Chapter 8

Fiscal Responsibility and Multi-Level Governance:

Bridging the Gap between Policy and Management

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ABSTRACT

Public-policy assumptions regarding sub-national governments' financial behavior are based on economic rationality. Therefore, to achieve fiscal stability at the macro level, central governments use fiscal rules both to constrain the behavior of local policymakers and to resolve deficit/debt biases. Using the Italian fiscal governance system as an illustrative example, this chapter considers both the tensions derived from achieving fiscal responsibility at the national level in a decentralized environment and the difficulties of maintaining adequate performance at the local government level. It is argued that the public management perspective can be helpful not only at the micro level but also at the macro level in developing public policies to promote fiscal stability. It is suggested that public policy should adopt a more holistic approach toward fiscal responsibility in multi-level governance environments. Such an approach requires a deep understanding of the determinants of financial viability of public sector organizations.

INTRODUCTION

Fiscal stability (i.e., having a balanced budget) has become the new theme of government rhetoric worldwide. In recent decades, many states' public debt to gross domestic product (GDP) ratios have shown an upward trend. Recently, the financial and economic crisis has forced both politicians and the public to be aware that ever-expanding public sector debt entails a growing burden on future generations, po-

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tentially resulting in long-term financial unsustainability (Posner & Blöndal, 2012). The crisis has also dramatically demonstrated the close link between fiscal instability and the real economy (Guarini, 2013).

Because policymakers are intent upon reducing the alleged burden of public debt, there is a new emphasis on fiscal relations between central and local governments. According to economic theory, regardless of whether sub-national governments benefit from central transfers and enjoy substantial fiscal autonomy (i.e., the power of taxation and borrowing), governments might have an incentive to be fiscally irresponsible (e.g., to under-tax and overspend), shifting the burden to other jurisdictions' taxpayers, a possibility that is referred to as the "risk of moral hazard". In this context, the general government's fiscal outcomes are expected to be highly dependent on the financial behavior of sub-national governments (International Monetary Fund [IMF], 2009) and a balanced budget at the macro (i.e., national) level cannot be achieved in the absence of responsible behavior by local government units (Oates, 2006). However, this responsibility cannot be taken for granted.

In general, decentralized countries in which sub-national governments enjoy substantial fiscal autonomy are expected to have greater exposure to the potential misuse of fiscal discretion than do centralized systems. As soon as sub-national governments obtain market access, there is some degree of market control (Breton, 1977). Financial markets constrain sub-national fiscal behaviors by imposing higher borrowing costs for unsound fiscal choices (Inman, 1996). However, the market's strength and effectiveness as a tool for fiscal stability cannot easily be measured outside of crisis episodes.

To address these problems, governments resort to institutional arrangements that are based primarily on fiscal rules whose aim is to achieve budgetary co-ordination among various levels of government. Fiscal rules impose permanent constraints on key budget aggregates such as annual budget balances, expenditures and borrowing (Hallerberg, Strauch, & von Hagen, 2007).

Fiscal rules are not new to government and there is evidence that countries use several types of rules to guide public finances. The most common of these rules establish budget-balance requirements or borrowing constraints and limits on sub-national governments' spending or debt accumulation (IMF, 2009). In OECD countries, fiscal rules that guide sub-national governance have gained greater attention as the autonomy granted to sub-national governments has increased through the decentralization of the power to tax and spend (Sutherland, Price, & Joumard, 2005). There are approximately 138,000 sub-national governments in OECD countries (primarily at the local level) (OECD, 2015) . On average, those government units represent 16.6% of GDP, 31.7% of public tax revenues, and approximately 40% of public spending. They are responsible for approximately 59% of public investment, although among the OECD countries, the public-investment situation varies widely (OECD, 2015). In the context of the European Union (EU), fiscal consolidation requirements that apply to the Member States have provided strong motivation both for the introduction of domestic fiscal rules and for the implementation of those rules at the sub-national level.

The literature on this subject has developed primarily under the research stream of economic studies, focusing on the design of fiscal arrangements and their effectiveness at controlling fiscal outcomes at the macroeconomic level (Auerbach, Gokhale, & Kotlikoff, 1994; Bohn & Inman, 1996; Cukierman & Meltzer, 1989; Inman, 1996; Musgrave, 1959). Regardless of whether public expenditure, taxation, and borrowing decisions are made by central or local governments, economic theory has focused on the economic impact of economic actors' fiscal behaviors. This literature's basic assumption is that rational economic choices and fiscal constraints must be imposed on local government to control public taxation, spending, and borrowing. According to this perspective, the government's fiscal position in the economy (here referred to as the "macro" level) is interpreted as the aggregate fiscal behaviors of individual economic (private or public) entities; decision-making within organizations (here referred to as the "micro" level) is not considered.

That notwithstanding, the public management literature has shown that financial management – that is, how resources are managed and financial decisions are made within the organization – influences the financial performance of individual public entities. This research stream provides potentially rich insights into how public organizations adapt to their environments. For example, rigid fiscal rules that require costly measures might be ineffective because of the strong temptation experienced by individual public entities to circumvent those rules. Accordingly, the various national traditions and values associated with the provision of public services play a major role in understanding country-specific settings (Guthrie, Olson, & Humphrey, 1999).

According to this perspective, there is a strong link between public policy, public financial management, and the macro-economy. Nevertheless, this link has been largely neglected because economic studies and the public management literature have mostly developed as separate areas of interest. In this chapter, we attempt to fill that gap.

Under the heading "macro", this study primarily engages the public-policy perspective of the overall government system, in which the central government imposes fiscal rules on local governments so that it can control the government's overall fiscal position in the economy. The subjects that are presented under the heading "micro" involve individual public-sector organizations' managerial perspective, and consider not only the characteristics of their financial decisions, behaviors, and performance but also how those characteristics are affected by stakeholders' interests and environmental conditions.

Thus, we explore the theories that illuminate public policy and management perspectives in fiscal governance, using the case of Italy to shed light on the challenge of designing fiscal rules that are well adapted to their context. The public (financial) management perspective is used as the basis of this chapter and fiscal governance is considered as a management control system across the various levels of government. The usefulness of in-depth studies for examining fiscal governance issues has been emphasized by Raudla (2010).

There are also several good reasons for examining the Italian case. First, Italy is a unitary state that has a decentralized government and fiscal autonomy at the local level. Second, although Italy has the same deficit and debt rules that EU Member States must follow to achieve macroeconomic fiscal stability, it also has one of the EU's highest levels of general government debt: in 2014, Italy's public debt-to-GDP ratio was 132%, whereas the EU average was 87% (OECD, 2015). Third, Italy has seen a rapid decrease in infrastructure investments by local governments over the past 10 years because of the adoption of fiscal responsibility rules; this development has sparked an intense debate on the appropriate design of sub-national fiscal governance.

The chapter is organized as follows. First, we introduce the argument of fiscal responsibility and multi-level governance from a theoretical perspective, considering both the public policy rationale and the public management research perspective. Second, we briefly describe the broader EU fiscal framework in which domestic fiscal rules are created, and illustrate the Italian experience. Governance innovations in budgetary co-ordination across local government tiers to limit fiscal constraints are also considered. Third, we discuss implications for sub-national governance, inter-governmental relationships, and local government management. The final paragraphs include both recommendations for future research and a conclusion.

