The intense recent debate about spending review procedures has emphasized a certain gap between the signifier and signified of the term “spending review” as used in Italy today. In comparative political economy, it covers processes—sometimes special, at other times rooted in the procedures for annual budget decisions—activated by governments to curb spending dynamics systematically. The framework adopted may vary. Often, the aim is to identify areas where resources are being used inefficiently, but it may also be deployed to review priorities in the allocation of such resources. Different instruments correspond to these goals. The former involves the adoption of procedures based on micro-economic analyses, essentially intended to identify the organization of factors of production that can be modified in order to deliver the same service levels at a lower cost. These analyses are then submitted to the elected decision-maker, who adopts those actions deemed appropriate within the reorganization of the public administration. The consequences are often also carried out through administrative acts designed to outline a “business-style” reorganization of public structures. The latter goal regards interventions of a purely political nature, involving changes in the allocation of resources that are not necessarily connected with the identification of organizational inefficiency. Instead, these actions reflect new and often more stringent budget constraints that require
some spending categories to be dropped from the list of the country’s priorities and which therefore demand reconsideration of the goals of public intervention.

In the recent experience of Italy, the ambiguity—in part, semantic—of the term “spending review” has not been dispelled. Instead, the signifier has acquired an evocative power that appears to ignore the elements on which the procedures for reviewing public spending are based. An analysis of the tools deployed in 2012 highlights significant new features, but they are not immune to the tendency to build complex procedural frameworks hinging on the legal value of the norms, in line with the trends that have emerged in Italy over the last few decades. In reality, such procedures are hard to reconcile with the meaning of “spending review,” a process that, on the basis of precise indications about public sector priorities, elaborates a micro-economic and, at times, business-oriented analysis of the instruments devised to achieve those goals.

Working within the above-mentioned two-pronged meaning, our aim in this chapter is to report on the debate and activity associated with the term “spending review” in Italy. The first section that follows traces the events that have distinguished policies to contain and review public spending since 2007—focusing in particular on the introduction of the notion of the spending review in economic and financial planning documents, in corrective public spending measures, and in accounting law itself—up to the government’s most recent steps to ensure the rapid execution of the spending review program. The second section explores the meaning of the term in relation to the search for efficiency in the organization of factors of production, emphasizing the need to implement various analytic and accounting tools in order to increase the fiscal accountability of officials with regard to budget constraints. The third section looks at instruments designed to achieve greater efficiency or a more effective allocation of public resources, placing the spending review in the perspective of a review of the priorities of public action in the face of ever more stringent budget constraints and of the evaluation of the capacity of public policies to achieve desired goals. The fourth section examines the link between the spending review, in any of the meanings considered, and aggregate fiscal discipline. It stresses the necessity to link together in an institutional continuum the three phases of micro-level analysis of efficiency; the evaluation of priorities in allocative choices; and the definition, monitoring, and follow-up checks of public expenditure goals, above all in light of the Fiscal Compact and the constitutional changes it implies. The final section draws some conclusions.
The Spending Review in Italy

The notion of the spending review entered Italian political language in June 2006 with the Economic and Financial Planning Document (DPEF) for 2007–2011. It is not by chance that a number of significant features emerged in public finance macro-aggregates from the early 1990s onward. Since Amato’s *manovra* (a package of economic and financial measures) in 1992, the theme of fiscal consolidation has characterized the direction of fiscal policy almost constantly. The term “maneuver” in this context is specific to Italian terminology, while other countries speak in terms of an annual decision to reshape taxes and spending in order to reflect changes in public priorities and requirements. Starting in the 1990s, significant consolidation processes were implemented: in 1992, with Amato’s *manovra*; in 1997, in order to join the euro; and in 2006, in response to the opening of an excessive deficit procedure by the EU.

In the years of consolidation, marked by a drop in the deficit, there was generally an increase in the tax-to-GDP ratio. In 1997, the fall in the deficit depended on the reduction in outlay for interest payments. The reduction in the ratio of primary spending to GDP took place only in the years after 1997. When the consolidation drive slackened, the balance worsened, especially with regard to spending trends. In short, perhaps at the cost of generalizing, primary spending in Italy has tended to grow with a certain regularity. The failure to respect public finance objectives depended on the limited controls on expenditure in relation to the goals.¹ The average expenditure’s rate of growth has been higher than that of GDP.²

The need to curb spending became a leitmotif of the concluding remarks by the governor of the Bank of Italy (BdI). A similar stance was taken in analyses by international bodies. The reasons were the same: an awareness of the weight of the interest payments component associated with the high public debt; the need for a less distortive tax system, which, due to widespread tax evasion, has an effective burden even higher than the (already very high) legal brackets; and the requirement to improve the quality of government intervention. These analyses never failed to stress that the consolidation of public accounts on the expenditure side is the most long-lasting; that productive spending should be granted special importance in order to sustain growth;³ and that it is necessary—especially in periods of economic crisis as in 2009 and 2012—to reconsider public spending priorities, moving toward and pursuing the spending review processes that have distinguished, in different ways, the majority of Western nations.

