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ECONOMICS & STATISTICS DISCUSSION PAPER
No. 38/07

Decentralization of territorial policy in Italy: the coherence with the model of multi-level governance and the effects on responsibilities of public spending

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DECENTRALIZATION OF TERRITORIAL POLICY IN ITALY: THE COHERENCE WITH THE MODEL OF MULTI LEVEL GOVERNANCE AND THE EFFECTS ON RESPONSIBILITIES OF PUBLIC SPENDING

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Key words: Territorial policy, Multi Level Governance, institutional decentralization, OLS panel fixed-effects models

JEL: H7, R5, R58

1. Introduction

During the last twenty years, the communitarian system of Multi Level Governance (MLG) becomes the EU model of territorial policies governance. In the EU MLG, different jurisdiction levels participate to decision-making system and regions assume a relevant role in development policies.

This article aims either to show the effects of such a model on Italian territorial policies and to evaluate the impacts of decentralization policies on the dynamic and the dimension of regional GDP.

In the 1990s there was a relevant change in Italian policies for *Mezzogiorno* (less developed regions of the South). This change was driven by the principle of EU MLG system. Such a system, mostly led by Public Institutions, aims at the reduction of transaction costs, being based on principles directed to increase the number of decision-makers, as well as to make both governing levels and processes of institutional coordination more effective. As a consequence, the same Italian reforms aim to reorganize the division of public competencies among several levels of government.

The political and administrative impact on the Italian regional policy governance is indeed rather relevant, but the pattern of reforms is only partially coherent with the principle of Institutional MLG. The process needs to be accompanied by a strong empowerment action of both efficiency and effectiveness in regional political activity. Furthermore, the decentralization of competencies is not

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followed by a symmetrical decentralization of capital expenses from central to local administration. Therefore, a weak contribution to GDP is expected as result of the study.

The contribute is organized as follows: Section 2 highlights the main features of the EU MLG and describes as such a model aims to minimise coordination costs. Section 3 deals with the process of "europeization" of Italian territorial policy and investigates the coherence of Constitutional reforms with EU MLG principles. Section 4 presents the data base used in the analysis. In Section 5 a model is proposed to verify that: (i) the decentralization to local jurisdictions (regions and local bodies) of programming competencies does not involve a transfer of competencies on management of capital public expenditure; (ii) the introduction of the decentralization model of territorial policies and the empowerment of all Italian regions do not have a significant effect on economic macro aggregate of GDP. A brief description of the main results end the paper (Section 6).

2. The genesis and theoretical basis of the Multi Level Governance (MLG) system for EU structural intervention

2.1 The MLG institutional model: general features

Mainly starting from the approval of the European Single Act (ESA), the European integration process experiences a strong "creeping competences" course (Pollack, 1994) and the multi-level model becomes the main governance system characterizing the policy-making mechanism for EU public policies (*Multi Level Governance*). During the last twenty years, most of the EU Countries recorded important dynamics of public functions "double devolution": Central Governments progressively lose control over political economy in favour of both supra-national and sub-national institutions. A not negligible proliferation of policy-making processes (Pollack, 1994, Wallace, 1996; Alesina and Wacziarg, 1999; Fabbrini, 2002; Nugent, 2003; Alesina *et al*., 2005; Borzel, 2005) can be detected. The analysis of the Communitarian policy-making system strongly confirms this evidence by stressing the existence of specific decisional systems for each policy agenda.[1]

Since the approval of the ESA (1986) and the Structural Funds' Reform (1988), the MLG model represents the decisional scheme, fully characterizing the EU territorial policy, named "cohesion policy". The programming system of the development policies, co-financed by Structural Funds, is based on a multi-level division of public spending responsibilities among different levels of governance as well as on a strong empowerment of local bodies, in particular Regional Governments and Institutions.[2] The main factors underpinning the MLG of EU territorial policy and contributing to the success of the empowerment of local bodies are: (i) the increasingly relevance of the "subsidiarity principle"; (ii) the shift of the EU development policies from a sectorial to a territorial approach in the 1990s (local development and bottom-up approach); (iii) the political and administrative decentralization process experienced by several European Countries.[3]

The EU MLG decision making system relies on a very strict institutional framework known as "type I MLG" (Hooghe and Marks, 2001a; Marks and Hooghe, 2004) where Public Authorities constitute the main actors. Nevertheless, it is possible to define a different MLG system based on a "soft" institutional framework where the decision-making system is "polycentric" and individual citizens (or specific lobbies) constitute its main actors (Hooghe and Marks, 2001b; Marks and Hooghe, 2004).[4]

This paper investigates the "institutional" MLG system. The main reasons are:

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[1] See Pollack, 1994; Wallace, 1996; Balme and Chabenet, 2002; Fabbrini, 2002; Nugent, 2003; Damonte, 2006.

[2] See Marks, 1992; Hooghe, 1996; Marks *et al.*, 1996; Keating, 1997; Bache, 1998, 2004; Benz and Eberlein, 1999; Bailey and De Propris, 2002; Morata, 2002; Bagarani and Bonetti, 2006.

[3] See Scharpf, 1994; 2000; Marks *et al.*, 1996; Mayntz, 1999; Hooghe and Marks, 2001a; Marks and Hooghe, 2004; Bagarani and Bonetti, 2006.

[4] This type of MLG, mainly because of this characteristic, has a logical link with both neoclassical economic theory and *public choice* theory. In addition, their institutional boundaries and membership schemes are highly flexible. As a consequence, several kinds of MLG system can be defined (Skelcher, 2005).

1. "institutional" MLG may be viewed as an extension of the "vertical subsidiarity" scheme regulating relationships among different EU jurisdiction levels. Furthermore, it characterizes programming and management system of the EU territorial policy;
2. EU MLG "institutional" features allow a specific analysis of the administrative and constitutional reforms that the Italian government carried out during the last ten years.

In the EU "institutional" MLG system, «authority and policy-making influence are shared across multiple levels of government» (Hooghe and Marks, 2001a, p. 2). Several "general purpose" jurisdictions – supra-national, national and local - negotiate rules and allocation of funds in the policy-making process.

Table 1: Main characteristics of the "institutional" MLG.

"*General purpose*" jurisdictions	Although it may exist a specialization of public functions, all jurisdictions can pursue multiple public objectives and manage different instruments of policy.
Strong relationship of each jurisdiction with: a) territorial domain b) membership	Each jurisdiction has a strict system of both territorial and membership boundaries. At any territorial scale, there exists only one relevant jurisdiction.
Dispersion of a few jurisdictions across a limited number of governing levels	The "*general purpose*" nature of each jurisdiction and the objective of coordinating costs reduction imply the existence of few jurisdictions allocated among a limited number of governance levels.
Strict institutional framework	The institutional system is stable over time and there exists a strict allocation of "prerogatives", ruled by a hierarchic legislative *corpus*. The institutional hierarchy implies an inelastic vertical subdivision of competencies.