FISCAL RESPONSIBILITY AND MULTI-LEVEL GOVERNANCE: A THEORETICAL FRAMEWORK

The Public Policy Rationale for Fiscal Responsibility and Fiscal Rules

The empirical and theoretical literature has recognized decentralization as an efficient and effective model of government, both for providing better citizen-oriented public services (Brennan & Buchanan, 1980; Oates, 1972) and for designing local development policies that better fit local particularities and competitive features (Plummer & Taylor, 2001; Porter, 1990). This proposition has been supplemented by the need to align local entities' decision-making powers with fiscal decentralization, that is, the devolution of taxing and spending powers. However, the literature also shows that local governments' lack of fiscal responsibility may undermine the central government's fiscal position (IMF, 2009; Oates, 2006). Several theoretical lenses are useful for viewing how governmental fiscal responsibility is accomplished and evaluated. One commonly accepted approach holds that fiscal responsibility refers to a balanced budget. If the budget is not balanced, governments will carry over a deficit to later fiscal years.

The economic literature shows that, in a decentralized system, local governments that can expect a central-government bailout tend to overspend and incur deficits (i.e., they show a deficit bias) (Weingast, Shepsle, & Johnsen, 1981). Difficulties in implementing consolidation plans may also result in higher risk premium on sovereign issuances (Bernoth, Von Hagen, & Schuknecht, 2012; Inman, 1996). Moreover, in a decentralized system, local governments may conduct fiscal policy in the opposite direction of the central government (Rodden, Eskeland, & Litvack, 2003).

The literature has advanced explanations as to why these types of behaviors occur. According to the public choice theory (Buchanan et al., 1978), institutional arrangements in democracies are based on a principal-agent relationship between voters and politicians that then shapes the governance relationships between central and local governments. Agents' economic rationality is assumed at the base of this framework; asymmetry-of-information and moral-hazard problems may occur because agents (i.e., politicians) will attempt to both achieve their goals and maximize their utility. This central assumption leads to the conclusion that rules are needed to constrain politicians' behavior and further citizens' interests. According to this perspective, deficit biases ultimately arise out of fiscal illusion. Local politicians may have an incentive to spend more money than they have collected in taxes because voters do not have enough information to fully understand the inter-temporal budget constraints caused by deficits (Buchanan & Wagner, 1977). This incentive is particularly high before elections (Nordhaus, 1975). Biases can also arise out of asymmetries in the costs and benefits of spending across government levels. If the cost of spending programs is covered by national taxes while benefits occur at the local level, a common-pool problem arises, and local politicians may be encouraged to run deficits (Persson & Tabellini, 2000; von Hagen & Harden, 1994).

Because public policy is constructed on the assumption of self-interested agents, efficient fiscal behaviors can be achieved through institutional fiscal governance systems based on fiscal rules. The goal of these arrangements is both to prevent the potential misuse of fiscal discretion by sub-national governments and to align their budgetary policies with those of the national government. The higher the share of local government spending and fiscal autonomy, the more important it is to engage in budgetary co-ordination across government levels.

These rules contain a clear procedure for implementation, monitoring, and enforcement, along with an explicit cost (i.e., sanctions) if they are not followed. Fiscal rules can be adopted by governments at the supra-national, national, and sub-national levels. The primary objective of such rules is to establish incentives and constraints on the budgetary policy-making of lower tiers of government to promote both co-ordination across layers of government and long-term financial sustainability (Kopits & Symanski, 1998). Although fiscal rules are often translated into numerical targets or ceilings for budgetary aggregates, those targets and ceilings should not be confused with the general fiscal targets set annually by governments for policy measures, which may be revised frequently without any restriction. A fiscal rule is distinguished from the usual fiscal target in that a fiscal rule should act as a quantitative constraint on one of the key fiscal performance aggregates; moreover, this constraint should be set for a certain period (medium to long term). Numerical fiscal rules can be framed in various ways. Budget balance and debt rules introduce limits on the deficits or debt of entities in the general government sector, either on a yearly basis or on average over a given period. Alternatively, expenditure and revenue rules impose constraints on certain categories of government expenditure or tax revenue.

Fiscal rules have attracted greater attention in OECD countries since the early 1990s because the autonomy granted to sub-national governments has increased as a result of the decentralization of taxation powers and spending responsibilities. Because of the increasing use of fiscal rules, numerous studies have analyzed those rules' effectiveness in driving fiscal outcomes (Bohn & Inman, 1996; Debrun, Moulin, Turrini, Ayuso-i-Casals, & Kumar, 2008; Inman, 1996; von Hagen, 2006; von Hagen & Wolff, 2006).

The main proposition here is that the effectiveness of fiscal rules may depend on the political support for the rule, the design of the rule (Inman, 1996), and whether the rule fits the national political-institutional setting (von Hagen & Wolff, 2006). Some scholars have emphasized the importance of well-designed fiscal rules to ensure their effective influence on the conduct of fiscal policy. Milesi-Ferretti (2003) has developed a theoretical macroeconomic model to conceptualize how governments circumvent fiscal rules by reverting to creative accounting. The extent of this effect depends on both the cost of consistently following rule and the government's reputation. As Canova and Pappa (2005) have underlined, the ease with which fiscal rules can be evaded is one reason that fiscal rules appear to have almost no identifiable impact on macroeconomic variables. Additionally, Balduzzi and Grembi (2011) have attempted (without success) to identify the connection between sub-national fiscal rules and window-dressing initiatives. Moreover, features related to enforcement mechanisms are particularly relevant to the effectiveness of fiscal rules (Ayuso-i-Casals, Deroose, Flores, & Mouline, 2009). However, some scholars have questioned the correlation between fiscal rules and fiscal policy outcomes. For example, Poterba (1996) has noted that fiscal discipline could be related to voter tastes for fiscal restraint and, in such a case, the observed link between fiscal rules and fiscal policy could be spurious.

Recently, a debate has emerged about the fallacy of the austerity-based fiscal consolidation of economic growth (Ball, Leigh, & Loungani, 2011; IMF, 2010; Wren-Lewis, 2011). It has been argued that the disadvantage of fiscal rules is that they might be implemented in a highly inflexible manner that does not allow for prompt anti-cyclical behavior. Of course, this possibility relates to how fiscal rules are designed and implemented: rules play a role that is merely instrumental in the implementation of fiscal policies.

What is relevant to this debate is how fiscal policy is designed and implemented in various settings. The benefits of budgetary co-ordination through fiscal rules should not be not questioned.

The Public Management Research Perspective

Government's fiscal responsibility in public financial management theories is connected to the core principle of financial viability. According to this concept, to meet current and future service levels as requested by its citizens, a government should be able to achieve not only an adequate balance (i.e., revenues should be large enough to cover expenses – known as budgetary solvency), but also an adequate liquidity (i.e., the ability to meet current liabilities when due – known as cash and long-term solvency), without systematically relying upon financial support either from higher levels of government or from the market (Groves, Godsey, & Shulman, 1981; Wang, Dennis, & Tu, 2007). Conversely, systematic deficits (revenues lower than expenses) will produce increasing debt and interests, future losses, and negative cash flows, which in turn will increase the tax burden.

