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THE CASSA DEPOSITI E PRESTITI
AS ECONOMIC POLICY INSTRUMENT

The aim of this work is not to concentrate on the specific problems of local finance, but only to contribute to a better understanding of Italian experience regarding the problems for local institutions¹ in financing investments. My approach is to examine the problem as part of the general problems of economic policy.

The relationship between central and local finance has always been of particular importance for economic and political institutions. From the beginning of the seventies their interaction became a growing and sometimes dramatic problem with the changing role of the State in economic activity. It should be remembered, moreover, that, during the seventies, there was an increasing administrative decentralization, that is the process by which the State achieves its tasks directly through the central administrative bodies, and through other public institutions such as local territorial institutions, like Regions (already considered in the Italian Constitution but defined and implemented in 1970), Provinces and Municipalities. These considerations can explain why the problems of local finance must be analyzed only in the light of the general targets and instruments of economic authorities.

Immediately after the war the economic theory of the State was a traditional one, even if there was strenuous activity carried out, during fifties and sixties, to different ends, depending on the economic cycle or for structural reforms. Actually, these actions were carried out, but above all planned,

¹ Local institutions or administrations are public institutions working into definite territorial zone. The most important Italian local institutions are Regions, Provinces, Municipalities. Besides them, „one can quote Unita” sanitarie locali (USL – a set on health districts), Universities, the Chambers for commerces, *Istituti autonomi per la casa popolari* (institutions for building and renting council houses) and others.

according to the principles of balanced budget and the free choices of private sector, except when in contrast with the stability of the purchasing power of money and the balance of payments' equilibrium. At the end of sixties, the problems and the crisis of these years led to new ideas about the role of the State and, so, to a new order of the most important economic targets. Already by the end of sixties, the Government had taken up measures with the primary aim of increasing employment and redistributing income while putting the principle of a balanced public budget in the second place. In this way in Italy it was asserted the importance of sustaining aggregate demand for growth and the principles of the Welfare State ensuring a minimum level of income and social services for everyone. As happened in other industrialized countries, in Italy the sphere of action of the State became larger and the level of public spending grew too, but there was no corresponding increase in fiscal imposition so growing financial needs by the State² were created.

Against this background one should read the actions and even the financial problems of local institutions, charged by the central authorities with a number of duties to support economic and social growth of their communities. As a matter of fact the delegation of powers by the central authorities concerned above all the definition and implementation, at the local level, of the national laws of spending while the fiscal reform (73/74) stressed local finance as a by-product of central finance reducing further fiscal autonomy of local territorial institutions³. Most of the works on this topic quote this as a cause of

² For a greater convenience we should recall some basic definitions implied in the text. These definitions come from official institutions like the Bank of Italy. State sector is: central administrations of the State (budget and treasury), the *Cassa depositi e prestiti* (savings and loans bank), the Agency for the South, Autonomous state firms (*Azienda nazionale autonoma delle strade statali, Monopoli sale e tabacchi, Poste e telecomunicazioni, Telefoni...*) and other comparable institutions (Ferrovie); Public Administration is made up by the central administration plus the autonomous state firms whose product goes to the market; the Enlarged public sector is defined by the public sectors plus other public institutions like hospitals, municipal firms, harbours' institutions, national institution for electricity. In front of these definitions there is a change in the meaning of budget: current deficit (or surplus) is equivalent to the difference between current entries and expenditures; net indebtedness (or credit) reckons up the operations for the capital account except financial operations; the public saving is given by the fiscal entries and other entries deriving from the state activity less current expenses; financial needs is the difference between the sum of entries (except new borrowings) and expenses (except the redeeming of loans) and the resort to the market, comparable to financial needs only but with the redeeming of loans. The resort of the market includes also the floating debt or short term indebtedness, not included into the concept of public debt.