The "institutional" MLG and the process of regions empowerment have a strong relationship with the theory of "fiscal federalism".[5] The attribution of political "prerogatives" among different government levels must be coherent with territorial dimension of "public goods" externalities.[6] "Institutional" MLG would be the best governing system to efficiently allocate spill over effects of "public goods" and "merit goods" among different government levels. In other words, "institutional" MLG should contribute to the local "internalization" of such spill over effects (Marks and Hooghe, 2004; Perraton and Wells, 2004).

These conclusions are supported by the Oates' (1972) assumption of citizens' preferences varying considerably among different levels of membership and territorial-based jurisdictions. This behaviour represents one of the main reasons justifying programming and management multi-level models of the EU territorial policy. In fact, by adopting the "institutional" MLG, EU institutions try to match the heterogeneous territorial demand for public policies with any possible extent.[7]

It is worth noting that the latter procedure is a direct consequence of the citizens' aspiration "to keep the policy home" that, together with different territorial identities and heterogeneity of social demands, constitutes a key variable in the allocation of political "prerogatives" among different jurisdictions (Alesina and Wacziarg, 1999). As confirmed by Italian constitutional reforms, all these variables are potentially able to reverse and divert tasks allocations' schemes otherwise resulting cost-efficient and optimal frameworks for the system considered as a whole. The awareness of all European

[5] See Oates, 1972, 1999, 2001; Tanzi, 1995; Inman and Rubinfeld; 1997; Ostrom and Ostrom, 1999; Cerniglia, 2003.
[6] As in Alesina and Wacziarg (1999, p. 17), «*a prerogative [is] the right allocated to a level of government to exercise a certain policy or to provide a given public good*».
[7] As stated in Oates (1972), the stronger the level of preferences heterogeneity within a jurisdiction, the lesser the efficiency of a devolution policy. At the same time, the stronger the territorial identity, the more homogeneous the preferences system, and therefore more convenient and sustainable the process of regionalisation.

citizens about the positive effects of the EU integration process is maximized: this effect represents one of the indirect effects of the "cohesion policy" (Bachtler, 2002; Jouen, 2005).

Despite of the advantages discussed above, the multi-level governance system generates some costs. They are determined by the need of a constant dialogue within each institution (*i.e.* mostly transaction costs) as well as among different institutions.

The system is designed to reduce coordination and settlement costs originated by “prerogatives” allocation among different jurisdictions. The theoretical model implies few levels of governance from top to bottom. In this framework, all jurisdictions are able to manage “operational groups” in accordance with a system supported by rather inelastic institutional structure, constituted by normative acts with well established powers: a limited number of institutions allows to simplify internal governance procedures for joint operations by drastically reducing interactions to share information.

Furthermore, the system is governed by a pyramidal hierarchical structure headed by an institution able to provide the system with general directions. This power arrangement gives the necessary stability to the system and, as a consequence, potentially allows to rapidly overcome any institutional conflicts.

The communitarian MLG model is characterized by the absence of overlapping territorial authorities (*i.e.* the number of multi-objective jurisdictions is indeed limited and institutional constraints are firmly determined by territorial boundaries, inspired by the principle of territorial identity).

The MLG model presents many structural limitations:

i. the rigid institutional framework and the jurisdictional boundaries characterizing the political architecture of the MLG model determine operational difficulties in the implementation of structural changes. Decisional procedure constraints either prevent to the establishment of new institutional structures jurisdictions and make them particularly expensive in terms of social and economic costs;

ii. strong territorial identities and inelastic membership arrangements limit institutional development, exacerbating resistance to the creation of supra-national or supra-regional jurisdictions;

iii. the MLG system strongly depends on the managerial and administrative skills of the full set of institutions. A suitable level of administrative efficiency in every jurisdiction is indeed essential to ensure the whole MLG system efficient functioning and to reduce the coordination costs. Furthermore, an inefficient jurisdiction can easily disappoint citizens and, given the limited opportunity to “voice”, determine social tension (Hirschman, 1970).

Recent experiences in Italy and Europe confirm the difficulty characterizing processes of reform of already operating MLG systems. The difficulties Italy encountered while modifying Title Five of the Constitution or, generally speaking, the problems connected to the modification of constitutionally defined set of rules are examples of the mentioned problems. The recent campaigns before referendums for the approval of the community’s new Constitution emphasized the existence of ‘localized’ resistance, determined by more or less strong territorial identities. The dismission of the *Cassa per il Mezzogiorno* (1984) and the end of the extraordinary intervention (1992) in Italy demonstrate the difficulties that the overall institutional system supports while promoting social consensus on redistributive interventions. Moreover, the Italian case stresses the possibility of inter-institutional conflicts exacerbated by system inefficiency (particularly relevant in the Southern regional Administrations) (Viesti, 2001a, 2003).

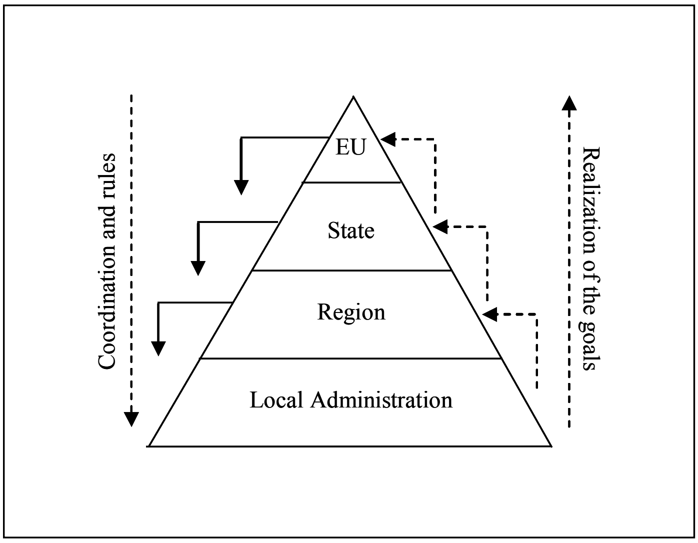
In conclusion, the recent Structural Funds Reform for the programming cycle 2007-2013 highlights as the existence of different degrees of managerial and administrative institutional efficiency can lead to sub-optimal governance solutions. As a consequence, in the context of the new programming cycle, the Commission proposes a broad set of reforms in particular aimed to manage the entire Funds system and to implement interventions. Such changes do not derive from the search of a reasonable balance between costs and benefits of the overall institutional architecture of the EU territorial policy, while they originate from awareness of the need to continue supporting capacity building process in new Member States, certainly weaker at the administrative level (Bonetti, 2005; Bagarani and Bonetti, 2005).

