

Calculating coalitions

The politics of federal funding in Italy

- Central governments in democracies can be accused of strategically using regional funding to promote their own political self-interest.
- It can be especially difficult to trace this in federal systems with multiple parties and coalition governments that legitimately use central grants to fund regional spending.
- Dr Monica Auteri at the University of Roma Tre and Dr Alessandro Cattel at the Rome Business School analysed Italy's National Health Fund to reveal if it had been used for political gain and what tactics were at play.

In democracies, there's always the risk that a central government might use its spending powers for purely party-political interests rather than making best use of the national budget to benefit the country at large. The regional nature of democratic elections for national as well as local governments makes regionally targeted spending bias a common risk.

This practice can be particularly potent in a federal system, where central and regional governments have their own tax-gathering powers and spending responsibilities. In most federal systems, central governments use a proportion of the national budget to fund some regional government policies. These intergovernmental grants are negotiated

between the centre and regions. The process is obviously at risk from political manipulation.

This provided Dr Monica Auteri at the University of Roma Tre and Dr Alessandro Cattel at the Rome Business School with the opportunity to identify and understand any political interest calculations behind the allocation of intergovernmental grants in Italy, a multi-party federal democracy.

Identifying political interests

Academic research and general opinion about political interests tend to favour one of two tactics. The centre may channel funds in a partisan manner to regional governments controlled by politically aligned parties – rewarding core supporters. Alternatively, the central government might practise more opportunistic politics, using central funding to attract pragmatic support from unaligned groups with no strong allegiance ('swing' parties or voters).

There is also a more nuanced factor at play in multi-party systems – the number of party alliances needed to maintain a majority governing bloc. Governments may be formed by a cohesive, small group of like-minded parties, or there may be a large, disparate ruling coalition where one or more parties are in the bloc for pragmatic reasons.

Academics view this distinction between a small, stable group and a wider, potentially unstable alliance as degrees of 'fragmentation'. A fragmented regional government is more likely to have one or more pragmatic partners who are quite likely to trade cooperation with central government policy preferences in exchange for funding favours. The extent of these influences and their potential interplay had not been tested until Auteri and Cattel's research.

The Italian politics of health

The team chose to examine whether political motives determined the allocation of health

grants to Italian regions over a ten-year period (2001–2011) and to identify which motives were at work.

Italy is an ideal choice for a study of political distortion in central government funding of regions. There are multiple political parties that need to form coalitions to hold control, and the same choice of parties exists at both the national and regional levels. This makes any favour in funding distribution relatively clear to trace.

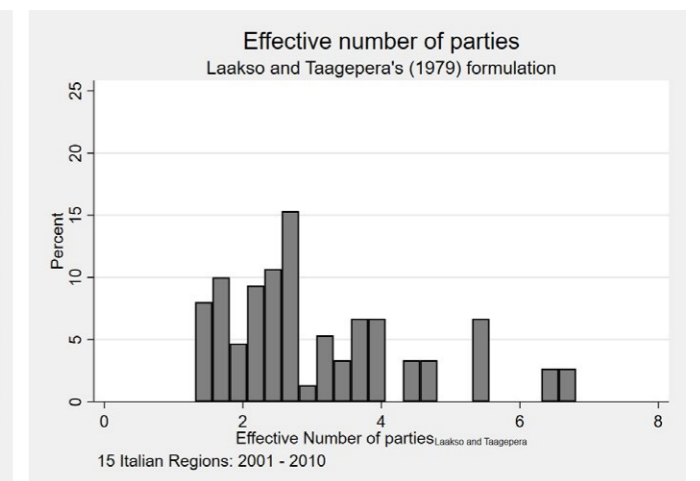
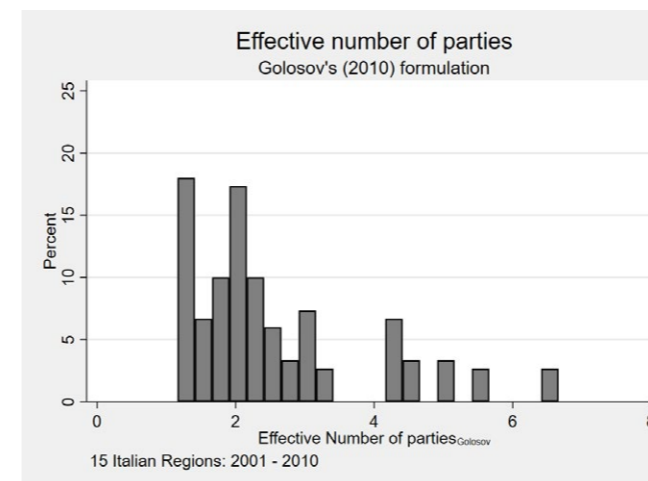
Health grants provide an excellent funding trail because they are both economically and politically potent instruments. The National Health Fund is a major consumer of the

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national budget's resources, and it counts for nearly two-thirds of all the centre's regional funding.

