Breaking the Union: Fiscal Consequences of (Political) Misalignment

Extended Abstract

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Abstract

This paper examines the fiscal consequences of dissolving Italian municipal unions (Unioni di Comuni), a form of inter-municipal cooperation in which municipalities jointly provide selected public services while retaining substantial political and administrative autonomy. I build a new dataset of union dissolutions over recent decades and classify each episode by the crisis that triggered it using official documents and local news sources. A core focus is on politically driven breakups: dissolutions following unexpected and abrupt shifts in political control, proxied by razor-thin municipal elections in at least one member municipality, which plausibly disrupt coordination within the union. I merge these data with municipal budget records to construct function-specific per-capita expenditures for the former union area and track how spending is reallocated when service provision returns to individual member municipalities. I estimate average and dynamic (event-time) effects using synthetic difference-in-differences, reweighting stable unions to match pre-dissolution trajectories and applying standard difference-in-differences adjustments. I assess identification via pre-trend and placebo tests. I also compare politically triggered dissolutions with more routine dissolution episodes to evaluate whether political shocks are associated with distinct short-run post-breakup spending patterns in the aftermath, and I examine heterogeneity across service domains, local fiscal capacity, and baseline spending levels.

Overview

Since the late twentieth and early twenty-first centuries—especially in the wake of the 2008 crisis—fiscal consolidation and austerity have increased pressure to curb public spending, making service provision more difficult under tighter resource constraints (Bel and Warner, 2015). This has pushed governments to redesign how funds and competences are allocated across territories, highlighting the central role of local institutions—through administrative capacity and governance arrangements—in shaping development outcomes (Rodríguez-Pose, 2013). Specifically, fragmented municipal systems may coordinate through inter-municipal cooperation (IMC) to exploit economies of scale and, depending on environmental and technical conditions, contain service-delivery costs (Bel and Sebő, 2021). In Italy, this approach took the form of *Unioni di Comuni*, collaborative arrangements in which municipalities jointly provide selected services while retaining their political and administrative identities.

In recent years, scholars have focused on the impact of inter-municipal cooperation on the provision and efficiency of public service delivery and on fiscal outcomes (among others, Allers and Geertsema, 2016; Breuillé et al., 2018), although the evidence is sometimes mixed. For Italy, Ferraresi et al. (2018) show that municipal unions reduce current per-capita expenditure without compromising service quality, whereas Luca and Modrego (2021) find no statistically significant effects on administrative efficiency. By contrast, comparatively less attention has been devoted to the internal (political) dynamics of these arrangements, the coordination frictions they generate, and how such frictions shape fiscal choices and spending outcomes.

At the same time, emerging evidence points to a contraction in the number of active unions, at least in Italy. After a rapid expansion in the early 2010s, a growing number of municipal *de*-unifications has been recorded, and the stock of active unions first plateaued and then declined sharply. According to ANCI (2023), only 396 unions were still operating in 2023 (Figure 1), and local newspapers increasingly report dissolution episodes, often linked to financial pressures and persistent coordination frictions (Figure 2).

This evidence raises a natural question: why do municipal unions break up? If cooperation is motivated by expected benefits, what forces push municipalities to exit? One possibility is a misalignment in resource allocation: member municipalities may come to value autonomy more highly once coordination costs outweigh the expected gains from cooperation. Another possibility is political misalignment across member municipalities: when governing coalitions differ, heterogeneous priorities and tight budgets can exacerbate coordination frictions and hinder collective decision-making. Consistent with this view, Depetris-Chauvin et al. (2025) suggest that political alignment can foster cooperation and improve public good provision. These considerations motivate the following research questions:

RQ1: Which spending categories benefit most from municipal unions?

RQ2: What drives crises that lead to union break-ups: economic, political, or other factors?

RQ3: What are the fiscal effects of union dissolution relative to municipalities with stable unions?

To answer these research questions, I collect fiscal data on Italian municipal unions that experienced a break-up over the last decades, and I classify dissolutions by the type of crisis that triggered them. Specifically, using official reports, local newspapers, and AI tools, I identify political, administrative, and economic shocks, among others, as potential exogenous sources of dissolution. Regarding political misalignment, I focus on unions that dissolve after *unexpected* shifts in political control—proxied by very close election outcomes and the resulting change in political affiliation in at least one member municipality—which may disrupt coordination within the union. Using this unique and novel dataset, I estimate the effects through a *synthetic difference-in-differences* (SDID) design (Arkhangelsky et al., 2021). I reweight never-dissolving unions to match the pre-dissolution trajectories of treated unions and then apply a DID correction for common shocks. I also trace event-time dynamics around dissolution and assess identification validity through pre-trend and placebo tests.

