



Navigating fiscal federalism reforms: the unsuccessful cases of Italy and Spain

Navegando las reformas del federalismo fiscal: los casos fallidos de Italia y España

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ABSTRACT

Objectives: This paper investigates different reforms of fiscal federalism in Italy and Spain, to assess their successful or unsuccessful nature by using a comparative framework across four dimensions: programmatic success, process success, endurance success, and political success. The objective is to evaluate how these reforms addressed inter-regional disparities and institutional challenges in two politically diverse and fragmented systems. **Methodology:** The analysis follows a structured approach, examining each reform's goals, implementation processes, longevity, and political outcomes. For Italy, the focus is on the shift from a state-transfer-based system to a tax-revenue-based model with standardizing equalization transfers, while Spain's case emphasizes the creation of mechanisms such as the Basic Public Services Guarantee Fund to enhance territorial equity. **Results:** The article shows that both reforms fell short of achieving their objectives. Italy's reform remains largely unimplemented, hindered by procedural complexities, economic crises, and a lack of political commitment, leading to a regression in decentralization and worsening territorial disparities. In Spain, despite partial progress in equalizing public service provision, political polarization and overlapping mechanisms diluted the reform's impact, while regional conflicts, notably Catalonia's demands, have further destabilized the model. **Conclusions:** The study concludes that achieving successful territorial reforms requires inclusive and transparent approaches that balance regional autonomy with national solidarity, emphasizing the need for durable political coalitions and trust-building among stakeholders.

KEYWORDS

Fiscal federalism; reforms; Italy; Spain; equalization; success.

RESUMEN

Objetivos: este artículo investiga diferentes reformas de federalismo fiscal en Italia y España para evaluar su éxito utilizando un marco comparativo en cuatro dimensiones: éxito programático, del proceso, de permanencia y éxito político. El objetivo es analizar cómo estas reformas abordaron las disparidades interregionales y los desafíos institucionales en dos sistemas políticamente diversos y fragmentados. **Metodología:** el análisis sigue un enfoque estructurado, examinando los objetivos, procesos de implementación, duración y resultados políticos de cada reforma. En el caso de Italia, se estudia el cambio de un sistema basado en transferencias estatales a uno basado en ingresos fiscales y la estandarización de transferencias igualitarias. Para España, se analiza la creación de mecanismos como el Fondo de Garantía de Servicios Públicos Fundamentales para mejorar la equidad territorial. **Resultados:** el artículo muestra que ambas reformas no alcanzaron plenamente sus objetivos. La reforma italiana sigue mayormente sin implementarse debido a complejidades procedimentales, crisis económicas y falta de compromiso político, lo que ha agravado las disparidades territoriales. En España, aunque hubo avances parciales en la provisión de servicios públicos, la polarización política y mecanismos solapados debilitaron el impacto, mientras los conflictos regionales, especialmente las demandas de Cataluña, han desestabilizado el modelo. **Conclusiones:** el estudio concluye que las reformas territoriales exitosas requieren enfoques innovadores, inclusivos y transparentes que equilibren la autonomía regional con la solidaridad nacional, destacando la importancia de coaliciones políticas duraderas y la construcción de confianza entre los actores involucrados.

PALABRAS CLAVE

Federalismo fiscal; reformas; Italia; España; nivelación; éxito.

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INTRODUCTION: FOCI OF THE COMPARATIVE ANALYSIS AGAINST THE CONCEPTUAL FRAMEWORK

This paper analyzes and compares the Italian and Spanish reforms of fiscal federalism, both approved in 2009. This is done following the four empirical dimensions of investigation presented and discussed in the conceptual note of this special issue as determinants (or constraints) of the success of territorial institutional reforms. These are: programmatic success, process success, endurance success, and political success.

To assess the programmatic success, the main objectives of the Italian and Spanish reforms of fiscal federalism will be explored, evaluating to what extent these have been achieved or missed through the reform process.

The process success is based on an examination of the procedures followed in the reform (or in the reform attempt in the Spanish case). This entails an investigation of the sources of law and the decision-making processes from the perspective of democratic legitimacy and territorial inclusiveness. To this extent, the role of the Parliaments vis-à-vis the Executives will be explored, also emphasizing the participation of subnational governments in decision-making.

The endurance success entails an assessment of the "survival of the reform" over time and changing circumstances, including an analysis of the reform from the perspective of its longevity, its resilience in the

face of changing political or economic conditions, and its ability to evolve incrementally without fundamental reversals. For the Italian case, this dimension is constrained by the non-implementation status, which will thus be the object of investigation under this section. For the Spanish case, the article focuses on the difficulties for achieving reforms, which have resulted in the prolonged endurance of previous and obsolete systems.

Finally, political success considers the levels of post-reform support from political actors over time, particularly in the implementation phase, as well as its ability to maintain support across changing political landscapes and contexts.

Each case study is therefore structured along the four above illustrated dimensions of analysis (sec. 2 and 3), with the conclusive paragraph (sec. 4) offering a comparative analysis to highlight differences and similarities between the two cases under scrutiny from the perspective of the “making of successful territorial reforms.

1. THE REFORM OF FISCAL FEDERALISM IN ITALY: A BRIEF IN-CONTEXT OVERVIEW

Over two decades ago, Italy approved one the most “federalizing” constitutional reform of the Western world. While various factors, including the country’s extensive diversity under numerous respects, prompted the initial phases of the decentralization process, the discourse post 2001 constitutional reform has been dominated by the financial dimension. Federalism has been downgraded to “fiscal federalism”, with political narratives considering it merely as a different scheme of territorial funding, ultimately leading to a significant reduction in regional political autonomy (Palermo and Valdesalici, 2014, pp. 180 and ff.).

More than twenty years later, despite slow advances, the implementation process is still in progress and the reform remains largely unrealized. Consequently, it is not surprising that many have posited that “federalism (or rather regionalism) is dead”. For the more optimistic, fiscal federalism is midstream in a ford (Piperno, 2015). When it will emerge is still uncertain.

Against this background, this section explores the main features of the “(un-)successful” reform of fiscal federalism in Italy along the four main dimensions of success illustrated above. Accordingly, the analysis starts by illustrating the main objectives of the reform (1.1), then moves on to the sources of law and the decision-making process that led to the reform’s approval and its overly partial implementation, focusing on the role of Parliament vis-à-vis Executive and the measure of territorial participation (1.2). Subsequently, the focus shifts to the (still very partial) reform implementation, exploring the major determinants that have led to its ongoing stalemate (1.3). Finally, the politics behind the reform (stalemate) is explored as one of the key determinants of the unsuccessful reform of fiscal federalism in Italy.

As the reform is limited to ordinary regions, the analysis applies only to their financial systems and their financial relations with the central government. The financial regimes of special regions are not examined.