The DPEF for 2007–2011, presented in July 2006, brought the reconsideration of government spending into public debate.⁴ In 2005, the
European Union (EU) had opened an excessive deficit procedure against Italy, demanding corrective measures to fall back below the threshold of 3 percent. The first financial period of corrective action was 2006, even though it was an election year. The DPEF for 2007 fell fairly and squarely within the difficult process of balancing the accounts associated with the framework of European constraints and the need to close the excessive deficit procedure. Moreover, it was also the first planning document of a new government majority. The aim of the document was therefore to present a consolidation method based on a different and less emergency-oriented approach and on an idea of good-quality, efficient public intervention.

The spending review program was set up on an experimental basis by the 2007 Finance Act (Law No. 296/2006, Art. 1, para. 480) and operated within a wider process of reform of the state’s budgetary structure—articulated in terms of missions and programs—that commenced in the early months of 2007. The program envisaged that the minister of economy and finance was to be given the task of promoting a systematic reappraisal of central government expenditure programs, relying on an expert public finances committee set up for that purpose. The reappraisal was designed to pinpoint critical areas, options for the reallocation of resources, and possible strategies for improving the results obtainable with earmarked resources in terms of quality and of economical administrative action. Two strands have already clearly emerged: efficiency of processes and reallocation of programs.

The experimentation began in April 2007 with the selection of five ministries (justice, interior, education, infrastructure, and transport) for a spending review process. Together, these ministries accounted for about 30 percent of the state’s current spending (net of interest charges and other financial items) and just over a quarter of capital spending. The initiative was praised by the BdI in May 2007: “There is scope for saving in all the major items of the budget; the revision of expenditure programmes that the Government has commenced goes in the right direction.”

The task of analyzing the procedures, organizational efficiency, and main spending programs was entrusted to five thematic working groups, including experts from the individual ministries, coordinated by the Technical Committee on Public Finances with the support of the General Accounts Office. The following year, the results of the committee’s findings were published in reports such as the green paper on state spending and the intermediate spending review report. One noteworthy finding was the possibility of “exporting” spending review systems that produced good results from one ministry to another. The Technical Committee on Public Finances also emphasized three
macro-areas of intervention—the rationalization of the territorial organization of government bodies, the revision of administrative procedures, and the organization of human resources—focusing also on a revision of the policy on transfers from the center to the periphery and to other subjects. The spending review program was made permanent in the 2008 Finance Act (Law No. 244/2007, Art. 3, paras. 67–73), which defined it as a tool for state finance planning that would provide a methodology for improving both the process of deciding priorities and allocating resources and the performance of government bodies in terms of the quality and efficiency of delivered services.

However, this analytic work still did not find a direct outlet in the proposed corrective measures. In his annual concluding remarks, the BdI’s governor, Mario Draghi, stated: “Every measure to curb public expenditure involves political and technical difficulties and runs up against deeply entrenched practices and special interests. The recent experience of other countries, such as Germany, nonetheless shows that substantial expenditure savings can be made without jeopardizing the fundamental goals of public action.”

Following new elections and a change in government, the Technical Committee on Public Finances was disbanded and its tasks assigned to the Ministry of Economy and Finance—more specifically to the General Accounts Office and the Departmental Studies Service. The spending review activities were effectively encapsulated within the domain of pure analysis. Documents continued to be circulated regarding the breakdown of the budget, the impact of packages of financial and economic measures, and the functionalities of some spending procedures, leading to the preparation of a new report.

In the legislative framework, the new Accounting and State Finances Law (Law No. 196/2009, as modified by Law No. 39/2011) introduced further changes. Article 39 introduced provisions for setting up units for the analysis and evaluation of spending and for collaboration between the Ministry of Economy and Finance and individual central state administrations. The aim of the units was to pinpoint and quantify the main factors blocking the optimum allocation and efficient use of resources. The same law laid down principles and criteria that ought to be the backbone of spending review procedures, but which repeat in a formalistic fashion the need to establish checks and controls and monitoring instruments in government bodies in order to carry out periodically a program of spending analysis and evaluation.

