Local Public Finance and Public Investment during the economic crisis

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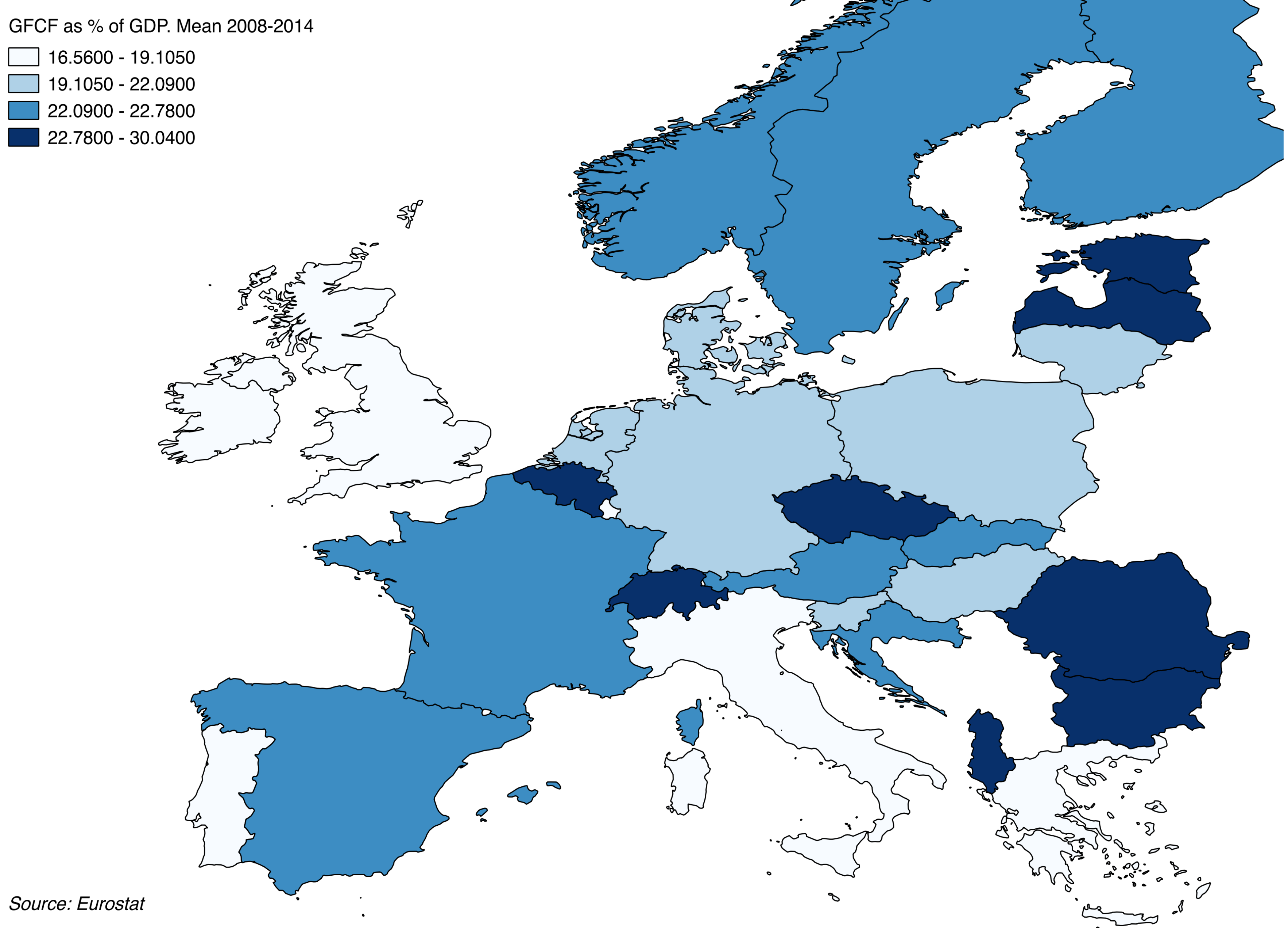
Workshop AISRE-ABC
La frontiera del dibattito in Economia Regionale e Urbana
Politecnico di Milano, 6 March 2015

IRPET

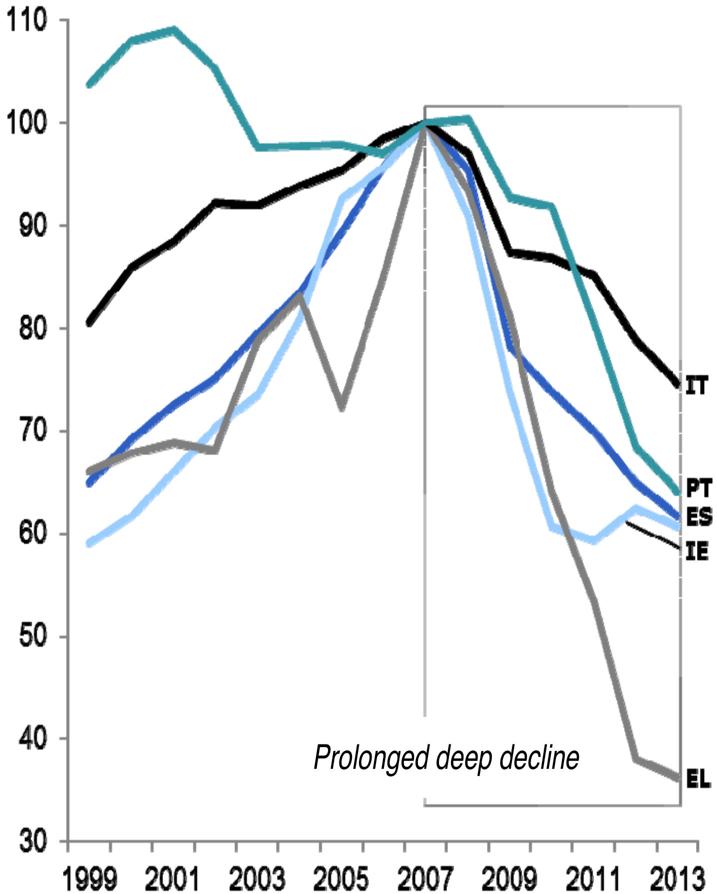

GFCF as % of GDP. Mean 2008-2014
16.5600 - 19.1050
19.1050 - 22.0900
22.0900 - 22.7800
22.7800 - 30.0400
Source: Eurostat

Real gross fixed capital formation by Member State

Index 2007=100

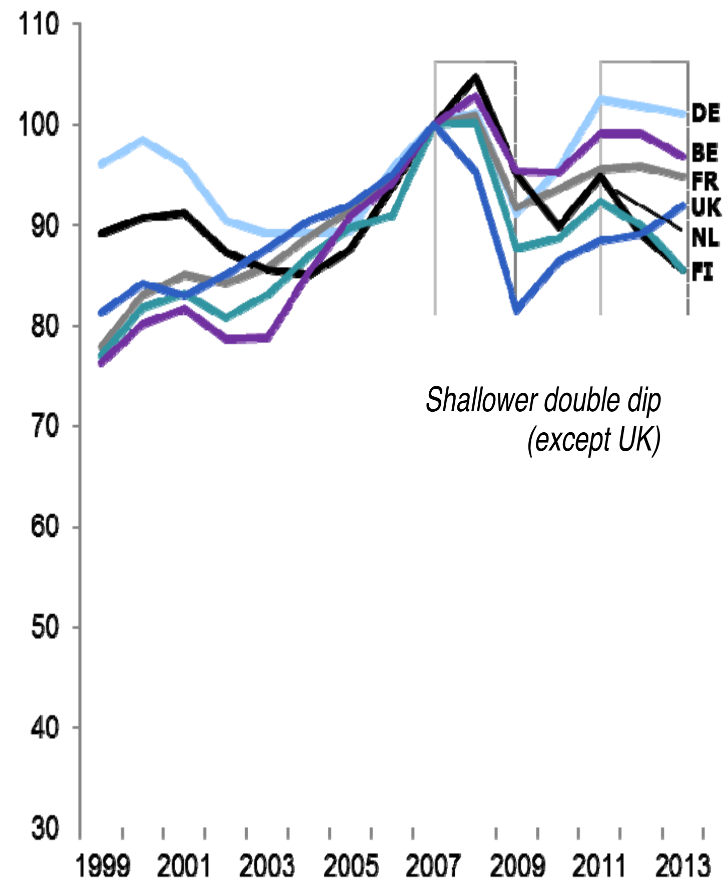
Member States with biggest drop in investment

