

## 1 – Introduction and summary

In the last decade Italy has experienced a gradual process of fiscal decentralisation. The reforms implemented in past years changed the structure of the Italian system of public finance substantially.

Until the beginning of the '90s the local governments were responsible for important sectors of public expenditure (e.g. health) but they were financially dependent on grants from the central government.

The system suffered serious inefficiencies.

The reforms implemented in the '90s increase the autonomy of local governments on both the expenditure and the revenue side. The central government devolves to local governments a large share of its tax revenue and new local taxes are introduced. A new system of equalising grants is designed to support regions with small tax bases.

We provide an evaluation of the Italian experience by focusing on the following critical issues:

a) the consistency between the objective of enhancing efficiency through fiscal decentralisation and the objective of ensuring reasonable uniform standards for essential public services (e.g. health) in every local community;

b) the trade-off between interregional redistribution and the incentives of local governments to pursue active tax policies;

c) the effects of local governments fiscal autonomy on the North-South dualism.

In our paper we deal mainly with the regional level of government in relation to the central or national one. The case of municipal and provincial governments is touched on very quickly. The main reason is that presently in Italy fiscal federalism - a quite relevant and hotly debated issue – means mainly decentralisation at the regional level while solutions for the lower ones are supposed to be less relevant and certainly less debated.

## 2 – Central and Local Governments in Italy

The present situation is the outcome of a quite long process of both political and economic transformations that have marked Italy in the past 25 years or so. The roots of this process can be traced back to the pre-WWII regime.

It is therefore useful in order to understand why and how the different solutions and reforms have been adopted – in particular for an audience that has not lived the Italian events - to recall the main points of this rather bumpy process.