

Bread or glory?

Managing coercion from centralization

Hints from the making of Italy

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The paper

Refers to frequent situations where public goods/public policies are moved up on the scale of governments, as with the

- creation of a nation-state from separate units
 - higher centralization in existing states
 - creation of supranational entities
- the EU is a very relevant and close case.

where coercion inevitably increases.

Maintaining political consensus requires adaptation policies, ranging from

- constitutional rules restraining decision-making, such as qualified majorities, or strengthening separation of powers;
- consociational-type arrangements applied at all levels of government;
- use of decentralized arrangements when possible (EU principle of subsidiarity);
- material compensation, redistribution, through fiscal policies.
 - this latter is the focus of the presentation.

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Coercion

Coercion in public finance

Stems from applying the same treatment – a public policy, or a tax-expenditure combination– to every individual when preferences differ.

Derives from uniformity of publicly produced goods and from the rules for their financing. Is inevitable with public goods.

Can also derive from policies with no appreciable cost for their provision
for example, the duration of the hunting season

Can be measured by the loss of utility individuals experience when not treated according to their preferences.

May be particularly strong when, for some individuals, public services are public “bads”

this is likely to be the case in societies deeply divided by ethnic, cultural, or religious preferences.

Coercion with centralization

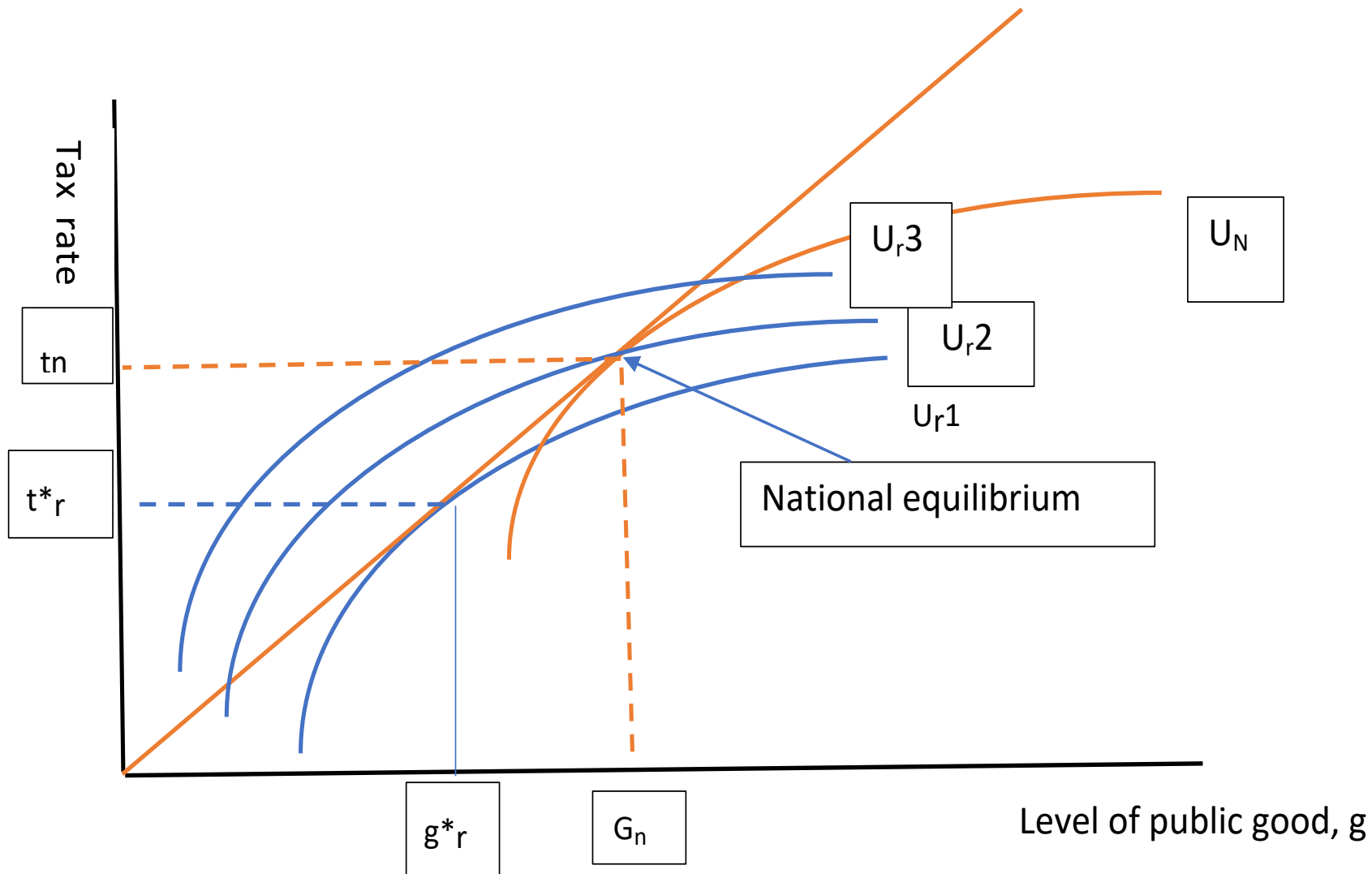
Centralization associated with an increase of coercion due to the expected lower homogeneity of individual preferences within larger-sized jurisdictions.

Also, people can not increase spatial homogeneity by sorting themselves according to their preferences for nationally produced goods.

At the same time, not all the coercion we observe with centralization is inevitable.

- Why have tax rates to be perfectly equal across an entire country?
- Differentiation is possible, when same areas are homogeneous and different from the rest.
- Does provision of different public services to people with varying tastes always implies higher costs?