E.g., Greece, Ireland, Italy, Portugal, Spain



Other selected Member States

E.g., Belgium, Finland, Germany, Netherlands, UK



Real gross fixed capital formation

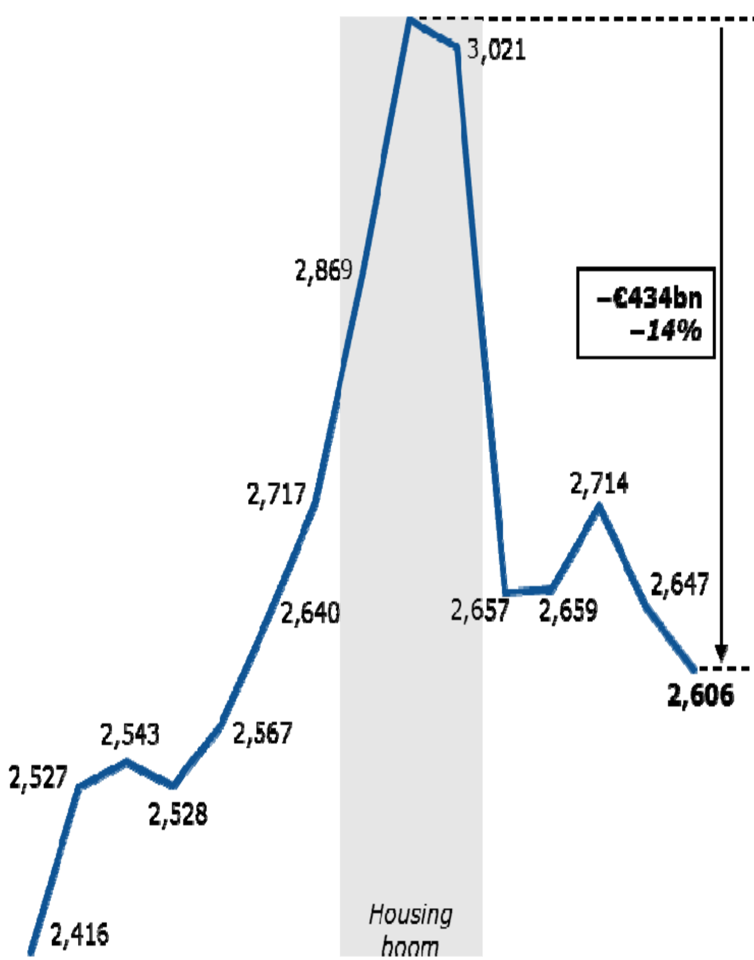
EU-28, in 2013 prices, € bn

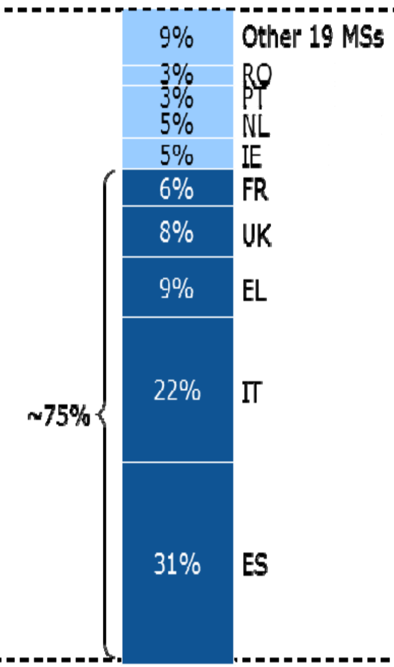
Share of total drop by country

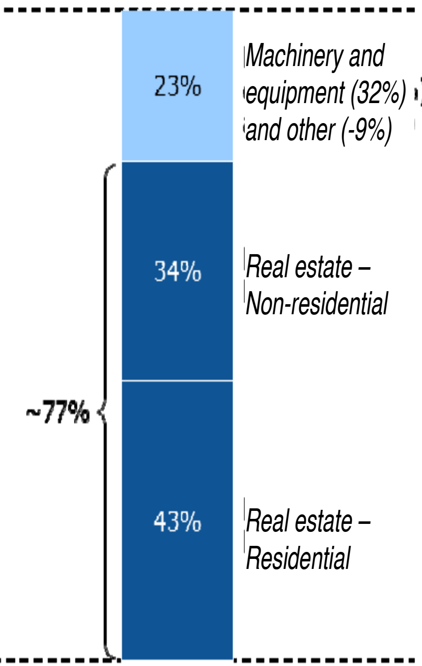
EU-28, in percentage*

Share of total drop by sector

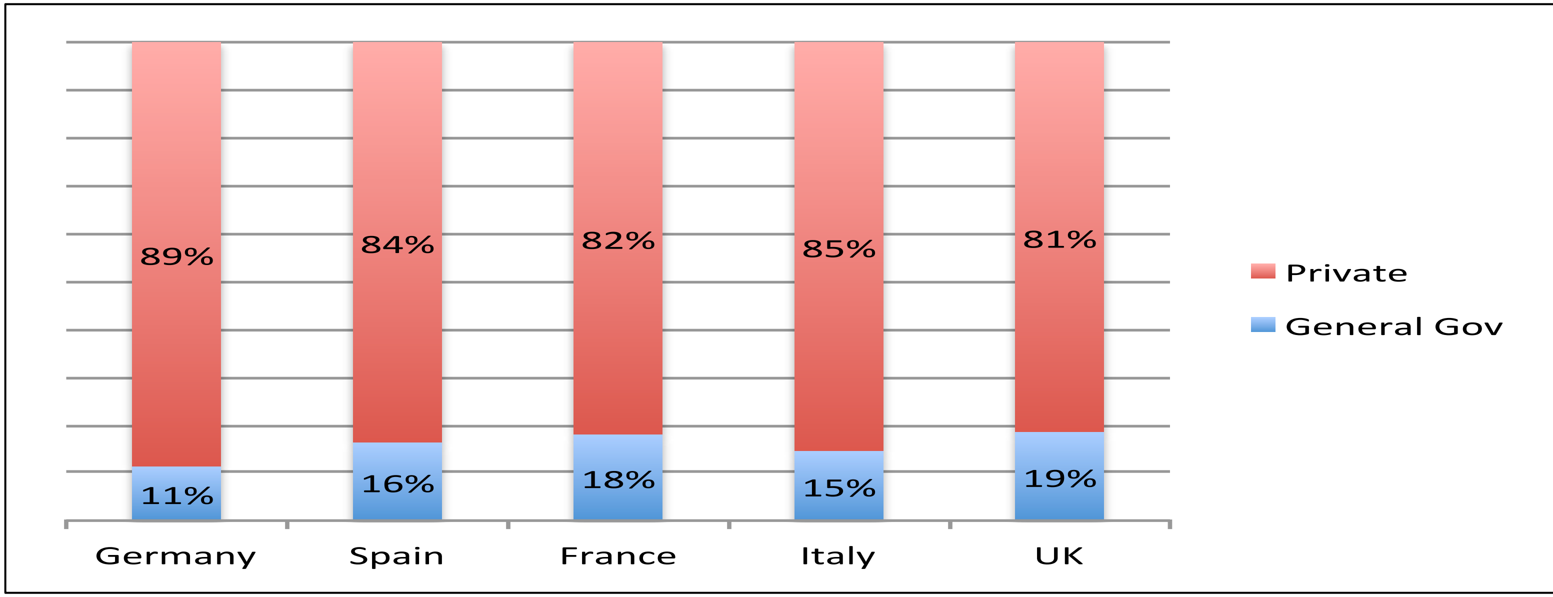
EU-26, in percentage*

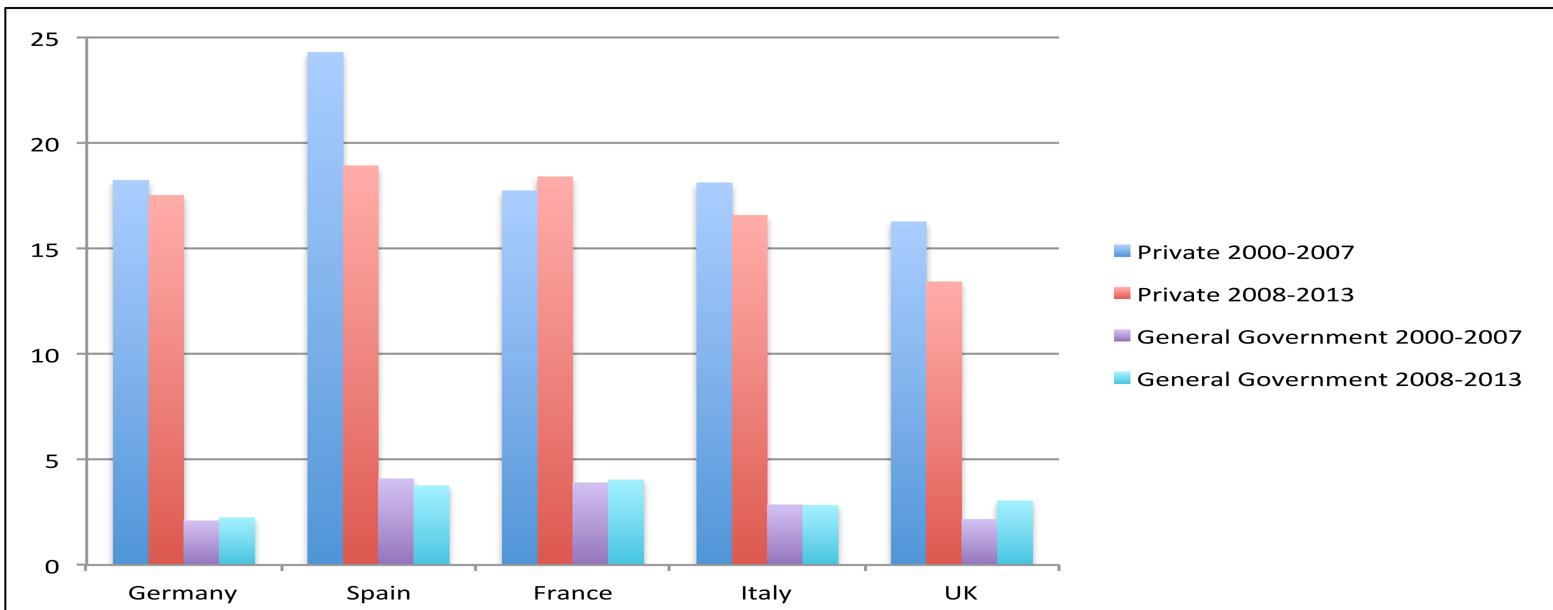


