out a theory that determines the best solution for the assignment of functions to different levels of government in specific sectors of the public finance. In a seminal paper, Tiebout (1956) argued that local public finance leads to a more efficient supply of local services, to an improved allocative efficiency, and reflects social preferences more adequately. Indeed, the national provision of local public goods is not efficient and this may be true for the public transport sector.

The assumptions of Tiebout's model, defined "extreme" by its author, are very restrictive. While under certain circumstances, competition among local governments might lead to an efficient allocation of local public goods, a possibility which requires empirical verification (Bewley, 1981; Liu and Zhang, 2013), the few analysis on the benefits of political decentralization in terms of efficiency do not provide a

clear-cut answer (Balaguer-Coll et al., 2010). Economists commonly perceive the economic relevance of decentralization.¹ For example, regarding development planning, de Valk (1990) observes that decentralization appears less a political goal and more an instrument to increase effectiveness and efficiency. Nevertheless, the evaluation of economic effects of this political process can be difficult.

Seabright (1996) examines devolution process not only from a political point of view but also from a strictly economic perspective. He focuses on the trade-off between policy coordination and accountability, defined as "the probability that the welfare of a given region can determine the re-election of the government".² In a centralized political system, there is the highest possible coordination, while the level of accountability is low; conversely, decentralization of powers to local governments diminishes coordination but leads to a higher standard of accountability. Finally, regional devolution stands at an intermediate position in terms of both coordination and accountability. The scope of the devolution determines the size of the electorate in charge of appointing or rejecting a government: the higher is the level of centralization, the lower the control of local communities on politi-

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¹ We refer to decentralization as the transfer of powers and responsibilities from central government to regional and local governments. Thus, in this paper, we use the words "decentralization" and "devolution" interchangeably (see Leone and Carroll, 2010).

² It is worth noting that the interests of political representatives do not coincide automatically with those of citizens (Barro, 1970).

cians. This might mean that the central government is not motivated to implement policies that would increase the welfare of marginal localities that is of citizens that do not have the power to affect the government's re-election. The relationship between accountability and local welfare is an important connection between the political and the economic implications of devolution.

From an economic point of view, Seabright (1996) approaches the question of devolution underlining the important role played by the externalities of local policies on other localities. Where these externalities are negative, that is in case of competitive local policies, decentralization increases population welfare; whereas if there are positive spillovers between localities, that is in case of complementary local policies, centralization increases population welfare. It is also important to underline how the government perceives the geographical context at local scale, the degree of criticality of the areas for intervention, ex-ante, from an environmental, social, economic and infrastructure viewpoint, the established functional mix and, finally, the relationships between objectives of conservation and those of finding new forms of sustainable consumption as a whole (Ioppolo et al., 2013).

Alesina and Spalatore (1997) focus on a trade-off between the benefits of centralization, in terms of economies of scale, and the “political costs” of heterogeneity of population that is difficult to satisfy for a centralized government. Moreover, the economic efficiency of devolution requires the full coincidence of the costs and benefits of the decisions taken by the political institutions (Haynes et al., 2005). This means that the social benefits from all decisions and policies must fall on the same citizens that bear the relative costs. Indeed, in the transport and mobility sector widespread negative externalities (Perveen et al., 2017) may lead to considerable difficulties in implementing political decisions due to the opposition by local communities that fear sacrifice on their part (so-called not in my back yard – NIMBY-syndrome). In this case the wide concept of sustainability passes through the capacity of local governance to involve the central government in a ‘cooperative’ action (Ioppolo et al., 2012).

As previously pointed out, improved allocative efficiency is the main objective of decentralization measures. From a productive efficiency viewpoint, however, in the transport field, frequently, the provision of transport services could lead to economies of scale because of the large fixed costs. In the local transport sector it is possible to achieve scale economies for an urban, a provincial or, as an upper limit, a regional catchment area. Then, devolution does not have a negative effect on production efficiency. Thus the right scale of administrative decentralization should depend on the technical production frontier.