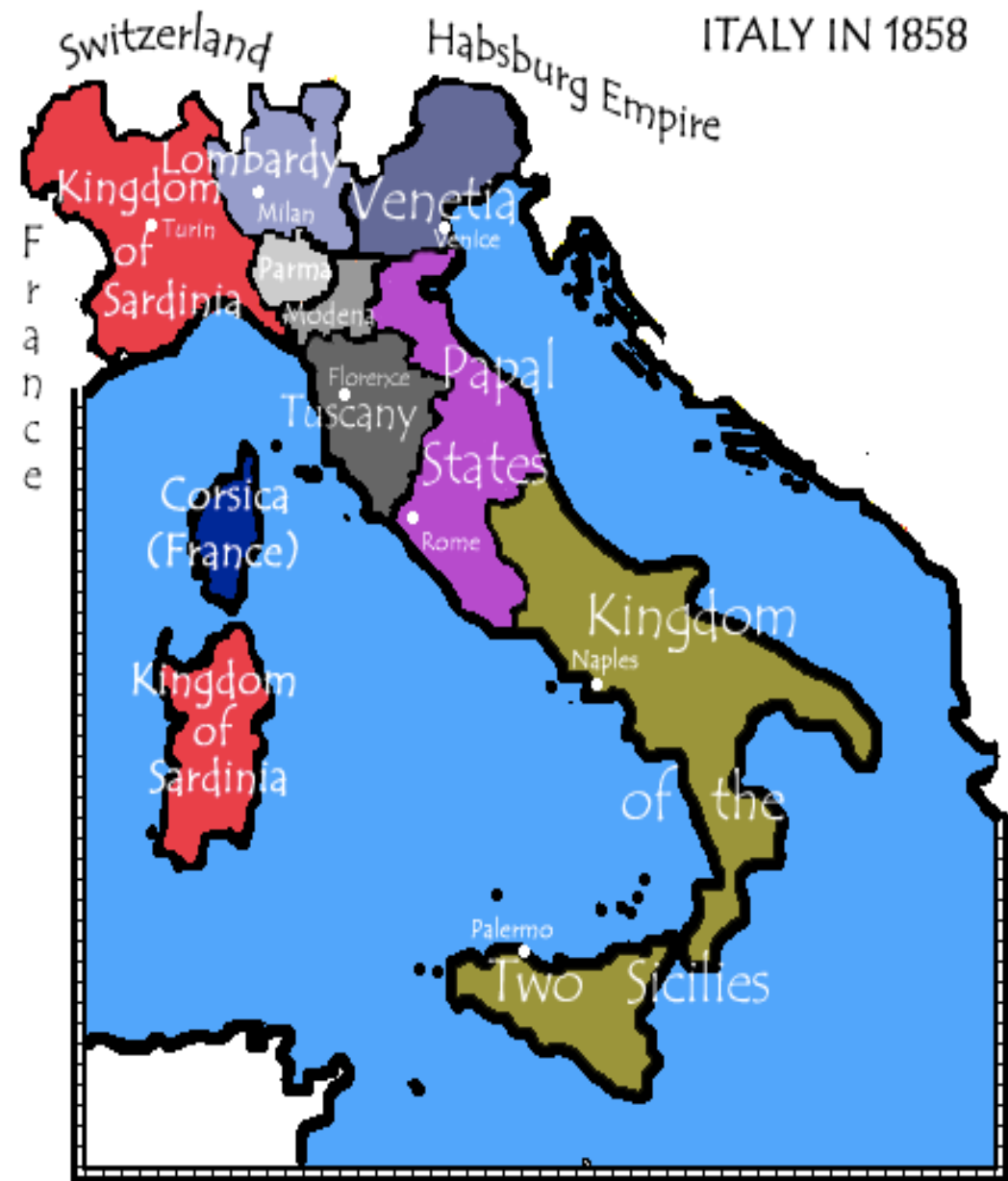
Coercion with centralization



The national pivotal voter has for any level of g , a greater willingness to pay than that of the regional pivotal voter.

The making of Italy, a case of heavy centralization

The players



	Population 1861 mlioni	Per hectar agricultural production liras circa 1857	Per capita public debt liras 1859	Railway s lines km 1859	Illitterac y rate 1961	Primary school enrollmen t 1861
Kingdom of Sardinia	4,2	148,1	278,6	850	59,3	83,9
Lombardy and Venetia	5,6	145,5	27,8	532	63,0	90,0
Duchies of Parma and Modena	0,9	174,0	22,3	0,0	78,0	36,0
Papal State	3,2	68	22,4	68	80	27
Grand Duchy of Tuscany	1,9	117	73,2	257	74	32
Kingdom of the two Sicilies	9,2	81	76,8	99	87	18

The making of the Nation-state in Italy

It took two years, 1859 to 1861, to unite most of the peninsula under the aegis of the Kingdom of Savoy, the rulers of which were known as the Piedmontese.

Lombardy was annexed to Piedmont after the Italo-Franco war against Austria of 1859.

Popular revolts with the participation of the local elites connected to the Piedmontese led to annexation of most Central Italy to Piedmont (and Lombardy).

The South was annexed militarily with the help of Garibaldi's Red shirts.

The Kingdom of the Two Sicilies never played a role due to its political weakness (lack of legitimacy of the Bourbon dynasty).

Italy in 1861

Part of Venezia was annexed in 1866 after the 3rd Independence War.

Rome was annexed in 1870
Unification of the Peninsula completed after WW1.

Gray color, absense of demarcations between areas, randomly chosen city names stand for uniformly, centralized system applied to the whole country.



A Nomenklatura *ante litteram* and its choices

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The forming of a Nomenklatura

The Piedmontese led the unification process and were behind the strategic policy decisions taken in the immediate aftermath

Suggestions to imitate their example circulated in Europa 'Serbia as Piedmont', 'Prussia as Piedmont' (Zyblatt, 2008). 'The Piedmont Principle' (T. Martin).

Searched, and received from the beginning, the support of a large fraction of the moderate elites of the other states.

Many of them moved into exile to Piedmont, the only constitutional monarchy, since the failed revolts of 1848, and were co-opted into the ranks of the political class.

Many former fervent republicans turned monarchists to work with the Piedmontese.

Other local elites operated within their own states to favor annexation to Piedmont and were appointed to top positions following the starting of the country.

This elite governing/political class is generally labeled Liberal Italy or the system of liberal Italy.

I prefer to call it a Nomenklatura, and to call the system that governed early Italy, until WW1, a system of Nomenklatura.

A Nomenklatura system

A Nomenklatura is in essence a list, or better two lists

- a list of loyal, qualified people to be appointed in relevant posts
- a list of positions to be filled with select people.

Created in the Soviet Union to ensure high and uniform standards in the selection, placement, and promotion of key officials, both inside and outside the Communist Party (Voslensky, 1984).

Based on merit and loyalty and excluded (initially) privilege.

The concept can also be applied to democratic systems

Brosio-Ferrero, (Journal of Theoretical Politics, 1997) apply it to Italy WW2 aftermath, where an informal tacit international agreement in the framework of the division of Europe in separate spheres of influence excluded the Communist Party from national government.

In this system, a ruling elite perpetuates itself through the co-option of its members also from potential opponents to secure its goals, re-election, implementation of its policies, and maximization of political and personal rents.

The making of a Nomenklatura system ante litteram

Loyalty to the Savoy monarchy, commitment to unification of Italy under the aegis of the Kingdom of Savoy as the basic conditions for co-optation into the Nomenklatura.

Fear of "democrats" (republicans and socialists) and anticlericalism acted as a glue

Nomenklatura

- reached its apogee with the starting of 'Transformismo', meaning the inclusion into the governing coalition of members of opposing factions.
- was very spatially inclusive. North-Central Italy members initially prevalent, but participation of the South became very important.
- ranks filled with highly qualified people, politicians, high officials, as recognized by the literature.

Nomenklatura's inclusive character

Regional origin of Cabinet members. Italy 1861-1913

	1861-1876	1876-1913
North-West	47,1	40,7
North-East	2,4	4
Centre	22,2	16
South	19,1	23,3
Sardinia % Sicily	8,2	12
Number	85	151