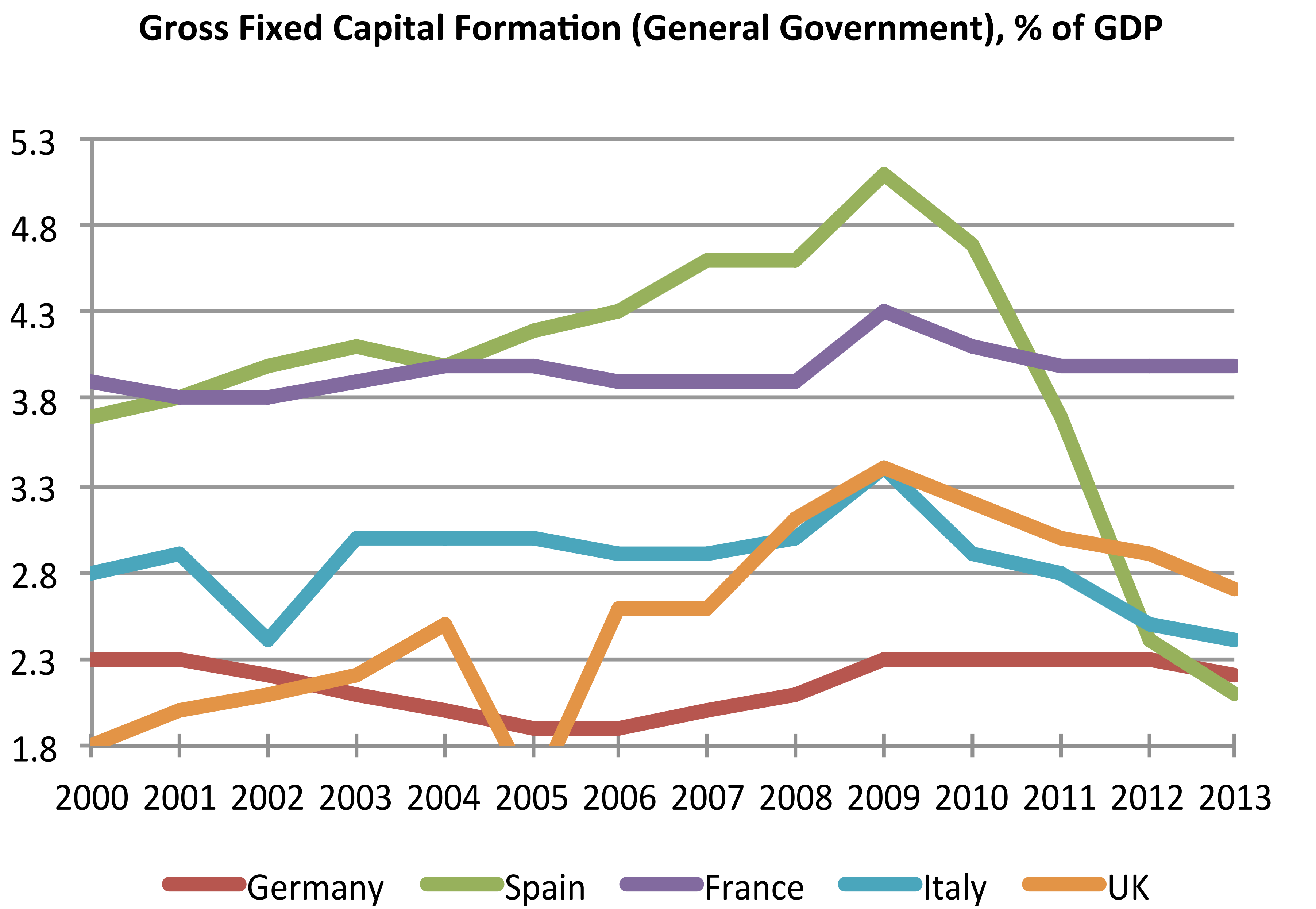


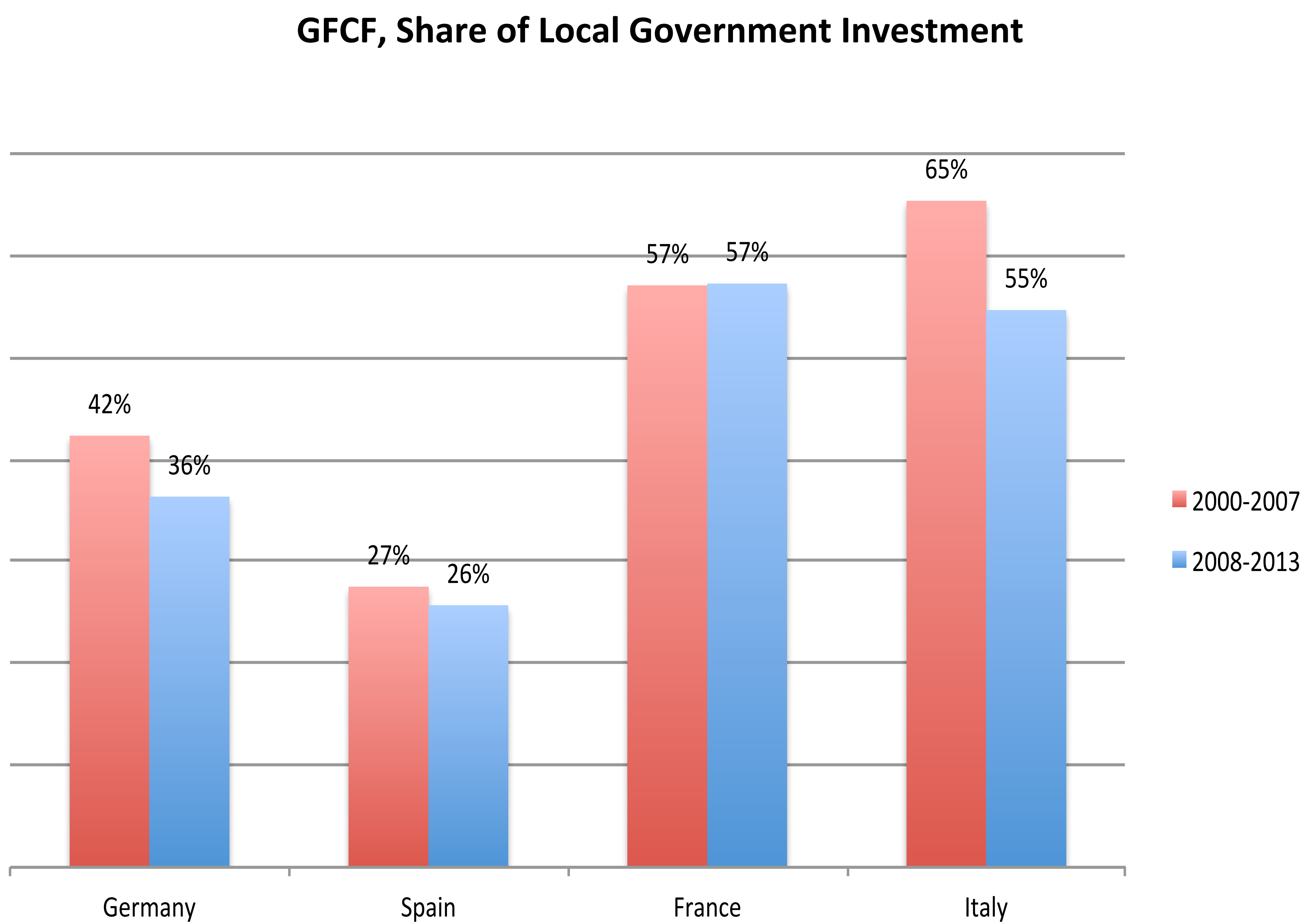


Gross Fixed Capital Formation (Private and General Government), % of GDP



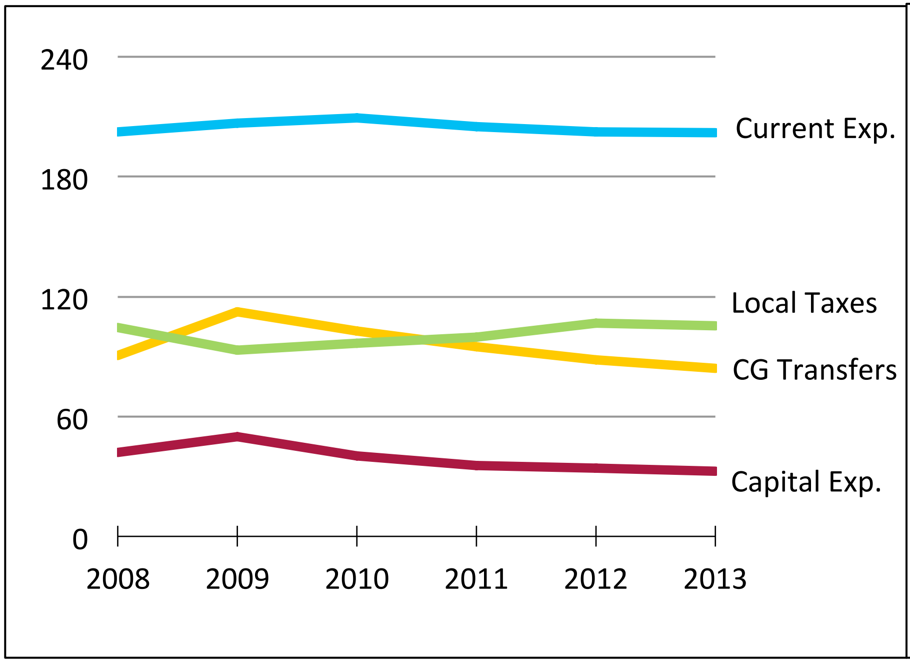



Gross Fixed Capital Formation (General Government), % of GDP
5.3
4.8
4.3
3.8
3.3
2.8
2.3
1.8
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Germany
Spain
France
Italy
UK

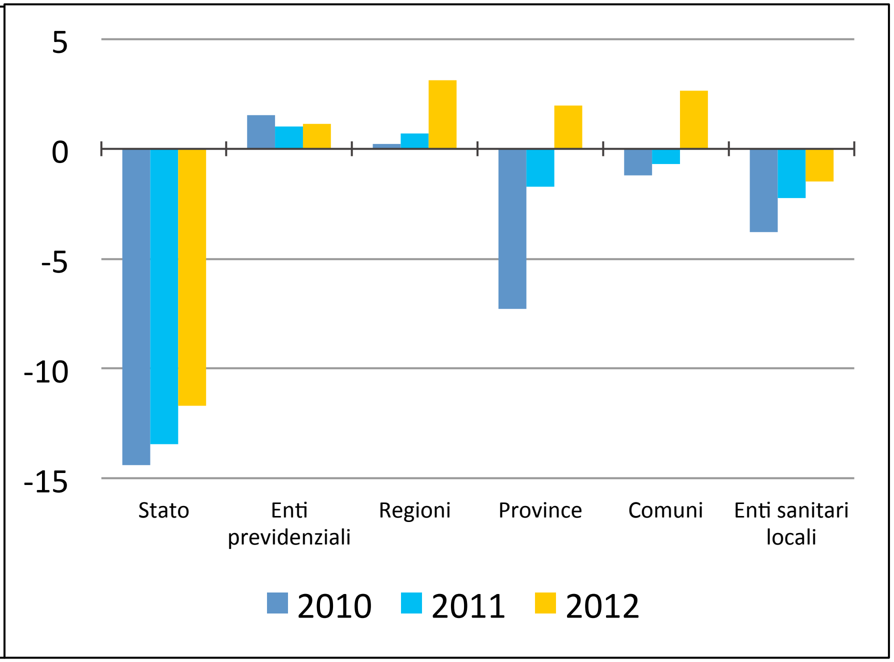

GFCF, Share of Local Government Investment
42%
36%
27%
26%
57%
57%
65%
55%
Germany
Spain
France
Italy
2000-2007
2008-2013

Local municipalities have been particularly involved in the aggregate debt recovery process

Local Municipalities, revenues and expenditures. Mln Euro.



Fiscal balances by government type. 2010-102. %.



Higher fiscal autonomy and tighter top-down spending constraints have improved local governments balances.	Local municipalities and social security institutions have positively contributed to the national debt recovery process

ISP, Rules

Financial contribution of Municipalities (Euro Mlns). 2010-2013.