In this regard, various models of measuring governmental financial health, especially at the local level, have been developed over time, including a variety of measures such as using absolute or ratio values, applying cross-sectional or trend analysis, and adopting different perspectives (Hendrick, 2011). This topic attracted greater attention in academic studies in the late 1970s and early 1980s, resulting in numerous efforts to develop models and indicators that can predict and detect fiscal distress (García-Sánchez, Cuadrado-Ballesteros, Frías-Aceituno, & Mordan, 2012; Hendrick, 2004, 2011; Kloha, Weissert, & Kleine, 2005; Trussel & Patrick 2009). Although this body of research lost its momentum in the 1980s and nearly disappeared in the 1990s, it has witnessed a resurgence since the beginning of the global financial crisis (García-Sánchez et al., 2012; Trussel & Patrick, 2009).

Understanding the determinants of financial health increases local politicians and policymakers' insight into potentially emerging financial troubles before those troubles reach crisis proportions. On this issue, the fundamental separation in the literature on assessing financial condition is between authors who focus on financial aspects (Sohl, Peddle, Thurmaier, Wood, & Kuhn, 2009; Wang et al., 2007) and those who focus on a combination of environmental, organizational, and financial factors (Hendrick, 2004). Moving beyond systems thinking, the latter stream of thought argues that local governments are continuously engaging in multi-directional interactions with their environments. Accordingly, the local government's financial viability is influenced by several interacting factors, whether internal to the organization or external, including legislation, demographics, economics, fiscal autonomy, intergovernmental relationships, and local politics (Carmeli, 2003; Hendrick, 2004, 2011). However, the external factors include variables that extend beyond the local government's control. Internal factors are connected primarily to the financial strategies and practices of the local authority itself. In this regard, the manner in which local governments behave in accordance with fiscal rules can be interpreted, as a first approximation, as the level of flexibility desired to moderate or buffer fiscal constraints.

In general, the financial viability principle intersects with numerous key areas of research developed in public management studies, including budgeting and reporting (Carter, Klein, & Day, 1992; Fryer, Antony, & Ogden, 2009; Goddard, 1999; Llewellyn, 1998; Rubin, 1992), accounting and accountability (Berne & Schramm, 1986; Groves et al., 1981; Rivenbark, Roenigk, & Allison, 2010; Schick, 2012), and performance measurement (Behn, 2003; Boyne & Brewer 2010; Coates, 2004; Moynihan & Pandey, 2010; Pollitt & Bouckaert, 2011). However, these areas of research have been developed as separate streams without developing a comprehensive and holistic view of public-sector organizations.

On this issue, Italian business administration and management studies within the theoretical tradition of *Economia Aziendale* (Guarini, Magli, & Nobolo, 2013; Viganò, 1998; Zan, 1994) have emphasized the need to study every specific issue of organizational functioning (i.e., accounting, organization, management) within the broad principle of financial viability (namely, '*economicità*').

This theoretical approach, which remains unknown in the international academic context, has noted that financial autonomy is the fundamental condition for (public/private) organizations with respect to their long-term survival (Masini, 1970; Zappa, 1927). With regard to public-sector organizations, financial autonomy is intended to mean the organizational capacity and related resources necessary to fulfil service mandates and thus to be accountable for the organization's autonomy in decision-making (Anessi-Pessina, 2002).

This principle means that financial autonomy is a condition for financial viability that is then considered as an important element of a public entity's capacity to deliver public value. Within this tradition, some public management scholars have noted that the long-term financial performance of the government as a whole can be achieved only if financial rules in the government system allow individual public entities to be financially viable and if this condition is achievable (Anessi-Pessina, 2002; Borgonovi, 1973; Mussari, 1997).

This assumption emphasizes the intrinsic relationships between fiscal responsibility and intergovernmental relations. A proposition that is related to this principle is that poor outputs and outcomes may result if the central government imposes public service mandates on local governments without equipping them with adequate financial resources. In addition, local governments might adopt unsound financial behaviors at any cost in an attempt to maintain service levels and operations (Barbera, Guarini, & Steccolini, 2016). Here, 'behavior' is understood in a wide sense; it results in decision-making, actions, and non-actions. These financial behaviors can have a profound impact on governance choices related to local development and competitiveness.

Public Policy vs. Public Management Perspectives: The Missing Links

In the previous sections, we have described the separation of approaches to political economy and management research in the study of central/local fiscal relations and responsibility. In this section, through the lens of the managerial approach, we first identify the missing links at the intersection of these two broad areas of research; second, we attempt to advance some propositions drawn from management studies to fill the gap. In addition to the different theoretical perspectives, one important common background issue is that fiscal rules exist in the context of a multi-level government system composed of several public entities, each of which has specific mandates, resources, and people.

The public choice theory's assumption is that people should be considered as "rational utility maximizers" in all of their behaviors, therefore in order to avoid fiscal indiscipline, fiscal rules result necessary. These studies have investigated the impact of fiscal institutions at the macroeconomic level and have demonstrated that deficit bias is lower if fiscal rules are in place (Debrun et al., 2008; Inman, 1996; von Hagen & Wolff, 2006).

Nevertheless these studies seem to have ignored the effects of fiscal rules on individual governments' financial viability and behaviors, and how these effects might then affect the macro-economy of the overall public sector system in the long run. According to the rational public choice theory, the overall government system is considered as a monolith, with all individual entities behaving identically to comply with fiscal rules. However, people make decisions within organizations, which might influence individual choices according to those organizations' missions, structures, and cultures.

As highlighted above, it is only recently that studies falling within the public policy approach have begun to question austerity-based public policies (Ball et al., 2011; IMF, 2010; Wren-Lewis, 2011). Moreover, those studies' critiques have been limited to the design of fiscal rules in achieving macroeconomic goals; they have neglected to consider the organizational perspective. Furthermore, enforcement mechanisms and sanctions, not incentives, have been identified as the best solution for avoiding deficits.

Conversely, public management studies have emphasized that, whereas fiscal rules are important to ensure management responsibility, they should not interfere with the organization's viability. For this reason, according to the managerial perspective, incentives should be preferred over sanctions to promote both self-control and sound financial management (Flamholtz, 1979).

Nevertheless, research streams within the field of public management have focused primarily on the internal technical function of financial management, whereas interconnections with the broader fiscal rules at the macro level have been neglected. More specifically, fiscal rules and the fiscal environment have been considered by public management scholars as external elements that direct, and frequently constrain, the behavior of public managers and elected officials. To our knowledge, there are no studies in the public management stream that focus on the design of fiscal rules within multi-level government environments.

Moreover, the studies that have focused on public governance seem to have ignored financial issues. Most scholars have been interested primarily in service delivery and changing power structures and relationships within governments and across public and private networks (e.g., Agranoff & McGuire, 2003; Hill & Lynn, 2005; Lynn, Heinrich, & Hill, 2000; O'Toole, 1997; Peters & Pierre, 1998; Pollitt & Bouckaert, 2011), thus leaving unanswered questions of how these new governance systems interact with mechanisms for allocating and managing resources (Kioko et al., 2011).

Very few studies have attempted to integrate the policy level with public management perspectives (Bergmann, 2009). Hou and Moynihan (2008) have shown that government's countercyclical fiscal capacity, that is, the capacity to stabilize the budget during economic downturns, is closely related to the careful use of cash reserves by the organization's financial management. Bergmann (2014), in a comparative study on governmental accounting and reporting during the most recent global financial crisis, has shown that the sustainability of overall public finances may be adversely affected by the lack of accounting information about risks taken by individual governments.

Nevertheless, looking at what happens "inside the box", the managerial perspective gives us the opportunity to better investigate the effect of fiscal rules at the intersection of inter-governmental fiscal relations (i.e., organizational structures and their management) and, in doing so, to offer feedback on how individual public entities' fiscal behavior – whether virtuous or otherwise – spreads throughout both the overall government system and the macro economy.