But while the accounting law focused on the administrative procedures deemed capable of promoting spending review practices at the single administration level, the corrective budgetary measures of 2009 and 2010 did not seem to take into account the ideas underlying the
spending review, presenting linear cuts instead. Continual pressure was exerted by the European Central Bank and international bodies because the unsustainability of linear consolidation procedures was becoming increasingly evident. In his concluding remarks in 2010, Draghi stated: “[T]he budgetary rules are not sufficient to guarantee efficient use of resources. Clear and comparable information is needed on the quality of the services provided by the various entities so that single administrations can locate the weak points in their own systems … Costs and results vary enormously between entities providing the same services; this indicates that there is substantial scope for improvement.”\(^\text{11}\) In 2011, he remarked: “It would be inadvisable to seek a permanent and credible reduction of expenditure by cutting items uniformly across the board: this would make it impossible to allocate resources where they are most needed; it would be difficult to sustain over the medium term; it would penalize the more virtuous government departments.”\(^\text{12}\)

The political line did not seem, however, to reflect the pressure applied by the most authoritative institutions. The theme made only a timid appearance on the political agenda in March 2011, when the then minister of the economy, Giulio Tremonti, announced the forthcoming establishment of four working groups at his ministry, one of which, coordinated by Dino Piero Giarda, was to review spending.

The turbulent events of the summer of 2011 provided fresh impulse to the political debate on the issue. Further legislation (Decree Law No. 138/2011) was introduced with the aim of drawing up a more specific agenda for taking concrete steps to revise spending programs. Referring to the objective of rationalizing expenditure and moving beyond the criterion of historic spending, Article 1 established that the Ministry of Economy and Finance, in agreement with the ministries concerned, was to present a program for the reorganization of state spending, with a number of guidelines, by 30 November 2011.\(^\text{13}\) Paragraph 4 of the same article committed the Ministry of Economy and Finance to adopt a spending review cycle for 2012.

The next government, headed by Mario Monti and backed by a broad parliamentary majority, relaunched the theme in the middle of 2012. A special interministerial committee was set up (Decree Law No. 52/2012) in May 2012 in order to coordinate spending revision activities.\(^\text{14}\) From the outset, Piero Giarda was given responsibility for the spending review, together with implementation of the government’s program and coordination of analysis and studies concerning the reordering of public spending. To ensure the rapid execution of the spending revision program, the same decree law made provision for the appointment of a special commissioner to rationalize spending on
the purchase of goods and services, with the task of defining spending levels for cost items. This job fell to Enrico Bondi. At the same time, specific posts were given to Giuliano Amato (revision of the funding of the political parties) and Francesco Giavazzi (rationalization of state contributions to companies).

One of Bondi’s responsibilities was to coordinate the activities of goods and services provisioning on the part of public administrations, including all the various administrations, authorities (including independent regulatory agencies), offices, public agencies or subjects, and local and regional authorities. He was also to ensure a reduction in expenditure for the purchase of goods and services, on a cost item basis, of the public administration. The special commissioner was free to point out to the Cabinet those legal norms or rules determining expenditure or cost items that could be rationalized. He could also propose the suspension or removal of individual procedures regarding the purchase of goods and of services and the introduction of new obligations for public administration concerning the provision of information.

The activities of these bodies and their coordination with the work of the government was shaped by a series of measures, in particular Decree Law No. 95/2012 and Law No. 228/2012 (the stability law for 2013). There has been a great deal of talk about spending revision in recent years, but the results have been less certain. Spending revision is frequently cited in programming documents, inspires lots of primary legislation, and gives rise to a crop of implementary decrees. The rooting of spending review instruments in the activities of administrations, despite the measures adopted in 2012, remains the weakest point of the whole matter. This has something to do with the formalistic approach based on legal norms that has been adopted: the actual management of expenditure, in terms of operational efficiency and suitability of allocation, remains on a different and mutually non-communicating plane with respect to the complex procedural frameworks set up to achieve the final objective of rationalizing and curbing spending.