2.2 The expenditures planning for development in the Structural Fund's MLG system

The "institutional" MLG model represents the framework for the "cohesion policy" since the 1988 Structural Funds Reform: the Reform adds the institutional partnership idea (principle of subsidiarity) to the Funds' basic principles.

The "cohesion policy" empowers regional governments all over the European Countries. It defines legislative frameworks as well as main purposes of operational programs by a pyramidal hierarchy structure. In this context, regions become the core of programming and fulfilling process. Graph 1 points out the model organization in the Italian case.

Graph 1: Simplified diagram of relations within a **Multi Level Governance** ***system.***



In the above described model, decisional mechanism is based mostly on two points: (i) harmonization of different institutional levels (usually occurring through bilateral or multilateral negotiations); (ii) general agreement on the degree of decisional power each level of jurisdictional level is provided with.

In Graph 1, the MLG model logical structure is placed within the organization framework emerging from the analysis of the characteristics of the Structural Funds Reforms, in general directed to strengthen regions' autonomy, especially during the executive phase. Therefore, whilst on one hand there is a succession of regulations, and national and regional laws, on the other hand there is a conspicuous reverse process in terms of implementation and achievement of the aims. In particular, the model provides for the coordination of activities through the definition of shared and legally binding regulations and procedures. The other way round, in order to accomplish local micro as well as classic macro socioeconomic goals, the realization of a linked target system is provided within the "bottom-up" model. Final objectives are reached through the implementation of structural expenditure programs spread over years (Bagarani and Bonetti, 2005).

Given the above discussed characteristics, the MLG model is substantially different from the classical governance system summarized in the two formulas, i.e. top-down and bottom-up. In the framework of the communitarian MLG, those formulas are both included, each one endowed with its own "specialization".

For the model to be successful, several institutional conditions need to be satisfied:

i) high coordination capability between all the involved institutional levels;

ii) general agreement on the political choices at all jurisdictional levels;

iii) management skills in the coordination and implementation of programmatic choices at all governance levels;

iv) ability to match society preferences, *i.e.* each program must provide for a set of interventions consistent with existing preferences scheme;

v) ability to implement planned interventions in accordance with phases and procedures shared with all institutional actors.

The MLG model requires as essential conditions some "objective" conditions formally outside the single institution that exist inside the system (such as the presence of shared rules decided on the basis of a general consensus between all the parts involved in the concert action). At the same time, "subjective" conditions, based on internal managerial skills, are equally indispensable.

Incentives and bonuses are granted to managers and administrators as well as penalties are charged in order to enhance the administrative efficiency.

In fact, the aim of the model remains twofold:

a) maximization of the benefits deriving from the creation of external economies produced by public goods at various jurisdictional levels;

b) reduction of coordination and transaction costs engendered within the model.

The main priority of the cohesion policy is to achieve economic convergence across different territorial areas (Leonardi, 1998; European Commission, 2001, 2004). Such a priority is further confirmed by the choice of the particular instruments used to achieve the stated set of goals in the MLG model.

Regulations, strategic guidelines, operational plans and programs adopted by EU are characterized by:

i) interrelations with territorial jurisdiction levels (regulations and strategic guidelines at community level, planning at national level, programs at regional level and further);

ii) multi-task profile (this characteristic has been greatly weakened by the most recent Structural Funds Reform that generalises the "one-program one-Fund" principle);

iii) mutually excludability (non-overlapping jurisdictions);[8]

iv) multi-fund structure, financed by communitarian Structural Funds and, according to the context, either by central government or by both central and regional funds;

v) institutional actors general agreement based on negotiations in which the first three hierarchical levels of the model (EU, State, regions) are generally involved;

vi) procedural itinerary rigorously shaped in all its phases from set-up to implementation of the program through a pathway of rigid regulations, difficult to modify;

vii) partial hierarchy, in as much as the program or the jurisdiction's plan upstream is supported by the lower jurisdiction.

Acts, guidelines, strategic program frameworks and programs that go from the EU to Local Authorities have been produced (descending path): Structural Funds finance different kinds of operational (regional as well as national) programs that allow for strategies that can vary from region to region.

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[8] This characteristic is not really binding as it has been indeed weakened by the most recent Funds Reform that tends to encourage interregional interventions.

The implementation of programming instruments within a context of shared rules among policy makers at different levels of government, should achieve the goals fixed by each program for its own jurisdictional level. Therefore, an opposite path, *i.e.* the bottom-up system, to be effective requires the coherence of goals fixed at each jurisdictional levels (programs "external coherence"). The more one climbs the jurisdictions hierarchical ladder, the more goals become representative of the common interests of large population and the more actions taken by the jurisdictional entities at lower levels represent a constraint in the achievement of those general goals. As already discussed, this means that: (i) programs worked out at different jurisdictional levels have to be functionally connected; (ii) each level of government has to be efficient, in order to make efficient the whole governance system.

There are no functional dependencies among the results attained by jurisdictions belonging to the same level (*i.e.* each region is coordinated with another in few cases). Therefore, at a given level (*e.g.* regional), programs can only find unity and general coherence at the upper jurisdictional level. This assumption is coherent with the goal of minimising coordination costs.

The Italian experience at the end of the 1990s, known as *nuova programmazione* ("new programming"), is an example of national policy of harmonization inside the MLG model (Ministero del Tesoro, 1998, 1999).

This experience has been developed on the basis of three strategic choices, extremely relevant:

1. full acceptance of the institutional MLG model both at communitarian and national territorial policy level;
2. adoption of the neo-corporative model as the basis for the national economic policy;
3. substantial reform of the Public Administration, particularly in the Objective 1 regions. In fact, the Community Structural Framework Ob. 1 2000-2006 confers relevance to the actions of capacity building to increment administrative efficiency at all levels of government.

3. The empowerment of regional and local authorities in Italy

A strong process of fiscal decentralization starts in Italy, from legislative and administrative point of view, by the second half of 1990s. In that period, Italy experiments the remodelling of national policies towards a more effective decisional power at regional and local level. The process leads to a full application of the MLG model, as above described, which is seen as the ordinary way to govern the relationships between different jurisdictional levels, all of them aimed at the same common objective: to enhance the level of economic and social welfare in the population.

Scholars agree in identifying the first step of this process with the start, in 1998, of the policy named *nuova programmazione* ("new programming") that introduces the key role of the intra-jurisdictional dialogue as a fundamental instrument in defining political action at different territorial levels. As a consequence, regions and the other local governments assume new functions and responsibilities especially in order to take decisions about fiscal policy: decentralized fiscal policy is almost exclusively limited to the expenditure side and, more precisely, to the capital expenditure, while the revenue side still remains, *de facto*, under the central control.