One peculiarity of governance systems in public administration is that community interests at the national government level are also articulated through several local territories so that the above-mentioned principal-agent relationship occurs in a multi-level governance system. This implies that each government tier has its own governance system that is strongly influenced by inter-governmental relations and structures, especially fiscal arrangements and control systems (Guarini, De Toni, & Vallone, 2015). From this perspective, if local services are subsidized through general taxes, a fiscal governance system is needed to ensure both that public resources are well managed at the local level and that local governments have the capacity to provide their citizens with services.

According to this approach, a financial governance system has two distinct dimensions: first, the budgetary rules and systems established to enhance budgetary discipline within a government entity;

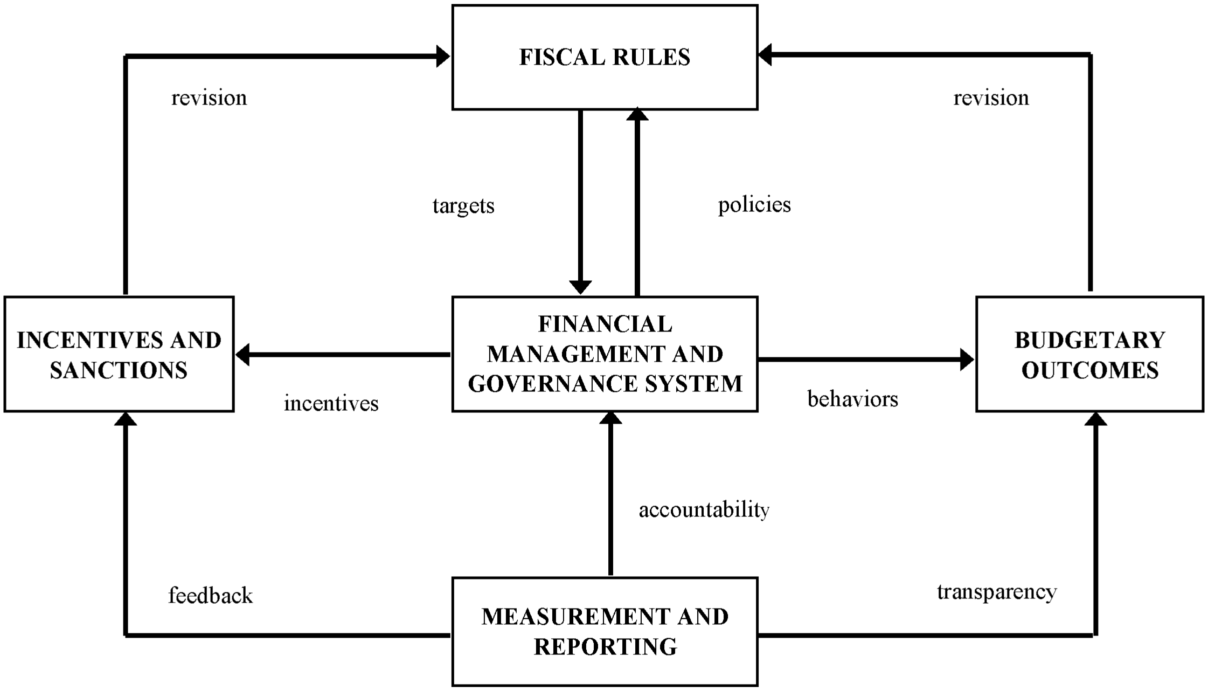
and, second, all of the fiscal, legislative, and procedural rules established for the co-ordination and control of budgetary policy across layers of government, between the central and local levels, and between the international and domestic levels. These two dimensions of financial governance are reciprocally interlinked and occur regardless of whether the constitutional form of government is unitary or federal.

Thus, adopting the broad managerial theoretical perspective, this study advances the proposition that fiscal rules should be well conceived as a managerial control system in the context of a multi-level governance system (Figure 1). A management control system is characterized by an organizational structure, numerical targets, a measurement system, and mechanisms for performance evaluation (Anthony & Dearden, 1976). Within this perspective, budget rules and accounting systems both provide the layouts of fiscal governance and serve as pivotal mechanisms for intergovernmental relations. When rules have been adopted, the budget must be prepared and executed according to those rules. Incentive and sanction schemes are also useful in reinforcing control mechanisms. Without budgeting, measurement, and control mechanisms, it is unlikely that autonomy of lower tiers of government and effective fiscal governance will be realized. Thus, both the public policy and the public management approaches place the design of fiscal rules and associated flow of information at the center of the debate about governments' fiscal responsibility.

What the managerial approach can add to this debate is the importance of considering how individual public entities react to external (fiscal) constraints to achieve their mission and, thus, the conditions for preserving organizational viability.

All organizations implement strategies to enhance their autonomy and to advance their interests. Moreover, both power and economic rationality are important for understanding organizations' actions (Davis & Cobb, 2010). In general, organizations tend to be influenced by those who control – or influence – the resources that they need (Malatesta & Smith, 2014; Pfeffer & Salancik, 1978).

Figure 1. The fiscal governance framework
(Adapted from Guarini, 2013)



Management is relevant because decisions and actions are influenced by individual subjective perceptions and interpretations of these influences. Consequently, understanding how local governments react to incentives and sanctions is of great importance for influencing those governments' financial behavior and, thus, for having an effective public policy.

According to the most important management theory principles, fiscal arrangements should be designed to consider a system's requirements of autonomy and reliability. On the one hand, if fiscal rules impose rigid and arbitrary constraints on the managerial autonomy of sub-national governments, then rules can be circumvented by local decision-makers and it might be difficult to achieve positive effects at the macroeconomic level. Indeed, the more dependent an organization is on financial resources, the higher its level of uncertainty and the more that organization will try to reduce that uncertainty by creating the illusion that fiscal rules have been followed. Management behavior is not completely influenced by fiscal rules, nor is a fully rational actor assumed as in macroeconomic models. This point is the rationale for the importance of management issues in public policy.

On the other hand, the issue of reliability is connected to the effectiveness of any control system that is strongly based on the clarity and the rigor of performance measurement rules (Flamholtz, 1979). Thus, if fiscal rules are unstable, the control system loses credibility and it is no longer believed to encourage virtuous behavior (Wildavsky & Jones, 1994). Thus, to be effective, numerical fiscal rules should be shaped by negotiation across layers of government and should take into consideration individual governments' management responsibility in target setting.

In light of the above management assumptions, fiscal behaviors resulting from inter-institutional and inter-organizational fiscal frameworks – together with fiscal arrangements themselves – can be considered as possible managerial actions adopted by governments to fulfil their objectives while minimizing environmental dependence and uncertainty.

FISCAL GOVERNANCE IN ITALY

Italy has four levels of government, which are enshrined in the Italian Constitution of 1948: central (Parliament and the Cabinet), regional, provincial, and municipal. The country's territory is divided into 20 regions, each of which is subdivided into provinces (110) and municipalities (8,000 municipalities as of January 2016)[1] . Regions, provinces, and municipalities are referred to as "local government". In the last 10 years, the size of Italy's government in general has been approximately 50% of GDP (OECD, 2015). Local governments are the primary providers of local public services; they account for approximately 15% of GDP (see Table 1) and 29% of public expenditures (OECD, 2015). Each level of government has jurisdiction over several mandatory issues and activities with a relatively high degree of decentralization. Regions and provinces act primarily as regulatory entities in specific policy areas[2] and redistributors of resources to municipalities and other public agencies. Only the central government and the regional government have the power to enact laws.