The Spending Review as a Quest for Efficiency

One strand of Italian political and public management debate—perhaps the main one—has oriented spending review procedures toward the quest for efficiency, conceived of as the elimination of the waste deemed to characterize the state organizations that produce public goods. An indicator of the public opinion climate was the outcome of the government’s efforts to consult the public at the time of the
appointment of the special commissioner for the rationalization of goods and services purchasing. More than 130,000 private citizens and associations wrote to the government over the course of a month (in May 2012), reporting instances of waste and inefficiency and proposing solutions for rationalizing public spending.

Such an orientation, summed up by the title of Decree Law No. 95/2012 (“Reduction of Spending with Unvaried Services”) would suggest work on the reorganization of the production structure of the public administration at both the central and local levels, thus removing areas of inefficient resource use that results in excessive spending with no corresponding measurable value for citizens. This would seem also to presuppose a micro-economic analysis of the ways in which public goods and services are produced, evaluating in concrete fashion the combination of factors of production and the technology employed, in other words, the typical maximization of the production function underlying the various spheres of the public administration. One would expect such procedures to be accompanied by in-depth study of the purchase conditions of the production factors, in order to highlight conditions that are either “ineffective” or unjustifiably differentiated in relation to different production structures.

More generally, this has led to the activation, albeit in embryonic form, of typical instruments of sectorial micro-economic analysis (e.g., benchmarking or the construction of efficiency frontiers), which are normally used to pinpoint criteria for the optimum use of available resources. These instruments were then to acquire macro-economic significance for the public finance choices that the government was required to make in order to ensure that budget constraints were respected. In theoretical terms, these procedures are built from the bottom up on the basis of the sectorial analytic capacity of the availability of complex, reliable, and significant data. They are intended to operate in a context of administrative organizational discretion and to lend value to the potential benefits of technological innovations in the composition of factors of production.

In Italy, however, public administration is essentially hostile to the application of the above-mentioned instruments. The dominance of a legalistic and accounting formalism and the incomplete fiscal accountability of spending centers produce a tangle that is hard to unravel. Numerous restrictions and rigidities evidently exist in the organization of the factors of production, and these prevent the attainment of efficiency targets and even compliance with financial constraints. Some of these factors can be traced to the characteristics of legal norms, which, by going into minute detail, erode the management capacity of officials responsible for expenditure. Note that successive
attempts to reform public management have not really changed the way that public administration works. The privatization of managerial posts has rarely been matched by a broad and complete assumption of responsibility by the public sector manager, smothered due to the limits imposed by the rigid norms that permeate every aspect of administrative action. This undermines the very idea of implementing genuine business-type overhauls, involving very precise objectives and instruments, in the public administration.

This situation highlights a wider cultural problem that affects the public administration, from the upper ministerial echelons down to the single production unit. Essentially, it is the “non-interiorization” of the value of macro-fiscal discipline—evident also at the micro-economic level—within which to pursue the interests and values that the spending programs are designed to promote. This is perhaps one of the most serious issues undermining the control of public spending, which is rendered ineffective by the absence of an appropriate dialectic—also institutional—between the bodies dealing with the different segments of expenditure and those responsible for safeguarding the overall macro-economic and financial balances. Such a phenomenon occurs at both the political and managerial level: spending ministries versus the Ministry of Economy and Finance; parliamentary commissions “of merit” versus budget commissions; spending centers versus external bodies of control. The result, on the one hand, is that the aim looks like the optimal allocation of resources, in response to the demand for more and increasingly better public services, unchecked by an appropriate grading of the goals of action in the ambit of financial constraints. On the other hand, however, the efforts to curb spending do not seem to be anchored to coherent instruments applicable to the individual entity. Instead, these instruments operate solely in top-down budget packages that are not matched by any concrete process of spending revision.

There are various indications of the lack of fiscal accountability. One of the most significant is the accounting phenomenon of off-budget debts—expenditures that are not covered by ordinary budget allocations but are nonetheless authorized by spending bodies. The use of off-budget debts, according to the ministers responsible, points to insufficient funding and therefore toward the unsustainability of the sums allocated for expenditures defined as “non-reducible.” Actually, it points to the incorrect functioning of budget constraints. In other words, in the face of significant budget adjustments that have been adopted with various budget packages in the last few years, the structures charged with spending have been unable or unwilling to reorganize themselves to take into account the reduction in funding
and have made commitments not covered by budgeted funds. The scale of the phenomenon is incredible: “At the end of 2009, certified off-budget debts equaled approximately 2.1 billion, and despite the establishment of an appropriate fund to pay them off, at the end of 2010, 1.5 billion more resulted, and one year later an additional amount of about 1 billion ... [A]bout 90 percent of the debt certified in 2011 weighs on the same budget items related to invoices and contracts not paid in the previous year.”15

