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**MUNICIPAL BUDGETARY DECISIONS IN TIMES OF
AUSTERITY IN ITALY AND FRANCE:
BETWEEN NATIONAL, LOCAL AND INTERNAL
INFLUENCES**

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1 Introduction

The 2008 crisis has challenged most European Local Governments (LGs)' financial situation. The shock has been more or less intense depending on the national context and policies, and on individual situations and strategies. After the crisis, different and successive types of recovery plans, austerity measures, and institutional reforms have been implemented by States (Kickert 2012; Schick 2011), with diverse effects on LGs' situation (for example, (Cepiku, Mussari, & Giordano, 2016)). Depending on their local environment or capacities, LGs showed various patterns of resilience to cope with the crisis and the decrease in public resources, leading to the implementation of various strategies and of various decisions concerning expenditures and revenues (Céline du Boys, 2017; Steccolini, Jones, & Saliterer, 2017).

Taking a short or longer term perspective, LGs have had various options: from brutal cost cuts (Raudla 2013) to more elaborated restructuring of their actions and missions, even by outsourcing via public-public partnerships or by adopting several other organizational schemes (Savas 1987); from basic fiscal leverage to new strategies for enhancing revenues (Carroll and Johnson 2010). These behaviors or decisions are partly reflected in the LGs' short term budgetary choices concerning revenues and expenditures, while they affect on the long term, their financial conditions.

Effects of central measures and reforms on LGs have already been studied at a macroeconomic perspective – i.e. considering LGs as a whole or as a sub-sector of public administration. But, limited attention has been paid to the effects on LGs considered individually. As part of a wider research, this paper aims at understanding the influence of national and local economic factors, and internal characteristics on the LGs reaction to the 2008 crisis. The cross country comparative analysis provides the opportunity to isolate the effects of the national context. Previous paper from the authors (du Boys & Padovani, 2016) shed light on the effect of the institutional context on LGs situation and on the timing of the crisis between France and Italy. It suggested that the effect of the crisis has come later in France than in Italy, and affected differently LGs. One may wonder if this is the consequence of the late decrease in French state grants to municipalities, coupled with the tax guarantee on tax payment or the absence of any bankruptcy regulation, whereas in Italy, measures such as reinforcement of the internal stability pact or grants cutting have been taken very early. Here, our interest also goes beyond studying national influence and we wish to understand the influence of local and internal factors.

This research is intended to answer the call for comparative studies on how different nations have reacted to global crisis (Pollitt 2010; Raudla 2013) covering the specific level of municipalities. In this paper, we are interested in understanding how municipalities decide their budget allocation, with a special focus on the actual austerity period. We wonder what is the influence of national, local and internal factors on the allocation decisions, and to what extent the local and internal factors have comparable influence on LGs from different countries. We propose a quantitative analysis on a panel data set of 2.200 municipalities over 10.000 inhabitants in France and in Italy over a 9 years period (2007-2015) to shed light on these questions.

Results show that despite national differences, there are internal municipal factors that drive municipal budgeting decisions, while local social and economic factors seems to have a limited effect. In particular, municipalities are (a) more proactive to develop their financial

autonomy when they are more dependent from grants, (b) more likely to increase their own revenues or to decrease current and capital expenditures in case of high debt, (c) more likely to outsource to get their budgets less rigid, (d) less inclined to consider contingencies in their budgeting decisions in case of higher managerial capacities, and (e) more inclined to increase capital expenditure in case of relatively higher population wealth.

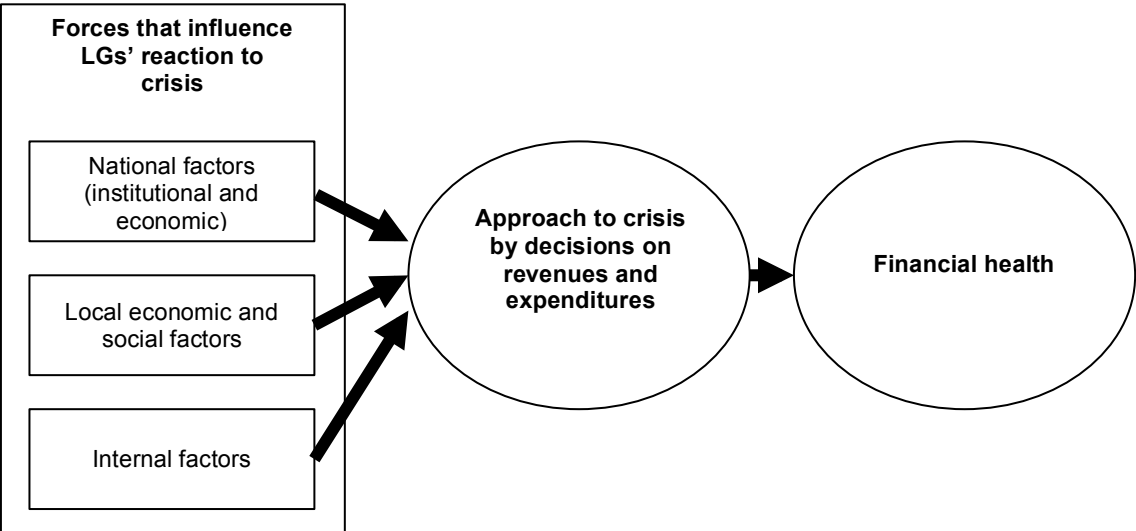
This paper is structured as follow. Section 2 discusses the conceptual framework that we use in this study, applying it to the two contexts, France and Italy. The methodology of the quantitative analysis is described in Section 3, Section 4 presents and discusses the results, while Section 5 provides some first conclusions.

2 Conceptual framework

This research locates within the stream of research interested in understanding the effects of the global financial crisis on LGs financial management. Our conceptual framework is used to logically organize relevant literature and builds upon a qualitative research approach on management of austerity in LGs by Cepiku et al. (2016). This is then applied to our quantitative analysis of municipalities in France and Italy. As this is a first stage of research, the conceptual framework is only partially applied.

We are interested in investigating how financial health – otherwise called financial condition or fiscal health – (our final dependent variable) has been influenced by different arbitration decisions made in terms of expenditures and revenues (our intermediate dependent variable), on the basis of the forces that influence LGs’ reaction to crisis. Literature singles out three different types of forces (our three independent variables): local economic and social factors, national factors, and internal factors. The conceptual framework is represented in Table 1.

Table 1 – Conceptual framework



This paper’s objective is to investigate the first part of the model, while the effect on financial health will be part of further researches. We are thus interested in understanding how LGs, municipalities in particular, are affected by national, local and internal factors when they decide their level of revenues and expenditures. We are interested to study the behavior of those revenues and expenditures for which previous research has detected being the most

important levers used by LGs during austerity. We wonder what is the influence of national institutional and economic, local economic and social and internal factors on the allocation decisions during the recent economic crisis, and to what extent the local and internal factors have comparable influence on LGs from different countries. Moreover, we have a special interest in the France versus Italy comparison.

To investigate these research questions, we review literature on LGs decisions concerning revenues and expenditures, and on forces that influence these decisions.

2.1 Approach to crisis by decisions on revenues and expenditures

Municipalities seem to react to crisis and austerity by implementing several patterns of responses (Barbera et al. 2016). Reorientation, when municipalities consider a crisis as an opportunity for imprinting a reorientation toward a stronger financial health. Buffering, when municipalities have accumulated surpluses from past periods of abundance. Continuous adjustment, in case LGs show a strong planning and control culture together with a conservative approach to spending. Avoiding problems and catching opportunities, when governments are familiar with a day-to-day and emerging financial strategy. Our intermediate dependent variables capture these responses of LGs by their impact on revenues and expenditures.