The financial autonomy and responsibility of each level of government are enshrined in the Italian Constitution, along with the necessity of a balanced budget. Borrowing strategies do not require prior approval from the central government. Local government borrowing is allowed only for capital spending expenditures (the so-called *golden rule*) with an indirect ceiling: debt service is capped at a ratio of interest charges to operating revenue. In contrast, the central government is allowed to borrow for operating deficits.

Table 1. Italy: Government finance data by levels of government (% of GDP)

		2008	2009	2010	2011	2012	2013	2014
Expenditure	Central Govt.	26.8	30.0	29.1	28.2	**29.4**	29.4	29.6
	Local Govt.	15.1	16.5	15.7	14.9	**14.9**	15.0	14.7
	General Govt.[1]	47.8	51.1	49.9	49.1	**50.8**	51.0	51.2
Revenue	Central Govt.	24.3	25.5	25.0	24.7	**26.1**	26.3	26.4
	Local Govt.	14.9	16.1	15.3	14.7	**15.1**	15.0	14.8
	General Govt. [1]	45.1	45.9	45.6	45.6	**47.8**	48.1	48.2
Deficit	Central Govt.[1]	–2.4	–4.9	–3.8	–3.3	**–3.1**	–3.0	–3.2
	Local Govt.	–0.2	–0.4	–0.4	–0.2	**0.2**	0.0	0.1
	General Govt.	–2.7	–5.3	–4.2	–3.5	**–3.0**	–2.9	–3.0
Debt	Central Govt.	96.5	105.6	108.5	109.9	**116.7**	122.8	126.9
	Local Govt.	7.9	8.4	8.3	8.2	**8.1**	8.5	8.6
	General Govt. (consolidated)	102.3	112.5	115.3	116.4	**123.2**	128.8	132.3

[1] Data include Social Security funds.

Source: http://ec.europa.eu/eurostat, 2015

Local government expenditure for investment accounts for 56.6% of general government investments (OECD, 2015). Because of the “golden rule”, local government deficits and debts are related primarily to capital spending and account only for a small share of the general government sector (see Table 1).

Following the process of decentralization that began at the end of the 1990s, the local government managed 29% of total spending in 2014 (OECD, 2015), or approximately 15% of GDP (see Table 1). This process makes Italy a unitary state with a considerably decentralized government compared with other European countries, placing it between the group of traditional centralized unitary states and the group of federal or quasi-federal states (Switzerland, Belgium, Spain, Germany, and Austria) and ultra-decentralized unitary states (Denmark, Sweden, and Finland) (Figure 2).

Pursuant to its 2001 constitutional reform, Italy opted for a model of decentralized government and fiscal federalism based on the fiscal autonomy of local governments and a system of intergovernmental equalization grants.

Local governments’ funding sources include tax revenues, transfers from the central government, and non-tax revenues (i.e., user charges, revenues from property assets and others). Local government revenue accounts for 31% of total public revenue (OECD, 2015) or 15% of GDP (Table 1). However, fiscal autonomy has not led to fiscal independence. Tax revenues have a local basis, although their types and rates are set by the central government.

Figure 3. shows that central government transfers to local governments continue to constitute a significant source of expenditure financing (45% in 2013); these transfers have increased to 53% during the crisis.

Local governments’ fiscal dependence on central transfers has been particularly difficult for municipalities, because in 2008 the property tax on residential homes was abolished and replaced by transfers by the central government; that provision was re-introduced in 2012 along with a local tax-rate freeze.

Figure 2. Degree of decentralization in European states
(Source: Authors' calculations based on Eurostat data extracted on 19 March 2016)

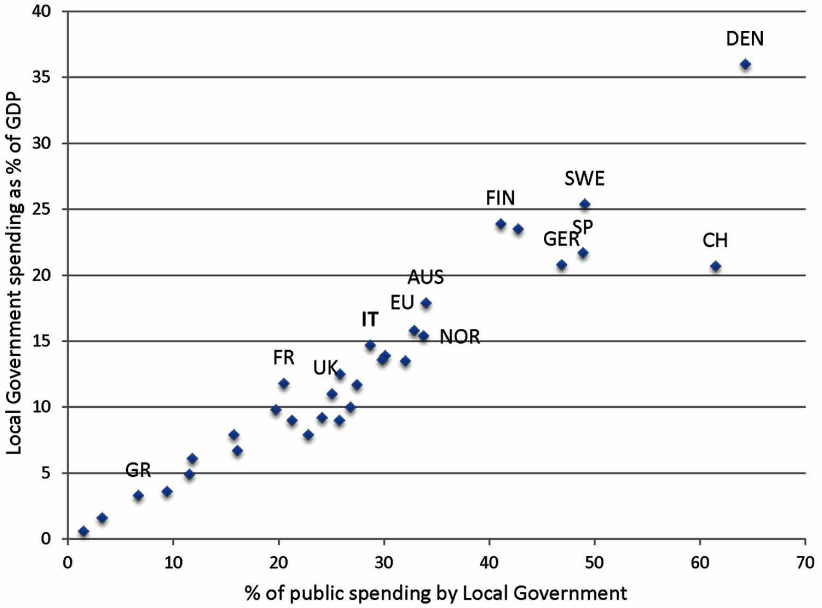
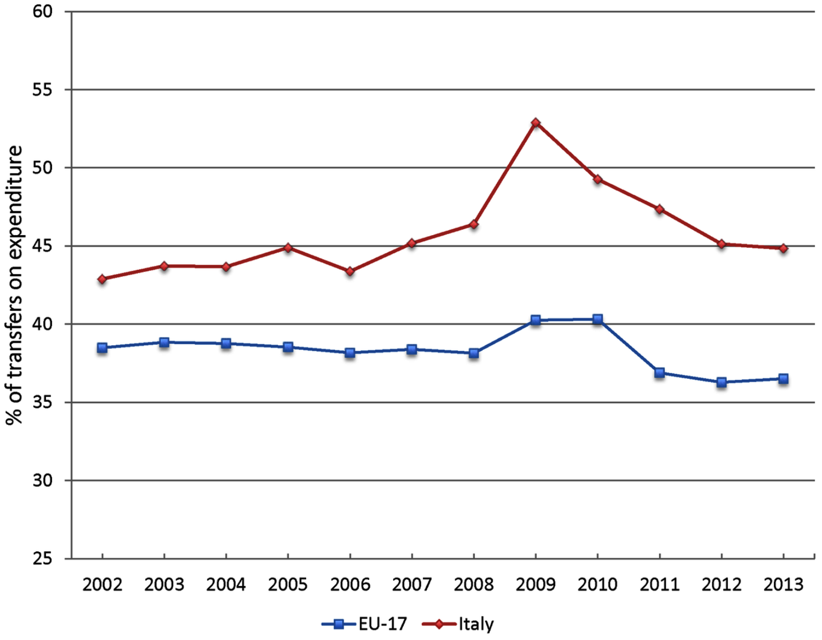


Figure 3. Local governments' fiscal dependence on transfers
(Source: Authors' calculations based on Eurostat data extracted on 20 March 2016)



The Design of Fiscal Rules and Their Effects on Italian Local Governments

In 1998, the European Union established the Stability and Growth Pact (SGP) to regulate the Member States' economic and fiscal choices. The SGP is based on an agreement among the 28 Member States, aiming to facilitate and maintain the stability of the Economic and Monetary Union (EMU). It requires Member States to continue to comply with the Maastricht Treaty's fiscal rules (Council of European Communities,1992). The SGP ensures fiscal discipline by requiring each Member State to implement a fiscal policy that aims to comply with limits on government deficits (3% of GDP) and debt (60% of GDP); in the event of a debt level above 60%, the debt should be reduced each year at a satisfactory pace. Therefore, the SGP can be considered as an inter-institutional financial control system over countries.