Nomenklatura and democracy

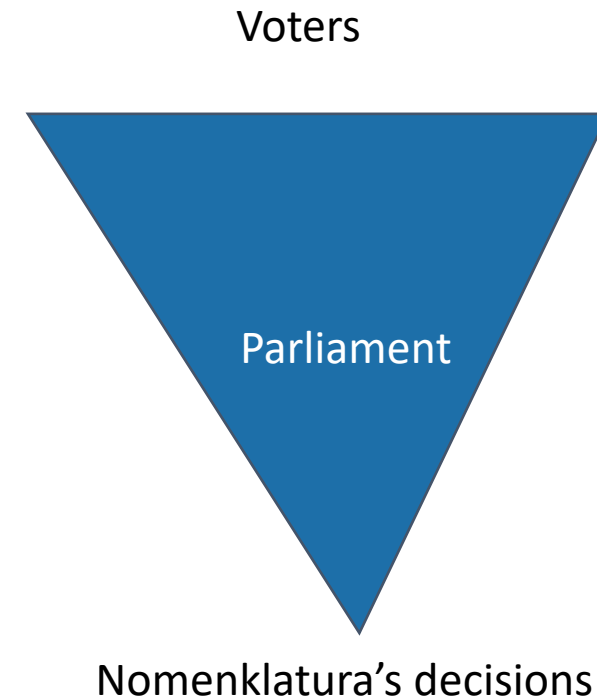
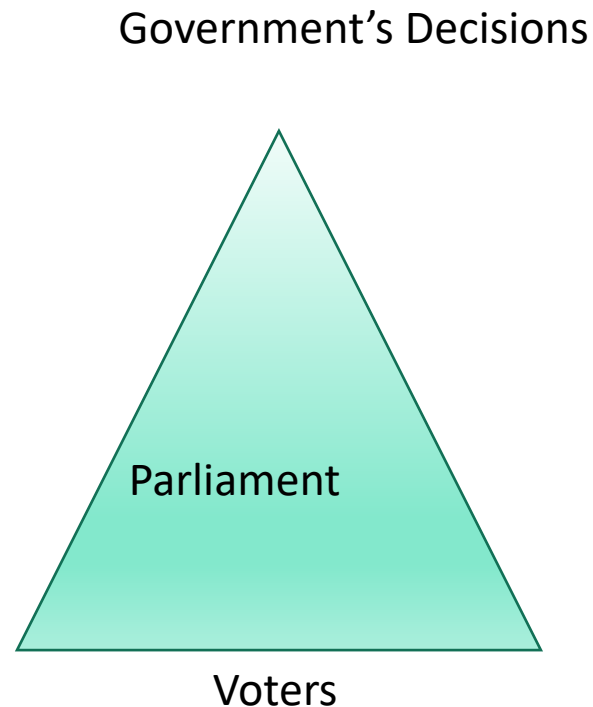
Frequent changes of cabinet

taking place outside Parliament

and new elections called for approval.

Formal compliance by the rules. Not in substance.

Bonghi, a Neapolitan politician, suggested in that working of liberal democracy was turned upside down.



Bread or glory from centralization?

The promises of Nomenklatura: Glory

Big, and equal for everyone, advantages:

- national dignity,
- completion of the homeland (Patria),
- recognized place among European nations,
- a more just society,
- rule of the law,
- pre-conditions for economic development.

Many of those are 'merit goods' as consonant with the Nomenklatura

I summarize in a single word: glory.

The costs of glory were, according to the Nomenklatura, equal for everyone, at a personal level.

What did the Nomenklatura provide

Political unification of the territories.

Unitary state, considered too centralized, lamented by the South.

Same codes, laws and administrative structures to all territories.

A nationwide infrastructure network in transport and communication.

Higher literacy and public hygiene.

➤ With a huge cost in terms of increased coercion.

the cost not the same for all since the starting points were different.

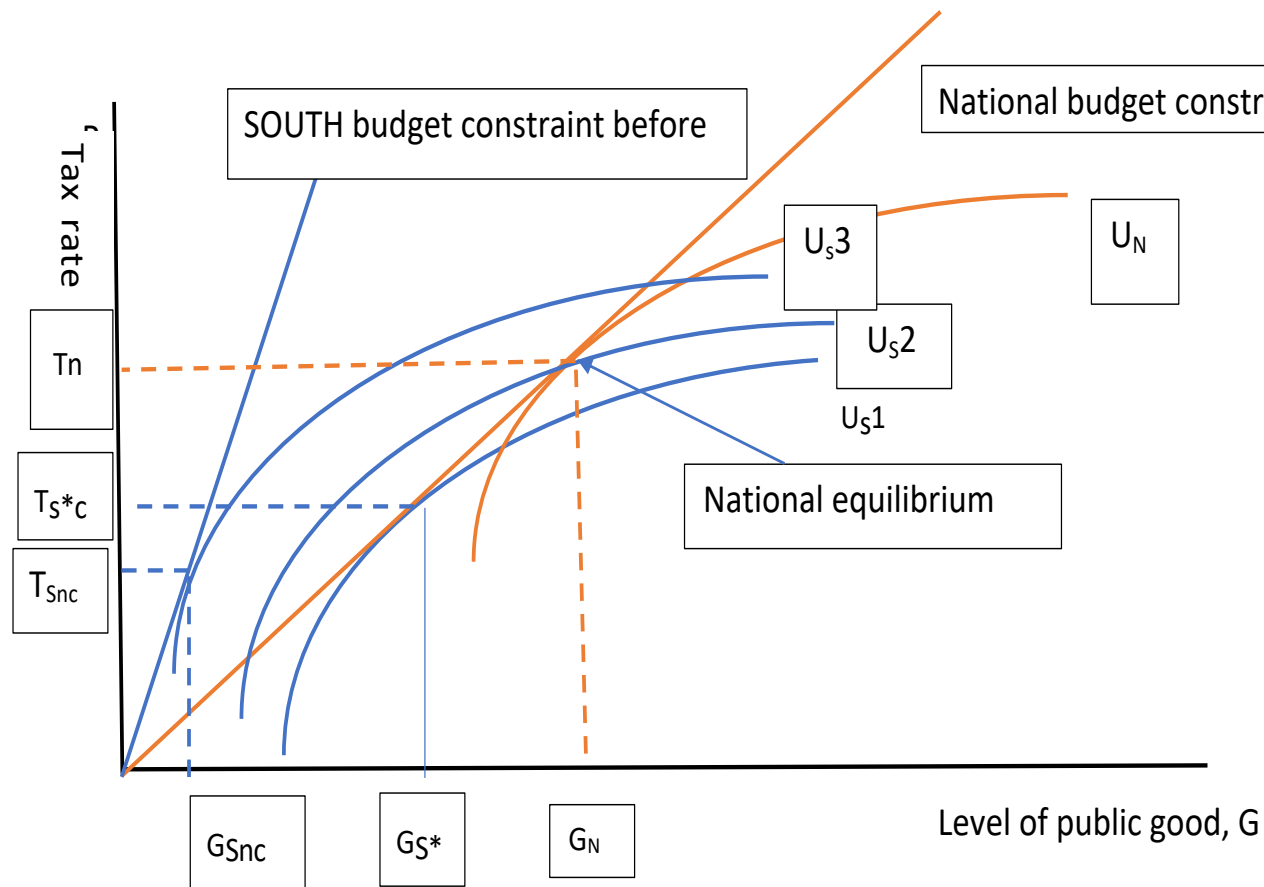
the gap between the new institutions and those of the previous states was wider in the Kingdom of the Two Sicilies

Increased tax burden, compulsory conscription, and submission of local authorities to officials from outside (in our case the prefects) are the three classic manifestations of colonization.

The adaptation was difficult and painful.

➤ protracted revolts In many Southern areas, put down in blood "War to banditry".

Coercion in the South with and after centralization



The national budget constraint has a lower than the South's slope, reflecting economies of scale and higher national than South's income.

As represented, the South gains from centralization, through fiscal redistribution although it has to pay a higher tax rate. But it is coerced within the new state, because it prefers a lower combination of T and G .

The national pivotal voter has for any level of g , a greater willingness to pay than that of the regional pivotal voter.

The reality of Bread

However, moral advantages were coupled with immediately perceptible, but unequally distributed, material and pecuniary advantages deriving from:

- location of the army in the North,
- fortifications, military academies and navy bases and arsenals built also in the Center-North.