The trigger of those choices may be found at least in two reasons:

i) the growing relevance of communitarian structural plans in co-financing capital expenditures at regional level ("external" reason);

ii) the new course of national policy, with the rise of new parties and the introduction of the federalist objective as an important political goal ("internal" reason).

Both reasons relies on the same intuitive logic: likely regional capital expenditures have more capacity to catch local differences in population preferences and so, as a consequence, have more effectiveness in enhancing economic development than central policies (Oates, 1993). The issue is not if the same public investment is more efficient when developed by local government than by central one, but rather if the investment, that eventually local government realizes, would have been realized by the central level in any case (Martinez-Vazquez and McNab, 2003). If not, one may argue that fiscal decentralization could have some effects on economic growth or that it could possibly be found a positive relationship between jurisdictional composition of public expenditure and per capita Gross Domestic Product.

For the sake of clarity, the more (regional) administration is efficient and effective, the more public (regional) policy matches and satisfies (regional) demand. On the contrary, an inefficient regional system could probably not be able to implement the expected investments, even if the regional politicians have the right perception of the local needs.

The will to adopt the principles of MLG and to follow a path of regionalization should favour, in an indirect manner, a strong increase in administrative efficiency in running policies for development, at regional and local level. When the public action fails in obtaining higher level of efficiency and effectiveness, the existence of a very weak effect, if any, between decentralization and variations in GDP per capita should be verified.

The process in the Italian case is characterized by:

i) the redistribution of responsibilities and administrative functions between central and regional governments;

ii) the rationalization of the administrative action at central level (Claroni, 2000; Barca 2001; Bagarani and Bonetti, 2005, 2006);

iii) the reorganization of the rules governing the institutional dialogue between central state and regions (Claroni 2000; Ferrara, 2003; Piattoni, 2003), including the clauses of bonuses-penalties used as an instrument to provide incentives in creating efficiency at central and local level (Anselmo *et al.*, 2003; Brezzi *et al.*, 2004);

iv) the acceptance of the New Public Management approach (Pollit, 1990; Osborne and Gaebler, 1992; Pierre and Peters, 2000).

As a consequence of the latter point, public companies gain a growing relevance in managing public capital expenditure even at local level. Actually, decentralization is thought as an effective “devolution of political decision-making power” and not only as a “mere administrative delegation of functions of the central government to local branches” (Bardhan, 2002, p. 186). On the fiscal policy side, the redistribution of responsibilities drives to the creation of some specific instruments for programming the national, not co-financed, expenditure, with increasing complexity in managing the national and regional development programs. On the legislative “prerogatives” side, regions obtain a large autonomy, including numerous aspects “except (the ones) for the determination of the fundamental principles which represent the legislative prerogatives of the State” (*Costituzione Italiana*, Art. 117).

Structural Funds has called for a decisive orientation of policies towards horizontal European objectives and a major efficiency of the Italian administrative system (Fabbrini, 2003; Wishlade *et al.*, 2003; Graziano, 2003, 2004; Gualini, 2003, 2004; Bull and Baudner, 2004) accompanied by a more responsible administration of Local Authorities (Dente, 1999; Claroni, 2000; Viesti, 2001a; 2001b; Bagarani, 2005; Bagarani and Bonetti, 2005, 2006). In this framework, regions obtain exclusive “prerogatives” for: agriculture; handicraft; building; public works; human capital (labour policies and training); industrial policy; tourism; transport; and road network management.

Still today, the issue of the theoretical and political validity of the legislative autonomy of the regions is subject for debate (Viesti, 2001a; Di Matteo, 2003; Vassallo, 2004). Equally, confrontation on the even more delicate questions concerning regions financial autonomy is still open (Bordignon and Cerniglia, 2004; ISAE, 2006).

In general, the theory and the empirical studies on fiscal policies of decentralization give little attention to the effects on economic growth. Most of the studies focus on the gains in terms of economic efficiency due to a higher capacity to match the consumer preference scheme. Some of them try to analyze the impact of decentralization, or public expenditure composition, on macroeconomic performance and economic growth or development.[9]

4. Data

The work in hand is based on three different data sets. First of all, information presented in *Conti Pubblici Territoriali* data set (Regional Public Accounts, RPA), developed by the Italian Ministry of Economic Development (MED), are used. The RPA data set provides, *inter alia*, detailed information about government consolidate expenditure in Italy at different institutional levels, *i.e.* central, regional and local level. The analysis focuses on the available data on public capital expenditures at different government levels in the period 1996-2005. Furthermore, the study relies on the information offered by *Conti Economici Regionali* data set (Regional Economic Accounts, REA), worked out by the Italian National Institute of Statistics (ISTAT) and providing relevant data on regional socioeconomic characteristics in the period 1994-2005 (*e.g.* GDP levels, regional demographic size, economic activities, income production, *etc.*) Finally, information collected by both ISTAT and MED on regional socioeconomic indicators,[10] *i.e.* the Statistics for development policy data set and, in particular, the *Indicatori di contesto chiave e variabili di rottura* (Key indicators and baseline variables), included in *Statistiche per le Politiche di Sviluppo* data set (Statistics for development policies), are introduced.

The analysis uses four categories of explanatory variables:

i) public capital expenditures recorded at different governance level (central, regional, local and public companies level), in order to capture the impact of decentralization processes on regional GDP dynamics;

ii) "political variables" represented by dummies where value 1 is assigned to regions governed by left parties;

iii) "social variables", such as education rates, crime rate, employment rate in social services, level of household per capita expenditure for culture, rate of irregular workers;

iv) "economic variables", such as employment rate, unemployment rate, export, net import, investment, research, interest rate spread, investment risk;

v) "communitarian variable" represented by a dummy variable where value 1 is assigned to regions included in Objective 1.

5. Empirical analysis

This section presents the main results deriving from the analysis of regional data. At first, macroeconomic framework and dynamic behaviour of regional and macro areas economic aggregates are depicted. Secondly, an econometric evaluation of the impact of decentralization on GDP per capita utilizing cross-sectional models is developed.

Finally, panel data models are used in order to investigate the determinants of time variation in GDP per capita and, in particular, to focus the role of central and local expenditure.

5.1 Macroeconomic framework

Table 2 shows the most important results on the distribution of regional GDP per capita during the period 1994-2005. Levels of GDP per capita characterizing the Italian Southern regions are constantly lower than the GDP values recorded in the North and in the Centre. This result is indeed not surprising as Southern regions represent the less developed areas in the country.

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[9] See Barro, 1990; Devarajan, Swaroop and Zou, 1996; Alesina and Wacziarg, 1999; Akai and Sakata, 2002; Bardhan, 2002; Feltenstein and Iwata, 2005.