1.1. Main Objectives of the “Fiscal Federalism” Reform

Before 2001 the system of subnational financing relied mainly on transfers from the central government, which mostly came with strings attached and were established on a yearly basis, precluding any long-term fiscal planning by subnational governments. Concurrently, Italian regions were gradually endowed with significant competences, predominantly of administrative nature, and consequently, with substantial spending responsibilities (Tucciarelli, 2023, pp. 44 and ff.).

Major criticism herein lies in the absence of fiscal accountability among subnational governments. The previous system not only led to a considerable vertical fiscal imbalance, but it also failed to make territorial entities accountable for their decisions, causing over time also a proliferation of administrative structures and expenses (Antonini, 2009).

It is not by chance that the main goal of the System-To Be after the reform is to make territorial entities financially and politically accountable in front of their territorial community. To pursue this, the new system should have been based on two main pillars: (1) the fiscalization of subnational revenues; and (2) the standardization of equalization transfers.

According to art. 119 of the ItConst., territorial entities are granted financial autonomy both on revenue and spending. On the one hand, they shall finance themselves primarily through tax revenue linked to their fiscal capacity. This includes own-tax sources and shared taxes (art. 119.3). On the other hand, the only other source of funding shall consist of non-earmarked transfers from an equalization fund. Specific-purpose grants can be reserved for single entities only against extraordinary circumstances (art. 119.5).

The new constitutional principles have remained on paper for eight years (2001-2009) and the model of State grants has been *de facto* confirmed. Only in 2009, framework law no. 42/2009 has been adopted, providing for a new order of intergovernmental financial relations. The law innovates the subnational financing scheme with the aim of fostering territorial accountability and boosting democratic control (Antonini, 2013, p. 41). This is done essentially recurring to the two main pillars mentioned above.

The recognition to the subnational entities of enhanced autonomy, especially on the revenue side, is one of these. One of the main pillars of the reform consists in fact in the disabling of the "State-transfer-based" system in favor of a "tax-revenue-based" model. The latter is meant to realize the so-called "fiscalization of subnational revenues", i.e., regions (and local authorities) shall finance themselves with own taxes or shares of central state tax-revenues linked to their territory (i.e., tax revenue sharing schemes).

The second pillar consists of a paradigm shift in the equalization mechanism. The law prescribes the gradual dismantling of the current funding scheme, which grounds the transfers on the resources spent in the previous financial year (historic spending). A set of criteria (so-called standard costs and needs) linked to pre-defined benchmarks as well as generally applied and neutral indicators should be introduced in its place, with the aim to standardize territorial financing and foster efficiency and accountability (Antonini, 2009, p. 7). The rationale thereof is that in a system based on historical expenditure also inefficiencies are financed, whereas with the new parameter, if an entity spends more than it should to cover a given function, it is required to face the extra costs by tapping into its own citizens through taxation. In other words, standard needs represent the financial needs of a territorial entity under efficiency conditions, i.e., calculated basing on its territorial characteristics and the socio-demographic features of its population. Therefore, the costs associated with poor administration shall be excluded from the calculation.

1.2. The making of the reform: sources of law and decision-making procedures from the perspective of democratic legitimacy and territorial inclusiveness

The stalemate in the implementation of the new financial constitution was unavoidable in the absence of implementing regulations, considering the open nature of the constitutional provisions, limited to a few general principles (Parolari, 2018, pp. 24 and ff.). These include art. 119, the key provision, and some clauses of arts. 117 and 118, whose relevance is limited to the pertinent provisions dictating the allocation of legislative and administrative authority in fiscal and financial matters.

Only in 2009 did the national Parliament adopt Law no. 42/2009, which, being a delegation law, is however limited to setting principles and guiding criteria that shall regulate the new financial regime of subnational and local governments. The authority to implement the constitutional rules is thus transferred from the Parliament to the Executive. The latter was entrusted with the complete regulation of the matter through the adoption of a series of legislative decrees over a two-year period. Given the vagueness of the constitutional framework and the excessive breadth of the legislative delegation by law 42/2009 (Morrone, 2008, p. 1485 and ff.; Rivosecchi, 2010, pp. 1 and ff.; *contra* Bertolissi, 2008, pp. 89-108), the task of "making the reform" has been entrusted exclusively to the national Executive, relegating to the background the representative institutions of both the people and the territorial autonomies; the latter moreover lacking adequate institutional venues for involvement in the decision-making process at the national level due to the absence of a representative second chamber (De Martin and Rivosecchi, 2009, pp. 1 and ff; Scuto, 2010, pp. 72 and ff.; Gori, 2010, pp. 57 and ff.).

From this viewpoint, Law 42/2009 represents a further drift of the system towards "majority reforms", that is, reforms carried out through the disempowerment of the Parliament and the simultaneous strengthening of the Executive. The result is the "substantial dismissal of the Parliament as the place of decision-making and formation of public opinion (Bifulco, 2009)", as its involvement is merely formal and limited to a consultative, not binding, role through the parliamentary or technical bodies whose establishment is prescribed by law 42/2009 itself.

At the same time, Law 42/2009 established a procedure for the adoption of such decrees characterized by extreme complexity. This could have worked as a guarantee but turned out to be one of the obstacles to the completion of the reform (the other being –as it will be thoroughly illustrated below under sec. 1.4.– the lack of strong political support). First, the involvement of a plurality of ad hoc established bodies is foreseen, which –among others– aims to not completely exclude in the procedure for adopting the enactment decrees the Parliament and the territorial autonomies, in the absence of a federal second chamber and truly functioning intergovernmental fora. Among these are:

1. the Joint Technical Commission for the Implementation of Fiscal Federalism, a body composed of technical “representatives” half from the State and half from the territorial autonomies, with the task of collecting information and assisting the Executive in the preparation of the implementing decrees (*de facto* providing for their elaboration);
2. the Permanent Conference for the Coordination of Public Finance, also made up of “representatives” of the autonomies, with the task of monitoring equalization flows, verifying the use of special funds, defining public finance objectives for each level of government, and establishing a database containing cost and quality indicators of services.

It should be noted, however, that the effective involvement of territorial entities has been weak at best. The approval process of the decrees requires prior consensus with territorial entities, also within the Unified Conference. Yet there are no repercussions linked to unsuccessful negotiations.

Furthermore, the next phase in the decree adoption process requires the acquisition of the parliamentary opinions expressed within the Bicameral Commission for the Implementation of Fiscal Federalism, a body composed of 15 senators and an equal number of deputies, assisted by a Committee of representatives of territorial autonomies composed of 12 members (6 from the Regions, 2 from the Provinces, 4 from the Municipalities), which once again exercise a merely consultative function (Parolari and Valdesalici, 2011, pp. 71 and ff.). The Commission is in fact vested with task of expressing opinions on the drafts of enactment decrees, as well as verifying the state of implementation of the reform (reporting to the Chambers).