Furthermore, in March 2012, following the general financial and economic crises, all of the EU Member States except for the Czech Republic and the United Kingdom decided to sign a new intergovernmental treaty, the Fiscal Stability Treaty (the so-called "Fiscal Compact" treaty). This treaty introduced a stricter version of the SGP and came into force on January 2013[3]; it not only empowers the European Court of Justice to monitor compliance and impose fines on rule-breakers but also creates a larger role for the European Commission in the scrutiny of national budgets.

Given those agreements and their strict limits and fiscal rules, the various Member States adopted diverse strategies and approaches to achieve their goals across levels of government in the domestic setting and to devolve part of the national responsibility for fiscal targets to sub-national (regional and local) governments.

On the one hand, some countries (e.g., Austria, Belgium, and the Netherlands) decided to implement a co-operative approach to budgetary co-ordination between national and sub-national entities based on a system of control of "soft" reputation. On the other hand, some countries with a tradition of a Napoleonic administrative system (e.g., France, Portugal, and Italy) decided to impose fiscal rules that were defined at the central level and were based on a system of the control of legal rules (e.g., Ambrosanio & Bordignon, 2006; Morris, Ongena, & Schuknecht, 2006).

Therefore, some Member States have chosen to establish the SGP's medium-term objective of "close to balance or in surplus" at the local government level, whereas others have chosen to set *ad hoc* budgetary targets on a multi-yearly basis.

In some cases, fiscal arrangements are established in national law, whereas in others they are formulated as an agreement among various levels of government. In addition, some countries have established actions to be taken in the event of non-compliance, such as the imposition of sanctions, whereas others have not.

Decentralized or federal countries, in which sub-national governments have substantial fiscal autonomy, are expected to be more exposed to deficit bias than are centralized systems. Table 2 compares the fiscal position of the largest EU countries.

In Italy, fiscal rules already existed both at the national and sub-national levels, and these rules were not replaced by EU fiscal arrangements. In addition to constitutional borrowing constraints and balanced-budget rules (as discussed in the previous section), Italy has reconsidered the fiscal relations across various levels of government to comply with EU fiscal requirements.

Within this context, in 1999 Italy established a financial control system over municipalities: the Domestic Stability Pact (*Patto di Stabilità Interno*). This mechanism aimed to directly involve sub-national governments in compliance with SGP requirements and to assign them a portion of the responsibility for reducing the general government's deficit and debt.

Table 2. Government deficit and debt as % of GDP

	Deficit						Debt					
	2009	2010	2011	2012	2013	2014	2009	2010	2011	2012	2013	2014
EU-28	–6.7	–6.4	–4.5	–4.3	–3.3	–3.0	73	78.4	81	83.8	85.5	86.8
Italy	–5.3	–4.2	–3.5	–3.0	–2.9	–3.0	112.5	115.3	116.4	123.2	128.8	132.3
France	–7.2	–6.8	–5.1	–4.8	–4.1	–3.9	79	81.7	89.6	89.6	92.3	95.6
Germany	–3.2	–4.2	–1.0	–0.1	–0.1	–0.3	72.5	81.0	79.7	79.7	77.4	74.9
Spain	–11.0	–9.4	–9.5	–10.4	–6.9	–5.9	52.7	60.1	85.4	85.4	93.7	99.3
UK	–10.8	–9.7	–7.7	–8.3	–5.7	–5.7	65.7	76.6	85.3	85.3	86.2	88.2

Source: http://ec.europa.eu/eurostat, 2015

Afterward, fiscal constraints related to the Domestic Stability Pact were differentiated for regions, municipalities, and provinces. In effect, since 2002, Italy's regions have been required to comply with nominal ceilings on the growth rate of their operating expenditures, while fiscal targets for provinces and municipalities have been based on the improvement of budget balances on a yearly basis or, at times, on spending limits.

It is interesting to note that the fiscal targets for municipalities changed significantly over the years through the adjustment of different variables, such as the size of the municipalities involved, target-setting rules, accounting basis, sanctions, and incentives. Sanctions consider hiring and borrowing freezes, a cap on current expenditures, and a reduction of state transfers and elected officials' compensation. In particular, unlike the SGP's application to Member States, sanctions on local governments have a legal basis and are applied automatically if fiscal targets are not achieved. As continuously noted by local government associations (see, for example, IFEL, 2012) these macroeconomic fiscal rules do not seem to have a particular fit with municipalities' actual operating conditions. Moreover, they do not seem to have improved local governments' autonomy and accountability (e.g., Monacelli, Pazienza, & Rapallini, 2014).

Several studies testify to the many contradictory results emerging from the application of Italy's fiscal rules. In recent decades, Italy's local government debt has increased almost without interruption, despite the high level of local government compliance with fiscal targets[4]. This trend makes it obvious that numerical fiscal rules under the Domestic Stability Pact framework have been ineffective in controlling the growth of new borrowing. In addition some (disagreeable) consequences affecting the management of local governments have arisen, regardless of the type of fiscal rule in force. These consequences include inequality of constraints in operations, uncertainty in budgeting and decision-making, financial stress, and budget manipulation (e.g., Corte dei Conti, 2012; Guarini, 2012; Pattaro, 2009). In effect, the allocation of deficit targets within a single government level has operated without differentiation. Rules setting a fixed percentage of improvement based on the past fiscal aggregate caused unbalanced opportunities for management actions, regardless of the size of entities and past performance. The continuous change of the timescale for setting fiscal targets resulted in unplanned constraints on those local governments taking action to improve the fiscal balance.

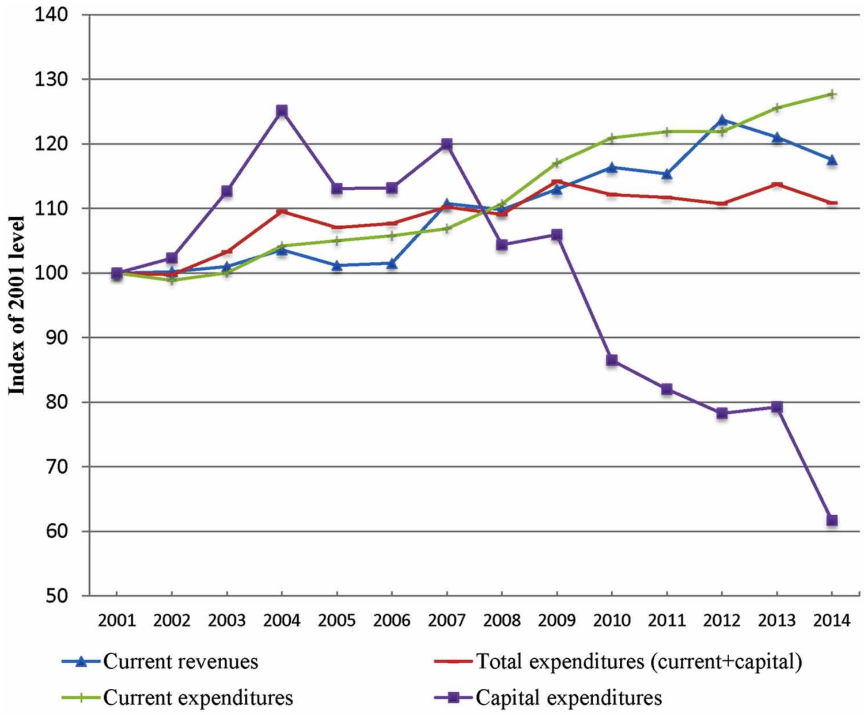
Whereas fiscal rules have changed on almost an annual basis, sometimes even during the fiscal year, local governments have faced continuous, unplanned, and heavy constraints on their operations. A change of this sort had both equitable and political implications. As an option to avoid cutting services, most local governments attempted to circumvent the rules with accounting gimmicks.