[10] Such as economic poverty, unemployment rate, population educational attainment, crime incidence, *etc.*

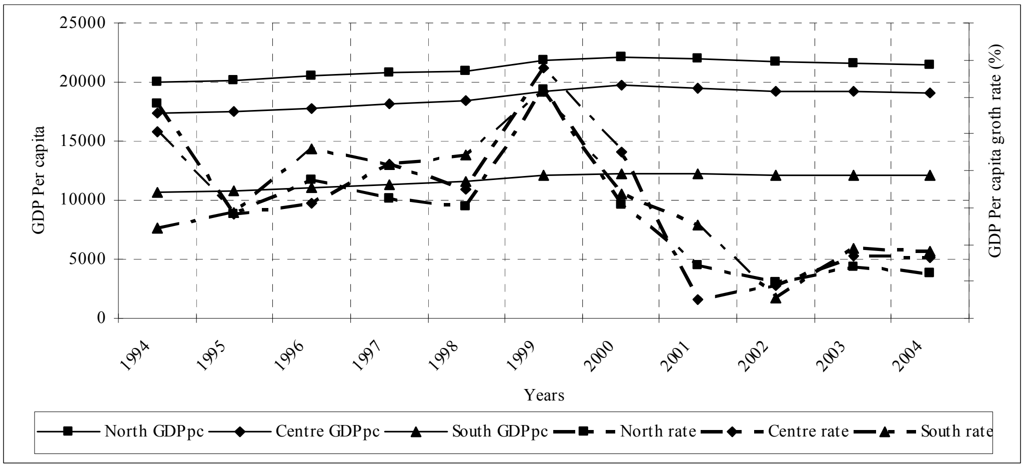
In this context, although the South has been involved in national and communitarian development policies, GDP per capita growth rates seem to be not significantly different from the growth rates characterizing Northern and Central Italian regions. As a consequence, these results may indeed describe the South as distinguished by historical and structural underdevelopment constraints (Graph 2).

Table 2: Regional GDP per capita by macro areas- Period 1994-2005.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Per capita GDP												
North	19,237.0	19,972.5	20,136.0	20,489.5	20,744.6	20,958.8	21,839.9	22,077.1	21,947.9	21,723.5	21,587.7	21,416.9
Centre	16,865.8	17,380.9	17,524.0	17,722.6	18,104.8	18,372.8	19,251.3	19,734.2	19,440.4	19,220.7	19,158.7	19,090.9
South	10,643.5	10,689.5	10,781.7	11,059.9	11,301.2	11,576.7	12,058.6	12,222.2	12,286.2	12,105.8	12,094.1	12,073.2
Per capita GDP growth rate												
North		3.8	0.8	1.8	1.2	1.0	4.2	1.1	-0.6	-1.0	-0.6	-0.8
Centre		3.1	0.8	1.1	2.2	1.5	4.8	2.5	-1.5	-1.1	-0.3	-0.4
South		0.4	0.9	2.6	2.2	2.4	4.2	1.4	0.5	-1.5	-0.1	-0.2

Source: ISTAT Regional Economic Accounts

Graph 2: Macro areas GDP per capita dynamics.

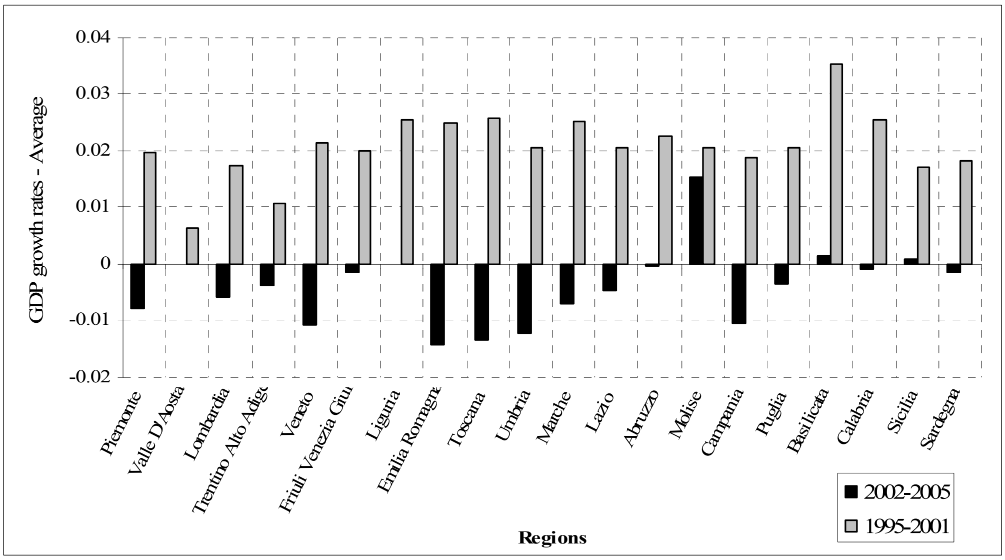


The analysis of the GDP per capita dynamics characterizing the full set of Italian regions substantially support the results previously discussed by emphasizing intra-group economic differences. In addition, it allows to further investigate the development processes at micro level by stressing the existence of divergent patterns of growth in different time periods. As expected by analyzing economic performances at national level, year 2001 represents a point of discontinuity. In fact, a substantial positive economic trend, characterizing in general all regions in the period 1995-2001 is found out. Nevertheless, since 2002, GDP growth rates show negative widespread performances. The dynamics of regional GDP recorded on average in the two different periods firmly confirm this conclusion (Graph 3).

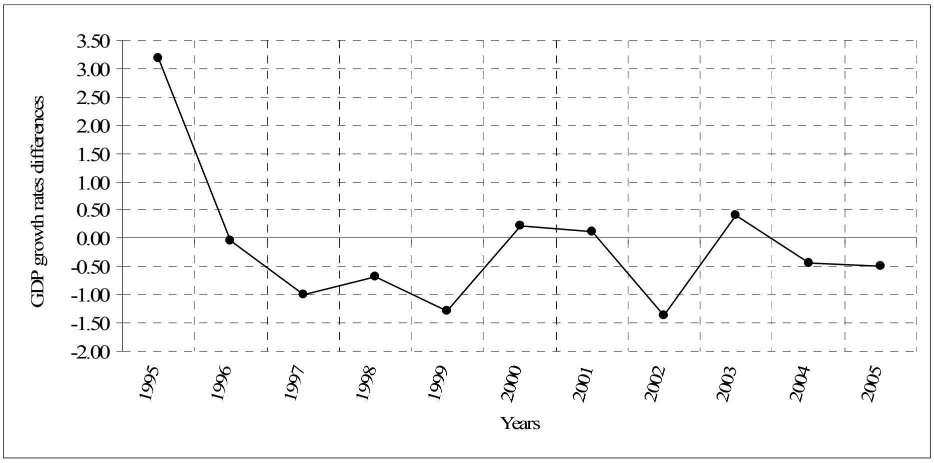
In this framework, it is indeed interesting the analysis of the main results derived by investigating regional performances in terms of economic convergence dynamics. The full set of regions is grouped by identifying Northern and Central areas as the mainly developed ones and defining the Southern regions as structurally poor areas.