Such data require urgent consideration from a spending review perspective. What tools can be used to bring these dynamics under control? An example will help to make matters clearer. One of the sectors constantly affected by this phenomenon is that of so-called justice expenditure, that is to say, expenses authorized by magistrates in the course of judicial proceedings (wiretapping, listening devices, technical tests, etc.). The Ministry of Justice has, quite rightly, only a flimsy and indirect control over such expenditure, in accordance with the constitutional principle of safeguarding the independence of the judiciary. What is needed, then, is a new model of fiscal accountability—one that brings this sphere of expenditure (while duly respecting the Constitution) into line with the principle of budget limits (also safeguarded constitutionally in Article 81). But apart from perhaps necessary changes to current norms—for example, placing overall fiscal accountability in the hands of the judges’ self-governing body, the Higher Council of Magistrates—other forms of intervention are also required, introducing, with appropriate mechanisms, additional strands of responsibility for the public manager in charge of expenditure (in this case, the magistrate). Issues regarding the administrative efficiency of the judiciary have been addressed, but not conclusively solved, by the reorganization of the areas of jurisdiction (i.e., the reduction in the number of courts).

In the areas where the phenomenon of off-budget debts is recurrent, but in general in all spending sectors, a management accountability model ought to be implemented, on the basis of which a corrective mechanism—endogenous and based on managerial accountability—would kick in to reorganize the production model when spending forecasts or budget allocations are exceeded. If this is not feasible, then a request would have to be forthcoming to inject further resources with an additional expenditure decision, which, subject as it is to the obligation of having adequate cover, would require a further allocation decision. Such a change of mentality presupposes the existence and use of detailed records that indicate whether taking obligations that exceed allocated funds affects the same center of responsibility. These procedures would then need to lead to a kind of “historic memory” in
the drawing up of budgets, in order to define the correct level of funding for individual expenditure programs, which, clearly, would have to respect the aggregate budget constraint.

These considerations prompt further reflections about what the most appropriate accounting systems are for encouraging this public management culture change. It is worth asking, in fact, whether or not the format of the accounting data subject to analysis can adequately provide the information required to meet the above needs. In the Italian public administration, as in the main OECD countries, financial accounting (which measures incurred outlays) co-exists alongside economic accounting (which indicates the value of the human and instrumental resources used, namely, the costs independent of when they are paid).

The analyses conducted by the special commissioner examined, to illustrate, the intermediate consumption of ministries, relying on data from the state’s economic budget, drawn up on the basis of analytic economic accounting according to cost centers. This is a formidable tool for spotting the costs incurred by administrations, and it is fundamental for the analysis of expenditure on the acquisition of goods and services, in that it is designed to measure the consumption of resources by a single cost center. This would enable an internal benchmark analysis as well, via centers of responsibility. However, the analyses brought to light some significant problems in the links with the financial accounting and the quality of the data supplied by administrations. These showed that the existence of a given accounting structure does not automatically render the data interpretable and that it runs the risk of turning into a mere bureaucratic exercise, which, what is more, involves costs for the offices concerned. There is a need, then, for significant investment in transparency in order to make this information fully usable.16

In addition, there are other monitoring instruments that could be adopted to strengthen analysis of this kind, in particular, the SIOPE, a system for monitoring payments made by public administrations. Ten years after it was set up, it still has not been fully implemented—a measure of the difficulties encountered in the search for transparent information in the field of public finance. The database is valuable for public administrations other than the central ones, even after taking into account differences in the budget schemes used by various administrations and therefore the difficulty in comparing data, for benchmark analysis as well.

The special commissioner also looked at the intermediate consumption of territorial entities (regions, provinces, municipalities with over 100,000 inhabitants), universities, and research bodies referred
to specifically in the SIOPE findings. Here too problems emerged with regard to the quality of the data supplied by the administrations. Erroneous—that is to say, temporarily unidentifiable—allocations were found, in that certain sums were not yet listed under the correct expenditure item. There was a tendency to enter a large volume of expenditures under residual items such as “other,” in the absence of a well-defined accounts plan. Objective problems also existed in relation to the very nature of the findings: by definition, these concerned the moment of payment and the inability to determine the financial year to which the individual transactions referred. Thus, the need for significant investment in the quality, reliability, and transparency of data emerged with regard to the SIOPE system as well.

