

The impact of fiscal decentralization on the composition of public expenditure: panel data evidence from Italy

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This article is an original contribution to the understanding of the relationship between fiscal decentralization and public expenditure composition. It studies the effects of the ongoing decentralization process in Italy on the share of different categories of public spending in total expenditure of the Italian regional administrations over the period 1996-2008. The results demonstrate that the level of decentralization influences the expenditure composition and that the impact is both in the short and long run. First, an increase in the level of decentralization may induce a reduction in the share of capital expenditure to total regional expenditure. Second, when we look at the "economic" classification of public expenditure, it seems that the decentralization process in the first phase would certainly cause an increase in current expenditure items, but in the long term there would be a recomposition of regional governments spending. Third, considering a functional classification of regional expenditure, it emerges, both from the static and dynamic analysis, that a higher fiscal decentralization reduces the social welfare expenditure, while increases the level of investment to enhance human capital as well as the spending in infrastructure and development.

The policy implications of our findings may be quite interesting, in particular for countries undergoing a decentralization process as in Italy. Fiscal decentralization has undoubtedly an impact on the composition of public expenditures, but whether the induced change determine a better allocative efficiency and thus lead to higher economic growth is still an open question.

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