Graph 4 figures differences in GDP growth rates between Northern-Central and Southern macro-areas. By looking at Graph 4, in a first draft, it may be rather difficult to find out a homogeneous temporal behaviour: results indicate as exclusively the period 1995-1998 shows a convergence process between developed regions and regions characterized by inadequate economic performances. Nevertheless, temporal dynamics of GDP per capita levels stress the existence of a significant trend of convergence.

Graph 3: Average regional GDP per capita growth rates dynamics, 1995-2001 and 2002-2005.



Graph 4: Economic convergence - The temporal dynamics of differences between North-Centre and South per capita GDP growth rates, 1995-2005

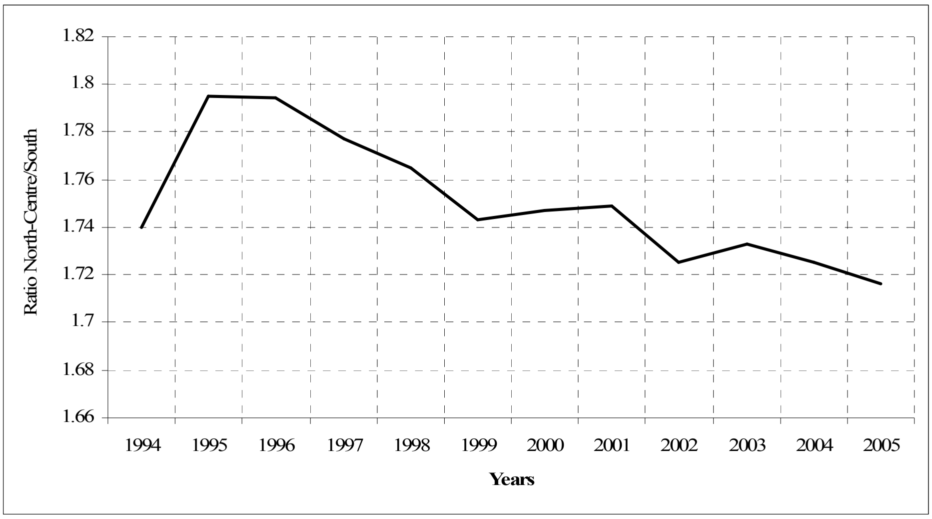


In Graph 5, the development process of the North-Centre GDP per capita with respect to the performances recorded by the South area as a whole, is represented (the very simple index adopted in this case is: $\frac{Y_{pcNORTH-CENTREi}}{Y_{pcSOUTHi}}$).

Results indicate as from 1994 to 2005 the ratio between GDP per capita values of the two different macro regions shows a rather homogenous decreasing trend, in that South seems to grow faster than Northern-Central regions.

Though it is indeed difficult to find out a convergence trend by analyzing differences in growth rates for each reference period, a long-term process of convergence is identified by investigating development process through cumulative results, derived from GDP dynamics.

Graph 5: Ratio between North-Centre and South per capita GDP – Years 1995-2005



Interesting findings come from the study of decentralization of public expenditure. Differences between Northern-Central regions and the less developed areas of the South are also emphasized by the analysis of the distribution of public expenditure among four different governance levels: central, regional, local administration and public companies.[11] In general, empirical evidence stresses the development of centralization processes in the Northern and the Central regions, South areas being strongly involved in process of expenditure allocation dominated by central government policy and resources. Nevertheless, temporal dynamics of public expenditure allocation between different levels of government during the period 1996-2005 has to be further investigated as it shown a not homogenous trend across regions. In particular, the Index of Specialization (ISP) (Lo Cascio, 1984) is adopted, in order to identify the existence of decentralization processes trough different areas in Italy. It can be represented as:

$$ISP = \frac{\dfrac{x_{ij}}{\sum_i x_{ij}} - \dfrac{\sum_j x_{ij}}{\sum_{ij} x_{ij}}}{\left(1 - \dfrac{x_{ij}}{\sum_i x_{ij}}\right) \times \dfrac{\sum_j x_{ij}}{\sum_{ij} x_{ij}} + \left(1 - \dfrac{\sum_j x_{ij}}{\sum_{ij} x_{ij}}\right) \times \dfrac{x_{ij}}{\sum_i x_{ij}}}$$

where X_{ij} is the expenditure amount of the region i at the administrative level j.

This index has a maximum equal to 1 (highest specialization) and a minimum equal to -1 (absence of expenses, *i.e.* lowest specialization).

As shown in Table 3, two opposite patterns of expenditure distribution across government levels are found out.

First of all, at each level of government, regions with an ISP ≥ 0.5 are defined as specialized regions. In this framework, decentralization processes during three different periods, *i.e.* 1996, 2000 and 2005, are investigated. Results show as the process of decentralization appears to be rather consistent in the North during the first wave, while it decreases during later periods.

[11] The term "public companies" includes the following institution: i) public national enterprises; ii) public local enterprises.

Table 3: Expenditure distribution across government levels – Specialization index – Years 1996, 2000, 2005

Years	*1996*				*2000*				*2005*			
Regions	*Central*	*Regional*	*Local*	*Public companies*	*Central*	*Regional*	*Local*	*Public companies*	*Central*	*Regional*	*Local*	*Public companies*
Piemonte			0.096									0.101
Valle d'Aosta		**0.567**				**0.605**				**0.443**		0.158
Lombardia			0.152	0.273			0.408				0.416	
Liguria			0.126	0.160				0.157				0.069
Trentino A. A.		**0.613**	0.176			**0.632**	0.067			**0.641**		
Veneto			0.168									0.128
Friuli V. G.		**0.316**	0.067			**0.231**		0.081		**0.228**		
Emilia R.			0.154	0.061				0.267				0.172
Toscana			0.069	0.119				0.185				0.145
Umbria			0.104				0.052				0.159	
Marche		0.149	0.120									0.082
Lazio	0.188				0.219				0.275			
Abruzzo	0.080				0.054			0.097				0.088
Molise		0.253			0.062	0.279			0.158	0.235		
Campania	0.110				0.113				0.079	0.056		
Puglia	0.094				0.122				0.193			
Basilicata		0.085	0.080			0.095		0.146	0.178			
Calabria	0.089	0.191			0.091	0.206			0.205			
Sicilia		**0.426**				**0.169**			0.114	**0.331**		
Sardegna		**0.485**				**0.380**				**0.398**		

Source: elaboration on Ministry of Economic Development – Regional Public Accounts – data set

In fact, an increase in the public spending promoted by public bodies, which in turn belong to the central government can be found out. It is worth noting that, during the same span of time, Southern regions, though in general characterized by high centralization of public expenditure, seem to further decrease their decentralization propensity. In this framework, data analysis stresses as high levels of regional expenditures characterize mainly autonomous regions (*i.e.* Valle d'Aosta, Trentino Alto Adige, Friuli Venezia Giulia, Sicilia and Sardegna), endowed with special constitutional laws.