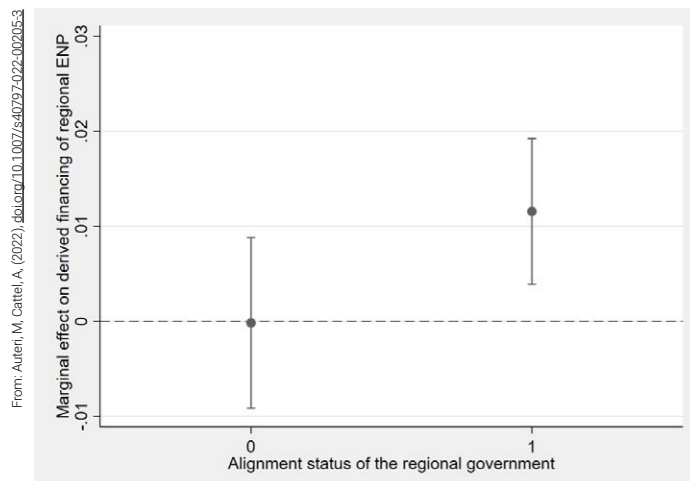
Healthcare is always a key issue in Italian elections. The size of regional funding is decided at the national level, but the regions are the spending authority. This means there is much negotiation between the centre and regions over health policy and spending needs.

There is also an explicit equalisation formula for funding between regions, so any manipulations of the formula to favour particular regions for party political reasons can be identified. Auteri and Cattel applied a range of statistical techniques to interrogate the public data for politically motivated funding patterns.

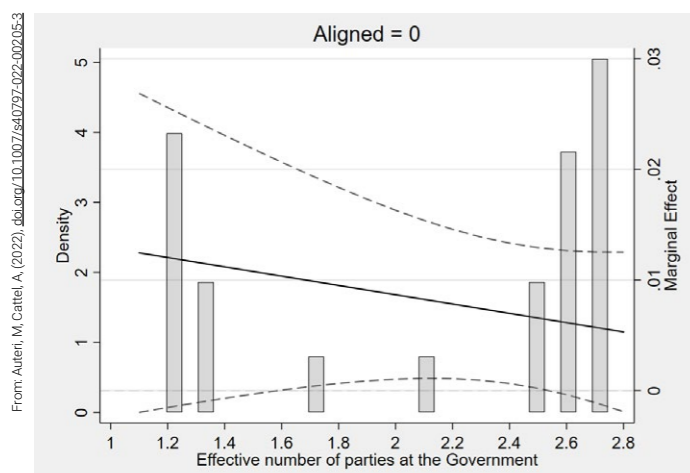
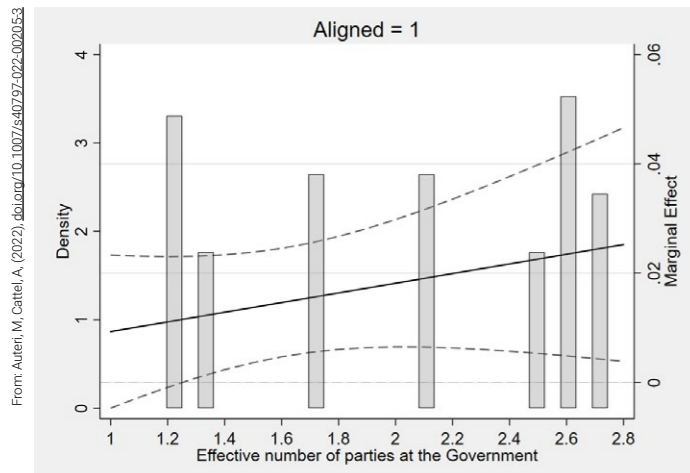


Frequency distribution of the 'Effective number of parties' in the regional majorities. Compared with Laakso and Taagepera's index (right), the Golosov index (left) offers a clearer distinction between more fragmented and concentrated political arenas.

From: Auteri, M., Cattel, A. (2022), *doi.org/10.1007/s40797-022-00205-3*



Impact of the effective number of parties on changes in healthcare grants conditioned on the alignment of regional government.



Impact of the effective number of parties in office on changes in healthcare grants conditional on the central government fragmentation and the alignment effect. Aligned = 1, when regional and national governments are supported by the same coalition (and zero otherwise). The solid line illustrates the overall conditional marginal effect, whereas the dashed lines trace out the 95% confidence interval.

The researchers concluded from this initial research that ‘in a multi-party system where seat control is fragmented, the distribution of benefits is an important means of attracting parties into the coalition and keeping them together.’

Shoring up shaky alliances

This pointed research to a deeper line of enquiry – to investigate whether central government grant awards favoured fragmented regional governments that also created coalitions politically aligned with the centre. Auteri and Cattel were looking for what they termed an ‘Aligned Fragmented Premium (AFP)’.

Further analysis revealed that funding was indeed weighted toward politically aligned regional governments where the majority bloc was held in place by a fragmented, potentially unstable coalition. Grant funding was biased in favour of supporting broad regional coalitions which chose to cooperate with the central government’s policy agenda when fragmentation (ie, the effective number of parties in the government and opposition coalitions after Golosov, 2010) is taken into account.