One common practice was to arbitrarily reclassify expenditure items into aggregates that were excluded from the ceilings[5]. For example, because ceilings were imposed only upon operating expenditures, many entities reclassified operating expenditure items, such as current asset maintenance, into capital spending and financed them via deficits. Another, somewhat different, approach was to reallocate expenditures off of the entity's budget. One common practice was to outsource services to *ad hoc* settled in-house companies, which were excluded from fiscal rules (Corte dei Conti, 2006).

Despite these types of responses, heavy financial stress occurred at the local level. Fiscal rules caused a contraction of major capital projects and delays in public-works payments (see Figure 4). Because fiscal targets aimed to achieve increased cash-balance surpluses, municipalities had no other opportunity to turn down new investments or to slide the payment of outstanding capital expenditure debt into later fiscal years. This practice caused improper cash surpluses that have exacerbated the economic crisis and caused several bankruptcies of small businesses (European Commission, 2012, 2014a). Indeed, data show that Italian public authorities take an average of 210 days to make payments for public works (European Commission, 2014b).

This phenomenon has been especially common since 2008 because fiscal targets were counted as capital expenditures in the fiscal balance on a cash basis and local fiscal autonomy was suddenly locked by the central government. The fiscal balance target has been calculated as current revenues minus total expenditures (current expenditures + capital expenditures) and has been continuously tightened during the last five years. Figure 4 shows that municipalities, by attempting to maintain operations during the economic downturn, increased their current expenditures and achieved fiscal surplus targets merely by

Figure 4. Impact of deficit fiscal targets on municipal financial management, 2001–2014
(Source: Data analysis on Aida PA - Bureau Van Dijk database (December 20, 2015)



cutting capital expenditures. There is evidence that public bodies engage in the practice of postponing work-progress reports to delay payments owed to companies that perform public works (European Commission, 2014b).

Cutbacks on capital expenditures have negative effects on local development strategies, especially in a country such as Italy where, as mentioned above, a high level of investments and public services (to both citizens and businesses) are provided by local governments.

These are clear examples of how macroeconomic fiscal rules follow rigid accounting rules of balancing revenues and expenditures without due consideration for the composition of government expenditures. Thus, although the central government assuming fiscal stability is both a necessary and a sufficient condition for stronger economic growth (Bumann, Hermes, & Lensink, 2013), this approach seems to ignore the actual financial management of sub-national entities and, most importantly, how fiscal policy truly influences the economy.

Another significant effect of EU-driven fiscal arrangements in Italy is that many municipalities, while complying with rigid fiscal targets, might "waste" budgetary room of manoeuver to reduce delayed payments, namely, those resulting from higher than expected fiscal surpluses (Corte dei Conti, 2012). Indeed, there has been a widespread overshooting of fiscal targets by Italian municipalities. This means that those municipalities had unused room for additional (extra-target) payments of outstanding capital expenditure liabilities, ultimately contributing to an improved general-government budget balance. Overshooting was caused primarily by the prudent spending behavior of local governments aimed at ensuring the achievement of fiscal targets, with the intention of avoiding financial sanctions (Corte dei Conti, 2012). Again, this contradictory effect seems to be a source of missed opportunities in terms of the macro-economy because those resources would otherwise have been invested in local infrastructures and capital investments.

Since 2010, the domestic fiscal arrangement at the national level has been supplemented by a complementary mechanism that was legally based and managed at the local level, the so-called Regional Stability Pact. Regional governments, given the achievement of the overall local-government targets within their jurisdiction, are allowed to adjust their municipalities' centrally imposed fiscal targets. This task is accomplished by establishing deficit permits that can be used by municipalities to settle late payments for public works.

We analyzed 17 regional arrangements since the establishment of the Regional Stability Pact through a document analysis of national and regional legislation and government data. Findings from this analysis show that local arrangements diverge according to the amount of fiscal target adjustment and the criteria for allocating deficit permits (see Table 3).

Table 3. Regional government rules for municipal deficit permits

Qualification	• Achievement of the previous year's fiscal target • Cash availability • Efficiency improvement • Reduction of debt
Allocation drivers	• Size of outstanding cash payments for capital expenditures • Stock of debt • Efficiency and financial condition • Consistency of capital expenditures with regional economic development priorities
Accountability system	• Extra adjustments proportionate to Local Government's allowed deficit permits • No adjustment in case of past fiscal target overshooting

All of the 17 regional governments established multiple criteria for allocating deficit permits. One common driver was the size of outstanding cash payments for capital expenditures because the mechanism aimed only to reduce payment delays and to ensure the consistency of capital expenditure with regional development priorities. One regional government also considered municipalities' efficiency and financial health.

Some regional governments also introduced an accountability system that intended to incentivize municipalities to make full use of deficit permits to avoid overshooting fiscal targets at the end of the year. In this case, regional governments avoided making adjustments to those municipalities that had overshot past fiscal targets and allocated extra-deficit permits to those that had previously allowed financial room to other municipalities (Guarini & Pattaro, 2013).

Finally, the mechanism of fiscal adjustments was inadequate, neither satisfying local governments' request for cash allowances nor avoiding late payments and shrinking investments (see Figure 4) (Corte dei Conti, 2014).

Nevertheless, these arrangements helped introduce some flexibility and offered an opportunity to adapt fiscal rules to the local context and financial management. Thus, this approach can be viewed as the first step for better fiscal governance in a multi-level government environment.

DISCUSSION OF MANAGERIAL AND GOVERNANCE IMPLICATIONS

The instruments of inter-governmental financial co-ordination adopted in Italy have many limits, as elucidated in the previous paragraphs, while offering the opportunity to allow some managerial room to decentralized governments. Regional governments are attempting to enhance their co-ordinator role at the sub-national level while municipalities are looking for room for manoeuver between the central government's fiscal constraints and local community needs.

The choices observed in this research at the local level fit perfectly with management theories that emphasize government strategies to maximize autonomy and minimize constraints (Hillman, Withers, & Collins, 2009; Malatesta & Smith, 2014). This is particularly critical following the global economic crisis.

As austerity is increasing at an international level, this analysis shows that significant transformations are occurring in central/local relations and, accordingly, in managerial decisions at the local level.

The emerging trends from this study are summarized in Table 4.