5.2 Cross-section analysis

The work in hand tries to evaluate the contribute of decentralization to economic growth, using a specific set of data representing the sharing of capital expenditures among different governance levels in each regional territory. As discussed above, fiscal decentralization is analysed exclusively examining capital expenditures dynamics, *i.e.* excluding, at least in this exercise, both current expenditures and revenues. This represents, of course, an analysis limitation, but it is coherent with the idea to evaluate the MLG (and therefore communitarian) approach in its main aspect: the Structural Fund development policy at regional level.

The degree of devolution is defined as the ratio between regional and local expenditures on central expenditures for each regional territory.

With this assumption, the share of regional and local expenditure on total expenditure for each region in the period 1996-2003 is adopted as decentralization indicator.

The use of only one indicator to capture the dimension of the decentralization phenomenon may raise some doubts. On the other hand, the relevant role played by this variable in the recent decentralization process in the Italian case needs to be considered.

Table 4 presents the results of eight cross-sectional linear models based on a sample of 18 regions: each of the 8 models represents a cross-section regression for one specific year, starting from 1996 and ending in 2003.[12] OLS model are used in this analysis and the dependent variable is the natural logarithm of GDP per capita at regional level.

[12] Two regions are excluded from the original sample of 20 cases: Valle d'Aosta and Trentino Alto Adige. They are both autonomous regions with a much higher political and legislative autonomy and both of them are bilingual regions. They sensibly differ from the other regions included in the analysis and they are considered as undesirable outliers.

The most relevant finding is that the estimated coefficient of decentralization indicator is positive and significant only in the first three cross-section models (1996, 1997 and 1998). In the other five models (from 1999 to 2003) the coefficient becomes not significant, with a negative sign in four cases. These results are rather surprising considering that the decentralization policy substantially starts in 1999: empirical evidence shows that the positive effects of decentralization on GDP are produced only in the period 1996-1998. It seems that the political action directed to realize decentralization process had a counterintuitive effect.

As above discussed, one possible reason could rely on the key role played by the capacity of local administration to operate with an adequate level of efficiency and effectiveness. The reallocation of political power from the central to the not fully efficient and effective local administrations results in a loss of ability to positively affect the regional economic system.

The second relevant finding concerns the education variable. A negative relationship between regional human capital endowments and per capita GDP is found out. It is due to the different distribution of employment opportunities between Southern poor regions and Northern-Central more developed ones. In the rich regions of the North, the high labour demand is competitive with school programs attendance, while in the poor regions of the South the lack of labour opportunities may represents an incentive to increase schooling levels.

It is worth noting the negative sign associated to the coefficients of the crime variable. The crime indicator is computed as a time index of the variation in the number of criminal acts, with 1995=100. Negative signs associate growing level of crime to lower level of GDP per capita, it means that crime grows in Southern regions. Even if this conclusion seems to be coherent with the common sense, actually the analysis of data shows as the simple correlation between crime and GDP per capita is direct and positive. It is not surprising if one looks at the series and rethinks the recent history of Italian regions. Under this particular point of view, the expected sign of the coefficient should have been positive instead of negative. This aspect could represent a specific issue for further investigation.

Finally, the coefficients of the variables representing the openness to international markets (export and net import), the labour market characteristics (employment/unemployment rates), the economic environment of the private activities (expenditures in research, interest rate spread, investment risk) present the expected signs and are significant in most of the cases.

5.3 Panel data analysis

OLS panel fixed-effects models are used to investigate the determinants of the inter-temporal dynamics of regional per capita GDP. A panel of 18 groups (regions) over a period of eight years, from 1996 to 2003, is used.[13]

Models introduce public capital per capita expenditures as the explanatory variables describing the decentralization process (instead of the more synthetic indicator adopted in cross-sectional models above). Logarithm of regional GDP per capita is investigated by using four different models. Each model tries to explain the GDP dynamics by introducing different proxies for decentralization, *i.e.* central, regional, local and public companies expenditures. The aim is to evaluate the decentralization impact from the four different points of view representing the four different governance levels.

As shown in Table 5, results substantially confirm the findings of the cross-sectional analysis.

Central policies, represented either by central government or public companies expenditures, are negative related with GDP dynamics and coefficients are adequately significant. This is coherent with the positive signs associated to the decentralization indicator used in the previous section, at least in the first three models (years 1996, 1997 and 1998).

[13] The Hausman test is performed and the hypothesis of random effects is rejected (Hausman, 1978).

Vice versa, local policies, represented by regional or alternatively local expenditures, show positive and significant coefficients, although they are significant only at 10% level. As before these findings are coherent with the results from the cross-section analysis.

Whatever the variable used as a proxy for decentralization, it is worth noting the very low values assumed by the coefficients: they show the very weak ability of public expenditures, realized by each single jurisdictional level, to affect regional GDP.

Therefore, the contribution of the MLG institutional model to the dynamic and the dimension of GDP is rather limited. This particularly true if one compares the obtained results with the political, administrative and legislative effort made in Italy during the last fifteen years to shape a new jurisdictional system.

The signs associated to all the remaining variables do not show any change with respect to the results got in the previous analysis.

Table 4: Determinants of regional GDP per capita (1996-2003): a cross-section analysis.

Indipendent variable	1996	1997	1998	1999	2000	2001	2002	2003
Decentralization rate	0,511 (3.41)***	0,380 (1.93)*	0,419 (2.39)**	-0,285 (-1,67)	-0,148 (-0,83)	-0,113 (-0,83)	0,237 (1,67)	-0,072 (-0,31)
EU priority [a]	-0,180 (-3.11)**		-0,224 (-3.84)***					
Education	-0,005 (-1,60)	-0,016 (-3.75)***		-0,009 (-1,65)		-0,008 (-1.89)*	-0,006 (-1,60)	
Education (age 15-19)								0,028 (1,32)
Culture			-0,057 (-1,47)					
Social services				0,043 (3.67)***			0,018 (2.81)**	
Crime	-0,002 (-3.98)***	-0,003 (-2.12)*		-0,001 (-1,77)	-0,001 (-2.95)*	-0,001 (-2.21)**		
Irregular		-0,023 (-4.02)***						
Unemployment	-0,007 (-1.92)*						-0,024 (-5.09)***	-0,032 (-8.23)***
Employment				0,014 (2.55)**	0,025 (6.93)***	0,015 (4.12)***		
Net import	-0,008 (-3.57)***		-0,011 (-3.76)***			-0,006 (-1.87)*		
Research				0,107 (2.86)**			0,202 (6.04)***	0,144 (2.89)**
Interest rate spread	-0,048 (-2.95)**	-0,101 (-4.91)***	-0,027 (-0,87)		-0,104 (-4.28)***	-0,062 (-2.41)**		-0,045 (-1.98)*
Investment risk					0,033571 (2.1)*			
Constant	10,293 (47.47)***	11,330 (36.38)***	10,101 (32.13)***	9,167 (18.39)***	8,586 (44.31)***	9,557 (29.58)***	9,862 (50.39)***	7,265 (3.58)***
Obs. Numb.	18	18	18	18	18	18	18	18
Residual df	10	12	12	11	12	11	12	12
Model df	7	5	5	6	5	6	5	5
R2	0,98991	0,96982	0,96507	0,97711	0,96262	0,9764	0,97506	0,96674
Adjusted R2	0,98285	0,95724	0,95052	0,96462	0,94705	0,96353	0,96467	0,95288
F	140,22	77,117	66,318	78,247	61,807	75,857	93,832	69,75