As far as revenues are concerned, LGs may react in several ways. Notably a portion of their inflows of financial resources is decided by the central State that, during financial crisis, is reduced. This may be not only with reference to grants, but also the national government can limit the possibility by LGs to impose new local taxes or can limit the raise of tax rates or impose modifications to tax bases. But, of course, LGs retain rooms for manoeuvre for their revenues for example by deciding the prices of their fee-paying services. Raises in local revenues in reaction to state grants decreases may occur especially in the early phases of crisis, when the “tooth fairy syndrome”, i.e. the idea that cutbacks are not needed, may influence LGs decision makers (Levine 1979), or in case the cutbacks provided are less than the reduction of State grants.

There is a wide body of studies that has focused its attention on the pattern of expenditure cutbacks, but the most important appear to be capital spending reduction and personnel expenditure reduction via hiring freeze. Capital spending has been considered being the prevalent expenditure being cut during crises (Levine et al. 1981, Dunsire and Hood 1989). Capital spending cancellation or freeze seem to be the most common, but not necessarily the most promising in the long term, strategy for facing financial resource scarcity (Scorsone and Plerhoples 2010). Another “freezing” strategy is adopted for personnel hiring, as it contributes to decrease expenditures without unpopular layoffs (Levine 1978; Rubin 1985). Another possibility is the reduction of operating expenditures via cuts of programs or efficiency increase.

Notably, budget annual cycle remains pivotal in the decision of revenues and expenditures (Gianakis et al. 1999). Mayors decide their own budgets mainly on the basis of short-term perspectives, on the basis of contingencies. Some authors have also underlined the importance of rebudgeting, especially in answer to internal and external contingencies (Anessi-Pessina et al. 2012). In other words, budget allocations and thus revenues and expenditures levels decisions, must be seen in answer to current contingencies.

2.2 *Forces that influence LGs' reaction to crisis*

2.2.1 *Internal factors*

Finally, internal factors constitute an important set of forces that influence municipalities' reaction to crisis. Financial autonomy, budget flexibility and degree of fiscal distress have been detected as determinant (Lee et al. 2009; Pollitt 2012). Barbera et al. (2016) argue that previous financial conditions have an impact on responses to crisis by city governments' decision makers. For example, an ex-ante situation of structural surpluses tends to postpone cutbacks. In this line, the financial resilience framework developed by Steccolini et al. (2017) also gives an interesting understanding of the effects of internal factors on strategies and financial arbitrage decisions taken by municipalities to cope with crisis. More resilient cities thanks to greater anticipative and coping capacities can limit the amplitude of cutbacks or tax increases. The existence of anticipative and adaptive capacities in contrast with only buffering ones enables a softer reaction to crisis. Long-term anticipation and accurate perception of the municipalities' external and internal vulnerabilities allow to limit cost cuts and fiscal and debt rise ((Steccolini et al., 2017) and (du Boys, 2017) for an illustration in France).

Leadership and managerial capacities are also determinant internal factors. Their presence is considered pivotal as they minimize the negative effects of cutbacks (Behn 1980; Levine 1978) and may develop long-term strategies in answer to crisis, including infrastructure development and employment retraining (Pollitt 2012). The expertise of mayors and management teams seems to be greater in bigger municipalities (Kerrouche 2006). Furthermore, there is vast evidence suggesting that the bigger an organization is, the more sophisticated management control tools (Anessi-Pessina et al. 2008; Child and Mansfield 1972; Van Dooren 2005) thus having a more long-term than short-term perspective (Padovani and Young 2012). The size of the municipality can then be seen as a possible proxy for managerial capacities.

Following these elements, we can formulate several hypotheses regarding the influence of internal factors on LGs decisions on expenditures and revenues.

- *H1: Municipalities in a bad previous financial situation are more likely to increase revenues or decrease expenditures in order to rebalance their situation.*

H1a: Municipalities with a low gross operating balance are more likely to increase own taxes and fees, or to decrease current expenditures.

H1b: Municipalities with high debt are more likely to increase own taxes and fees, or to decrease current expenditures and capital expenditures.

- *H2: Municipal financial autonomy has a changing influence on expenses and revenues decisions, depending on their resilience patterns. Less resilient municipalities with small financial autonomy, are more likely to rely on State decisions, and are less likely to develop their own revenues. More resilient municipalities with small financial autonomy, are more likely to try to develop their autonomy by increasing own revenues.*
- *H3: In times of austerity, municipalities with high budget rigidity are more likely to decrease personnel expenses and to outsource.*

- *H4: Internal managerial capacities have an influence on the way municipalities take their decisions concerning revenues and expenditures. The more managerial expertise, the less pregnant is the influence of budgetary constraints, and thus the influence of national, local and internal factors on expenditures and revenues decisions.*

2.2.2 Local economic and social factors

The reaction to crisis, and the budget allocation that follows, are influenced by economic and social factors such as economic growth, unemployment and income levels. The level of severity and length of the crisis affect with different magnitude (the higher the worst) both revenues through tax base reduction and expenditures via an increase of demand for services (Dunsire and Hood 1989; Pollitt 2012; Raudla et al. 2013).

Managers perception of the local economic and social context lead them to anticipate future demand for public services and infrastructure, to appreciate the population willingness to pay taxes and fees and in this way, to decide the level and structure of expenditures and revenues (see for example in France, du Boys (2017)). Cities that benefit from a good attractiveness need to increase capital and current expenditures in order to answer growing population needs, and benefit from higher own revenues.

Following these perspectives, we can formulate several hypotheses regarding the influence of local factors on municipalities' decisions on expenditures and revenues.

- *H5: Municipalities are influenced by their local economic situation. Municipalities where the population is getting poorer, or that face bad economic conjuncture are more likely to limit their spending and have difficulties in developing their own revenues.*
- *H6: Municipalities that benefit from a good territorial attractiveness or a growing population are more likely to increase their revenues and expenditures, even in times of crisis.*

2.2.3 National institutional and economic factors

Above national economic conjuncture, national institutional contextual factors affect LGs' reaction to crisis. They can be seen at three different levels: the administrative culture or traditions (Loughlin 1994), the basic structure of the State in terms of vertical dispersion of authority (Pollitt and Bouckaert 2011), and the state-level austerity policies in reaction to crisis (Miller and Hokenstad 2014). France and Italy can be considered similar in terms of culture or administrative traditions (Ongaro 2010), therefore we limit our analysis to the other two variables.

a) Vertical dispersion of authority

Vertical dispersion of authority relates to the different state models in place. While usually the distinction is between unitary and federal states, some unitary states are so highly decentralized that the degree of de facto decentralization is even higher than in federal state. It is thus important to distinguish between different levels of centralization/decentralization. The concept of decentralization is multifaceted and complex in nature. Schneider (2003) defines three types of decentralization: fiscal, administrative and political. The measurement of centralization/decentralization is controversial, but amongst the most popular measures that

have been used there are share of revenues or expenditures at local level compared to the public sector, percentage of local revenues controlled by LGs, and percentage share of public employment.

One element that may be considered as symptom of high level of autonomy and thus high decentralization is the presence of bankruptcy rules opposed to state takeovers. Bankruptcy refers to that situation where a LG's state of insolvency is declared or imposed by a court order, and creditors are paid by clearance of assets and credits. Many countries do not have a provision for LG's bankruptcy filing but rather a higher level, usually the central government, takes charge of the situation.

Another aspect that is important to assess the level of freedom of a LG, and thus its subjection to national policies, is its ability to decide their budget policies amongst which debt burden is pivotal. Most countries (but not all) provide restrictions to LGs borrowing. Policies affecting the debt load (by limiting borrowing so as to reduce debt load or by taking direct control of the financial load), policies affecting current primary savings (by restricting borrowing to finance capital expenditure or by increasing municipal revenues), or policies affecting the co-funding efforts (by reducing co-funding of investments or reducing capital expenditures) are possible strategies put in place by State governments (Cabases et al. 2007).