Auteri and Cattel examined the favoured coalitions’ level of instability by testing for the presence of swing parties that joined the ruling bloc for pragmatic reasons. They found strong evidence that these broad-based supportive coalition governments did tend to rely on swing parties to maintain their majority. The favourable funding treatment might well help to keep these fair-weather friends outside.

This is a new finding that adds an extra dimension to the academic literature on fiscal federalism. This is not pure partisan politics at work, the favouring of natural allies. It is a tactic to build or maintain an aligned coalition of disparate regional parties that might otherwise not work together to hold a majority.

This deeper line of enquiry also discovered that the central government was biased in favour of funding regions controlled by coalition parties whose president belonged to a party in the same bloc as the central government. Interestingly, this bias increases with the number of parties in the bloc – more evidence of an AFP premium.

All together now

The discovery of an AFP at the local level raises the question of whether this phenomenon might also be reflected at the national level. Does the number of parties that agree to come together in a central governing coalition also play a role in their choice of regional government funding?

Auteri and Cattel tested this idea and did indeed find that the greater the number of parties needed to form a central government, the greater the tendency for it to fund friendly but equally fragmented majority coalitions in the regions.

The discovery of this strong tendency in multi-party Italy for a central government tactic of attempting to cement broad, potentially unstable allied majorities rather than reward stable allies adds an extra dimension to the academic literature on fiscal federalism. This is not simple partisan politics at work. It is a practice to maintain an aligned ruling coalition from numerous disparate parties that might otherwise not hold together.

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Personal response

What inspired you to conduct this research?

The economic disparity between the northern and southern regions of Italy has long been a cause for concern. Against this background, the distribution of resources in the complex world of multilevel governance is even more crucial for equitable development and effective governance. Because of its unique characteristics and potential impact on regional imbalances, the Italian system of regional resource allocation has attracted my attention as a prospective researcher.

Although this decentralised system strengthens regional autonomy and decision-making, it also raises the question of how resources are really distributed among the different regions, especially in the case of healthcare, which is allocated according to a quasi-formula. Examining this question will shed light on whether the distribution of resources is equitable or guided by tactical considerations that favour the parties in power. Finding out how funds are distributed will help determine whether or not these inequities are being adequately addressed.

You have found a pattern of bias in National Health Fund distributions. As the NHF is presumably a stock of funds, it follows that some regions receive less than their formulaic ‘fair share’. Do you know or suspect whether there is any pattern of negative discrimination?

Yes, our point is that grants based on quasi-formulas do not eliminate the arbitrariness that politically motivated targeting allows.

Although healthcare grants are officially described as rules-based, the way they are allocated seems to be rather quasi-discretionary, as much political bargaining is involved, both because the weighted capitation formula changes from year to year after negotiations between the regions and the centre, and because the formula itself leaves some room for interpretation.

Does the Italian healthcare system suffer because of politically motivated central funding, or does the tendency to encourage policy alignment across the regions perhaps create a more unified, coherent national service?

Although the Italian healthcare system is undergoing a profound transformation to create a more equitable and efficient system, it appears that politicians have once again found a way to put their own interests first and allocate resources accordingly, using the mechanism of resource allocation through a quasi-formula.

Are there any research studies from across the world that complement your own research?

Our results are consistent with the hypotheses although not with the results of Arulampalam et al (2009). Using data for 14 states from 1974/75 to 1996/97, Arulampalam et al predict that upper-tier governments allocate more resources to lower-tier governments that are both aligned and relatively more swing (ie, lower-tier governments in which the upper-tier ruling party faces greater political competition).

Details



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Bio

Monica Auteri is an associate professor of economics at the Department of Political Sciences, University of Roma Tre. She holds a PhD in economics, mathematical and statistical analysis from Sapienza Università di Roma, and a Masters and PhD in economics from George Mason University, USA. Her research interests lie at the intersection of political economy, public choice and the political economy of healthcare.

Alessandro Cattel holds a PhD in economics from Sapienza Università di Roma. His is adjunct professor at the Rome Business School.

Further reading

- Ali, AM, Savoia, A, (2023) [Decentralisation or patronage: What determines government’s allocation of development spending in a unitary country? Evidence from Bangladesh](#), *European Journal of Political Economy*, 78, 102385.
- Auteri, M, Cattel, A, (2022) [Political Fragmentation and Coalition Alignment effects: Evidence from health transfers to Italian Regions](#), *Italian Economic Journal*.
- Golosov, GV, (2010) The effective number of parties: a new approach, *Party Politics*, 16(2), 171–192. [dx.doi.org/10.1177/1354068809339538](https://doi.org/10.1177/1354068809339538)
- Arulampalam, W, Dasgupta, S, Dhillon, A, Dutta, B, (2009) [Electoral goals and center-state transfers: a theoretical model and empirical evidence from India](#), *Journal of Development Economics*, 88(1), 103–119.