[1] t values in parenthesis. Level of significance: *** 10%; ** 5%; * 1%. Absence of heteroskedasticity was verified with Breusch-Pagan test in each model

[a] Dummy variable

Table 5: Determinants of regional per capita GDP dynamics (1996-2003): a panel data analysis

Variable	Model 1	Model 2	Model 3	Model 4
Central per capita expenditure	-0,000022 (-1,78)*			
Regional per capita expenditure		0,000067 (1,91)*		
Local per capita expenditure			0,000044 (1,79)*	
Companies per capita expenditure				-0,000080 (-3,08)***
Regional government [a]	-0,0038 (-0,79)	-0,0153 (-3,02)***	-0,0152 (-2,69)***	-0,0119 (-2,17)**
National government [a]	-0,0051 (-6,66)***			
Education (age 15-19)		-0,0030 (-1,49)		
Education (age 20-24)	0,0019 (2,37)**		0,0023 (2,25)**	0,0023 (2,29)**
Education	-0,0048 (-3,89)***	-0,0099 (-20,83)***	-0,0057 (-4,74)***	-0,0067 (-5,88)***
Social services		0,0024 (-1,49)	0,0032 (1,75)*	0,0036 (2,05)**
Crime	0,0002 (2,68)***		0,0002 (1,97)*	0,0002 (2,6)**
Irregular		0,0021 (-1,22)	0,0042 (2,24)**	0,0036 (2,01)**
Unemployment			-0,0043 (-2,25)**	-0,0060 (-3,21)***
Employment	0,0060 (3,44)***			
Export		0,00497 (3,98)***		
Net import	-0,002307 (-2,68)***	-0,007338 (-6,01)***	-0,003426 (-3,14)***	-0,00349 (-3,29)***
Investment		0,006864 (4,74)***		
Research	0,0480 (2,97)***		0,0232 (-1,24)	
Interest rate spread	-0,0158 (-3,86)***	-0,0091 (-1,98)**	-0,0166 (-3,23)***	-0,0156 (-3,12)***
Constant	10,445 (39,55)***	10,29 (49,44)***	9,7849 (74,95)***	9,926 (79,05)***
Obs. Numb.	144	144	144	144
R2	0,8969	0,8828	0,8539	0,8598
F	100,87	87,408	61,088	71,139

[1] t values in parenthesis. Level of significance: *** 10%; ** 5%; * 1%.

[a] Dummy variables

6. Concluding remarks

The article investigates two issues: (i) to what extent the reorganization of the Italian system is coherent with the main features of the EU MLG system in the governance of territorial policies; (ii) to what extent the decentralization in programming policies of development has gone with a transfer of capital expenses from central (Central Administrations) to local (Regions and local bodies) jurisdictions and how relevant the impact on of the decentralization process on GDP is.

The analysis highlights that the institutional decentralization so far recorded in Italy is not fully shareable, neither with regard the coherence with the main features of the EU MLG, nor with regard to the consequent symmetrical transfer of capital expenses from the Central Government's jurisdiction to local bodies', according to the theory of fiscal federalism.

The main conclusions that can be withdrawn from the analysis are:

1. the Italian decentralization of structural interventions (Italian territorial policy) in the last ten years is strongly led by the MLG system that characterizes the EU "cohesion policy". Nevertheless, the institutional framework produced by Constitutional reforms is not always consistent with the principles of EU MLG. In particular, we can state that there are many levels of jurisdictions. Also, there are too many super-impositions of the "prerogatives" among governing levels. These institutional shortcomings involve high coordination costs, low economic efficiency and decisional conflicts;
2. the process of empowerment of regions and local bodies, the administrative reforms and the financing of capacity building of the Southern regions contribute to overcome the old inefficient policy making model of structural policies. In doing so, the present Italian territorial policy is both less centralized and less hierarchical, but the improvement of administrative efficiency and effectiveness so far recorded is insufficient. Moreover, such an institutional model generates many latent institutional conflicts, that reduce the economic impacts of the reforms;
3. the Constitutional decentralization of "prerogatives" is not followed by an actual symmetrical transfer of capital expenses from Central to local jurisdictions. The trend of decentralization of capital public expenditure is significant only at the end of 1990s. In the last five years this trend decrease, in particular in the Southern regions;
4. the effects on economic convergence between Northern and Southern regions are clearly insignificant, especially after 2000. Some economic divergence phenomena appear in the last five years;
5. the impacts of the decentralization policies on GDP considered under both dynamic and dimensional aspects are insignificant as well. The process of decentralization is significant only in the period before the introduction of the MLG model in Italy. When the effective implementation starts, the decentralization looses its significance, confirming a very weak relationship with the economic component of the regional systems;
6. even when the expenditure activated by the different jurisdictional levels becomes significant, the dimension of the impacts is substantially irrelevant;
7. it seems reasonable to state the hypothesis that this new model has to face the challenge of the empowerment of local administrations in order to achieve a higher level of efficiency and ability to match the preferences of the local populations;
8. the complex reform seems to find a justification more in internal and external political pressures than in reasons based on the growth of social and economic welfare.

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[14] The poor administrative performance of the Regions was considered one of the principle structural bottlenecks in the development of the *Mezzogiorno* (Trigilia, 1992; Putnam, 1993). Furthermore, the trend towards capacity building in the "new programming" found its reason in the deluding results so far as concerns efficiency and efficacy, produced by the Regions in the 1989-1993 and 1994-1999 programming cycles for Structural Funding (Mele, 2000).

[15] Attention is drawn to how some matters – especially public safety, the environment and the arts – can be the concern of the central Government when protecting public interests on the whole national territory and, contemporaneously the subject of concurring legislation promulgated by the Regions.