**The Spending Review as a Modification of Public Priorities**

A second meaning of the term “spending review” relates to the reappraisal of public priorities. This involves a re-examination of the list of expenditure programs (within the framework of given budget constraints and in light of a particular grading of state action goals) in order to free up resources for objectives higher up on the scale of priorities. There are various reasons for carrying out such a review. Redistributive objectives and the weight to assign to different public goods may change over time as a result of the socio-demographic and economic evolution of the nation. This might involve, for instance, training for workers laid off due to industrial shake-ups, or changes in health care requirements brought about by the aging of the population. Finally, and this is perhaps the main factor in recent experience, the revision of priorities for state action is the reflection of new and often more stringent European budget constraints.

In any case, such intervention, which is strictly political in nature, entails changes in the allocation of resources. This requires consideration of the goals of public intervention and is not necessarily a matter of identifying areas of organizational inefficiency. Often, however, the evaluation of the goals of the resources employed—that is, whether the allocation of resources corresponds to the political priorities of the governing majority—says nothing about the effectiveness of their use, namely, their capacity to achieve the desired objectives. Intervening with a spending review process in this area presupposes a very clear definition of the priorities of state action and an ability to assess how public policies achieve the desired goals. Dropping an intervention from the list of those funded may occur if the objective of the policy is deemed to be relatively less important or if the existing policies do not
enable the attainment of the objective (e.g., if the allocated resources are insufficient to obtain the desired results, which would require a much greater investment). The revision of the resources required to achieve a goal might well shift the policy itself along the hierarchy of priorities. Such action also has a condition attached: there has to have been a prior assessment of the efficiency in the use of the inputs; in other words, there has to be no way of obtaining the same kind of protection at a lower cost.

The above description makes clear the instruments that are needed to embark on a spending revision path of this kind. The first consists of the formulation of the decision-making procedure for policies in top-down terms. If the usefulness of two policies is to be compared, they must be homogeneous. It would not be right to compare a social policy designed to combat pathological gambling with an environmental protection policy. The general allocative choice should take place preliminarily on the basis of aggregate sector evaluations: health, environmental protection, internal security, and so forth. Only subsequently can individual policies be evaluated and compared with other similar programs. A certain interactive adaptation path is often necessary, through the return of bottom-up verification of what can be achieved in each sector with the volume of resources previously determined with the top-down procedure.

The principle of financial cover (i.e., no expenditure unless a budgetary source has been identified) expressed in Article 81 of the Constitution is extremely clear and requires transparency in allocative choices at the very moment of deliberation. If the government wishes to increase expenditure or reduce income in a particular area, it is necessary to decide (at the same time) which other expenditure will be reduced or which extra tax will be levied. But when attempts have been made to apply these clearly formulated aims, they have been overwhelmed by a plethora of accounting rules that often invoke useless formalistic balances.

The problematic nature of discerning the real allocative logic of public finance decisions in Italy is also evident from the difficulty in obtaining comparable information about the national budget. Continual changes in the structure of the national budget make it impossible to conduct consolidated analyses over time. The availability of social accounting data enables analysis of the evolution of financial flows at the subsector level, reflecting in this way choices made regarding the transfer of functions. But analysis of the national budget is more complex, and the lack of stable links between public accountancy and social accounting does not facilitate the interpretation of available data. It is accompanied by an almost obsessive use of economic
classification (crucial for constructing social accounting statements). With the latter, however, one loses sight of functional classification, the only meaningful one for analyzing the allocative structure and for reflecting the priorities of public action. One only needs to consider the heated political debate about the possibility of using, for different ends, resources earmarked for transfer to enterprises, when this economic category includes service contracts for the railways and local public transport, plus funding for private schools (purposes very far removed, in the collective imagination, from incentives for an industrial sector).

The availability of instruments for evaluating public policies is crucial here. Are incentives for innovation (or renewable forms of energy) effective for developing a competitive industrial system? Does the reform of the mechanisms governing labor market entry and exit lead to an increase in employment for young people (or women)? There is presently a lot of talk about the evaluation of public policies, and an interesting ordering stratification has been begun. But in Italy the tools are underdeveloped and not very structured. Above all, there is a need for a different and slower process for drawing up policies. A slight change can be glimpsed in Italian legislation, as some important measures adopted in 2012 contain clauses for monitoring procedures defined in the provisions for verifying their efficacy (reform of the labor market and incentives for innovative start-ups). But once again it is anomalous that, for each legislative measure, it is necessary to repeat the definition of a procedure that should already be grounded in administrative and data collection activities.