These activities giving work to individuals and companies as well as the construction of roads and railways dictated by military priorities.

We sum up these benefits with bread.

In the South, glory seemed distant and not appealing to some people, while bread was of immediate interest.

Measuring bread and glory with the regional fiscal residuum

Approaches to the fiscal residuum

This exercise compares the central government expenditure received by each region from the central government with the revenues paid. The difference is the residuum.

If positive, the region gains, if negative the region loses.

- quite complicate, subject to different hypotheses about the spatial incidence of all budget items.
- different approaches, i.e. interpretations of the numbers, are possible, as shown by the conflicting literature.
- In our case, the difficulties are compounded by constraints on data, reflecting a backward society. Although...
- A substantial clarification of the method is needed.
- Two prevailing approaches to evaluate the benefits, although frequently mixed up to suit the political purposes of authors.
 - the money income support approach —————→ MISA,
 - the welfare impact approach —————→ WIA.

Methodological remarks

MISA evaluates the expenditure looking at the benefits from the central budget to each region in terms of gross payments for the acquisition of the factors of production.

WIA evaluates the expenditure received by a region in terms of the improvement of welfare for its citizens from the provision by the central government of public, collective, and also private goods.

Another way of distinguishing MISA from WIA

- MISA looks at the benefits received by citizens as owners of production factors,
- WIA looks at the benefits received by citizens as consumers of public, or collective and also private goods.

As immediately discernible

MISA has a close association with Bread

WIA reflects Glory

Methodological remarks

MISA requires a national budget according to economic classification where

central government costs become income (benefits) for regions) and costs (revenue) for Territories become income for central government

Central Government

COSTS	INCOME
Wages	Taxes
Pensions	Social Contributions
Interests	Prices and tariffs
Rents	Rents
Purchases of goods and services	Transfers from subnational governments Transfers from nat. governments, international organizations, foreign public entities
Acquisitions of capital goods	
Transfers to individuals	Other
Transfers to firms	
Transfers to subnational governments, national governments, international organizations, foreign public entities	Net balance to be financed

Territories

Income	Costs
Wages	Taxes
Pensions	Social Contributions
Interests	Prices and tariffs
Rents	Rents
Purchases of goods and services	Transfers to central governme
Acquisitions of capital goods	
Transfers to individuals	Other
Transfers to firms	
Transfers to central government	
Net balance: fiscal residuum according to the monetary income support approach (MISA)	

Methodological details about MISA

With MISA residence of production factors owners is the criterion for the allocation of expenditures.

Straight for all categories of expenditure in a (territories) closed economy framework.

Raises problems within an open economy framework, particularly for transfer to firms and purchase of goods and services.

Imports from abroad are relatively easy to deal with, while purchases of goods and services from other territories require an interregional input-output matrix,

not available for the 18th century

In the early Italy case purchases from abroad applied to interest on public debt and heavy equipment for the army and the navy.

While interregional purchases concerned a few items, particularly public works and military supplies

Allocation done here according to regional share of value added of the concerned sector.

Important to note that payments to foreign residents entails a reduction of the expenditure to be allocated domestically and therefore a reduction of the total fiscal residuum for the entire nation.

Methodological details about WIA

It requires a budget formulation with expenditure by functions, or areas.

The territory receives a) public and collective goods and services; b) individual goods and services. The benefit is appreciated in terms of well-being.

There are no problems of closed territory for all pure public goods.

There are territorial externalities from mixed public goods, with a public and a private component, typical of infrastructural works.

The crucial conceptual problem raised by the WIA approach is the relationship between spending and well-being. Two alternatives in the literature

1. well-being from public goods is, for each unit of money spent, the same for everyone

➤ the population is the appropriate indicator for the allocation among territories.

2. well-being is linked to the ability to benefit from the public good, which is generally determined by economic conditions,

➤ therefore personal income (GDP)

Constraints from the Italian 18th century data

Expenditure presented according to a mix of economic and functional classification.

Requiring adjustments and imposing clear limits to the exercise.

- With MISA additional information, or ad hoc assumptions, are required in the case of expenditure by function to have data on rewards to production factors' owners, as testified by the criteria used.
 - for example, the expenditure for the army and the navy is: 70% personnel, 15% armaments and 15% building and fortifications, requiring...
- With WIA, adjustments are impossible and only a share of the expenditure is allocated according to the criteria suited to public or quasi public goods. The emerging residuum reflects only in part WIA.

The mixed classification of national expenditure

	1876		1905/06	
	Total	in %	Total	in %
General adm.	48.499.493	4,2	86.322.759	4,6
Tax collection costs	112.520.481	9,8	227.253.121	12,1
Public pensions	59.600.956	5,2	84.495.603	4,5
Interests on debt	462.836.289	40,2	672.121.197	35,9
Justice	25.077.084	2,2	34.462.002	1,8
Diplomacy	5.626.267	0,5	15.973.448	0,9
Education & culture	22.616.855	2,0	87.988.723	4,7
Health	1.312.255	0,1	2.772.647	0,1
Police & public order	11.397.898	1,0	28.813.912	1,5
Prisons	30.323.130	2,6	28.469.327	1,5
Public works	37.125.268	3,2	72.636.020	3,9
Railways constr. maint	51.512.655	4,5	15.312.864	0,8
Post & telegraph	27.865.946	2,4	92.291.178	4,9
Agricul, Ind. Comm.	16.006.694	1,4	26.134.911	1,4
Army	185.133.547	16,1	258.623.928	13,8
Navy	36.677.168	3,2	108.796.562	5,8
Other	17.797.836	1,5	32.274.716	1,7
Total	1.151.929.822	100,0	1.874.742.918	100,0

Criteria for allocating expenditure under MISA

Expenditure	Criterion
General Administration	Number of public employees
Tax collection costs	1/3 government employees; 1/3 members of police corps; 1/3 total revenues
Public pensions	Number of pensioners
Interest on public debt	0,80 of the total distributed according to financial wealth of families
Justice	Number of people in the legal profession
Diplomacy	Number of public employees
Education and culture	Number of teachers
Health	Share of 0,50 according to public employees; share of 0,50 according to value-added of the construction of public works sector
Police and public order	Number of members of police corps
Prisons	Number of members of police corps
Public works	Share of 1/3 length of roads; 1/3 value added in the construction of public works; 1/3 value added in the non-residential construction industry.
Railways construction and maintenance	40% length of lines; 25% value-added of mobile equipment construction; 25% new lines construction values added of. Railways construction sector, ; 10% opening of new lines
Postal & telegraphic service	Number of postal & communications personnel
Agriculture, Industry, and Commerce	GDP
Army and navy	70% personnel; 15% valued added of manufacturing industry; 15% value added military public works sector