Due to the complexity of the procedure for adopting the enactment decrees, the process has taken a long time, making the actual implementation of the reform a difficult objective to achieve. Furthermore, this affected the prescriptive force of the enactment decrees which is overall weak, to the extent that they have turned out to be inadequate for the purpose. Most of the regulations are not self-executing: they either mandate additional integration by means of administrative rules, or they simply postpone the definition of essential aspects. In other words, the Executive failed in effectively coordinating the adopted measures, and they turned out to be rather inadequate in reorganizing the system in a comprehensive and rational way (Valdesalici, 2021, pp. 87-88). Furthermore, in some cases changes were approved to the measures even before they had the chance to be implemented or enter into force. During Mr. Monti’s Government, for instance, a decree was adopted that changes the rules of the municipal real-estate tax (IMU). The tax should have become operational in 2014 but was anticipated to 2012 and its revenue, originally foreseen exclusively for the municipalities, was transferred to 50 per cent to the State, to counter financial emergency.

1.3. The chronic non-implementation status and the determinants thereof

Both Law 42/2009 and the enactment decrees thereof turned out to be rather ineffective in giving implementation to the new constitutional rules, to the extent that, after 23 years from the constitutional reform and 15 years from the start of its implementation, the fiscal federalism reform is still a work in progress, or rather stuck with little chances of success. The two pillars of the new system, and particularly the new equalization system, have been largely mistreated, causing further postponement of their regulation and, most importantly, of their implementation.

As to the first pillar, i.e., the fiscalization of subnational revenues, the most significant change in revenue autonomy concerns the mandate to abolish all central transfers, except for non-earmarked equalization transfers and specific-purpose-grants. Despite linking regional financing to the tax revenue generated from the territory of reference (adjusted through equalization transfers for entities with lower fiscal capacity), no other major transformation has been introduced. To the extent that even with the new funding scheme, territorial entities retain most of the tax-revenue they had under the previous system (Muraro, 2011). Regional taxes can be divided into three categories: devolved taxes, regional surtaxes, and own taxes. Own taxes of the regions are few and yield marginal revenue, while the State holds the power to set and levy the most lucrative taxes (Buglione and Jorio, 2010). The major sources of regional revenue include the (devolved) tax on business (IRAP) and the regional surtax on Individual Income Tax (IRPEF). Regions may vary the IRAP tax rate and reduce it to zero, if they do not run a healthcare deficit. The IRPEF consists of a basic rate plus an optional rate within limits.

The persistent non-implementation of the 2009 reform and the freezing by the national government of regional powers to apply surtaxes or vary rates have been decisive in this respect. Also, the established constitutional case-law has significantly curtailed regional autonomy in tax matters. The regional power to

levy taxes can only be exercised in accordance with financial and fiscal coordination principles laid down by the national legislator. Not only the constitutional Court has endorsed a broad interpretation of the national government authority to establish the fundamental principles of coordination of the tax system (art. 117.2 lit. X), but the use made of this power by the central authority has widely constrained the regional space in tax matters.

Furthermore, to achieve the goal of “fiscalization of regional revenues”, it would have been necessary (at least) to replace the existing central transfers with non-earmarked tax revenue sources, eventually including equalization transfers. This trajectory has been interrupted several times due to, among others, fiscal stresses (e.g., the 2008 financial crisis, the 2020 COVID-19 pandemic), or allegedly technical issues linked to the territorialization of tax-revenue sharing scheme (i.e., VAT), for which it is not always straightforward to identify the criterion that values the place of origin of the revenue. The case of IRAP is another emblematic example. It has been repeatedly emptied by the national legislature, and finally replaced with VAT revenue-sharing, with the inconvenience that regions have no tax varying power on the latter. As such, the fiscal room of maneuver at the regional level has been further reduced (Corte dei Conti, 2024, p. 16).

As to the second pillar of the reform, i.e., the new equalization system, one key factor is the lack of definition of the essential levels of services (LEPs). Regional resources, eventually supplemented by equalizing transfers for poorer regions, should in fact cover the LEPs, which are meant as a guarantee of access to an uniform standard of services throughout the entire country to secure the protection of civil and social rights (e.g., in the field of healthcare, education, and social assistance). It is the responsibility of the national government to define the LEPs (art. 117.2 lit. m Const.), and their costs should be fully covered by means of regional tax revenues and equalization transfers. The latter taking standard costs and needs as parameters.

The new equalization scheme shall in fact be based on a new equalization funding parameter based on a set of criteria linked to predefined benchmarks (“standard costs”), and to generally applied and neutral indicators, used to determine the “standard needs”. The “historical spending” criterion (based on the resources spent in the previous fiscal year) should have been abandoned. This new approach shall ensure comprehensive coverage of essential public services at the regional level, based on efficiency conditions. For all other (non-essential) regional functions, the new solidarity mechanism shall ensure only partial (75%) equalization based on per capita fiscal capacity. The implementation of both equalization schemes is however pending, with the previous “transfer-based” system largely still in force. Earmarked transfers also remain numerous.

The fragmentation and incompleteness of the implementing legislation have contributed to this result, but the determining factor of such unsuccessful reform process lies in the systematic postponement of its implementation, which can mainly be attributed to the responsibility of national government. When it comes to regional functions, neither standard costs and needs have been calculated (this is currently postponed to 2027), nor has the national government fully determined the essential levels of services, with partial exceptions in healthcare (Bordignon and Ambrosanio, 2020, pp. 162 and ff.).

Several other factors have contributed to the continued delay of the reform enforcement. The economic crisis and subsequent austerity measures diverted attention and above all resources away from implementing the reform. The central government’s focus shifted to stabilizing public finances and complying with EU obligations, leading from 2010 to 2013 to the enactment of austerity measures that further constrained sub-national governments’ budgets and autonomy. The constitutional amendment in 2012, which enshrined the principle of a balanced budget, challenged financial autonomy further on (Salerno, 2012, pp. 580 and ff.). On top of all these factors, the lack of a clear and consistent political commitment to federalism is a key determinant in this sense (see below section 2d).

Moreover, since the definition of the essential levels of (regional) services is still an incomplete process, it is not yet possible to proceed with the calculation of standard needs, considering that these are the result of the application of standard costs to such levels of services. Not to mention that the services on which the established LEPs will impact mainly include competences and therefore financing responsibilities of multiple levels of government (Corte dei Conti, 2024, pp. 15 and 21). Also, the transition to the standard needs’ criterion might require additional funding to cover the recognized essential levels, in regions where historical expenditure is lower than standard costs. At the same time, the constitutional Court has stigmatized the central government’s delay in defining LEPs, emphasizing the need to ensure a non-reducible core of guarantees for fundamental rights (e.g., judges. no. 220/2021 and no. 275/2016).