The profound change required for a real revision of spending includes the incorporation into legislative deliberations of knowledge of quantitative analysis procedures in the assessment of the policies themselves. This entails the need to reconsider the characteristics of the system for producing legislation, which is fragmented and “torrential.” The condition for grasping the results of a process with such characteristics involves a modification in the way of producing legislation, which should be more organic and system-oriented, distinguished by stability in the legal framework and an analysis of expected costs and benefits (i.e., regulatory impact analysis). The second president of the Republic, economist Luigi Einaudi, stressed this aspect many years ago: “Rushed laws give rise to new laws designed to emend and perfect; but the new ones, as they are dictated precisely by the urgency to remedy the defects of those poorly conceived ones, are also inapplicable, if not for the purpose of subterfuge, and it is necessary to perfect them again. And so very soon all this becomes an inextricable tangle in which everyone remains mired.”
From the Analysis of Micro-level Operative Efficiency to Aggregate-Level Fiscal Discipline

Spending review procedures—both those developed and implemented at the micro-economic level and designed to achieve greater efficiency and those directed toward an allocation of resources that better reflects political priorities—generally involve a reduction in spending authorizations, thus meeting, on an aggregate level, the budget constraints by which government intervention is bound. The weakness of the model tried out in Italy lies in the lack of dialogue between two key elements. The first is financial programming, which asks the single production organization, through the reduction of budget funding, to come up with more efficient solutions. The second is the capacity of spending administrations to adapt to budget constraints. If spending review procedures are to be effective, the implementation of top-down spending cuts should be accompanied by a bottom-up movement, tying in the operative efficiency to be achieved at the micro-economic level with the safeguarding of fiscal discipline at the aggregate level.

To obtain this result, it is important not to neglect the technical aspects of the instruments capable of providing the link. The budget framework therefore requires remodeling to take into account this need, identifying suitable analytic and corrective methodologies. It is of crucial importance, first of all, to have reliable public finance data, which can serve as a basis for drawing up budget policies. The technical crux of the matter is to achieve appropriate connections and a specific reconciliation between social accounting data and national budget data at the level of each entity (state, territorial autonomies, non-territorial public bodies). This would make it possible to monitor the concrete implementation of the budget policy, starting with individual production units, and to verify the attainment of public finance targets.

This need is all the more pressing in light of the new budget architecture drawn up by the European Union. Starting in May 2010, when the sovereign debt crisis began, through to the recent entering into force of the Fiscal Compact, there have been evolutions in European institutions. In 2012, this saw the introduction of more cogent rules for the budget policy of individual member states. These directives are highly complex and include new monitoring obligations. The old challenges facing Italy were renewed with fresh constraints and new tensions on the financial markets. It is no accident that this led to a modification in the Italian Constitution in the same year: the state and the territorial administrations are no longer allowed to resort to borrowing unless it falls within the stringent framework established
by European norms. Furthermore, emphasis has shifted from ex-ante rules to ex-post verification of the attainment of the budget objectives of public administrations, including a specific system of penalties. These innovations have entailed normative changes\textsuperscript{19} that will require further adaptations and, above all, will prompt significant changes in the schemes of public finance decision-making and implementation by spending centers. In fact, the current situation demands more marked change in order to rise to the challenge of the new European framework. Phenomena such as off-budget debt or delays in payment on the part of public administrations indicate patterns of behavior that are not in line with the new rules, reflecting instead a broken chain between the financial planning that defines the aggregate constraints and the working capital management of the individual spending center. In the new framework of European rules, the public system can no longer allow itself to generate debt, even secretly, since uncontrolled spending mechanisms cannot be subjected to financial constraints.

Technical instruments and analyses, although fundamental, are not sufficient. Interesting and accurate tear-down analyses of some spending sectors are already being produced.\textsuperscript{20} But a question springs to mind in the face of these in-depth studies: why do sophisticated analyses often struggle to develop concretely into a virtuous institutional cycle that—working from the bottom up—identifies areas for increasing efficiency on which to base the expenditure savings necessary to meet public finance targets? Even the drawing up of normative reference frameworks does not guarantee the practicability of reorganization paths. In the face of specific legislation regarding the sale of public property in connection with the valorization of available spaces, a paragraph in the stability law for 2013 envisages that the Ministry of Education should sell its Viale Kennedy property in Rome. Is there any need to write an ad hoc paragraph to carry out a management operation typical of a spending review? The answer seems to be an admission of a certain impotence in achieving rationalization goals administratively.