Classic measures of centralization/decentralization tend to show that Italy is more decentralized than France (see Table 2)¹.

Table 2 – Comparing French and Italian level of decentralization and their evolution with the crisis

	France		Italy	
	2007	2015	2007	2015
Total Local expenditures / total public expenditures	21,4%	20,0%	31,3%	28,8%
Total local revenues / total public sector revenues	21,8%	21,4%	32,1%	31,0%
Local public employment /total public employment (<i>in number of employees</i>)	33,7%	35,1%	42,0%	42,6%

Sources: INSEE (France) and ISTAT (Italy).

The French Republic is a unitary State which organization is decentralized. In the early 2000's, decentralization and LGs' financial autonomy were registered in the Constitution. LGs are freely administered by elected councils. Municipal taxes are collected directly and indirectly from citizens and companies. Municipalities' councils vote the rate of main direct taxes, and the State ensures tax collection and bears the risk of non-payment. The State pre-pays and guarantees the amount of taxes voted locally. Municipalities also decide service fees.

The Italian Constitution recognizes federalism and localism. As to municipalities, the constitution provides a certain level of autonomy in terms of ability to raise taxes and service fees, for which they are responsible in terms of collection, decide on the organization and

¹ See previous research by the authors (du Boys et al. 2014) that have identified, through a qualitative study, some important differences in the French and Italian institutional contexts (level of central authority on municipal finances and the state-level austerity policies enacted to face the crisis).

performance of their functions and offices, and allocate resources to different functions and services provided. In 2009 a reform of fiscal federalism has begun. The reform has not been completed yet, and today the system appears contradictory since the central government is conferred a high power over local finances, particularly during economic crisis.

Municipal budget and structure

In France as in Italy, the municipal budget is divided into operating and capital revenues and expenditures. Operating section can generate a surplus, which will permit to finance the investment activities. Budget must be balanced. Any overall imbalance must be covered in the following budget cycle.

In France, the Prefect and the Court of Auditors, representing the central State, monitor and can impose measures to return to balance. In Italy, the Court of Auditors monitors or suggests measures to balance to municipalities, and starting from November 2011, it can even declare the bankruptcy status (see hereinafter) in case of severe unbalances.

Debt regulation

In both countries, debt is low, but much lower in Italy, if compared to State debt. Municipal borrowing was 2,2% of the Italian public debt compared to 3,2% in France in 2013. But while in France, it has been increasing since 2003, in Italy it has constantly decreased of 20% between 2011 and 2016.

In Italy, debt is subjected to specific restrictions by Constitution, national and regional laws with the aim to guarantee financial sustainability. The law imposes quantitative limits to borrowing related to annual revenues. LGs can take out new debt in case the new annual amount of expenses for interests (of any form of past and new debt and guarantee) does not exceed a specific amount of current revenues of the second to last previous fiscal year. The length of any debt operation (even for renegotiations) is between a minimum of 5 to a maximum of 30 years. Another important element of public finances regulation is the Internal stability pact (ISP). It reflects on LGs' budget decisions and is intended to decrease local debt. De facto, the ISP is imposed by central government as fiscal consolidation within the European framework of the Stability and growth pact (SGP). Established in 1999, this measure was introduced in answer to the decentralisation process begun in the early 90s and mirrors the SGP by requiring municipalities (and other LGs) to adopt specific measures with the final aim to improve the difference between primary revenues and expenditures and, thus, decrease the stock of debt. The ISP has changed over time, in terms of ways to implement the financial efforts and their level. This latter characteristic has substantially introduced a certain level of uncertainty amongst LGs in their financial planning, especially considering that the ISP has widely been considered not an agreement between the central government and regions and LGs, but a unilateral deed.

In France, debt regulation is more simple. Borrowing is only allowed for investments, not for operating activities. Debt repayment is mandatory and must be done from own-resources. Many LGs suffer from a risky debt structure due to an important proportion of toxic loans². There is no systemic risk (Observatoire des finances locales, 2014), but many LGs are affected and some suffer from a high increase in their financial expenses. The loan agreement

² Structured debt combining traditional bank loans and derivatives. Often linked to non-traditional indexes as the Swiss exchange rate.

with a bank is a matter of private law, but includes a commitment to increase taxes if necessary to fulfil the annual repayments (Mouzet, 2011).

Bankruptcy rules

In France, bankruptcy procedure does not apply to LGs and their assets are exempted from seizure. Specific procedures are designed to protect creditors. Thanks to these mechanisms, the risk of insolvency does not seem to exist in LGs. Even in the worst examples of French LGs difficulties, there has been no debt write-off. The debt has just been extended to enable the payment.

In Italy the law provides three typologies of situations of financial distress for municipalities, from the most serious default or bankruptcy (*dissesto*) to the intermediate pre-default (*pre-dissesto*), which is a sort of condition in which the LG is subjected to a series of central government continuous checks, and the least acute imbalance that occurs in the rebalancing procedure (*procedura di riequilibrio*). A municipality is considered in bankruptcy condition when (a) it is not able to continue its functions and essential services, or (b) it cannot pay creditors with regular resources (i.e. insolvency). Municipalities subjected to bankruptcy procedures face a financial shock and assets can be sold to pay creditors.

b) State-level austerity policies in reaction to crisis

Another level of national institutional contextual factors that can affect LGs' reaction to crisis is the state-level austerity policies in reaction to crisis (Miller and Hokenstad 2014). They come in different forms. Standardization of procedures, setting limits and ceilings to spending, borrowing and activities, general priority-setting by the government are the main example of state-level austerity policies that inevitably brings to a higher centralization in the relationship between central and local governments (Stanley 1980; Peters 2011; Pollitt 2010). While the rational and the deliberate goals of these procedures are set to face fiscal crisis, contradictions exist (Cepiku and Bonomi Savignon 2012) and these policies may not have the desired impact on revenues, costs and debt (and thus the financial health of LGs).

State-level austerity policies

There are at least two characteristics that differentiate the Italian answer to crisis from the French one, namely its anticipation, since its most severe phase can be dated to 2011 instead of 2014-15 of France, and its complexity. The first symptoms of fiscal crisis arose in 2008, when markets and international institutions, amongst which the EU, started to convey warning signals to the Italian government. Italy then started a series of reforms to strengthen public budgeting, accounting and audit. But the worsening situation also required deep financial cutbacks for municipalities that were obtained via several policies and mechanisms, with a particular boost in late 2011 with effects starting in 2012:

- Reductions in state grants,
- Increase of the ISP fiscal targets,
- Ceilings for specific current expenditures, known as “spending review” policies,
- Hire freezing.

In France, after the 2008 crisis, there has been successive national economic recovery plans (26 billion euros in 2009 and 35 billion euros in 2010) that limited the economic recession, and protected LGs. In 2010, specific measures were even implemented to support local

investment. But from 2011, the State froze and then decreased the “DGF”, the main general operating grant to LGs with the aim of forcing LGs to rationalize their expenses. From 2015, the strong decrease in DGF (11 billion decrease planned until 2017) has been felt as a strong and unexpected shock for most LGs. The expected overall effects in terms of cutbacks of the policies above in the two countries can be summarized as in Table 3.

Table 3 – Cutbacks effects on Italian and French municipalities during crisis

	2009	2010	2011	2012	2013	2014	2015	2016	2017
France*	none	none	transfers freezing	transfers freezing	transfers freezing	0,59	2,04	3,49	4,21
Italy**	1,46	1,03	3,01	5,19	3,16	0,04	0,85	n/a	n/a

Note: in billion Euros

Source: INSEE (France) and IFEL (Italy).

*France: reduction in state grants (DGF).