The 2023 Budget Law prescribes a procedure to speed up the approval of LEPs, aimed at “setting the stage” for granting ordinary regions those special forms and conditions of autonomy foreseen by art. 116.3 of the Constitution (i.e., differentiated autonomy). A Steering Committee for the determination of LEPs has

been established¹, backed by the Technical Commission for Standard Needs. Despite a few and remarkable progresses, anyhow, the actual identification of LEPs is yet to be completed and it is unlikely to be completed within the timeframe provided by the law. In the meantime, in fact, the national Parliament approved law no. 86/2024, which is meant to define the trajectories of differentiated autonomy. However, the law has awakened deep discontent not only from opposition parties but also from some regions due to the fear that its implementation could further exacerbate territorial disparities within country. The constitutional Court has been called to address the issue of constitutionality with reference to various provisions of this law. Among these are the rules provided therein for the definition of the LEPs. According to the Court (judgment no. 192/2024), the practice of systematic postponements must be interrupted once and for all, due to the urgent need to introduce the new equalization fund. At the same time, the methods prescribed for the determination of the LEPs are unconstitutional on multiple grounds. Among these, it should be noted that, although this is a delicate political choice in which equality and regional autonomy, rights and financial needs must be balanced, the Parliament has delegated this task to the government based on a "generic and inadequate delegation to guide the governmental exercise of legislative power", and for this reason, the related provision is judged as unconstitutional.

Apart from keeping differentiated autonomy further on hold, this appears as an additional obstacle not only to the determination of the LEPs but also to the effective implementation of the fiscal federalism reform, as well as to the overcoming of territorial disparities in the level of (key) services and to the guarantee of a fair and efficient allocation of resources linked to the National Recovery and Resilience Plan.

1.4. Politics behind the reform (stalemate)

The political dynamics of Italian regionalism in recent decades are extremely difficult to trace; moreover, the political class itself does not seem to have a unified vision on the matter. An ambivalent approach prevails, primarily due to the lack of a common vision, a widespread political consensus on this issue, and a genuine federalist culture (Pallaver and Brunazzo, 2017, pp. 149 and ff).

The implementation of 2001 constitutional reform, which aimed to establish a (quasi-)federal system, has faced significant political challenges. Right after its approval, the center-right coalition led by Silvio Berlusconi showed little interest in finalizing the reform passed by its predecessor. It was not until 2003 and 2005 that some by-laws were enacted to implement parts of the 2001 constitutional reform. However, financial relations remained unsettled, leading to legal disputes and intergovernmental conflicts, with the constitutional Court pressing the national government to effectively implement art. 119.

In 2008, Berlusconi's fourth government announced plans for a comprehensive federal reform, with strong support from the Northern League. Although this reform never materialized due to the economic crisis, the process to implement art. 119 of the Constitution finally started with the adoption of framework law no. 42 in 2009.

The Northern League has been the primary political force advocating for fiscal federalism. Initially, the party's agenda included more radical proposals such as secession, but over time it shifted to more moderate positions, advocating for enhanced regional powers within a federal state (Palermo and Wilson, 2013). The party's influence peaked during Berlusconi's fourth government, which saw the establishment of a ministry for federalism reforms (Alber and Valdesalici, 2023, p. 259).

This notwithstanding the Italian political landscape has been marked over time by ambivalence towards federalism. While all major parties formally supported decentralization until 2009, the deepening economic crisis led to a shift in priorities, with major strength following the constitutionalizing of the principle of balanced budget in 2012. Federalism disappeared from political agendas, and regions were increasingly portrayed as inefficient spenders. This shift was evident in the politics of subsequent national governments, which focused on recentralization and fiscal discipline (Palermo and Valdesalici, 2014, pp. 188 and ff.).

Over time the lack of a clear and consistent political commitment to federalism has emerged more and more. The same Northern League was founded with the aim to strengthen the Northern part of the country by federalizing Italy, but later its "manifesto", including its name (Lega for Salvini Premier, hereinafter Lega) has been changed under the leadership of Matteo Salvini. Mr. Salvini prompted a radical change in the party

¹ This is chaired by the President of the Council of Ministers and is composed of Ministers competent in the matters at issue, and one representative each for regions, provinces, and municipalities.

ideology, expanding the geographical focus from the Northern part to the entire Country, including, among other things, a blame shifting from “meridionali” to immigrants, from the national to the European government. Not surprisingly, the focus of his political narratives has moved on immigration, identity issues, and law and order, diluting its federalist stance (Albertazzi *et al.*, 2018, pp. 650-651). In this regard, manifestations of discontent within the party exist, especially from the most prominent regional leaders (first among them Luca Zaia, president of the Veneto region), which still push the focus on the need to grant more autonomy to Northern (and wealthier) regions. This gives rise to the coexistence of two souls within the same party, partially in opposition to each other.

The recent approval of the law on differentiated autonomy (law no. 86/2024), named after Roberto Calderoli currently Minister for Regional Affairs and Autonomies, could be read as a way out of this impasse, as it allows regions to bilaterally negotiate additional autonomy. The law gives implementation to art. 116.3 of the Constitution. The provision allows ordinary regions to negotiate with the central government additional forms of autonomy in specific areas of concurrent State-region legislation, such as health and education, and in certain areas under the State’s exclusive authority, like environmental protection and cultural heritage.

The push for the enactment of this law has been driven by a few well-off regions like Lombardy, Veneto, and Piedmont, the first two governed by the Northern League. The law is meant to overcome the prolonged stalemate in Italian regionalism; however, it is not likely to resolve the impasse as significant challenges remain to be addressed. The law on differentiated autonomy includes an extensive list of transferable matters, but the actual transfer is conditioned on the prior determination of the corresponding “essential levels of services” (LEPs), which have been delayed for many years. It also requires determining standard costs and needs, a process that will take considerable time and brings also the risk of higher costs that might be unaffordable in times of emerging financial constraints from the EU. On top of that, the law prescribes that transferring additional functions to regions shall not compromise resources allocated to other regions, but the European Commission warns that this reform could increase regional inequalities and institutional complexity. Furthermore, as mentioned above, the constitutional Court’s judgement on several provisions of this law has added to the uncertainty of the process. Key provisions, such as the ones related to the procedure for determining and updating the LEPs, have been declared unconstitutional.

While emphasizing the urgency of implementing the fiscal federalism reform, the Court indeed reopens several key issues that will need to be rediscussed by the Parliament. This further delays the chances of actual implementation not only of differentiated autonomy but also of fiscal federalism, as both reforms are conditioned upon the prior determination of LEPs and standard costs. This holds especially considering the swinging political support behind law no. 89/2024 particularly from center-left parties but also within the ruling coalition.

2. A HISTORY OF TERRITORIAL EQUALIZATION REFORMS IN SPAIN: FROM UNANIMITY TO CONFLICT IN THREE ACTS

The Spanish Constitution of 1978 not only had to consolidate the process of transition from dictatorship to democracy, but it also had to respond to the demands for self-government in different territories, especially in Catalonia and the Basque Country. In this line, the constituent opted for a two-speed asymmetrical model similar to that of Italian regionalism in which some territories –initially the Basque Country, Catalonia and Galicia– would have a higher level of competences. The constitutional design of 1978 was limited to a series of procedural articles establishing the bases for access to autonomy, without regulating in detail central issues such as the competences assumed by the Autonomous Communities (ACs) or their financial regime beyond some basic rules and principles. These issues were referred to a subsequent legislative development either in the Statutes of Autonomy or in the Organic Law on the Financing of the Autonomous Communities (LOFCA)².