\section*{Concluding Remarks}

The analysis carried out in the previous sections bears witness to the considerable efforts made in 2012. But above all it shows that there is still a long way to go in making spending revision procedures concrete and thus in achieving the hoped-for results. One of the most painful points is the quintessentially Italian capacity to get embroiled in procedural complexities, in high-flown but cumbersome systems that
do not hold up when it comes time to manage them. Added to this is an administrative culture that has a deficit of accountability regarding budget constraints and therefore struggles to understand the logic underlying the quest for efficiency, represented economically by the maximization of a production function under constraint.

It is necessary, then, to start with the real fiscal accountability of the individual spending administrations and to implement an approach that has thus far been just a slogan (“Each ministry should be its own Ministry of Finance”) to ensure that the public goods production organization is effectively conditioned by budget constraints. But the cycle must work in the opposite direction as well, from the top down, with the ability, in the economic and budget planning phase, to pinpoint the priorities of public action and to make allocative choices that are in line with budget constraints, in that they rest, at the micro-economic level, on the managerial capacity for adaptation and adjustment toward the goal of efficiency frontiers.

In the absence of such steps, the result is a lack of connection between spending cuts decided top-down and the effective business-type reorganizations that should follow. The cuts, in any case necessary to the spending-side consolidation called for from various directions, end up seeming to be linear, even if they are not. The issue points to a dilemma: should cuts in funding precede or follow the reorganizational steps that make those cuts sustainable? And again, should reorganizational steps be entrusted to primary or secondary legislation, or should they fall within the administrative discretion associated with management accountability? Of crucial importance for the answer is the relationship between primary legislation—which in any case conditions public action, but in Italy all too often takes the guise of complex formal-juridical schemes—and management accountability in the running of administrations. If the response to this dilemma does not take into account the set of issues discussed above, the spending review procedures run the risk of remaining on paper, leaving public functionaries in a state of uncertainty regarding the appropriateness of necessary funding levels, with some spending centers struggling to perform their functions correctly and others wallowing in waste.

— Translated by Jeremy Carden
Chiara Goretti works for the Italian Senate where she is currently acting Head of the Budget Service. In her various positions, she has always kept a constant focus on budgeting and a comparative perspective on fiscal policy and budgeting.

Luca Rizzuto has worked for the Italian Senate since 1991 in various positions related to budgeting and public finance. He is currently Clerk to the Commission for the transparency and control of budget of political parties. In 2012, he was seconded to the Italian Executive to coordinate the activity of the Special Commissioner for the spending review.

Notes

4. In a letter accompanying the 2007–2011 DPEF, the minister of the economy, Tommaso Padoa-Schioppa, stated: “While not being constrained to reduce the deficit and lighten its debt burden, Italy nonetheless needs to reorganize public expenditure in order to devote more resources to new infrastructures, research, social solidarity policies, and the valorization of culture.”
10. The Ministry of Economy and Finance’s decree of 22 March 2010, concerning the identification of the composition and discipline of the modes of functioning of the analysis and spending evaluation units, established that the units’ tasks were to include (1) presenting proposals regarding
revisions to missions and programs, (2) assisting in drawing up proposals for the remodulation of resources entered in the budget, and (3) measuring the level, quantity, and quality of public service provision.


13. Expressly indicated areas included rationalization of the peripheral structures of the state administration, the merging of public social security entities, and rationalization in the organization of the judicial system.

14. The committee is presided over by the prime minister and consists of the minister with responsibility for the government program, the minister of public administration and simplification, the vice-minister of economy and finance, and the undersecretary of state for the presidency of the Council of Ministers.


16. The queries that have emerged regarding the adoption in the public administration of budget schemes based on economic accounting require some further consideration at this point. Moving away from the perspective of a budget voted by Parliament, about which there are legitimate doubts regarding the advantages of economic accounting (especially in terms of accountability and the transparency of the Parliament-government authorizing path), toward that of the administrative budget, there is an evident usefulness in having information that permits rigorous measurement of the use of inputs by different centers of administrative responsibility in order to channel such information into the spending review process.


19. As envisaged by the new Article 81, the end of the legislature saw the approval of the “reinforced” law (Law No. 243/2012), a kind of super accountancy law, which radically modifies current accounting regulations.

20. See, for example, the analysis of the national fire brigade expenditure contained in Ministry of Economy and Finance, The 2012 Report on Expenditure of Central Government Administrations.