**Italy: overall effects in terms of cutbacks policies mentioned above.

Fiscal federalism

Coupled with these policies, fiscal reforms that challenged decentralization have been implemented in both countries. In Italy, the central government re-introduced the municipal property tax in 2012 after 4 years of re-centralization of public finances, then in 2013 abolished the property tax on first residences and gave the possibility to raise rates of municipal personal income tax. In France, in 2010 (after years of less intense local revenues reforms) the removal of an important business tax called “Taxe professionnelle”³ resulted in a great loss of flexibility in revenues and has been a challenge for LGs.

Regarding France and Italy, we can conclude that Italy appeared to be more decentralized than France, whether it is concerning the autonomy given to LGs, the part of local expenditures, revenues or employees, or the bankruptcy rules. But local debt is much more regulated in Italy than in France. However, in both countries, the crisis has generated a recentralization trend mainly through fiscal reforms. If LGs in both countries suffers from state level austerity policies, Italians undergo much more important, long and complex ones.

Following this review of literature, we can formulate several hypotheses regarding the influence of national factors on LGs decisions on expenditures and revenues.

- *H7: National institutional contextual factors have an influence on the way municipalities take their decisions concerning revenues and expenditures.*

H7a: Factors influencing municipal decisions on revenues and expenditures are likely to be different between France and Italy.

H7b: Factors that do influence municipal decisions on revenues and expenditures in the same way in both countries are likely to have different magnitude impacts between French and Italian municipalities.

³ Tax paid by businesses, based on the value of their fixed assets. The rate was set by LGs. It represented 44% of LGs’ tax revenues. It has been replaced by several taxes which are smaller in amount. Moreover, some of them are very volatile and their rate is not set by the LG.

- *H8: State-level austerity policies push municipalities to increase own revenues or decrease current or capital expenditures.*
- *H9: Municipal strategies are influenced by national economic conjuncture. Municipalities might limit their spending and foster the development of own revenues to anticipate future restriction in revenues and increase in social costs, in order to behave as “cautious” municipalities; or they might increase their spending and limit the increase of local revenues in order to behave as “shock absorbers”.*

3 Methodology

The interaction of the national context and the individual situation in the shaping of LGs' individual strategies makes it hard to differentiate the influence of each level on the LGs' resulting financial situation. However, a cross country comparative analysis provides the opportunity to isolate the effects of the national context. Thus, in order to study the influence of both national and individual characteristics, this paper proposes a quantitative comparative study between French and Italian municipalities.

3.1 Sample selection and description

Italy and France have a high degree of comparability as they both belong to the Napoleonic administrative tradition group of countries (Ongaro 2010) and to the Euro-zone.

In France, there are three levels of LGs (region, department and municipality). They have a very similar legal system, and are placed on an equal footing regarding the State. They are freely administrated by elected councils, and do not exert control on each other. In 2015, there were 36.658 municipalities (communes), but only 958 over 10.000 inhabitants, describing a highly fragmented pattern. Municipalities have extensive autonomous powers to implement national policy and are responsible to manage such services as waste collection and disposal, water and sewerage systems, roads, social services, building permits and planning

Italy has a fragmented LGs pattern, with three main governmental levels, the State level, the regional level, and the municipal level. The previous fourth level (between regions and municipalities) has been transformed in a second tier LG, a sort of consortium amongst municipalities. In common they all have a territorial basis of action. There are about 8.100 municipalities (*comuni*) that are responsible for such local services as local transportation, waste collection and disposal, social services, road and school infrastructure and maintenance, amongst which 1.200 are above 10.000 inhabitants.

We chose to study municipalities as they represent the first tier of LGs in both countries. We collected data on all municipalities over 10.000 inhabitants (except Paris and Rome) in France and in Italy, throughout the years from 2007 to 2015, this is to say 983 French municipalities and 1219 Italian municipalities. Then we corrected the sample by winsorizing the variables at level 1% in each tail to reduce the effect of possibly spurious outliers. The sample is described in Table 4.

Table 4 - Number of municipalities by size category

Number of inhabitants \ Country	[10 000 – 20 000[[20 000 – 50 000[[50 000 - 100 000[[100 000 – 250 000[>= 250 000	Total
France	534	327	84	31	7	983
Italy	709	364	102	33	11	1219
Total	1243	691	186	64	18	2202

3.2 Selection of variables

Comparing the financial performance and condition of LGs has been an aspect widely discussed when the comparison is limited within nations, while less attention has been received when extended across national boundaries (Padovani and Scorsone 2011). This topic calls for several types of issues that have been already examined in literature. First of all it should be noted that reporting of public finances – LGs included – is at the cornerstone of two competing approaches to accounting: “government financial statistics” otherwise called “national statistics”, i.e. that accounting system whose aim is to represent economy at a whole and articulated in its subsectors, and “government financial reporting”, whose foundational basis is entity accounts. In this study, we refer to the latter. The International Public Sector Accounting Standard Board (IPSASB) provides a set of standards (IPSAS) that have been followed by several countries around the world, but only a limited number of EU countries have applied them and with different nuances (Ernst & Young 2012, PricewaterhouseCoopers 2014). French LGs have a level of proximity of their accounting information to IPSAS of 84 percent while Italian LGs got a lesser level, 30 percent (Ernst & Young 2012). In France, a full accrual accounting is applied both to general accounting and budget. In Italy, starting from 2009, the public sector accounting has been challenged by an all-encompassing reform called “harmonization of accounting systems and reports”. During the period covered by the analysis and still currently, Italian municipalities are provided by a cash/modified cash plus modified accrual bases of accounting sometimes called commitment-based accounting accompanied by an accrual basis-like set of documents.

While some researchers have argued that the comparability of financial reports and accounts may for the moment only be achieved at a rhetorical level (Heald and Hodges 2015), a recent research project has defined a common framework that make the international comparison of city governments’ financial health possible. Originating from currently used accounting information and a process of selection and legitimization of information upon which comparing LGs, the results point out that relevant information to compare city governments’ financial health is to a great extent already available but needs to be interpreted and re-shaped for purposes of making comparisons (Padovani et al. 2017). Based on that experience, we have chosen measures of the model’s variables that can be compared between France and Italy. Table 5 provides details for all variables.

The data collection has been possible thanks to a cooperation with Bureau Van Dijk, Brussels. We have worked on the creation of a database grouping together all financial information available on LGs in France (PA France) and Italy (Aida PA).

Table 5 – Variables

<i>Variable name</i>	<i>Description</i>	<i>Computation details and data sources</i>
Independent variables		
1. Internal factors		
FINDEP	Municipal financial dependency toward central State: part of State grants in municipal current revenues for year N-1	FR: State grants for current operations/Total current revenues, commitment based IT: State grants for current operations/Total current revenues, cash based Source: BvD*
BUDRIG	Budget rigidity: part of personnel expenditures in current revenues for year N-1	Personnel expenditure include salary and social charges, commitment based Source: BvD*
POP	Proxy for managerial capacities: Average population from 2007 to 2015	Source: BvD*
FHSHORT	Past degree of fiscal distress, short term: Gross operating balance (GOB) on Current revenues for year N-1	FR: GOB = Total current revenues (without asset disposal) – Total current expenditures (excluding depreciation and accounting value of asset that are sold during the year), commitment based IT: Total current revenues, cash based – Total expenditures, commitment based Source: BvD*
FHLONG	Past Degree of fiscal distress – long term: Debt on Current Revenues for year N-1	Stock of debt at year end Source: BvD*
2. Local economic and social factors		
ECOGROWTH	Municipal economic growth: percent change of total natural person income for all inhabitant of the municipality between N-1 and N-2	Individual tax declaration for all inhabitants of the municipality. Source, FR: BvD* (via Ministry of Economy and Finance). Source, IT: Ministry of Finance
INCOME	Population wealth: Income per inhabitant for year N-1	(as ECOGROWTH and POP)
POPGROWTH	Population growth: Percent change of municipality's population between N and N-2	Source: BvD*
1. National institutional and economic factors		
NATION	Proxy for the national institutional context	FR=0 IT=1
GDPGWTH	Proxy for the national economic context: National GDP growth between N-1 and N-2.	Sources, FR: INSEE (National statistics institute) Source, IT: ISTAT (National statistics institute) (IT)
POLICYGRANT	Proxy for the State-level austerity policies concerning grants to LG: Percent change of State grants received by the municipality between N and N-1	State grants for current operations. FR: measured by the level of DGF ("Dotation Globale de Fonctionnement"), commitment base IT: all grants, commitment base Source: BvD*
POLICYISP	Proxy for the Internal Stability Pact (ISP) policy: Impact of ISP on local public finances (at the macro level).	IT only. Source: IFEL