The case for decentralization to accommodate diversity is well established in the literature (Duchacek, 1987; Keating, 2001; Burgess, 2006). However, decentralization sometimes has a cost in terms of economic efficiency as divergences among territorial subunits lead to different financial capacities –e.g. some

² Ley Orgánica 8/1980, de 22 de septiembre, de Financiación de las Comunidades Autónomas.

regions are richer than others, have natural resources, etc.– and different costs when providing public services—due to geography, demographics or any other circumstances—. Equalization mechanisms are envisaged to bridge this gap and reduce disparities among subunits to achieve a certain degree of horizontal equity. Equalization can, thus, be described as a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost (Blöchliger *et al.*, 2007, p. 5). Therefore, the main objective of equalization is to –theoretically– allow subunits to provide a comparable level of services at similar levels of taxation. Consequently, as Boadway (2004, p. 212) puts it, equalization can be seen as a necessary counterpart to decentralization and unsurprisingly, equalization mechanisms can be found in most federal systems with the notable exceptions of the USA and Mexico (Watts, 2008, pp. 108-109). In other words, the more decentralized a tax system is, the bigger the need for equalization (Shah, 2017, p. 10).

2.1. The establishment of the model and its first reform: unanimity as the dominant feature

Aware of the possible negative externalities of decentralization, and of the conflicts that these can generate, the constituent included several references to territorial solidarity throughout the Constitution, outlining the principle of horizontal solidarity in art. 2 and developing it in its financial and economic dimension in art. 138. The latter mandates that "The State guarantees the effective application of the principle of solidarity [...] ensuring the establishment of a fair and adequate economic balance between the different areas of the Spanish territory". Following this mandate, art. 158 urges the legislator to adopt the different tools belonging to the category of "equalization mechanisms" by means of an allocation in the State budget to the Autonomous Communities so that they can guarantee a minimum level of basic public services throughout the Spanish territory.

Equalization was first introduced in Spain in 1986 through art. 13 of the LOFCA as an unconditional transfer aimed at compensating for spending needs, known as the Participation in State Revenues (PIE). The purpose of the PIE was to provide the Autonomous Communities under the common regime with sufficient financial resources to meet their spending needs. These needs were calculated on a five-year basis using various indicators, with population being the main variable, accounting for up to 94% of the total weighting in some of these five-year periods (Vilalta, 2016, p. 89).

This initial equalization model was characterized by asymmetry, as not all Autonomous Communities had the same level of competences, nor did they all benefit from the same ceded taxes (for example, Madrid had none when the model was first established). Despite this, all the Autonomous Communities were heavily dependent on equalization transfers, which became their primary source of income, as the ACs under the common regime had limited financial autonomy.

When the "slow-track" Autonomous Communities reformed their Statutes of Autonomy to achieve the highest possible level of competences, the resulting uniformity in the territorial model created a need to update the equalization system. This update aimed to reflect the new reality and eliminate its previously asymmetrical structure. Consequently, in 2001, LOFCA was amended, and the PIE was renamed the Sufficiency Fund. In the early 2000s, with a booming economy, territorial financing was not a source of conflict. In fact, the reform was unanimously approved by all ACs under the common regime –the Basque Country and Navarre, do not contribute to horizontal solidarity due to their foral regime– alongside the central government (Bandrés and Cuenca, 2016, pp. 176-177).

The Sufficiency Fund maintained the same logic as its predecessor, targeting the compensation of spending needs –which now also included health and education– with population used as the primary variable in the calculations. New features were introduced, including a guaranteed minimum allocation for each AC. In contrast to the previous system, the new model was designed as a closed system, where the spending needs of each Autonomous Community were fixed in the base year and not subject to future updates. As a result, the model was unable to respond to sudden changes in the economic circumstances of any given AC (Lasarte, 2003, pp. 101-103).

In programmatic terms, the introduction of the PIE achieved the objective of providing the Autonomous Communities with financial resources with which to finance their spending needs, taking the first steps towards guaranteeing the fiscal autonomy of the Autonomous Communities. The unanimity that forged the agreement reveals a success both in political and process terms. However, concerning endurance, although this was satisfactory in the first phase, the closure of the model with the reform of 2001 jeopardized its capacity to adapt to a changing economic reality.

2.2. The first conflict: the Statute of Autonomy of Catalonia as the guiding thread of the 2009 reform

After the 2001 model was implemented and the first results were published in 2005, it became evident that the equalization system had significant flaws, mainly due to its closed nature, and required substantial revisions (Ruiz-Huerta and Herrero Alcalde, 2008, pp. 154-158). In response, in 2008, the Spanish central government began a process of bilateral consultations with the Autonomous Communities to understand their demands and expectations for a new financing system. These discussions were geared towards ensuring that all citizens, regardless of their place of residence, would have equal access to essential public services. The negotiation process was, however, characterized by a lack of transparency. The documents used for calculations were not made public, and certain ACs, particularly Catalonia, played a dominant role due to the influence of its new Statute of Autonomy. Catalonia's Statute, especially art. 206.3³, partially limited the region's contributions to equalization, restricting them to funding essential public services like health, education, and social services. This led to some ACs, especially those governed by the Partido Popular (PP), expressing concerns that the new financing model was tailored to benefit Catalonia.

These political tensions became especially apparent during the negotiation process. While Catalonia pushed for reforms to decrease its contribution to the equalization system, PP-led ACs feared the new system unfairly favored wealthier regions, particularly Catalonia. This opposition was compounded by the fact that the PP had challenged Catalonia's new Statute in the Constitutional Court. Madrid, a key region under PP leadership, was particularly vocal in opposing the proposed model, with its finance minister accusing the system of privileging Catalans over Madrilenians.

The controversy that accompanied the reform process given the lack of transparency, mistrust among the actors, and partisan division call into question the success of the reform in political and process terms. In any case, a compromise was eventually reached after over a hundred meetings and three major proposals over the span of a year. The final agreement allowed the ACs to retain 25% of their revenue –an increase of five percentage points from the previous proposal– thus reducing their horizontal contributions to the equalization fund, a key demand of Catalonia. The agreement was ratified in the Fiscal and Financial Policy Council (CPFF), with the central government and eight ACs governed by the Partido Socialista voting in favor. Meanwhile, ACs under PP control (including Madrid, Valencia, and Galicia) abstained, though the PP-ruled autonomous city of Ceuta and the Canary Islands, led by a nationalist party in coalition with the PP, supported the agreement.