Criteria for allocating expenditure under (partial) WIA

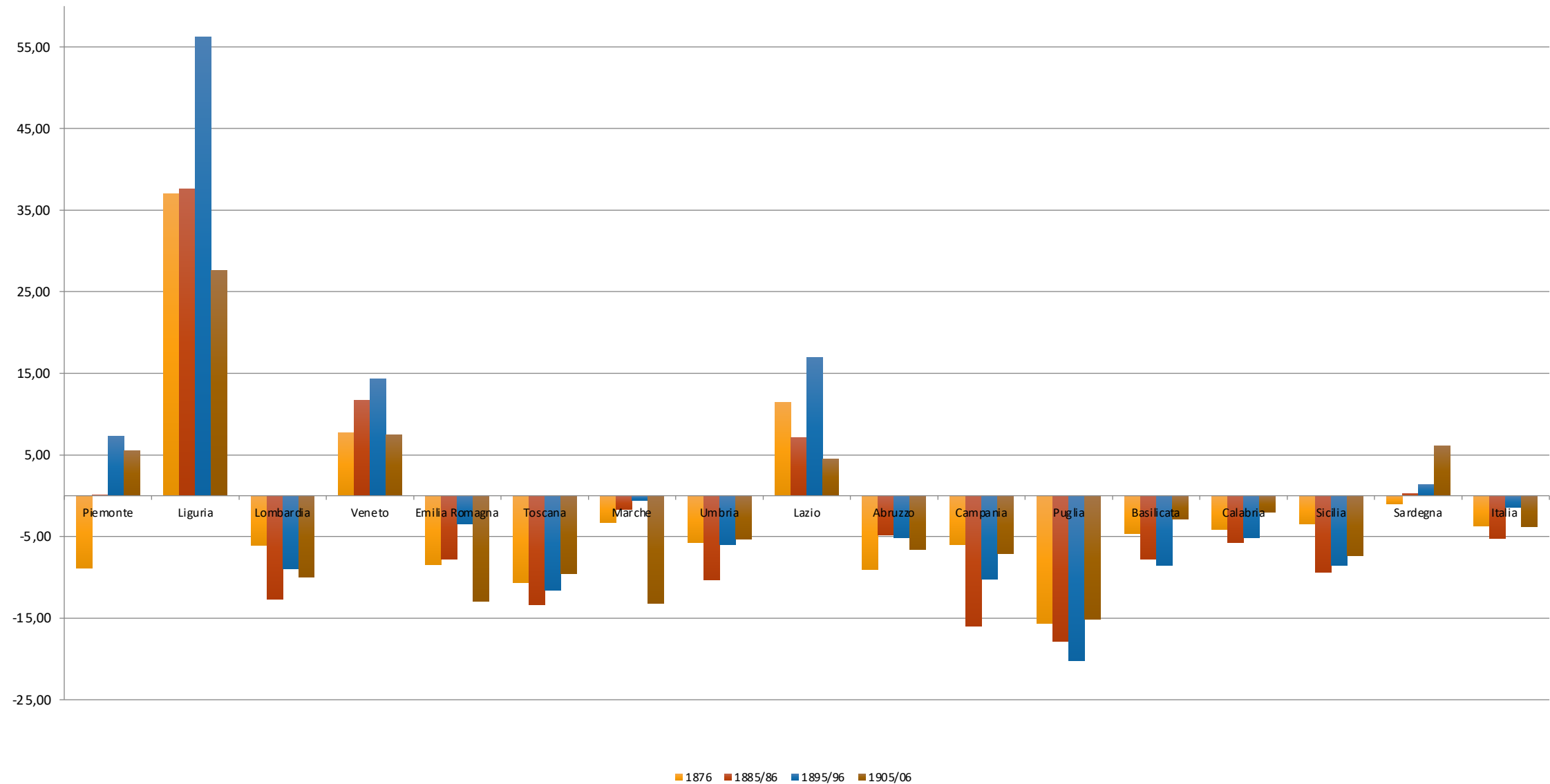
	First hypothesis: benefit from expenditure varies with GDP	Second hypothesis: benefit from expenditure is the same for each individual
General Administration	GDP	POP
Tax collection costs	GDP	POP
Public pensions	Number of pensioners	Number of pensioners
Interest on public debt	GDP	POP
Justice	GDP	POP
Diplomacy	GDP	POP
Education and culture	Number of students	Number of students
Health	pop	pop
Police and public order	GDP	POP
Prisons	GDP	POP
Public works	80% length of roads; 20% GDP	80% length of roads; 20% POP
Railways construction and maintenance	80% length of railways tracks; 20 GDP	80% length of railways tracks; POP
Postal & telegraphic service	GDP	GDP
Agriculture, Industry, and Commerce	GDP	GDP
Army	GDP	POP
Navy	GDP	POP
Other	GDP	POP

Results and conclusions

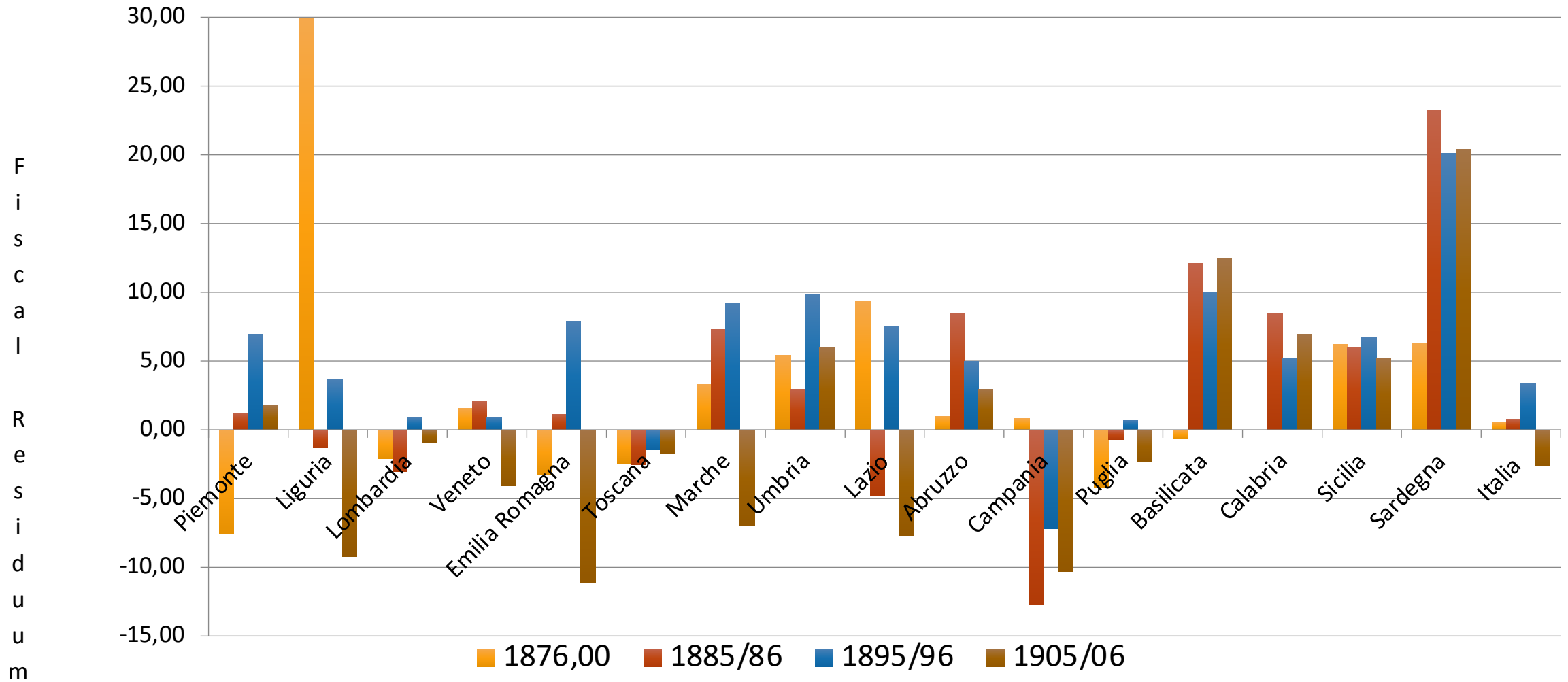
The fiscal residuum of the Italian regions with MISA. 1876/1905/06