	2010	2011	2012	2013
Target	340	2025	3242	4600
DL 35/2013 “sblocca pagamenti“				-3721
Vertical Pact				-1195
Transfer cuts (ex D.L. 78/2010)	0	1.500	2.500	2.500
Transfer cuts (ex D.L. 201/2011)	0	0	1.450	1.450
Spending Review	0	0	90	2.250
Total financial contribute	340	3.525	7.282	5.884
% on 2010 current expenditure	0,6	6,6	13,6	11

$$\textbf{Target} = R_{current} + R_{cap} - E_{current} - E_{curr}$$

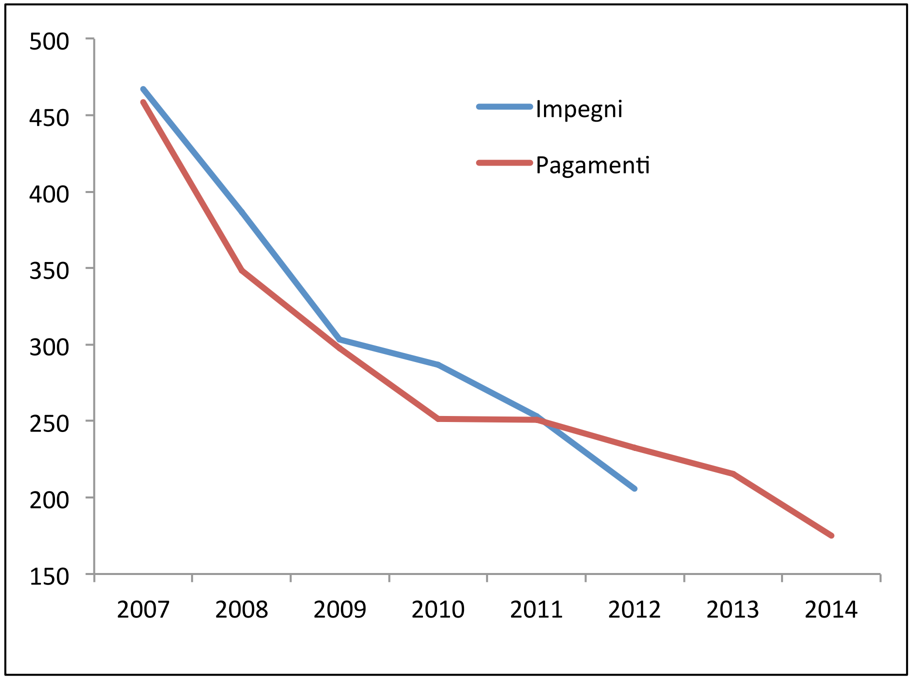
- This is calculated by using a hybrid criterion:

  - **Cash-basis accounting principle** for capital expenditure
  - **Accrual accounting principle** for current expenditure

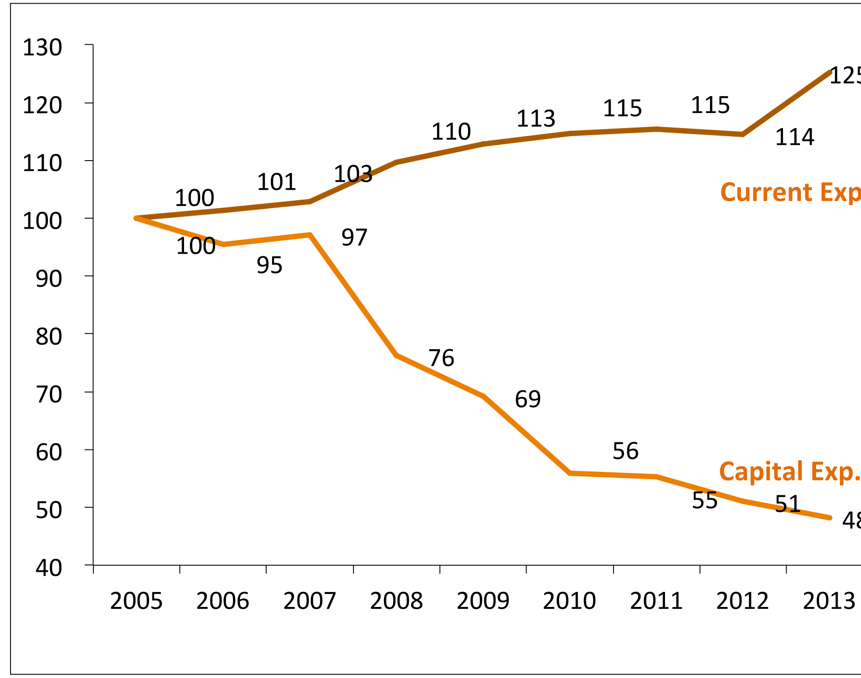
- Debt contracted in order to finance public works is not accounted between revenues.
- Municipalities usually already have large financial commitments on the current side.
- Municipalities cannot pay for planned public works even if they have enough resources.

ISP, the crisis and public investment

Capital expenditure, payments and financial commitments. 2005-2013.



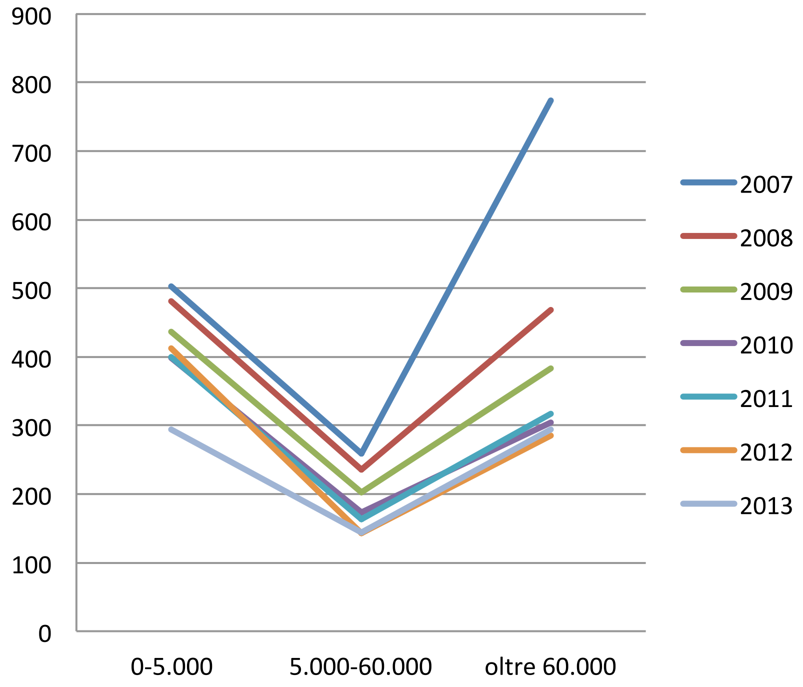
Current and capital expenditure. Index 2005=100.



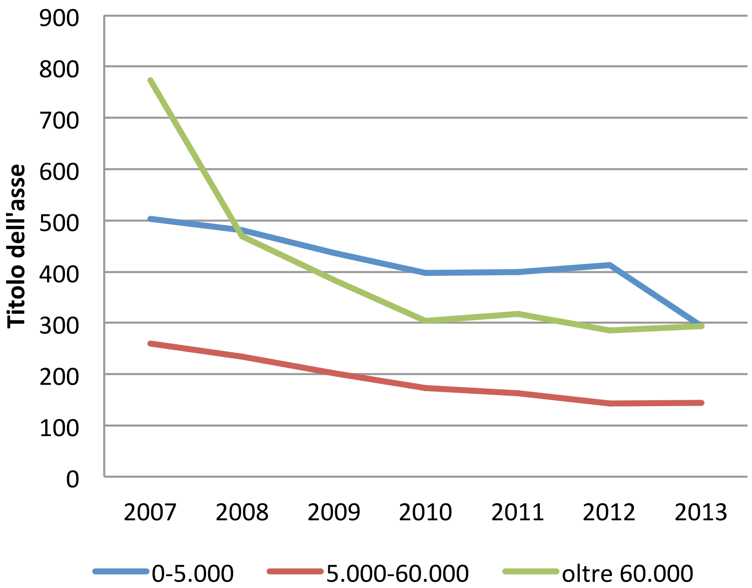
- ISP largely contributes to the investment drop.
- It acts on payments but also on financial commitments.
- The crisis reduces capital revenues: hard to profitably dismiss public buidings, lower revenues from urbanisation taxes and construction permits.
- The 2015 Italian Stability Law: heavy spending cuts and tighter constraints for local governments