<i>Variable name</i>	<i>Description</i>	<i>Computation details and data sources</i>
Dependent variables: decisions on revenues and expenditures		
MOVVAR	Percent change of municipal own revenues between N and N-1	FR: Total current revenues – DGF, commitment based IT: Cash municipal own revenues (includes financial products) + asset disposal, cash based Source: BvD*
PEVAR	Percent change of municipal personnel expenditures between N and N-1	Personnel expenditure including salary and social charges, commitment base Source: BvD*
CUREXPVAR	Percent change of municipal other current expenditures (excluded personnel expenditures) between N and N-1	Other current expenditures: FR: “Achats et charges externes”. IT: “Acquisto di beni di consume” + “Prestazione di servizi”, commitment based Source: BvD*
CAPEXPVAR	Percent change of municipal capital expenditures between N and N-1	Spending in equipment and infrastructure FR: Commitment based. IT: Cash based. Source: BvD*

Note: * BvD: PA France (France) and Aida PA (Italy).

3.3 Data analysis method

To analyze the panel dataset we use a fixed-effect model, i.e. a linear regression model in which the intercept terms vary over the individual unit. Let i be the variable index for the unit ($i = 1, \dots, N$), i.e. municipality, and t the variable index for the time period ($t = 1, \dots, T$), i.e. the year, the specification of the fixed-effect model is:

$$y_{it} = \alpha_i + x'_{it}\beta + \epsilon_{it}$$

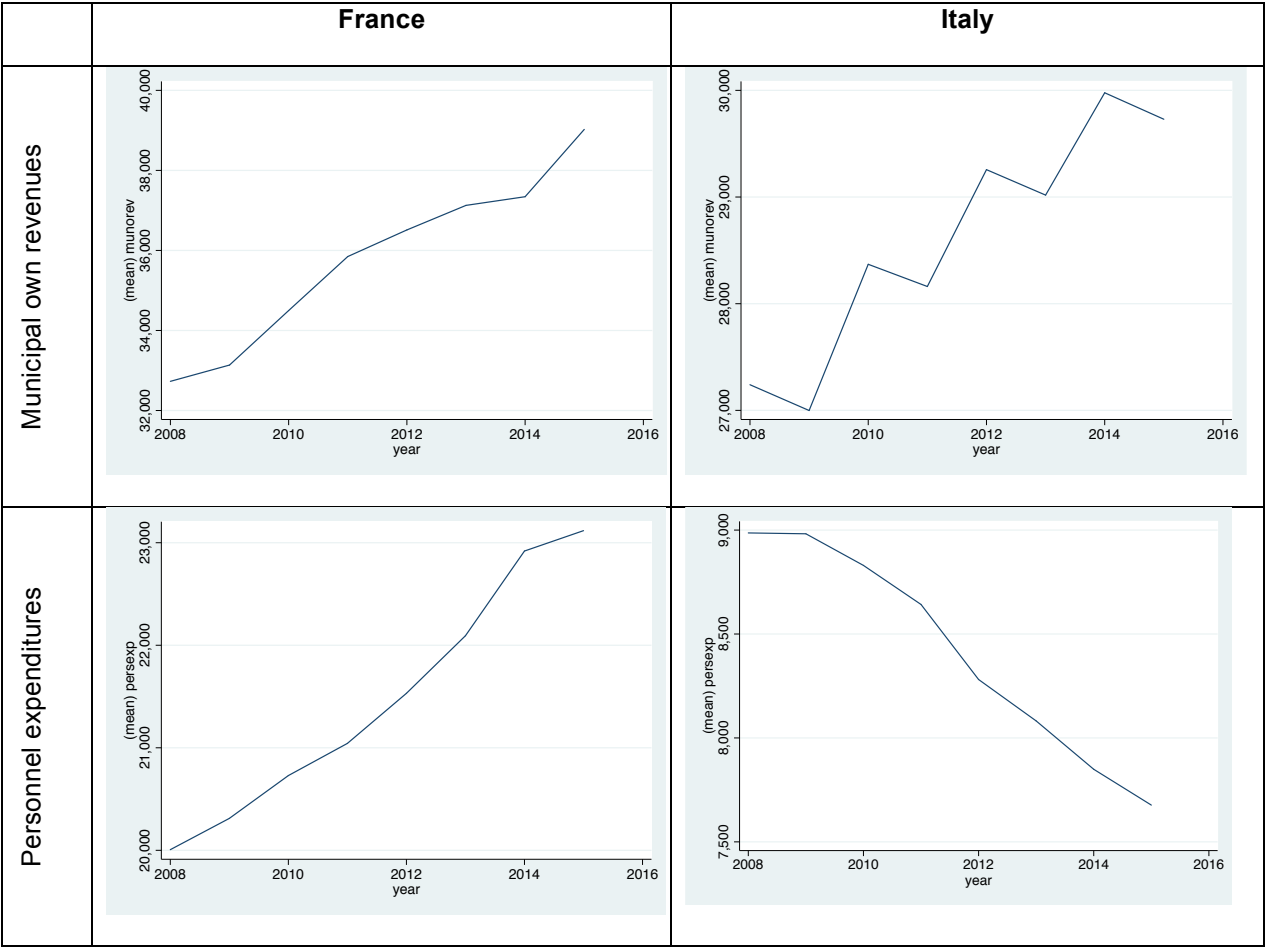
where α_i captures the effects of those variables that regard the unit i and are constant over time x_{it} is the vector of explanatory variables and ϵ_{it} is assumed to be independent and identically distributed over municipalities and time with zero mean and variance σ_ϵ^2 . Moreover, it is usually assumed that all x_{it} are independent of all ϵ_{it} . The fixed-effect model requires the exclusion of the variables that are time-invariant (e.g. nation, population mean) for multicollinearity problems and for these reason we run two fixed-effect models, one for each country. Then we estimate the statistical significance of the coefficient difference between France and Italy by adding the product between the dummy for the nation and all the variables included in the previous regression as explanatory variables. Fixed effects were chosen over random effects on the basis of the Hausman test (Hausman 1978) for each dependent variable and the null hypotheses of no time fixed effect is rejected. In addition, we use robust standard error estimates since the related test has confirmed heteroskedasticity.

4 Result presentation

Before discussing the results of our panel regressions (see Table 6) and so the effect of national, local and internal factors on the variation of municipal own revenues, personnel expenditures, other current expenditures and capital expenditures for each municipality, we first describe the evolution of these variables over time.

The Figure 1 shows the different evolution of French and Italian municipalities on the dependent variables. If own municipal revenues face a quite comparable growing evolution, personnel expenditures vary the opposite ways, with a constant increase in France vs a constant decrease in Italy. Concerning other current expenditures, they have been growing in both countries until 2013, after what they decrease strongly in French municipalities. At last, capital expenditures have permanently decreased in Italy, contrary to France, where they have increased until 2013, before dropping. These elements suggest different timing of the crisis in France and Italy, and a later reaction to the crisis in French municipalities, compared to Italy.