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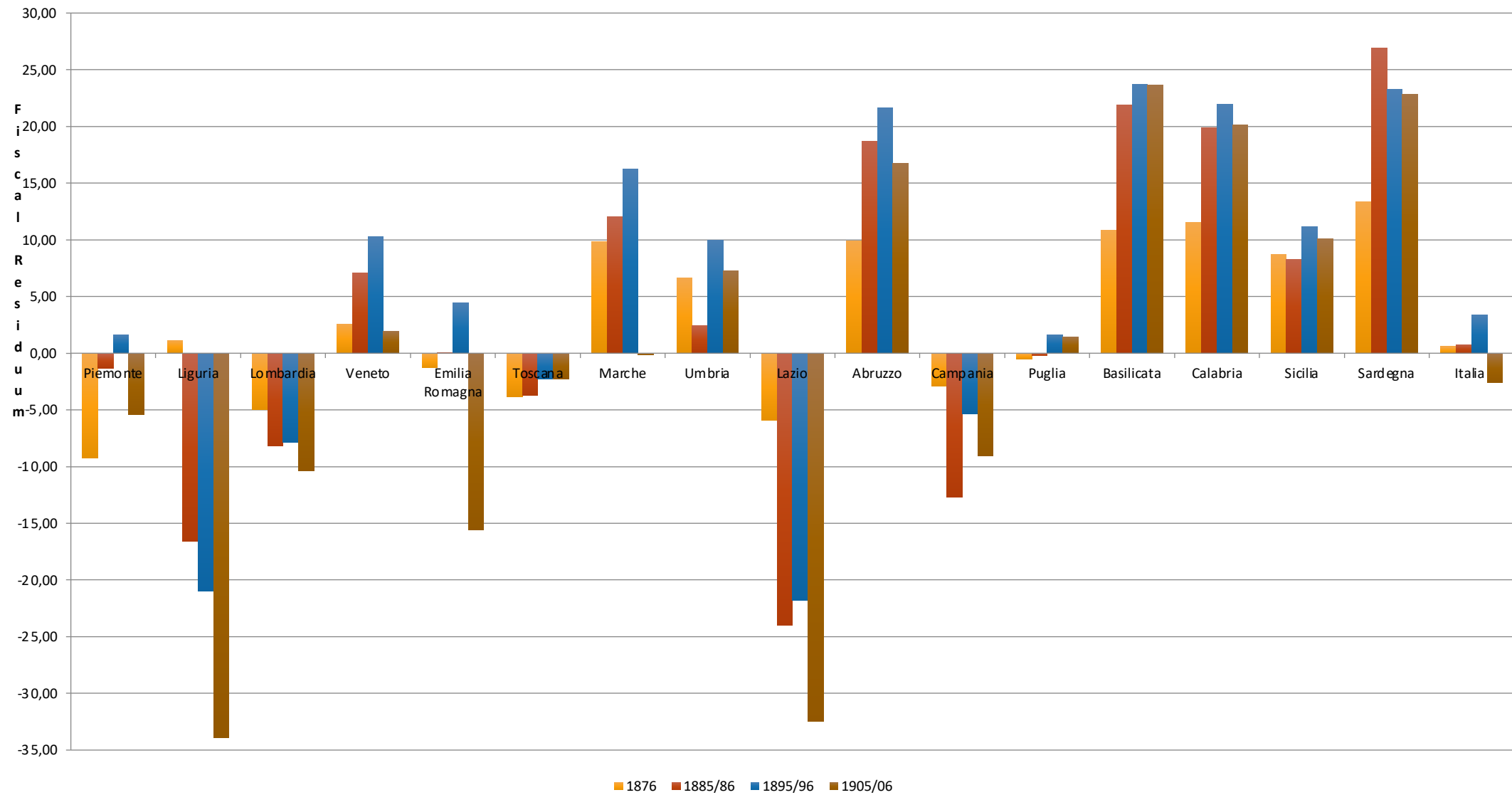
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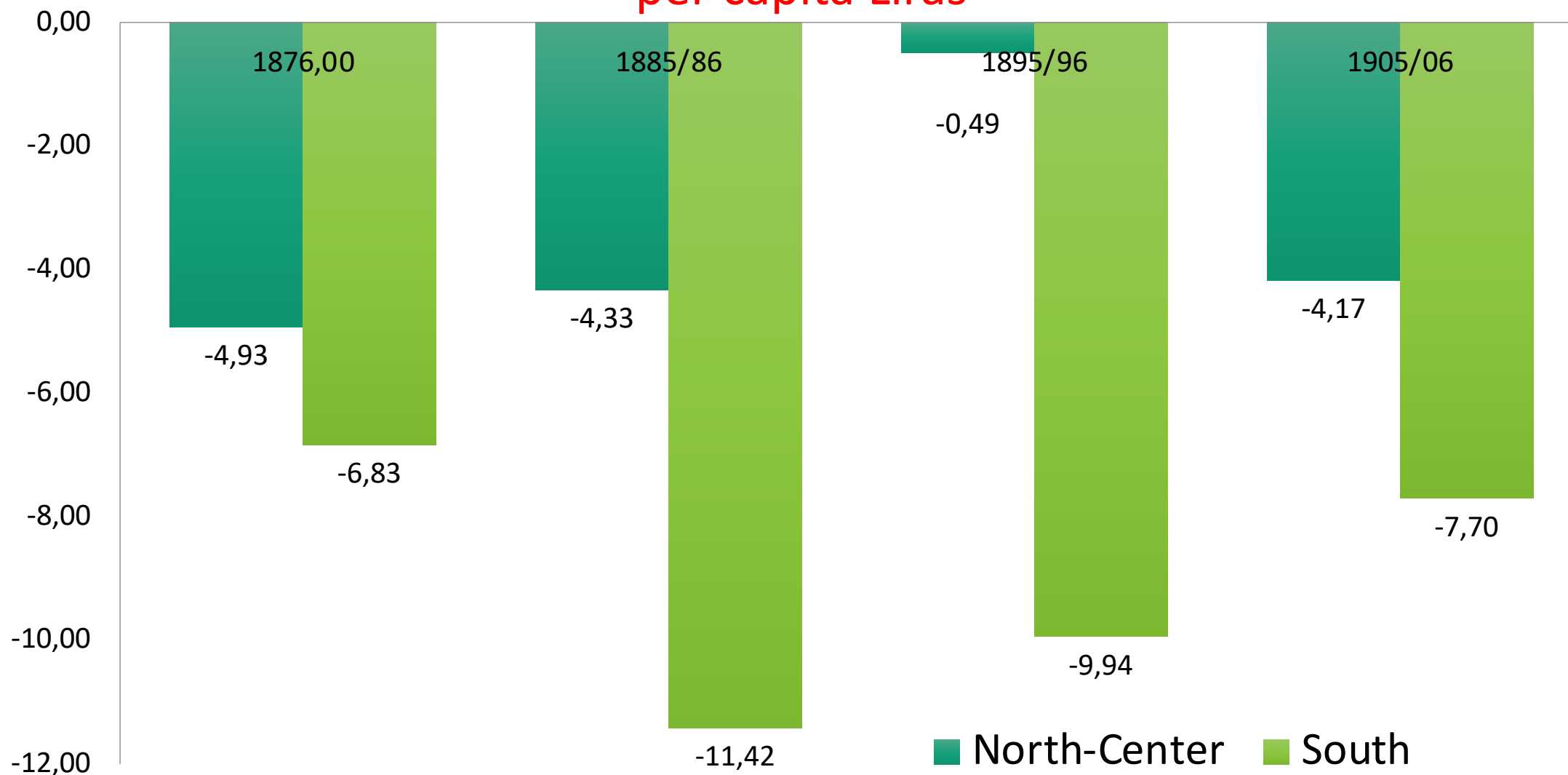
Fiscal residuum of the Italian regions. GDP based (partial) WIA approach. 1876-1905/06