³ Local territorial institutions were financed in the most part by the following flows of funds: own taxes (strictly defined by state laws or with some autonomy in the definition of their level); transfers loaded on the state budget, loans from *Cassa depositi e prestiti*, borrowing from banking system. The 73/74 reforms has changed substantially the weight of different flows of funds, cutting down in particular the local taxes (for instance family tax and consumption tax were removed).

the financial needs of the State increasing above a level consistent with the socio-economic conditions of the seventies. In fact the decentralization of spending decisions together with the centralization of fiscal entries caused a loss of control by the authorities of the real level of spending and, at the same time, a decline in the responsibility of local institutions.

At the end of seventies the law started to recognise this problem with the first decrees of reform regarding the functioning of local institutions (*decreti Stammati* 1977)⁴ and above all with the law of reform of the public budget (l. n. 468/78)⁵. This law takes into account not only central state organs *strictu sensu* but the public sector as a whole and furthermore there was the introduction of the annual financial law in which the maximum ceiling of the state deficit for the year must be set. By the same logic, to control the global public spending, we should view some measures made in the early eighties too. We refer namely to measures of the so called *Tesoreria unica* (law by decree 24/5/84) which oblige local institutions to have their liquid balances in central administration organs instead of within the banking system as usually happened before.

In this general picture one can also see the particular problem of financing investments by local institutions as, since the seventies, they have been turning into essential instruments for programmed targets of full employment, family incomes and social security. As has already been said, local finance is becoming more and more a derivative finance or finance of transfers charged to the state budget and the *Tesoreria unica* emphasizes this tendency. So the financing of investments by local institutions is fundamentally a problem of their indebtedness and then a problem of their financing and of their lending institutions.

Since the last century, and not only in Italy, there were many specific institutions to lend funds to local communities, as in France there was the *Caisse des depots et des consignations* forerunner of the Italian *Cassa depositi e prestiti*, which was borne in 1863. Like the French institution, the *Cassa* was a non profit institution and unified previous diverse institutions in order to

⁴ The *Stammati decrees* (from the man proposing – laws n. 62/1977 and n. 43/1978) begin the reorganization of local finance. They established the consolidation of short term debt towards the banking system and *Cassa depositi e prestiti*, for that it was assured the recovering of deficits through *Cassa* loans and it was ordered the Treasury to give the needed liquidity, at the same time the Treasury had to take on old debts and to finance in full possible „authorized” deficits on the ground of fixed ceiling of spending.

⁵ On the ground of this law, the Government has to expose to the Parliament before September 30th the expectations about a three years budget (about the engagement of entries and expenditures), a relation about expectations and programs and a project of a financial law in which it was to be fixed the ceiling for the resort to the financial market, and where must be quoted all changes and implementations of the laws influencing state budget or the budget autonomous public firms or other institutions tied to the state finance.

channel the flows of funds for public works and particularly for the investments of local institutions. Just before the second world war it was established as an administrative department of the Treasury but with an autonomous system of accountancy and capital funds, and it had an important role, even if not much known, during the reconstruction period. During the seventies, the increasing deficits, current deficits too, of local institutions stress the importance of the *Cassa* as „bank of local institutions” and so too its relationship with banking system, the other lender for financing investments and even the same current deficits.

For a better understanding of the above, it would be convenient to briefly review the principal features and functioning of the *Cassa depositi e prestiti* in view of the evolution of the financial problems of local institutions. We should understand the present role of the *Cassa* which, in 1983, from an administrative department, turned into a sort of autonomous bank, still belonging to the public sector. The principal function of the *Cassa* is to loan investment funds to local institutions (but not only to them) and to this target post offices gather deposits which flow to the *Cassa* as their central department. Till the end of the seventies this type of borrowing was the 90% of the total liabilities of the *Cassa*, the remainder coming from supplying long term bonds to the public or directly from Treasury. In addition, the *Cassa* was divided in to two general departments: the first for its effective services, and the second for managing the social security institutions. Loans to investments of local institutions were granted by the autonomous department of credit to municipalities and provinces and the department of short term credit which could meet contingent current deficits too.