The 2009 reform marked a clear shift from previous models, reflecting increased politicization of the financing system and growing divisions along party lines. For the PP, the model had significant flaws, primarily because it favored wealthier regions and applied arbitrary criteria for horizontal solidarity. The party's unease was also fueled by the model's perceived alignment with Catalonia's demands, which the PP had already legally challenged. Internal divisions within the PP were evident, with some ACs under its control expressing outright opposition to the model, despite the party leadership's decision to abstain at the CPFF vote to maintain unity.

The 2009 financing system introduced a new structure based on four different funds⁴. The most significant of these is the Basic Public Services Guarantee Fund (FGSPF), which was designed to ensure that ACs with the same tax effort would receive equal adjusted per capita resources to meet their spending needs for essential services such as healthcare, education, and social services (Vilalta, 2016, pp. 94-99). The FGSPF operates primarily as a horizontal transfer system, whereby each AC contributes 75% of its potential fiscal revenue to the fund, with contributions varying based on each AC's fiscal capacity and spending needs (Zabalza, 2018, pp. 80-86). This ensures that wealthier territories contribute more, while the poorer receive more from the fund.

In addition to the horizontal FGSPF, there is also a vertical component, financed entirely by the central government, intended to support the overall sustainability of the welfare state (Herrero Alcalde, 2020, pp. 183-184). The FGSPF is updated annually to reflect changes in the ACs' fiscal capacities and other distribution

³ Art. 206.3 of the Statute of Autonomy of Catalonia stipulated that Catalonia's contributions to financial equalization were contingent upon other ACs making a comparable fiscal effort. However, the Constitutional Court ruled this provision unconstitutional, as it contravened the principle of financial autonomy established in art. 156 of the Constitution (STC 31/2010 FJ 134).

⁴ See Law 22/2009, de 18 de diciembre, por la que se regula el sistema de financiación de las Comunidades Autónomas de régimen común y Ciudades con Estatuto de Autonomía y se modifican determinadas normas tributarias.

factors. In practice, this system guarantees a minimum level of public goods and services across Spain by ensuring that all regions receive the same amount of funding per adjusted inhabitant (López Laborda, 2010, pp. 28-29).

The impact of the creation of the FGSPF in programmatic terms is debated. On the one hand, if the goal of the reform was to provide greater fiscal autonomy to the Autonomous Communities through ceded taxes, this autonomy remains limited since the State continues to hold most of the legislative power as well as almost exclusive management of these taxes (Bosch *et al.*, 2022, p. 240). Additionally, this autonomy is further constrained by the functioning of the FGSPF, as, despite being an unconditional transfer of revenue from transferred taxes, these very taxes are used as the basis for calculating the funds allocated to the Autonomous Communities to cover essential services. On the other hand, if the main objective of the reform is to ensure uniformity in the provision of educational or healthcare services, the reform has failed to do so, especially concerning health (Pemán Gavín, 2024) with cohesion being still low. Furthermore, this target should be achieved through the State's basic legislation, funded by the national budget rather than regional resources (Sáenz Royo, 2024, pp. 93-95). While this could be perceived as a recentralization, it should be an acceptable cost if it is determined that horizontal equity should take precedence over territorial autonomy (Cuenca, 2020).

The FGSPF is accompanied by three other equalization funds: the Global Sufficiency Fund, the Competitive Fund, and the Cooperation Fund. Unlike the FGSPF, which aims to reduce horizontal imbalances between regions, these additional funds were created largely for political reasons. The Global Sufficiency Fund (FSG) is a vertical transfer system, funded by the central government, that guarantees that no AC receives less funding than under the previous system, regardless of its financial needs (Castells, 2015, p. 212). The Competitive and Cooperation Funds were also introduced to promote fiscal autonomy and regional development, rather than territorial solidarity *per se*. These funds, entirely financed by the central government, aimed to promote competitiveness and address regional disparities, though their politically driven nature added complexity to the equalization system and hindered its redistributive effectiveness (López Laborda, 2014, pp. 151-152).

Although these reforms represented an attempt to address regional disparities, the introduction of multiple funds, particularly the FSG, complicated the system and created new distortions (De la Fuente, 2021, pp. 8-9). By guaranteeing that all ACs received more funding than before, the redistributive effects of the FGSPF were diluted, reducing the system's capacity to address horizontal imbalances (Vilalta, 2016, p. 101).

2.3. The (non) reform of the model: a never-ending story

2.3.1. Horizontal cooperation as a starting point

The 2009 model was supposed to be evaluated and renewed after five years. Law 22/2009 mandated this review to address any imbalances in the allocation of funds among Autonomous Communities. To avoid politicizing the issue, the 2017 Conferencia de Presidentes –Spain's main intergovernmental forum– created an expert panel to draft a reform proposal. The panel's discussions revealed wide-ranging differences among the ACs. The most divisive issue was the possible elimination of the "status-quo" clause embedded in the Global Sufficiency Fund, as some ACs feared losing funds. The political instability caused by the Catalan territorial crisis and repeated elections stalled the reform efforts.

In 2018, six ACs –Asturias, Aragón, Castilla and León, Castilla-La Mancha, Galicia, and La Rioja– launched an initiative urging the central government to begin the reform process. These ACs supported a multilateral approach, advocating for negotiations within the CPFF, the appropriate forum for such discussions⁵. This move was intended to prevent bilateral negotiations with Catalonia, which had boycotted the CPFF, fearing that she might seek special concessions through private negotiations with the central government. The group called for full equalization of all competences (rather than the partial equalization under the 2009 system) and proposed new variables to calculate spending needs, such as orography, population density, and aging. They also supported retaining the status-quo clause to ensure no AC lost financial resources due to the reform.

⁵ Declaración institucional conjunta de los gobiernos de Galicia, Asturias, La Rioja, Aragón, Castilla-La Mancha y Castilla y León sobre la reforma del sistema de financiación autonómica y de los fondos de la política de cohesión europea, Zaragoza, 10 September 2018, para. 1.b.

However, due to ongoing political instability –culminating in two general elections in 2019– the central government declined to address the reform at the time. The situation stabilized somewhat in January 2020 when Spain's first coalition government was formed, raising hopes that territorial financing reform would be prioritized. These hopes were quickly dashed by the outbreak of the COVID-19 pandemic, which forced the government to impose strict lockdowns, delaying any reform efforts. It wasn't until mid-2021 that the central government resumed the reform process, with a commitment to present a proposal by the end of the year.

As the reform process restarted, ACs began outlining their demands, competing to influence the government's proposal ahead of CPFF negotiations. However, the central government's dominance within the CPFF –where it could proceed with the support of just one AC– meant the regions sought to set the agenda in advance, increasing the likelihood of favorable outcomes (Romero Caro, 2023, pp. 144-153).