Table 4. Management and governance issues emerging from the case study

Argument	Management and governance issues
Decentralization versus (re) centralization	● Ambivalence in central/local inter-governmental fiscal relations ● (Re)Centralization of management and financial control
Fiscal consolidation versus local needs	● Centrality of public managers in finding the best equilibrium between fiscal constraints and responsiveness ● Pivotal role of accounting rules and mechanisms ● Centrality of accountants
Accountability	● Decisions at the local level often driven by rigid technical rules ● Limited influence of elected politicians in decision-making ● Accountability for cutbacks at local level

First, this study highlights that multi-level governance through fiscal rules may lead to contradictions among decentralization and (re)centralization trends. In several countries, the general public-sector reform trend has focused on enhancing local autonomy and decentralizing functions and service-delivery responsibilities, often in collaboration with private (profit or non-profit) local partners. In many states, this process has been moving towards federalism. Simultaneously, however, (re)centralization of management and financial control is also emerging. This (re)centralizing tendency seems to have progressively intensified and spread at the international level because of the financial crisis, as claimed, for instance, by Coen and Roberts (2012). This phenomenon is particularly evident in Italy, where intergovernmental relationships have resulted in the exacerbation of central burdens and controls (e.g., Pattaro, 2009).

The various Regional Stability Pacts defined by the Italian regional governments have attempted to harmonize regional budgetary and fiscal governance, therefore offering sub-national public entities the opportunity to make autonomous decisions about which services to deliver or which investments to make to improve quality of life or economic prosperity at the local level. Nevertheless, until now the impact of fiscal co-ordination at the local level has remained quite limited because the rules, burdens, and sanctions of local fiscal arrangements have always been defined at the national level, and regional government intervention has been limited by boundaries defined at the national (and international) level. This macro/micro and central/local ambivalence in intergovernmental relationships seems also to operate in the context of the European Union, whereas the “local” perspective might be that of each country.

Second, if government viability is constrained, fiscal rules may create a trade-off between the need to improve sub-national governments’ fiscal responsibility and the need to improve public services at the local level. This emphasizes the centrality of public managers in finding the best equilibrium between fiscal constraints and responsiveness to government constituents.

Third, now that austerity is forcing the national government to strengthen its control over decentralized spending, accounting rules and mechanisms act as a pivotal tool for co-ordinating local government behaviors. As a result, local budget and spending decisions are being shaped by accounting rules and mechanisms at an accelerating rate.

As mentioned above, the critical element here seems to be connected to the simplistic wisdom that the general government budgetary position results from the algebraic sum of local government fiscal results. This (pragmatic) simplification is partially dependent on the need to align and balance national accounting fiscal targets for complying with EU requirements and control over local governments’ fiscal position. This approach is rooted both in the Italian Domestic Stability Pact and Regional Stability Pact arrangements. At the core of the issue are collateral effects that occur when local priorities are distorted by the need to achieve a detached fiscal target set by the central government, as confirmed by the unexpected payment delays and investment crunch in Italy induced by fiscal targets that are established on a cash basis. These side effects threaten to undermine this mechanism because the outstanding local governments’ debts cannot be cancelled, thus altering the overall results if the national deficit is recognized.

This is another significant challenge for sub-national institutions in their quest for fiscal stability and managerial room for manoeuver. Of course, the regional arrangements seem to have been allowed solely to correct these effects; however, as mentioned above, results still show a limited impact that should be improved.

Finally another critical, and connected, element is the limited influence of elected politicians on the contradictory effects of fiscal rules. In the present context, decisions at the local level (i.e., capital expenditures for infrastructure) often seem to be driven by rigid technical rules. Thus, central government officials appear to be more concerned with protecting a narrow budget balance rule than with enhancing public investments. This situation gives rise to an accountability issue because it is not clear who – the central or the local government – is responsible for cutbacks at the local level.

RECOMMENDATIONS AND FUTURE RESEARCH DIRECTIONS

This analysis suggests that future research should look closely at both the macro and the micro dimensions of fiscal rules in terms of how they are interlinked. In particular, the micro perspective refers to the conditions for assuring the government's viability at the local level. Individual local governments need adequate autonomy and flexibility to achieve their mission. Accordingly, the financial management of sub-national governments (micro dimension) also has relevant implications for fiscal stability that are matters of concern for the general government (macro dimension).

Therefore, future research needs to build a bridge between public policy, fiscal governance, and public management. For example, one area worthy of additional exploration is how to develop fiscal rules to control the general government deficit while preserving each public entity's service operations.

In a context of increasingly volatile and uncertain economic conditions, policies to address the crisis should be designed to match local government autonomy and responsibility with the centralized control of budgetary positions.

Thus, public policy research could benefit from the insights of public management studies. Cross-national comparative research could also be useful to further verify the above-mentioned theoretical and empirical implications.

CONCLUSION

Fiscal governance across levels of government requires rules and processes that must reflect control needs at the level of central government. This is a critical element in ensuring both good governance and the efficiency of government activities. The design of fiscal rules must be consistent with the conditions for government financial viability: financial autonomy and responsibility. The management control conceptual framework is useful for this purpose. Contradictions in fiscal governance occur when the central government allocates fiscal constraints without considering local government financial management. These contradictions include the spatial inequality of constraints on operations, elusive practices, and the deterioration of investment capacity. Attempts at the central level to impose fiscal constraints while ignoring local-level factors and incentives can lead to unintended negative effects on the economy.

Public policies should design fiscal governance frameworks so that it will be more advantageous to sub-national governments to achieve fiscal rules than to attempt to circumvent them. Propositions from (public) management theory suggest two thoughts.

First, enacting budgetary co-ordination rules across levels of government requires a negotiated agreement between the central and sub-national governments. To be effective, these rules must be politically transparent and stimulate mutual accountability across governance tiers.

Second, fiscal constraints must be designed to be consistent with government financial viability conditions. Fiscal targets that are rigid or that require costly measures are likely to be ineffective because of the strong temptation for governmental entities to circumvent them. The key issue is that fiscal targets should be accomplished in a manner that reinforces rather than threatens local conditions and viability. Rules that leave flexibility and managerial autonomy in expenditure or budget balances to be shifted across budget years may make it easier to improve fiscal responsibility.

Nevertheless, fiscal targets should be stable over years to assure the reliability of the fiscal governance system. From this perspective, policy co-ordination across government layers is the most appropriate way to embed sub-national governments into medium-term fiscal responsibility frameworks.

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ENDNOTES

[1] The average size of municipalities is very small: approximately 71% of Italian municipalities have fewer than 5,000 inhabitants and 90% have fewer than 15,000.

[2] For instance, provinces are only responsible for territorial planning, co-ordination in education and labor policies, and extra-urban public transport services; regional government is primarily responsible for health services, socio-economic policies, and environmental and public transportation policies.

[3] Ratifying Member States must enact laws requiring their national budgets to be in balance or in surplus within one year after the Fiscal Compact enters into force. The laws must also provide for a self-correcting mechanism to prevent their breach. The treaty also contains a direct copy of the 'debt brake' criteria as outlined by the Stability and Growth Pact, which defines the rate at which debt-to-GDP levels above 60% should decrease.

[4] Approximately 95% of local governments achieved their fiscal targets, except in 2006 and 2007, when that rate decreased to 87%.

[5] A clear example of elusive practices can be drawn from a verdict of the Italian Supreme Audit Office (Corte dei Conti). In its FY 2006 budget, the Municipality of San Marzano (9,000 residents) quadrupled expenditures for welfare services by incorporating items of education services such as grants, primary school canteen and transportation, and book subsidies. Corte dei Conti – Puglia regional branch, Judgment against the Municipality of San Marzano, Verdict no. 3/F (2006).