The favourable trend of postal deposits, at least during the first half of seventies, was of indirect aid to the Treasury as liquid balances were paid into the current account by the Treasury financing a quota of the floating debt. During the seventies, owing to the facts just recalled, the increasing deficits of local institutions emphasized also the difficulty in facing these with the funds of the *Cassa depositi e prestiti* alone. As a matter of fact the *Cassa*, also in the sphere of the public sector, works as a mere financial intermediary because its ability to lend is strictly bound by its deposit gathering. This caused more frequent and strict relationships between local institutions and the banking system in search of funds. This also caused some distortion of these relationships because, between the seventies and eighties, local institutions used bank financing not only for current expenses but also for investments and furthermore they also had large liquid balances in the banking system further impeding the control of total public expenditure. In any case, the 77 decrees, which stressed the derivative nature of local finance, and the measures for the law regarding the *Tesoreria unica* in 1984, have changed the false competition between the two principal lenders for local institutions, the *Cassa* and the banking system. Moreover the *Cassa* has taken the responsibility of managing

the period of transition towards a state of more balanced local finance turning also to the Treasury for new advances on the current account and issuing long term bonds to consolidate and to level again the debts of local institutions through its autonomous departments. During this period the working of the *Cassa* is not really autonomous, but during the same period it is possible to outline more clearly what should be the role of the *Cassa* in the public sector and its relationships with the other financial intermediaries of the private sector, so justifying the law of reform of this institution (law 13/5/1983 n. 197).

In previous years local institutions had fewer duties in economic and social fields and so the needs for expenditure were less together with a greater fiscal autonomy: against this background there was no question about the role of the *Cassa* because its flow of funds was fitted to the role of bank to local institutions. More than that, during this period the important thing was its working as central bank for postal savings which were gathered and invested from the savings scattered among little towns and in lower income areas. The administrative decentralization, the targets of the Welfare State and the reduction in fiscal autonomy of local institution, aimed at a greater clarity and unity in the public finance, oblige local institution to take a more active role in the economic and social fields but blows up their problems of financing. At this time the *Cassa* takes on a more important role as instrument of economic policy not only as a lender for medium and long term targets but also as trade cycle stabilizer assuring continuous financing for productive investments from a social and an economic point of view. At the same time, however, one must stress the restrictions in the working of the *Cassa* and the problems for public finance if the banking system becomes a secondary lender. As a matter of fact the *Cassa*, in its role of financial intermediary, meets growing difficulties in asking for funds when interest rates are rapidly growing up in the market: its liabilities are almost all short term liabilities while its assets are bound in long term credits with fixed rates, which can be changed only after a delay and only as regards new credit. As a general department of the Treasury, the *Cassa* has to face new restrictions in the use of savings because the current accounts' balance was to be deposited in the Treasury and the rest of savings could be divided between the Treasury and the local institutions, so the use of savings was bound by the need of Treasury to avoid resorting to the Bank of Italy.

At the beginning of the eighties the financial needs of the Treasury were improved by a greater selling of bonds on the market so the time was ripe for the reform of the *Cassa depositi e prestiti*. This reform had the twin targets of increasing the clearness and the responsibility of local institutions in financing their own deficits and to give to the *Cassa* itself more freedom of action in the use of its funds in taking on a leading role with the new principle of *Tesoreria unica*.