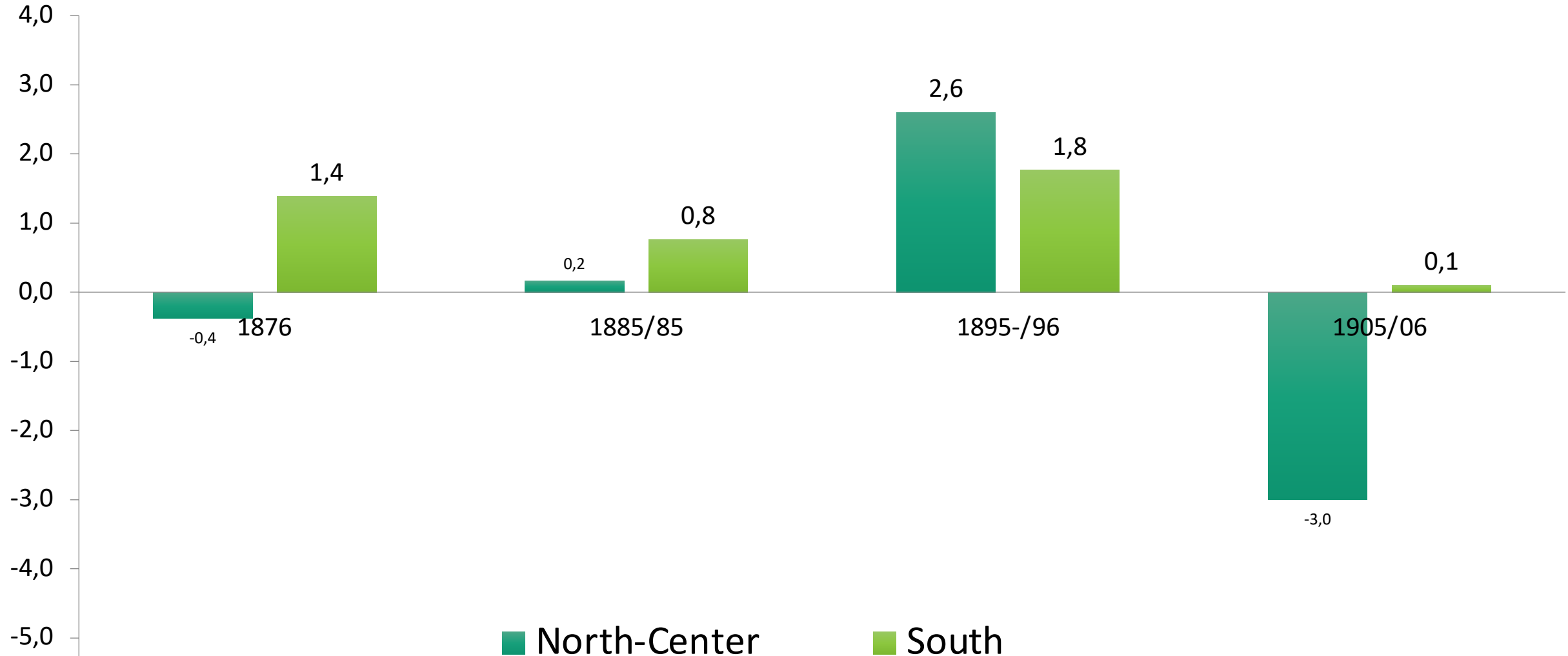
Fiscal residuum of the Italian regions. GDP population-based (partial) Wia approach 1876-1905/06



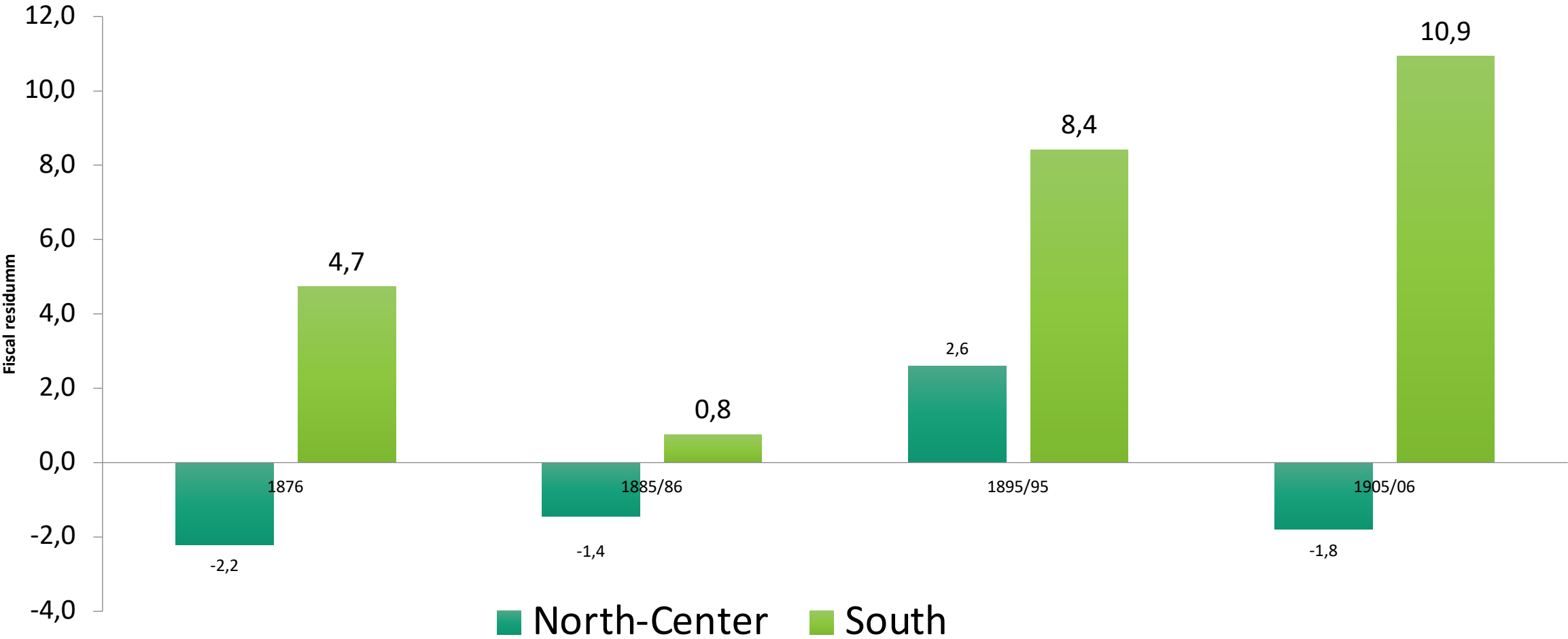
Fiscal residuum with monetary Income support approach by big areas.
1876-1905. Lazio excluded.
per capita Liras