The first notable effort came from Andalusia and the Valencian Community, two of the most underfunded regions based on per capita financing. Despite their different political affiliations (Andalusia being governed by the conservative Partido Popular and Valencia by the Partido Socialista), their leaders, Presidents Juanma Moreno and Ximo Puig, held a bilateral meeting in September 2021. They reached an agreement calling for the reform to prioritize adjusted population as a key criterion for determining ACs' spending needs. They proposed that population figures should reflect the total number of residents benefiting from public services, with specific weight given to younger and older populations. The two ACs also demanded a transitory equalization fund until the new system could be implemented. This collaboration between two Autonomous Communities governed by opposing parties was significant, as it transcended traditional political divisions, since horizontal cooperation has traditionally been ignored by the ACs as a tool to promote problem-solving and policy coordination (Aja and Colino, 2014, p. 451). The demands they presented reflected long-standing regional grievances about financing under the 2009 system.

The Andalusian president followed up by forming another alliance with the president of Murcia, a region also governed by the Partido Popular. Both regions released a joint declaration supporting multilateralism and an interim equalization fund. Although the declaration did not initially specify the spending needs formula, Murcia later aligned with Andalusia and Valencia, agreeing to use population as the main criterion.

In response to the population-focused demands from Andalusia and Valencia, regions with aging and shrinking populations began to organize. Galicia, governed by the Partido Popular, took the lead in this effort, inviting other ACs with similar concerns to a summit in Santiago de Compostela. The group –referred to as the "España vaciada" (Empty Spain)– consisted of regions suffering from depopulation, including Aragón, Asturias, Cantabria, Castilla-La Mancha, Castille and León, Extremadura and La Rioja.

The resulting "Declaration of Santiago" emphasized the need for reforms that account for demographic factors such as population density, orography, birth rate, and the proportion of elderly residents over 85⁶. The signatories also supported maintaining the status-quo clause to ensure no territory received less funding due to the reform. Like the earlier meetings between Andalusia, Valencia, and Murcia, this was an example of horizontal cooperation among ACs, though the ACs involved had different priorities regarding the reform's content.

Notably, some major ACs –Catalonia, Madrid, and the two archipelagos (Balearic and Canary Islands)– remained on the sidelines. Catalonia, which had played a key role in the previous reform, took an isolationist stance, refusing to participate in the CPFF and publicly focusing on self-determination rather than financial reform. However, observers speculated that Catalonia's interests might be represented indirectly by the Balearic Islands, which share similar concerns about the adjusted population criterion.

Madrid, as one of Spain's wealthiest regions, opposed reform efforts aimed at greater equalization. The region's low-tax policies have been criticized by other ACs, especially Valencia, which claims Madrid's tax cuts draw wealth away from neighboring regions. Some ACs have called for tax harmonization across regions, imposing minimum tax rates to prevent Madrid from undercutting its neighbors. The central government has supported this proposal, viewing it as part of broader tax reforms. However, Madrid's government argues that these criticisms are politically motivated attacks on its financial autonomy.

The cooperation between ACs on territorial financing has caused tensions within Spain's two major national parties, the Partido Socialista (PSOE) and the Partido Popular (PP). Both parties worried that cross-party cooperation among regional leaders could undermine party cohesion, affecting their ability to govern or

⁶ Declaración institucional Foro de Santiago, Camino de consenso, Santiago de Compostela, 23 November 2021, paras. 15 and 29, respectively.

function as an opposition. After the Andalusia-Valencia summit, PSOE leadership discouraged other Socialist-led regions from joining similar efforts, fearing these meetings could be used to criticize the central government. The party sought a unified position on territorial financing but failed to reach a substantive agreement, only producing a vague statement reiterating general principles like financial sufficiency and institutional loyalty. The PP faced similar challenges. Internal divisions over how to approach the reform prevented the party from presenting a unified stance. For example, Andalusia prioritized population as a key factor in financing, while Galicia pushed for demographic factors. A planned meeting between PP regional leaders resulted only in a commitment to multilateral negotiations and respect for financial autonomy, without addressing the specific criteria for determining spending needs.

Despite efforts by both major parties to control the territorial financing debate, regional cooperation has proven difficult to stop. ACs have formed alliances based on their shared interests, even when these cross traditional political lines. The key areas of debate revolve around whether population or other demographic factors should take precedence in determining spending needs and how to balance financial autonomy with the need for equalization among regions.

After months of delay, the central government presented a proposal for reforming the equalization compact. It aimed to stimulate negotiation, with key indicators left flexible to encourage agreement. The proposal increased the weight of needs related to aging populations, favoring ACs like Asturias, Galicia, and Castilla y León. However, territories with younger populations, like Andalusia and Valencia, saw their education and social services needs rise. The proposal introduced new corrective criteria, including compensation for fixed costs and depopulation, which primarily benefited sparsely populated regions, such as Aragón and Extremadura, while reducing the spending needs of larger regions like Catalonia, Madrid, and Andalusia.

In any case, the possibility of reform came to nothing because the negotiations with the Autonomous Communities never really got off the ground due to the disparity of positions and political uncertainty. This failed experience highlights the difficulty to reconcile, programmatic with political and process success. The divergence of opinions between the actors increases the difficulty of reaching programmatic success, which in turns can lead to the lack of involvement of some actors, hindering political and process success as a result. The reform process was definitively buried after the municipal and regional elections of 2023, in which the PSOE lost much of its regional and local power to the PP. The election results led to the calling of early general elections, the outcome of which resulted in increased political polarization and high tension between the socialist government in Madrid and the regional power of the opposition.

2.3.2. *The long-standing desire to reduce solidarity: a privileged arrangement for Catalonia*

After several failed attempts in recent years, it appeared that the central government would delay any reform of the equalization system until a more favorable political environment emerged, one in which consensus with the PP –currently governing 11 of the 15 Autonomous Communities under the common regime– could be achieved. However, current developments suggest that the financing model for the ACs is poised for a significant transformation, deepening the confederal and privileged status of certain regions at the expense of those within the common framework.

In the summer of 2024, the Partido Socialista and Esquerra Republicana reached a governability agreement in Catalonia, which, among other concessions, includes a provision for a "singular financing" scheme for the region. This arrangement would allow Catalonia to exit the common model and establish its own system, akin to that of the foral territories, whereby Catalonia would regulate, and collect all state-owned taxes. In return, Catalonia would transfer a portion of its revenue to the State for services rendered and contribute a solidarity quota to support ACs with lower incomes.

The government plans to formalize this agreement through a reform of the LOFCA, with the clear intent of substantially reducing Catalonia's contributions to the State's revenues and minimizing its role in horizontal solidarity.

Beyond the political implications of prioritizing a bilateral relationship with Catalonia, bypassing the rest of the common system regions, the concession of a "singular financing" would result in a considerable reduction in resources for both the State and other regions. Preliminary estimates suggest that this agreement could increase Catalonia's financing by €6.6 to €13.2 billion (De la Fuente, 2024, p. 8), increasing its per capita financing by 25% to 50% from the previous levels, thus positioning it well above any other common regime region.