Capital expenditure by urban size

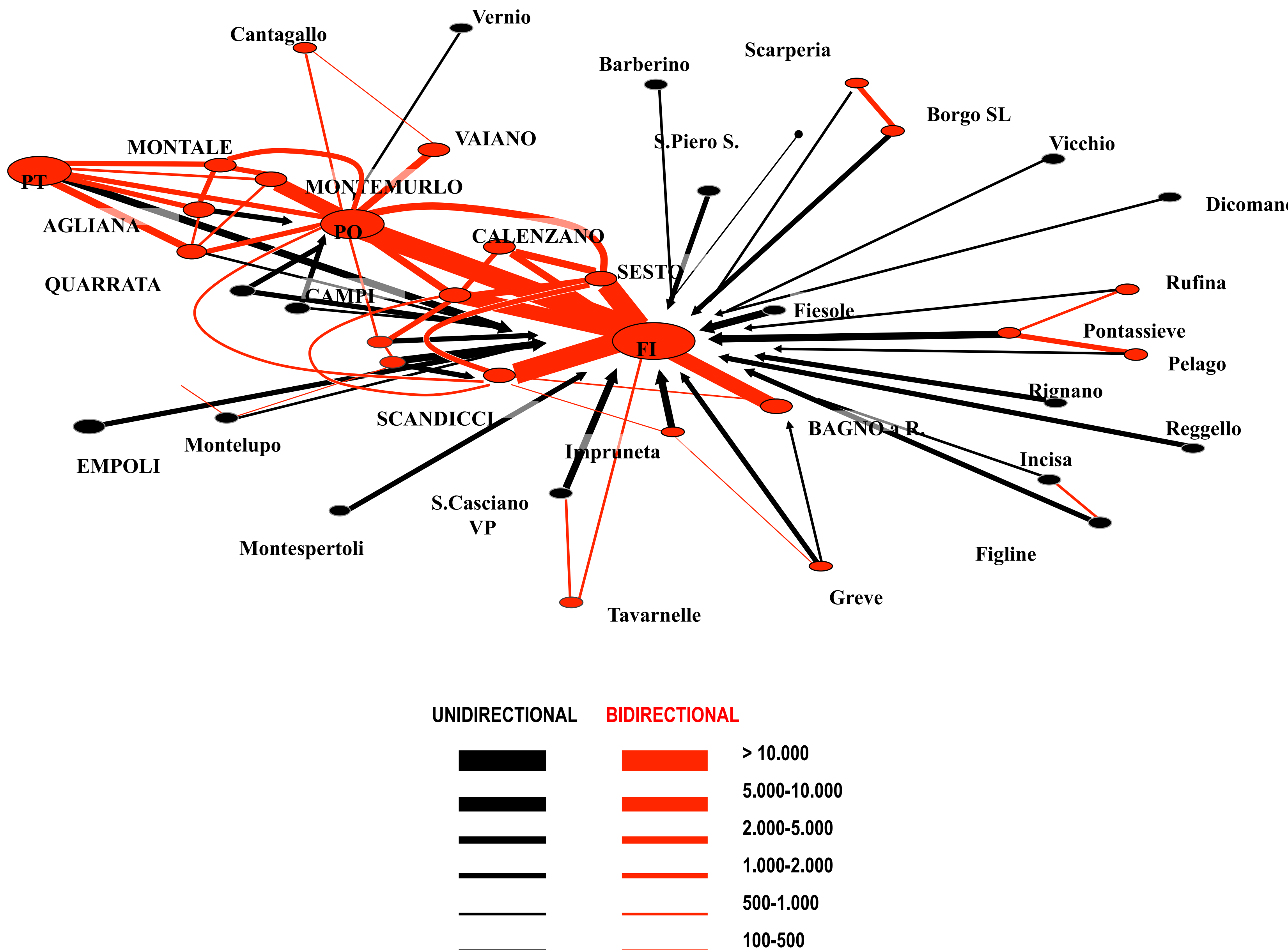
U-shaped investment curve



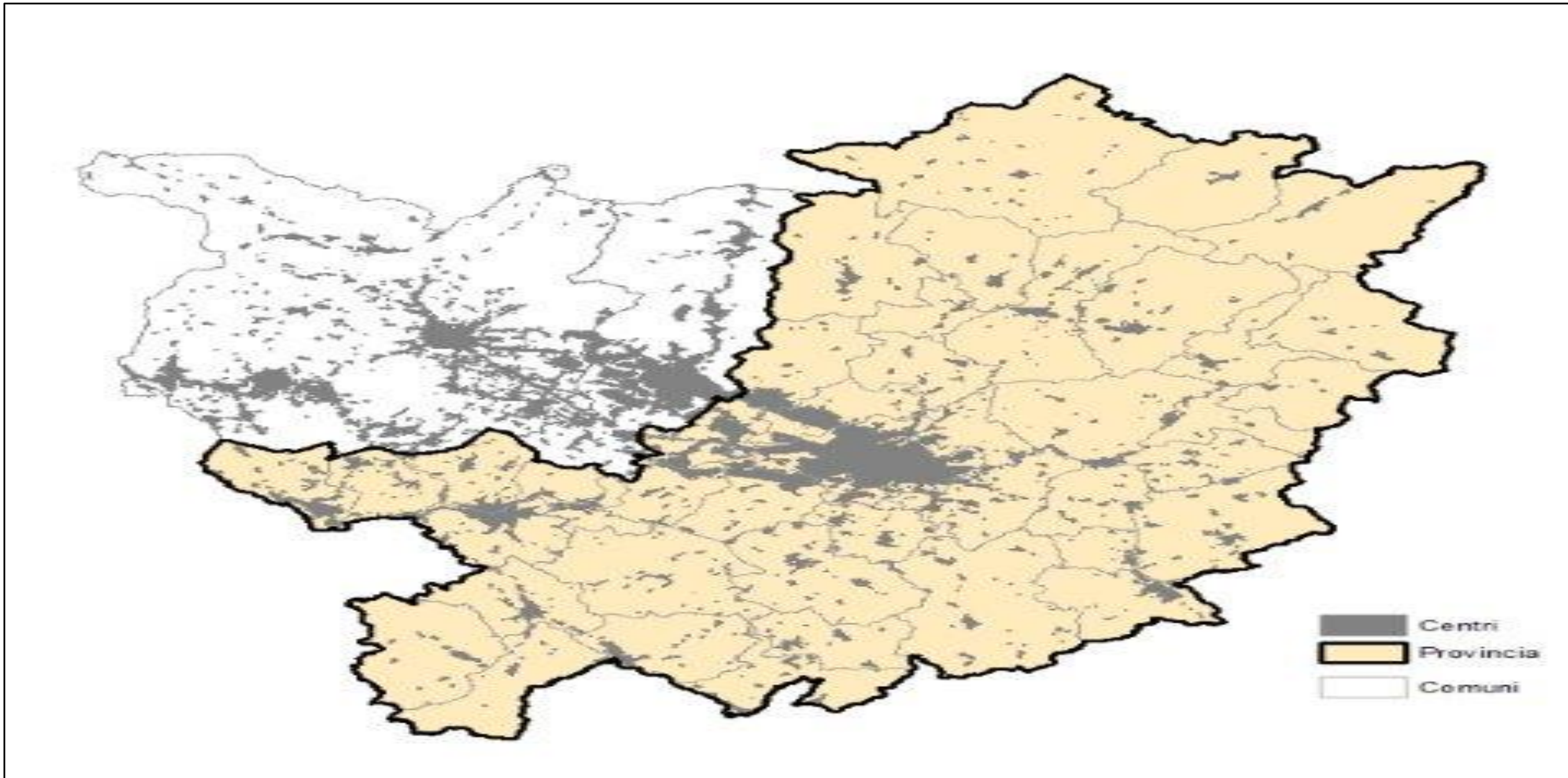
Public investment and urban size



New urban spaces; Florence metropolitan area, commuting flows



Inefficient planning areas

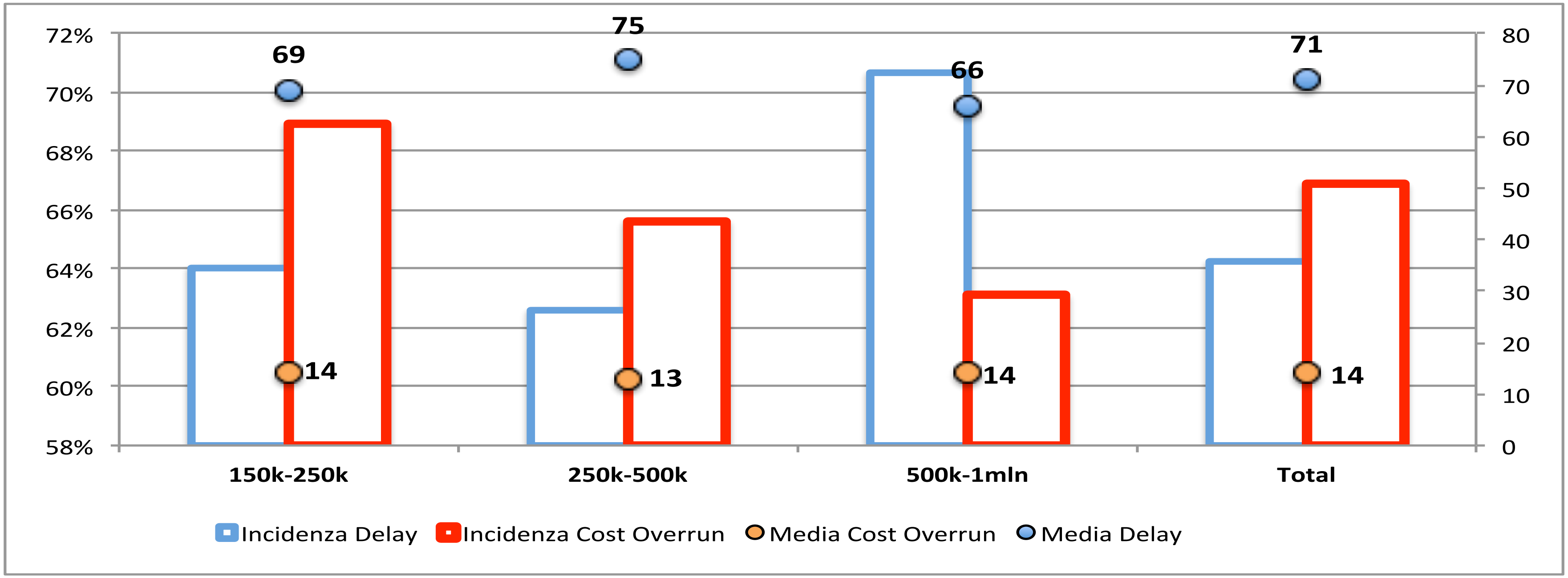


The “real city” has different borders with respect to the existing administrative ones and with respect to the new ones: the new Florence metropolitan area has been defined as perfeclty overlapping the former Florence province area.

Defining homogeneous administrative areas would entail more effective infrastructural policies.