With the law 13/5/1983 n. 197 the *Cassa depositi e prestiti* became, in the words of the *Corte dei conti* (resolution n. 3/85) a special autonomous agency, controlled directly by Parliament through the control commission. The relation with the Treasury was kept strict and active also because the Treasury minister is also the president of its board of directors, but this relation is no more of direct subordination as its working is under the control of the auditors' committee of the *Cassa* and of the *Corte dei conti* through its department for the control of local institutions. As an autonomous agency, the *Cassa* rather assumes the form of a financial intermediary with autonomous capital funds and autonomous accounting; its profit is divided half to the endowment half to the reserve fund while, previously, 8/10 of the profit went directly to the Treasury. This is not of course to say that the *Cassa* enjoys full freedom of action in respect of the Treasury: it is still the concern of the Treasury to fix interest rates for the credit loans of the *Cassa* and to issue the bonds, and also it is a matter for special laws that the *Cassa* may finance other institutions not quoted in the law n. 197⁶ (such as Universities, Regions Treasury Autonomous public firm). The new law clarifies the features of the relationship between the Treasury and the *Cassa* even if there are still some problems which can impede for the working of the *Cassa* itself as a financial intermediary favouring its instrumental role of general economic policy. On the one hand the *Cassa* has more freedom of action in granting long term loans, specifically to the local institutions, both with a greater availability of its funds and above all in its decision making in granting the requests for borrowing. On the other hand the amount of funds granted to the local institutions and their distribution are decided by national laws and it is the concern only of the State to portion the expenditure for long term loans for local institutions but it is only the refusal of the *Cassa* credit, which permits resort to the banking system for investment financing. However the fixing of interest rates and the decision about the rules for issuing bonds by the Treasury minister prevents effective and free competition between the *Cassa* and the other intermediaries and may obstacle the growth in postal savings when interest rates are rising. It should be remembered however that postal savings are always and largely a way of meeting the financial needs of the State at a lower cost than other forms of public debt, so postal savings and the working of the *Cassa* itself should be programmed together with the other targets of economic policy and of local finance.

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⁶ Institutions quoted by the law for the loans of the *Cassa* are: Municipalities, Provinces, the unions among local territorial institutions and mixed, unions for reclamation of land, mountain companies for public services provided that local institutions have the majority of shares.

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CASSA DEPOSITI E PRESTITI — JAKO INSTRUMENT POLITYKI EKONOMICZNEJ

Opracowanie zawiera charakterystykę ewolucji oraz ocenę aktualnej pozycji specyficznej włoskiej instytucji lokalnej – *cassa depositi e prestiti*.

Od początku obecnego wieku, nie tylko we Włoszech, ale także w innych państwach europejskich, tworzone były specjalne instytucje, których zadaniem było udzielanie pożyczek wspólnotom lokalnym. Włoska *cassa depositi e prestiti* – podobnie jak np. jej francuska odpowiedniczka – nie została powołana dla osiągnięcia zysków, ale przede wszystkim dla stworzenia ujednoliconych form przepływu środków na cele publiczne i inwestycje lokalne. Od chwili utworzenia aż do schyłku lat siedemdziesiątych *cassa* stanowiła administracyjnie wyodrębnioną jednostkę organizacyjną Skarbu Państwa, prowadzącą odrębną rachunkowość i wyposażoną po części we własne fundusze.

Współcześnie pozycja *cassa depositi e prestiti* uległa istotnej zmianie. W roku 1983 przekształcono ją bowiem z jednostki administracji państwowej w rodzaj autonomicznego banku, należącego jednak nadal do sektora publicznego. Zasadniczą jej funkcją pozostało udzielanie pożyczek instytucjom (choć nie tylko ze środków pochodzących ze zgromadzonych depozytów). Jednocześnie *cassa* została podzielona na dwie zasadnicze części. Pierwsza

z nich zajmuje się działalnością depozytowo-kredytową, druga – zarządem instytucjami opieki społecznej. Począwszy od 1983 r. działalność *cassa* podporządkowana została bezpośredniej kontroli parlamentarnej. Nie oznacza to jednak pełnej niezależności od ministra finansów, który nadal upoważniony jest do określenia wysokości oprocentowania kredytów oraz zasad emisji papierów wartościowych.

W konkluzji Autorka wskazuje na istotną rolę *cassa depositi e prestiti* jako instrumentu polityki gospodarczej państwa. Szeroka sfera jej samodzielności pozwala bowiem na prowadzenie elastycznej polityki kredytowej. Z drugiej natomiast strony centrum zachowało określony wpływ na rozmiary i kierunki przepływu środków finansowych w gospodarce lokalnej.