The remaining sections of this paper analyze the impact of the devolution of administrative powers on the transport sector. The main insight of our Tieboutian's framework is that decentralization is more sensible whenever there exists a lot of heterogeneity among regions in terms of per capita income and in the corruptibility of public officials, as this is the case for Italy. Moreover, the Italian decentralization process might have been slow-downed due to fairness considerations.

2. Centralization and devolution of transport policy

In order to analyze the impact of decentralization on the transport industry, we start by examining recent developments in the transport policy of advanced countries.

The industrial era was characterized by the rigidity of the manufacturing process and by modal oriented transport systems. In the post-Fordist era, the greater flexibility of production processes required a logistically integrated intermodal system (Stough and Rietveld, 1997). These changes induced an increasing complexity of transport system and a proliferation of stakeholders and (private and public) decision makers with respect to the industrialization era.

The expansion in the set of decision makers for the transportation public policy has caused several problems of coordination and coopera-

tion among institutions involved in the transport field. Those are especially due to political differences between local and central governments and to different economic interests between areas of the same country.

For example, from the point of view of land-use and infrastructure planning, the expansion in the set of policy makers in the transport sector has extended the cost and time required to obtain implementable infrastructure decisions. Ranging from the search for community consensus to decision implementation, the several stages might be subject to a series of slowdowns due to excessive fragmentation of the institutional environment and to the greater difficulties in identifying costs and benefits of investments relating to ever-larger social areas.

Moreover, the objectives of the institutions in charge of planning, financing and operating transport activities have changed over the years. Examining the evolution of transport policy in the EU and in the US, it appears that institutions for planning, financing and operating transport systems were initially motivated by mobility and productive efficiency. Later, “external goals” became important political objectives. Safety, economic development and technological innovation are examples of external goals that, for social and cultural reasons, are now between the main objectives of the political process in the mobility sector. The growth in the number of goals expanded also the range of actors involved in transport policy, and this in turn enhances conflicts between different governmental institutions. Finally, during the 1960s environmental issues arose as an important goal in transport policy, and today the quality of the environment is a key factor in mobility decision making (Stough and Rietveld, 1997).³

During the past several decades, in order to simplify the government structure a large number of developing and industrial countries have implemented decentralization reforms.

In the US, for example, in 1962 The Federal Aid Highway Act established the requirement that planning be done at the regional level and no project could be imposed on a region. In 1991 the ISTEA (Intermodal Surface Transportation Efficiency Act) gave direct control on same investment choices to the regional planning organizations and balanced the power between DOTs (Departments of Transportation) and MPOs (Metropolitan Planning Organizations).⁴ The US experience is interesting since it allows appreciating the consequences of the devolution in terms of the interaction and cooperation between central government and local authorities. However, the reform has stimulated a constructive collaboration between DOTs and MPOs, with significant benefits in addressing a wide array of urban and suburban transport issues. This result has been accomplished thanks both to the localized knowledge of regional planners and to the advantages of centralized state government in terms of scale economies, internalization of externalities, political legitimacy⁵ and administrative uniformity that, in the transport sector, increases safety level (Taylor and Scheitzer, 2005).

Another important example is the UK national transport policy, which changed drastically during the 1990s, turning into the regulation of demand, with the aim of making better use of infrastructures. In line with a general trend toward devolution, with the 2004 Traffic Management Act (TMA) and the 2008 Local Transport Bill, the UK has provided greater power for the 150 existing Local Traffic Authorities (LTA).

The devolution of powers was achieved by delegating the administration of the roads of each jurisdiction to the LTAs, authorities potentially more competent thanks to their localized knowledge

³ Supporters of the devolution of powers claim that it is a device for the conservation of natural resources, thanks to the increase of social participation in policy making (Ahmed and Mbawambo, 2004).

⁴ MPOs are agencies with responsibility and authority on metropolitan transport planning and operation.

⁵ Central governments make easier to take an unpopular decision for a local community.

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