(In)Efficiency in Public Procurement

Public works. Delays and Cost overruns by financial dimension. Tuscany, 2013.



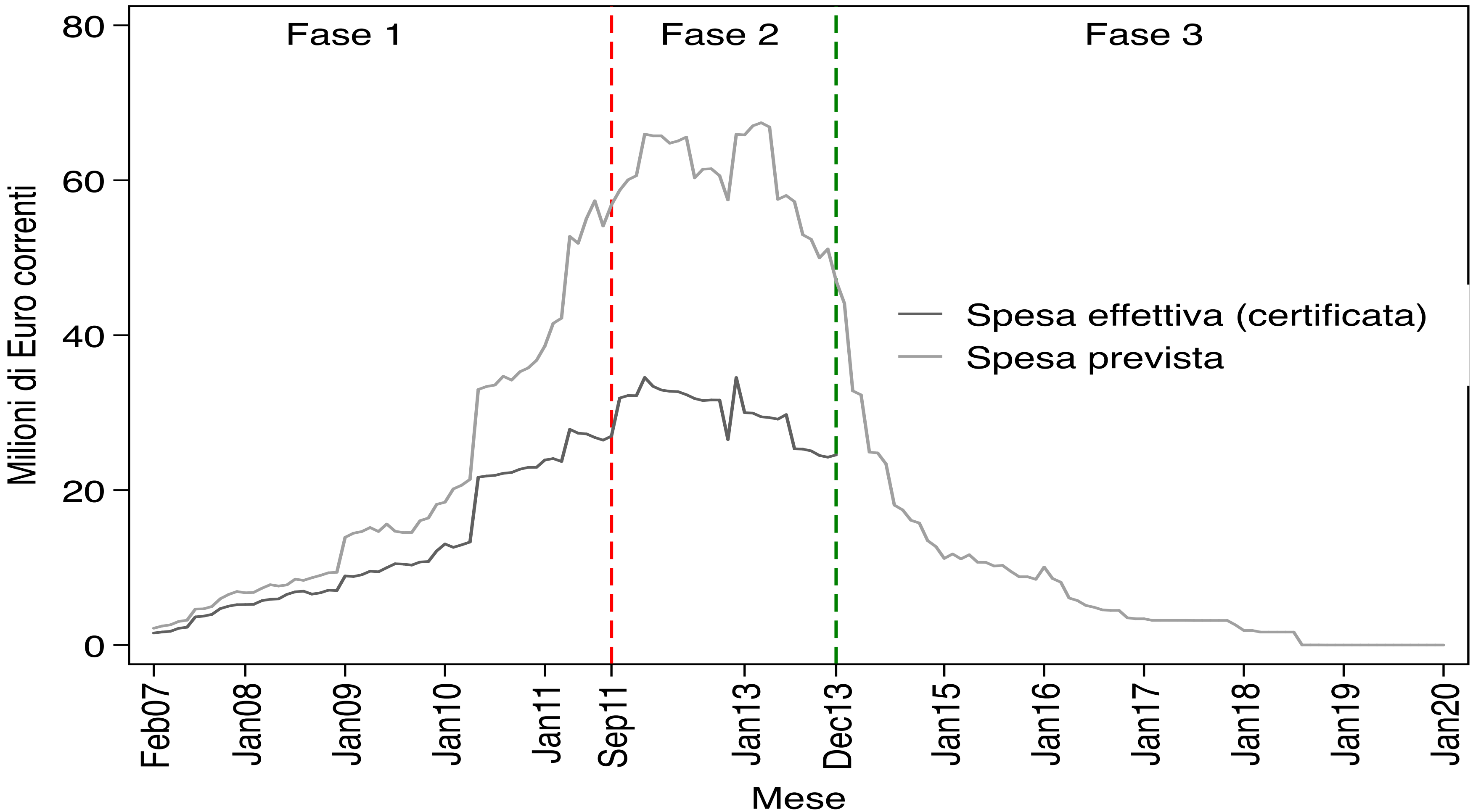
- 65% of public works show both delays and cost increases
- 80% of savings due to auction rebates is lost at the end of the execution phase

- Inefficient procedures
- Low planning skills of small public buyers
- Inefficient courts

- Limited short-run economic effects of public works
- Possible pro-cyclical effects of investment expenditure
- Collective demand for public infrastructures is met with significant delay -> slow economic recovery