Figure 1 - Evolution of average municipal own revenues, personnel expenditures, other current expenditures and capital expenditures by country, from 2007 to 2015 (in thousand euros)



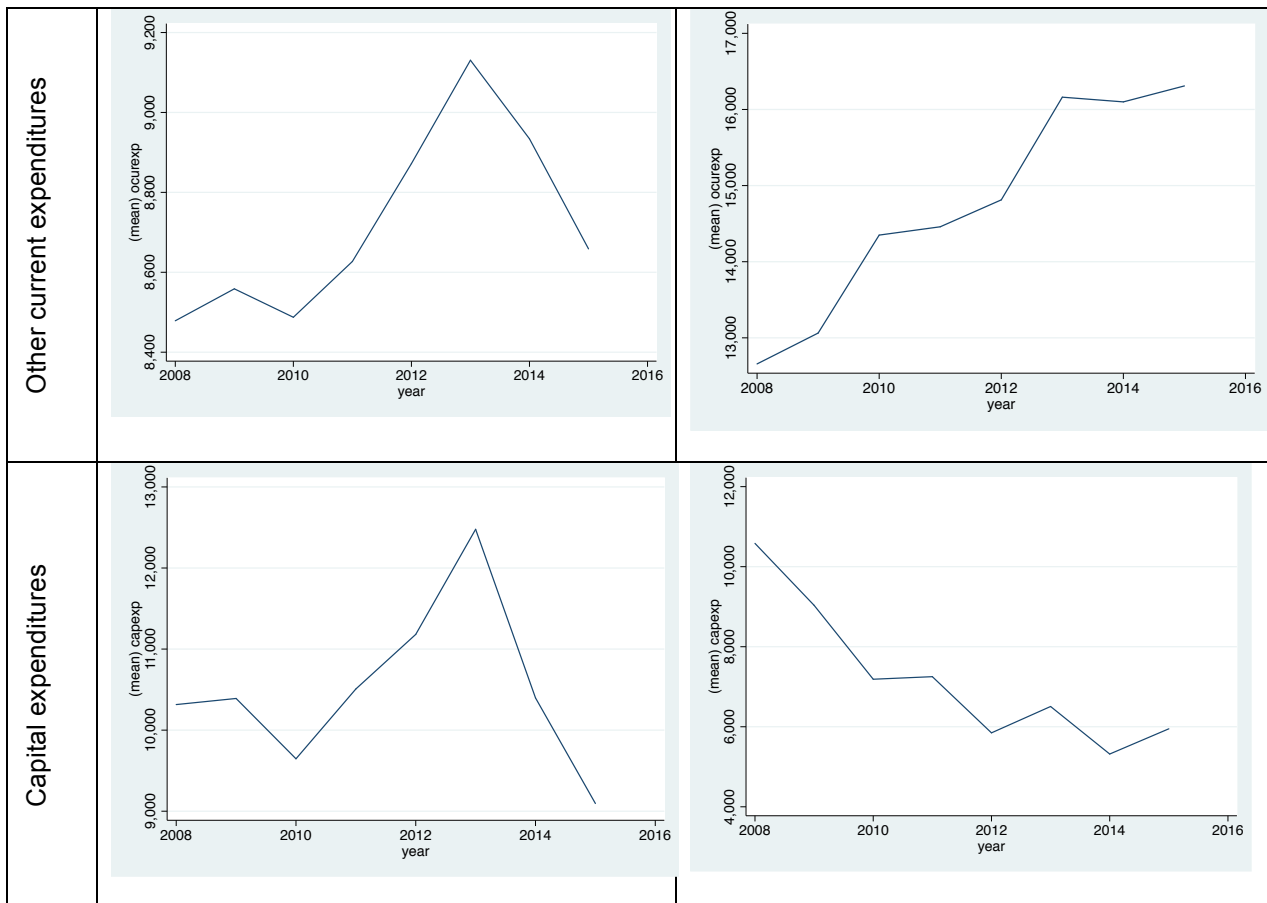


Table 6 shows the results obtained by the panel regressions with time fixed effects for each country and each dependent variable. The “D” columns report the significance of the difference between the two countries. Finally the standard errors in brackets represent * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. R^2 interpretation is not possible as instead for the linear regression. In fact, Verbeek (2004) claims that “The computation of goodness-of-fit measures in panel data applications is somewhat uncommon. One reason is the fact that one may attach different importance to explaining the within and between variation in the data. Another reason is that the usual R^2 or adjusted R^2 criteria are only appropriate if the model is estimated by OLS”. As a result, we will not comment on R^2 .

Thanks to our regressions results, we now discuss the influence of internal, local and then national actors on the variation of own revenues, personnel expenses, other current expenditures and capital expenditures.

Table 6 – Fixed-effect model results

	MOVVAR		PEVAR		CUREXPVAR		CAPEXPVAR		D
	France	Italy	France	Italy	France	Italy	France	Italy	
CONST	-0.778*** [0.0606]	0.162** [0.0736]	-0.0480** [0.0233]	0.153*** [0.0254]	-0.265*** [0.0489]	-0.340*** [0.0994]	-0.169 [0.252]	0.00856 [0.316]	
ECOGROWTH	-0.0198 [0.0473]	0.825*** [0.0721]	-0.00222 [0.0208]	0.209*** [0.0305]	-0.0301 [0.0543]	0.482*** [0.0968]	0.718** [0.308]	1.066*** [0.360]	***
INCOME	0.366* [0.200]	-0.00279*** [0.000554]	0.0935 [0.0902]	-0.000675*** [0.000200]	0.386** [0.180]	-0.000785 [0.000771]	-0.149 [0.945]	-0.00239 [0.00243]	**
POPGROWTH	-0.00817 [0.0339]	-0.181** [0.0764]	-0.0463*** [0.0153]	0.0177 [0.0314]	-0.0213 [0.0391]	-0.11 [0.101]	0.164 [0.190]	0.660* [0.357]	*
POLICYGRANT	-0.0407** [0.0186]	0.0262*** [0.00327]	0.0317*** [0.00756]	0.00738*** [0.000925]	0.0596*** [0.0219]	0.0437*** [0.00394]	0.0436 [0.0630]	0.0451*** [0.0134]	***
POLICYISP		-0.00877*** [0.000686]		-0.00146*** [0.000212]		-0.00268*** [0.000744]		0.0155*** [0.00328]	
GDPGWTH	-13.22*** [2.246]	14.93*** [1.196]	10.05*** [0.843]	2.570*** [0.403]	1.696 [2.043]	5.333*** [1.407]	-15.25 [11.41]	-9.748* [5.661]	***
FINDEP	1.356*** [0.0928]	0.452*** [0.0513]	0.194*** [0.0295]	-0.00621 [0.00955]	0.129** [0.0646]	0.118*** [0.0333]	0.710** [0.312]	0.572*** [0.152]	***
BUDRIG	1.141*** [0.0867]	0.968*** [0.158]	-0.226*** [0.0233]	-0.324*** [0.0240]	0.201*** [0.0501]	1.708*** [0.0916]	1.158*** [0.225]	0.557* [0.326]	***
FHSHORT	0.200*** [0.0439]	-0.183** [0.0808]	0.0516*** [0.0159]	-0.0623*** [0.00812]	0.505*** [0.0393]	0.519*** [0.0288]	0.757*** [0.194]	-0.0431 [0.109]	***
FHLONG	0.0985*** [0.00922]	-0.0011 [0.00171]	0.00338 [0.00393]	-0.00017 [0.000436]	-0.0178* [0.00926]	0.00176 [0.00184]	-0.698*** [0.0566]	-0.00808** [0.00346]	**
year fixed effects	yes	yes	yes	yes	yes	yes	yes	yes	yes
N	7844	9576	7844	9576	7844	9576	7844	9576	
within R ²	0.348	0.218	0.127	0.223	0.129	0.163	0.087	0.047	

The “D” columns report the significance of the difference between the two countries. The standard errors in brackets represent * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

4.1 Influence of internal factors

Internal factors influence the different strategies in reaction to crisis more homogeneously than other groups of factors across the two countries. In general, our hypothesis H1a is only partially accepted, H2 analysis describes two similar (but not identical) countries, while H1b, H3 and H4 are accepted.