Although the technical details of the reform are yet to be finalized, it is evident that granting “singular financing” to Catalonia would violate the constitutional principle of solidarity (Vega García, 2014, pp. 214-277)⁷, affording the region preferential treatment over others. This erosion of solidarity would inevitably reduce the resources available to the common regime ACs, jeopardizing their ability to provide public services unless compensated by additional State transfers. In such a scenario, citizens in these regions might face significant tax increases to offset the exclusive benefits Catalonia would receive, further exacerbating territorial inequality and fostering an unjustifiable privilege that contradicts the notion of territorial solidarity. As expected, the reaction from the other Autonomous Communities has been swift, with widespread opposition to any reform that would reduce inter-territorial solidarity. While there are disagreements over the specific criteria that should shape the reform, the ACs uniformly reject any changes that would privilege one region at the expense of the others, regardless of political leadership. This opposition foreshadows a contentious debate within the CPFF, suggesting that it will be extremely difficult to secure the majority necessary to reform the LOFCA and implement the proposed “singular financing” for Catalonia.

Despite the uncertainty surrounding the eventual structure of Catalonia’s “singular financing”, the urgent need for a comprehensive reform of the territorial financing model remains evident. However, given past failures and the current political climate, the prospect of a successful reform seems more distant than ever.

COMPARATIVE CONCLUSIONS

The experiences of Italy and Spain with reforms of fiscal federalism highlight the numerous challenges that highly diverse and politically fragmented systems face in achieving programmatic, political, process, and endurance success of a territorial reform.

Regarding the first dimension, i.e., programmatic success, the fiscal federalism reform in Italy aimed to enhance the financial and political accountability of regions by shifting from a state-transfer-based system to a tax-revenue-based model and standardizing equalization transfers. While it effectively pursued a correction of the previous system rather than the announced Copernican revolution, the reform has not been fully implemented yet, and the reform goals, at least for ordinary regions, are far from being achieved. The state-transfer-based model is still maintained, thus confirming the persistent lack of financial accountability of subnational entities and the worsening of territorial disparities. All this has been also coupled with the progressive dismantling of regional autonomy, as a result of a significant recentralization trajectory pursued by the legislature and the political sphere, with the green light of constitutional jurisprudence.

A similar unsatisfactory conclusion is reached in the case of Spain, albeit starting from different premises. If the Spanish fiscal federalism reforms provide a mixed record of success when evaluated across multiple dimensions, reflecting the complexities of addressing territorial disparities in a decentralized system, from a “programmatic success” perspective, the reforms have only partially achieved their objective of reducing regional inequalities. Mechanisms like the Basic Public Services Guarantee Fund have contributed to equalizing public service provision, but persistent issues, such as the closed nature of earlier models and the distortion introduced by multiple overlapping funds, have weakened their redistributive effectiveness.

When it comes to process success, the reform in Italy has been characterized by procedural complexity and a very limited involvement of territorial entities. Furthermore, framework Law no. 42/2009 delegated implementation authority to the Executive, relegating Parliament to a consultative role. The resulting fragmentation and incompleteness of the implementing legislation have hindered the reform process, with many decrees requiring further integration or postponing the definition of essential aspects of the reform that still remain undefined. In Spain, the reform process has been marked lack of democratic legitimacy and territorial inclusiveness. A lack of transparency, particularly during key negotiations like those in 2009, and the tendency to prioritize bilateral agreements over multilateral decision-making have undermined perceptions of fairness. Efforts to encourage horizontal cooperation among Autonomous Communities have been overshadowed by the central government’s top-down approach, reducing the democratic legitimacy of these efforts and complicating conflict management between regions.

⁷ The Constitutional Court has dealt, albeit in a very partial way, with the issue of inter-territorial solidarity in several rulings such as STC 183/1988, STC 250/1988, STC 64/1990, STC 135/1992. Likewise, in relation to the autonomous community financing system the Court has ruled on a similar vein in STC 13/2007, STC 58/2007, 237/2007, 238/2007 and the aforementioned STC 31/2010 on the limits to solidarity.

In evaluating the “endurance success” dimension of the Italian reform, it must be acknowledged that the reform has persistently not been implemented, and after more than 15 years (23 if counting from the constitutional reform), it is stalled and still very far from achieving its declared objectives. Indeed, one could say that the direction has been the opposite, towards the progressive dismantling of certain pillars of the reform and the continued failure to establish the necessary preconditions for its implementation. The failure to define essential levels of services (LEPs) and to calculate the standard costs and need, together with the shortcomings of the implementing legislation have contributed to this outcome. Economic crises and the lack of a clear and consistent political commitment have further hindered the reforming process implementation.

Once again, the evaluation does not differ significantly in the case of Spain, although in this instance with considerably better preconditions. In terms of endurance, in fact, the Spanish fiscal federalism framework has shown resilience in its survival but stagnation in its adaptability. However, this endurance is no more than a mirage caused by the failure to achieve programmatic, process and/or political success at tackling the reform process. The reliance on outdated elements, the inability to move beyond the status quo, and the failure to implement significant reform after 2009 suggest a system ill-equipped to evolve with changing circumstances. Recent proposals for “singular financing” for Catalonia, which undermine the principle of solidarity, further threaten the sustainability of a cohesive fiscal model, potentially exacerbating regional inequalities and jeopardizing the long-term stability of the system.

Finally, the overall assessment of the political success of the two reforms comes with no surprise, considering that politics is one of the key determinants of territorial reforms. The political dynamics of fiscal federalism in Italy are characterized by a complex interplay of economic constraints, political opportunism, and unaddressed institutional challenges. While the Northern League has been a main supporter of the reform when “at the starting blocks”, subsequently, shifting political priorities and the inherent complexity of the reform have led to its continued postponement. The lack of a clear and consistent political commitment has further contributed to the reform’s stagnation, to the extent that the future of fiscal federalism in Italy is still uncertain, with significant hurdles to overcome before the reform can be fully realized. Moreover, the weak involvement of territorial entities has exacerbated inter-regional conflicts over time. The approval of the law on differentiated autonomy has further intensified these conflicts in a country where economic and social divisions are already deeply entrenched. Political consensus has been difficult to achieve also in the Spanish case, with reforms increasingly characterized by partisan divides and inter-regional conflicts. Support among political actors has diminished over time, as evidenced by the polarized reception to the 2009 reforms and subsequent failure to implement new reforms. Growing political fragmentation and contentious demands for singular financing from Catalonia highlight the fragile and often divisive nature of the reform process. Sporadic regional alliances have emerged but have failed to foster sustainable political cooperation across party and territorial lines.

To conclude, with an overall evaluation on the “un-successful rating” of the two reforms, it is worth emphasizing that the experiences of Italy and Spain with fiscal federalism reforms clearly reveal the challenges (and struggles) of achieving programmatic, political, process, and endurance success in highly diverse and politically fragmented contexts. Addressing these issues increasingly requires the development of innovative solutions that, while balancing regional autonomy with national solidarity, are also inclusive of territorial demands as well as transparent and democratic in their processes. Only through a process of trust-building among the interested parties and their opposing interests, there might be chances to foster durable political coalitions capable of sustaining meaningful reform over time.

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