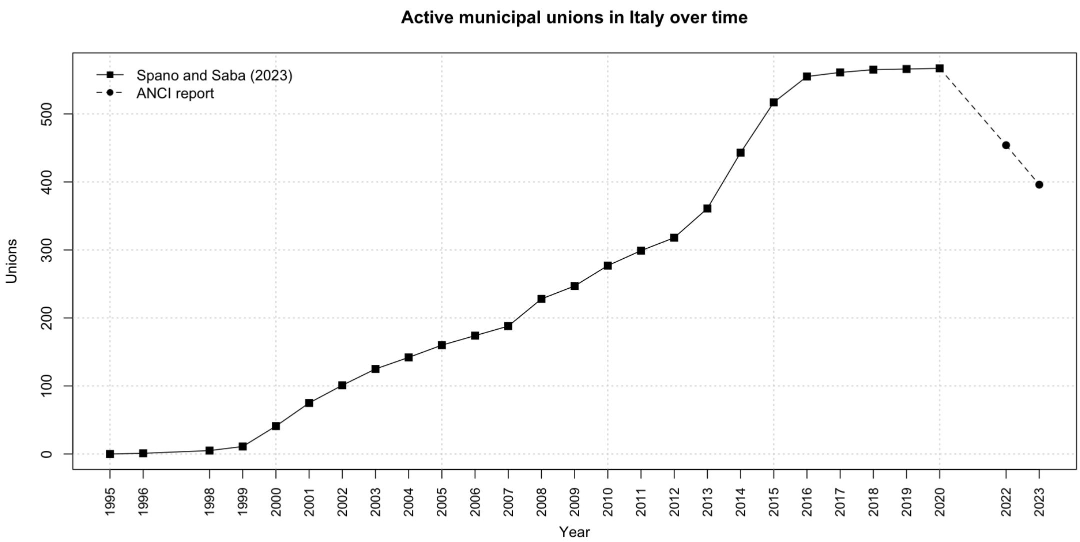

Figure 1: Evolution of active Municipal Unions (1995–2023)

Figure 2: Italian local press coverage of municipal pullouts

Related literature

On local institutions and governance, a long-standing strand of work emphasizes cities and local entities as sources of economic *creativity* (Jacobs, 1969). Building on this view, the *new regionalism* stresses how the prominence of cities and regions—and their connectivity and governance arrangements—shapes economic development, making local governance a key determinant of territorial performance (Amin, 2004; Rodríguez-Pose, 2013). At the same time, growing fiscal pressures over recent decades have tightened local budgets and made it harder to provide public goods under constrained resources (Bel and Warner, 2015). As noted by Bolgherini (2015), efforts to rationalize administrative structures have been closely linked to expenditure restraint. Faced with these constraints, local governments have increasingly turned to cooperative solutions such as inter-municipal cooperation (IMC) (Swianiewicz and Teles, 2018).

The gains from municipal unions (a form of inter-municipal cooperation) have been tested empirically, with most studies asking whether IMC improves the efficiency of public service provision and fiscal implications, albeit with mixed results (among others, Allers and Geertsema, 2016; Breuillé et al., 2018). For Italy, Ferraresi et al. (2018) find that municipal unions reduce current per-capita expenditure without compromising service quality, whereas Luca and Modrego (2021) report no statistically significant effects on administrative efficiency. A related strand of the literature investigates when such gains are more likely to arise, emphasizing the role of population size in shaping potential cost advantages (Bel and Sebő, 2021) and the (potentially limited) role of political alignment in facilitating—or not—the formation and functioning of inter-municipal cooperation (Di Porto et al., 2017; Depetris-Chauvin et al., 2025).

Institutional background

The Italian municipal landscape provides a suitable setting for analysis, given the pronounced heterogeneity of local units and the prevalence of small municipalities: almost 70% have fewer than 5,000 residents. These features have long motivated policy efforts to foster inter-municipal cooperation, formalized through the creation of municipal unions that jointly deliver selected services. The number of unions expanded rapidly in the early 2010s, reaching a plateau in the mid-2010s.

From a legal perspective, the *Unione dei Comuni* was introduced by Law 142/1990 and later regulated by Legislative Decree No. 267 of 18 August 2000 (TUEL). The institution allows groups of municipalities to cooperate within a single legal entity, pooling resources and jointly managing selected public functions. Each municipality may join only one *Unione*, and the union's statute defines the delegated competences and basic governance rules. Its president and governing bodies are drawn from the mayors and councillors of the member municipalities and, by design, operate without additional remuneration. Participating municipalities contribute staff, assets, and financial resources for the delegated tasks, while the *Unione* coordinates and delivers the related services, with the stated aim of containing administrative costs and improving service provision.

Data and empirical strategy

The unit of analysis is a *municipal union* (*Unione di Comuni*), i.e., an arrangement in which municipalities jointly manage selected public functions while retaining political and administrative autonomy. Union-level information comes from AIDA PA and OpenItaliae, cross-validated with unions' statutes/websites and local press to reconstruct dissolution dates. Geographic identifiers and boundaries are from ISTAT. Outcomes are accounting measures from balance sheets of unions and member municipalities. To track spending consistently across dissolution, I construct function-specific per-capita expenditure for the (former) union area: before dissolution this is the union's per-capita spending; after dissolution it is the population-weighted average of per-capita spending across former member municipalities for the same function. This ensures comparability when expenditures mechanically shift from the union budget to municipal budgets.

Identification leverages dissolutions plausibly driven by exogenous shocks, such as political or administrative ones. Focusing, for instance, on political motives, treated unions are those dissolving after *unexpected* shifts in political control, proxied by very close elections and a change in political affiliation in at least one member municipality. I estimate effects using *synthetic difference-in-differences* (SDID) (Arkhangelsky et al., 2021): never-dissolving unions are reweighted to match treated unions' pre-dissolution trajectories, and a DID adjustment absorbs common time shocks. Effects are reported in event time, with credibility assessed through pre-trend and placebo tests.

Novelty and potential contribution

This project studies the (political) sustainability of inter-municipal cooperation under fiscal stress. While most work asks whether municipal unions improve efficiency, less is known about the frictions behind breakups and their fiscal consequences. I combine a new dataset on dissolutions of Italian *Unioni di Comuni* with municipal budget data to construct comparable, function-specific per-capita spending for the former union area before and after dissolution, and I identify causal effects by focusing on breakups plausibly linked to exogenous political or administrative shocks. The project is novel in three ways: it studies union dissolutions rather than formation; it introduces a new dataset on dissolutions of Italian *Unioni di Comuni*; and it uses harmonized, function-specific per-capita spending for the pre-dissolution union area to keep outcomes comparable across the institutional change.

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