Short-term financial health measured by gross operating balance has a somewhat significant effect on strategies, but this differs from country to country. In particular, while we expect that a worse financial health would push towards an increase of municipal own revenues, in France the opposite happens. This might be explained by the “vicious” circle where a former high gross operating balance has pushed towards higher investments (confirmed by evidence). Higher investments require even higher gross operating balances in the future to cover new current expenditures or installments generated by these new investments. Expenditures behave as predicted, as they all tend to increase when the municipality is in good financial health. In Italy personnel expenditures and capital expenditures behave conversely and this may be explained by the controversial ISP mechanism, that has pushed towards outsourcing to local state-owned enterprises (Commissario straordinario per la revisione della spesa 2014) and to a reduction of capital expenditures (IFEL 2013) especially when the municipality enjoys good financial health.

Long-term financial health measured by debt load in relation to current revenues has the predicted effect in France. A higher debt burden pushes mayors to increase municipal own revenues and decreases current and capital expenditures, therefore depicting a prudent financial management. In Italy the relationships between independent and dependent variables are to a great extent non-significant and this may be explained by the consideration that municipal debt is not an issue any more for several municipalities, as it has decreased constantly (and already fully eliminated in several instances) and thus does not impact on mayors’ decisions on budgeting.

Italian and French municipalities seem to share the same profile of “resilient” municipalities, i.e. in general they are inclined to increase their own revenues in case they have a low financial autonomy. Nevertheless, French municipalities are significantly more inclined to increase their own revenues. It should also be noted that in both countries the lower the financial autonomy, the higher is the increase in current and capital expenditures. This may be explained by the idea that these municipalities tend to consider that they will be supported in any case by central governments in the future or simply feel less pressure from their citizens in terms of costs reduction.

An interesting trend that affects both countries is the outsourcing (to the private sector, to state owned enterprises or to other local governments) drift. The more the budget rigidity, i.e. the percentage of personnel expenditures on total current expenditures, the higher is the probability of outsourcing, even though the magnitude is different. In fact, as the rigidity is higher, there is a tendency to reduce personnel expenditures, but at the same time it is also likely that other current expenditures increase. Furthermore, in both countries, a higher rigidity is associated to own revenues increase, which perhaps is explained by the need to have more resources to contrast rigidity.

Finally, evidence suggests⁴ that internal managerial capacities make the difference, as decisions in bigger municipalities, where managerial capacities are higher, tend not to consider the short-term trend of national, local or even internal factors. Bigger cities seem to act with a medium-long term perspective, where goals and perspectives are less influenced by contingencies.

Getting back to our hypothesis H1, H2, H3 and H4:

H1: Municipalities in a bad previous financial situation are more likely to increase revenues or decrease expenditures in order to rebalance their situation.

H1a: Municipalities with a low gross operating balance are more likely to increase own taxes and fees, or to decrease current expenditures.

H1a is only partially confirmed since, perhaps due to a vicious circle, a higher gross operating balance pushes towards an increase of own revenues in France, while in Italy personnel expenditures and capital expenditures behave conversely (higher gross operating balance, decrease of personnel and capital expenditures) perhaps due to the specific fiscal consolidation mechanism of ISP.

H1b: Municipalities with high debt are more likely to increase own taxes and fees, or to decrease current expenditures and capital expenditures.

H1b is confirmed, especially for France, while for Italy the less significant effects may be explained by the fiscal consolidation mechanism of ISP that has reduced drastically or canceled the debt burden for most municipalities.

H2: Municipal financial autonomy has a changing influence on expenses and revenues decisions, depending on their resilience patterns. Less resilient municipalities with small financial autonomy, are more likely to rely on State decisions, and are less likely to develop their own revenues. More resilient municipalities with small financial autonomy, are more likely to try to develop their autonomy by increasing own revenues.

H2 analysis describes two different countries, but anyhow municipalities are described as proactive to develop their autonomy when they are dependent from the State.

H3: In times of austerity, municipalities with high budget rigidity are more likely to decrease personnel expenses and to outsource.

H3 is confirmed.

H4: Internal managerial capacities have an influence on the way municipalities take their decisions concerning revenues and expenditures. The more managerial expertise, the less pregnant is the influence of budgetary constraints, and thus the influence of national, local and internal factors on expenditures and revenues decisions.

H4 is confirmed as largest municipalities do not consider none of the independent variables for their budgeting strategies.

⁴ Regressions have been run on different size of municipalities; results are not presented here, as they need to be improved.

4.2 Influence of local economic and social factors

Our results show very different influences of local economic and social factors on municipal decisions on revenues and expenditures and do not confirm our H5 and H6 hypothesis.

First, we observe a discrepancy in the effect of local factors on decisions on current expenditures and revenues, between France and Italy. The set of significant factors influencing budgeting decisions are very different. This might be explained by the different structure of local taxes (often decided at the national level), and by the greater flexibility of personnel expenses in Italy.

In France, local factors have a small influence on the evolution of municipal own revenues. Municipal own revenues come mainly from taxes: property and business taxes, but the latter are nowadays often put back to the inter-municipality organization. Fees represents a small part, and are only very recently seen as a lever to increase own revenues (see for example (du Boys and Eisinger, 2016)). The bases on which property taxes are computed are very stable and quite disconnected from economic revenues. Moreover, they are guaranteed by the State at the level of taxes voted at the beginning of the year. This can explain the non-significant influence of short term local economic growth on real revenues. Contrary to variation rate, the level of inhabitants' wealth has a positive influence. It suggests that when population is poor, mayors are reluctant to increase taxes and fees. At last, municipal own revenues are not influenced by population growth. In Italy, local factors all have a significant influence on the variation of municipal own revenues. The variation of municipal own revenues is positively associated to the variation of local income, maybe because Italian local taxes are partially linked to revenues. But it is also negatively associated to income per capita and population trend. This latter might be explained with the idea that wealthier and thus more attractive municipalities (population increase) are more financially responsible as they also observe a high financial autonomy level (Gualmini and Capano 2006); in this case, mayors may be inclined to reduce municipal own revenues. Seen from another perspective, un-wealthy less attractive municipalities tend not to be fiscally responsible and thus are inclined to increase their own resources.

Our results also show very different influences of local factors on the variation of personnel expenditure between France and Italy. The population growth has a significant negative influence, when in Italy this factor has no significant influence. Contrary to France where personnel expenses are very rigid, in Italy, personnel expenses are significantly influenced by local economic factors. In Italy, the higher is the local economy growth, the higher the increase in personnel expenditures. In the Italian context, there is a de facto banning to higher new personnel and a relatively high concern of media and citizens on personnel expenditures. In case of local economy decrease, mayors tend to decrease personnel expenditures (e.g. reduce compensation of public officials or blocking the turnover). But the level of wealth has a negative influence on personnel expenses, perhaps due to the tendency of municipalities in poorer areas to act as employer to contrast unemployment.

Concerning the variation of other current expenses, we also note different influences, even if smaller. In both countries, the population growth has no significant influence and only economic factors have a significant positive influence. But in France, only the level of the population wealth per inhabitant has an influence, at the contrary of Italy, where it is only the total income evolution that is positively influencing other current revenues. French

municipalities seem to outsource when structural changes occurs, whereas in Italy, it is more connected to conjunctural changes.