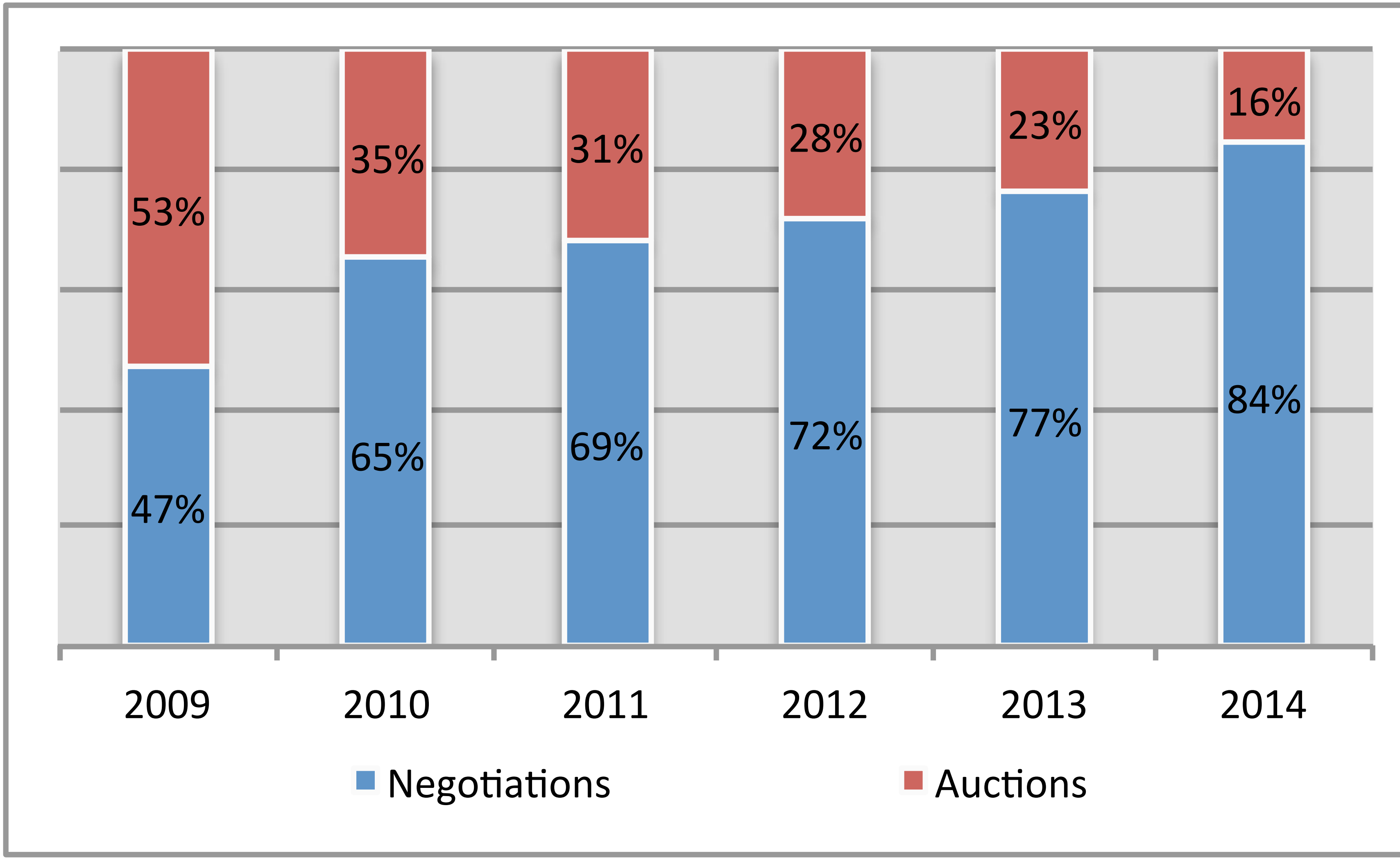
(In)Efficiency in the Market of Public Procurement.

Public works, actual and on-time expenditure. Tuscany, 2009-2014.



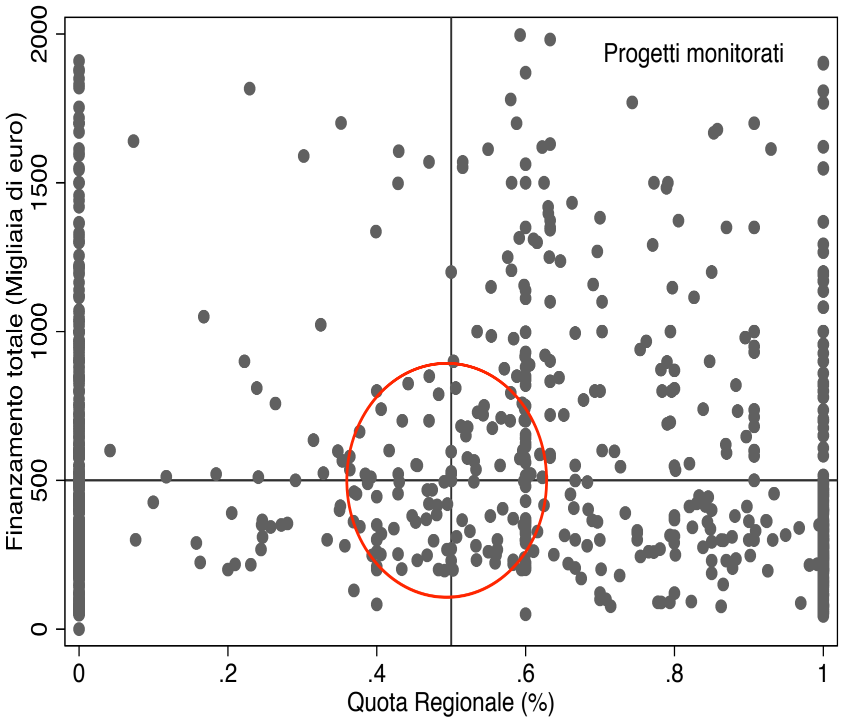
(In)Efficiency in the Market of Public Procurement.

Public works by awarding procedure. Tuscany, 2009-2014. %.

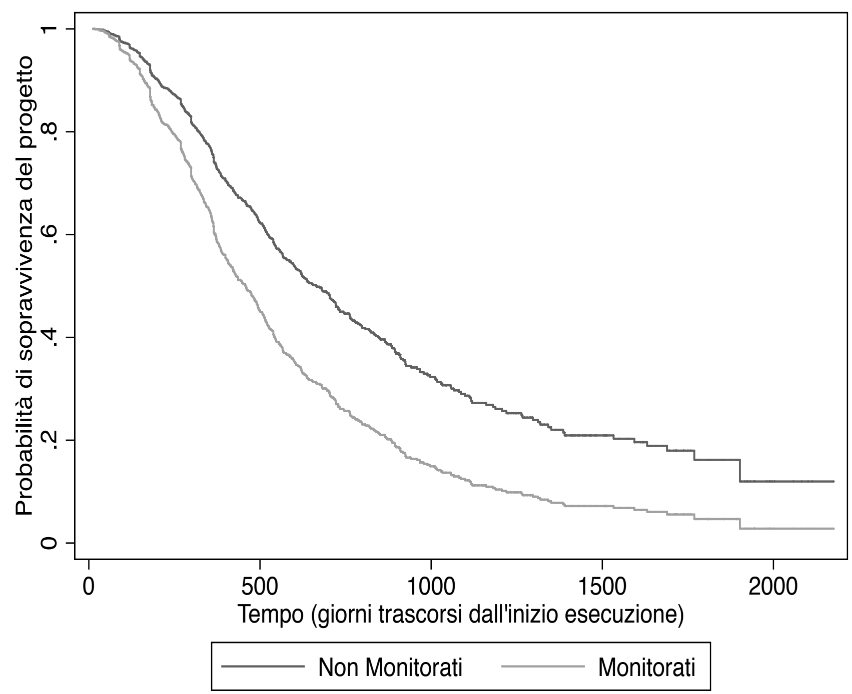


Monitoring of public works. Tuscany's Regional Law 35/2011

Distibution of public work projects along the financial dimension (Y) and regional financial contribution dimension (X).



Estimated survival functions for monitored and non monitored public works



- The active monitoring result in an overall higher probability of conclusion for public works
- For a "standard" project this increase in probability amounts to 43%

Conclusions

- Investment has significantly fallen during the economic crisis
- Empirical literature is still not conclusive on whether public investment increases productivity and medium run growth. However, the current economic agenda in Europe is firmly pointing at investment as a way to kick-start growth and sustain it over time.
- Mainly due to the existing budget constraints, this is intended as a measure aiming at strengthening the economic system's risk-bearing capacity in order to re-launch private investment

- Whether or not the Junker Investment Plan will be successful, in Italy, a comparatively large part of public investment is undertaken by local governments
- This investment, made by small and medium size projects, is essentials for maintaining the appropriate level of infrastructural capital stock at the territorial level and are unlikely to be the target of the Junker Plan
- This investment has sharply decreased during the crisis

Conclusions

- The financial constraints deriving from the Internal Stability Pact have played a predominant role in this process, and the lowest level of government have carried a large part of the burden of aggregate national debt recovery
- This trend is likely to be confirmed in the next future
- This is not necessarily bad news, since, in principle,
  - may discourage the selection of low-impact projects
  - may push LGs to find new financial sources in the private market, thereby also improving efficiency in the construction and management of the new infrastructures
  - may foster horizontal institutional cooperation
- Apart from financial constraints, structural inefficiencies have played a significant role:
  - a fragmented institutional framework accompanied by fuzzy and to-date largely uneffective institutional reforms have reduced the LGs ability to plan and implement cross-boundary infrastructures
  - An ineffecient public procurement market (also favouring inefficient (and relatively small) firms)