Fiscal residuum by big areas. (Partial) WIA GDP-based approach per capita Liras



Fiscal residuum by big areas. (Partial) WIA population-based approach
per capita Liras



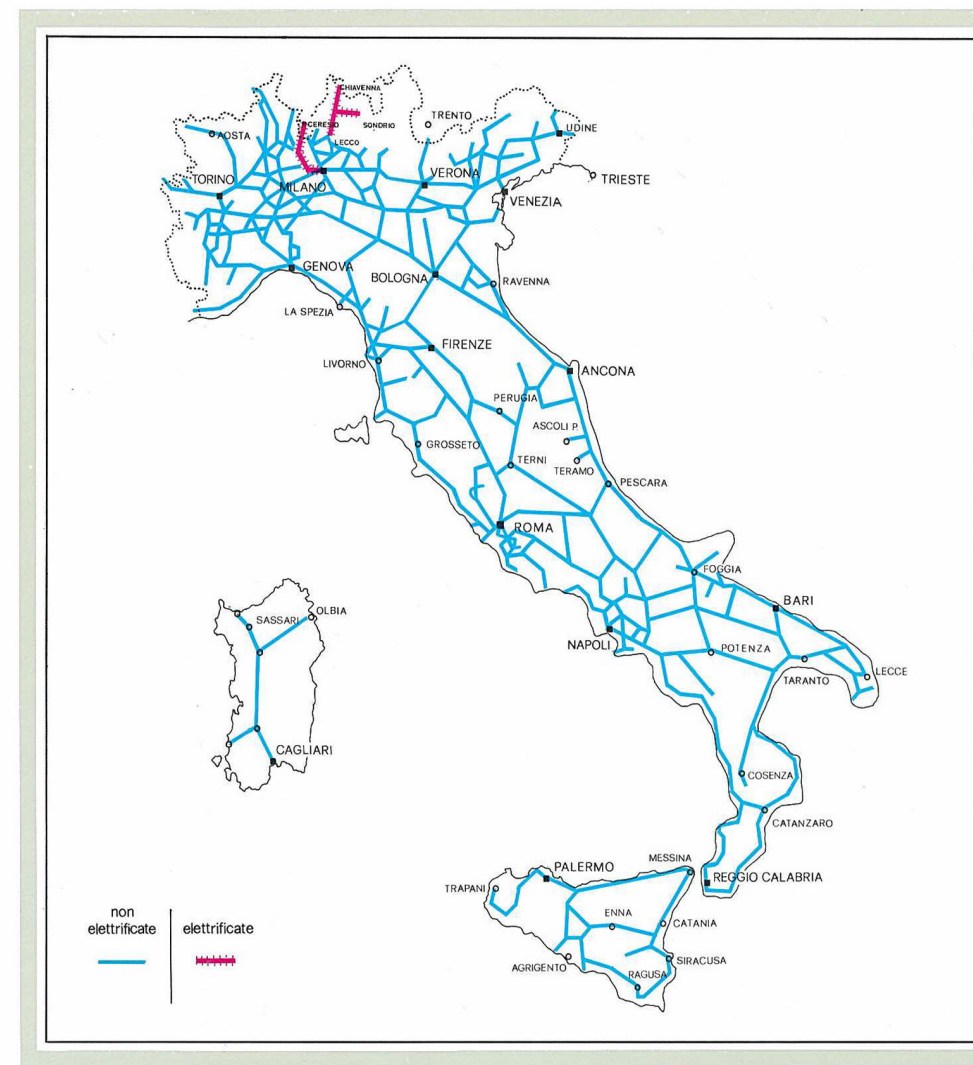
Expansion of railways lines network 1859 -1905



1859



1871



La rete ferroviaria nel 1905

Concluding comments

(Listing of regions in the figures follows the North-South direction, going from left to right, easing evaluation of the spatial impact).

Results refer to the new state fiscal policies, not to the shift from the previous state of affairs.

1. Different approaches lead to different results, as expected.
2. The Center North was favored by MISA (overall negative values derive from substantial outflows and imports).
 - Liguria, with Genova, was the big winner being the country economic powerhouse at that time.
3. The South gained with partial WIA, particularly if benefits from public goods are imputed according to the population.

This is subject to the assumption that everybody in the country agrees in the same way on the impact of expenditures on her/his well-being

Implying in turn to advance a merit goods argument.

Concluding comments

4. The space for compensating the South, in terms of MISA, was limited:
by the structure of the expenditure,
from nationally uniform tax rates, and by
strategic/economic constraints.
5. No compensation was tried on the revenue side. But why tax rates have to be nationally uniform, when preferences differ?
6. No clear exploitation of the South emerges, despite some claims by “Neo-Bourbon Southernists”, because of, presumably, the representation of the South in the Nomenklatura.
6. Although the fiscal residuum seems to be a promising tool for estimating regional coercion and compensation to it, one has to be conscious of its limitsu.

Annexes

List of criteria used to allocate revenue, by category, to regions

Income from assets	0,50 population; 0,50 GDP
Land property tax	Actual collections
Urban property tax	Actual collections
Schedular income tax	GDP
Transfer taxes	Actual collections
Consumption taxes	Actual collections
Custom duties	GDP
Salt tobacco and lottery taxes	Actual collections
Income from public services	Actual collections of post and telegraph tariffs
Other revenues	GDP
Extraordinary revenue	GDP
Revenues from railways	50% length of railways lines; 50% GDP

Annex 1. Graphic representation of simple model of coercion

Citizens' preferences over a publicly provided good, g , and a composite private good, x , represented by

$$(1) u = u(g) + v(x).$$

Total cost C of supplying the public good, g ,

$$C = c(N),$$

financed through a proportional income tax

y individual income and t tax rate.

For individuals, the budget constraint is

$$x = y - ty$$

Letting $y = Y/N$ be the per capita tax base, the government budget constraint becomes

$$(2) pg = ty.$$

Individual's constraint

$$(3) x = y - (pg/y) y.$$

Individuals maximize their utility, U , by choosing the level of g , subject to equations (2) and (3).

Annex 2. Fiscal residuum determination

The compilation of the fiscal residuum requires the allocation to each region of the national expenditure recorded by existing categories in the national budget document with the use of appropriate indicators. That is:

$$EI_j = a_i b_i c_i (EN_j) \text{ Where:}$$

EI_j is the estimate of the national expenditure of category j going to the region (going from 1 to n).

EN_j is the expenditure of category j recorded in the national budget;

a_i , b_i and c_i are the values for region i of the variables supposed to determine or to reflect, the allocation of expenditure j among regions.

Collections of taxes recorded by provincial Treasuries present lesser problems, allowing the use of administrative data, R_{ik} . When corrections are needed, we proceed with a system similar to that used for expenditure. That is,

$$RI_k = d_i e_i f_i (RN_k) \text{ Where:}$$

R_{ik} is the estimate of the amount of the tax/revenue of category k (from 1 to m) paid by region i to the national budget.

d_i , e_i and f_i are the values for region i of the variables supposed to determine, or reflect, the allocation of revenue k among regions.

The fiscal residuum for region i is then determined as the difference between the sum of expenditure received and the taxes or revenue paid

$$\sum_1^n EI - \sum_1^m RI$$