Results concerning capital expenditures show a quite similar influence of local factors. In both countries, the variation of the population total wealth pushes to increase capital expenditures. In Italy, the population growth also pushed to greater investment, certainly in order to answer to an increased need for infrastructure.

Getting back to our hypothesis H5 and H6:

H5: Municipalities are influenced by their local economic situation. Municipalities where the population is getting poorer, or that face bad economic conjuncture are more likely to limit their spending and have difficulties in developing their own revenues.

H5 is partially confirmed, as municipalities appear to be influenced by the local economic situation. But contrary to our hypothesis, this influence is complex and different in the two countries. Only Italian municipalities that face bad economic conjuncture are more likely to limit their spending and undergo a decrease in own revenues. But municipalities where the population is poorer will tend to increase current revenues and expenditures in Italy and decrease in France.

H6: Municipalities that benefit from a good territorial attractiveness or a growing population are more likely to increase their revenues and expenditures, even in times of crisis.

H6 is rejected. Municipalities that benefit from a growing population are less likely to increase their revenues and expenditures, except for capital expenditures in Italy.

4.3 Influence of national institutional and economic factors

National factors influence the type of strategies implemented in reaction to crisis, but there are also some interesting similar behaviors across countries. In general, our hypothesis H7 is accepted and H8 is accepted only in case of France. H9 describe a different pattern for French and Italian municipalities. In general the difference between Italy and France might be a consequence of a specific fiscal consolidation mechanism (the ISP) that is not applied in France that may act as a “disturbing” factor.

Our results show that there are some similarities in terms of budgeting strategies amongst the two countries when internal factors like the level of financial autonomy, the rigidity of budget, and the short-term financial health are concerned. It also seems that variation in grants, GDP variation and the economic growth level affect one or more budget strategies similarly in the two countries. In all cases except a few, the magnitude of the relationship between independent variables and budgeting strategies is different in the two countries.

State-level austerity policies have the predicted effect in France, but not on all independent variables in Italy. As a matter of facts, it seems that Italian municipalities react to grants reduction from central state by decreasing their revenues. While the magnitude seems limited, this shows that mayors tend to move their own revenues in the same direction of grants. This could be explained either by the tendency of mayors to copy central governments’ austerity policies, or by the adoption by the central state, especially during austerity measures, of rules that do not allow municipalities to increase their taxes (which in several cases represents an

important amount of municipal own revenues) to counteract the reduction in grants. Nevertheless the internal stability pact (ISP) fiscal consolidation measure contrasts the abovementioned forces since it brings to higher municipal own revenues as it becomes harsher. Furthermore, ISP tends to decrease capital expenditures cutbacks while it has no effects on personnel and other current expenditures.

Related to GDP variation, municipalities tended to have different strategies in Italy and France, but similar patterns in terms of positive effects on personnel expenditures. In particular, French municipalities, for which the GDP has increased except a reduction in 2009, seem to decrease their municipal own revenues as the economy is increasing, perhaps considering that the central government will be more active in subsidizing them; at the same time, they increase personnel expenditures (but there is no evidence on specific trends for other current expenditures and capital expenditures). In Italy, for which the GDP has decreased in three (2009, 2012 and 2013) out of the ten years covered, the situation is somewhat different. In time of GDP growth, own revenues and current expenditures tend to increase and capital expenditures tend to decrease, and the contrary during recessions. This might be explained by national austerity mechanism, especially via the ISP that was particularly harsh during years of positive variation of GDP. But this may also reveal specific municipal strategies in reaction to crisis, that should be analyzed thoroughly by studying the interaction between ISP and GDP variation onto the dependent variables.

Getting back to our hypothesis H7, H8 and H9:

H7: National institutional contextual factors have an influence on the way LGs take their decisions concerning revenues and expenditures.

H7a: Factors influencing municipal decisions on revenues and expenditures are likely to be different between France and Italy.

H7b: Factors that do influence municipal decisions on revenues and expenditures in the same way in both countries are likely to have different magnitude impacts between French and Italian municipalities.

H7 is confirmed. Municipal decisions concerning revenues and current expenditures are influenced by different local and internal factors in France or in Italy (H7a). For example, factors relative to past year financial situation have opposite effects on own revenues and current expenditures. Concerning municipal own revenues, only the level of financial dependence and budget rigidity have similar influence in France and Italy, even if significantly different in magnitude for the former. For personnel expenses, we note that grants policies, GDP growth and budget rigidity are the only factors with significant influences in the same direction in the two countries, with only GDP having a similar magnitude. Concerning other current expenditures, internal factors have a quite similar influence, as well as policies on State Grants. Finally, capital expenditures have the closest decision function in the 2 countries, with a similar effect of internal factors (mostly of different magnitude) and local economic factors. We also confirm H7b, as most factors with common influence, have different magnitude influences.

H8: State-level austerity policies push municipalities to increase own revenues or decrease current or capital expenditures.

H8 is confirmed in France, but not in Italy, as Italian municipalities tend to move their own revenues in the same direction of grants, perhaps because they are forced to by the central government. Furthermore Italian municipalities have been affected by the ISP measure that has had a particular effect in terms of own revenues increase and decrease of capital expenditures, than on reduction of personnel and other current expenditures.

H9: Municipal strategies are influenced by national economic conjuncture. Municipalities might limit their spending and foster the development of own revenues to anticipate future restriction in revenues and increase in social costs, in order to behave as “cautious” municipalities; or they might increase their spending and limit the increase of local revenues in order to behave as “shock absorbers”.

H9 is confirmed only for France. In France, we note a tendency to behave as “cautious” municipalities. When the economy is down, municipalities tend to increase own revenues, and increase personnel costs. In Italy, there seems to be other strategies in place, they tend to decrease revenues and current expenditures and increase capital expenditures in times of recession, behaving as “shock absorber”.

5 Conclusion

The quantitative cross comparative analysis discussed above gives us the possibility to glimpse some initial conclusions about the influence of internal, local and national factors onto budgeting decisions at the municipal level taken in time of austerity.

As part of a State, we expected that national factors would have affected budget decisions of municipalities, but there is evidence that other factors have effects across countries. Some internal factors seem to influence the different strategies in reaction to crisis. In particular, municipalities are (a) more proactive to develop their financial autonomy when they are more dependent from grants, (b) more likely to increase their own revenues or to decrease current and capital expenditures in case of high debt, (c) more likely to outsource to get their budgets less rigid, and (d) less inclined to consider contingencies in their budgeting decisions in case of higher managerial capacities.

Local economic and social factors do not act in the same manner. For example, Italian municipalities are more likely to limit their spending and undergo a decrease in own revenues during slowdown in the economy, but this is not the case of France. In French municipalities with poorer inhabitants there is the tendency to decrease current revenues and expenditures, while in Italy it is the opposite. This may be explained by different national policies in answer to local socio-economic phenomena. Only a higher population wealth pushes to increase capital expenditures, and this may be explained by the idea that mayors cannot avoid to provide local infrastructure and equipment when they are located in wealthy business districts.

Finally, grant decrease from central State tends to increase own revenues and decrease current or capital expenditures, but in case a central government uses other austerity policies mechanisms (for example the ISP mechanism in Italy) the effects at the municipal level may diverge from expectations.

As future research, we aim to study how the influence of national local and internal factors on expenditures and revenues decisions have evolved throughout the crisis and the following

years of austerity, in the two countries. It would also be interesting to characterize the most frequent combinations of capital and current expenditures and own revenues variation and to see how the use of these strategies has evolved throughout the crisis, and how they influence municipalities' financial situation.

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