

Chapter 9

The Impact of Regional and National Policies in the Development of the Italian Mezzogiorno

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9.1 Introduction

After the Second World War, the Southern regions of Italy (the Mezzogiorno) underwent a period of exceptional growth. However, this period ended after the oil crisis and now the Mezzogiorno is the largest backward region within the EU-15. A huge amount of literature is devoted to finding the main reasons why the Mezzogiorno did not evolve like the rest of the country (see Iuzzolino et al. 2011 and the literature cited therein). In this paper I propose that the implemented policies were essential or critical in influencing the rise and then the decline of the southern economy. The analysis is based on the strict association between the implementation of certain policies and the results in terms of output and employment growth. The link is not estimated by an econometric model, but I connect the dynamics of economic and social indicators to the policy's changes. I examine the impact of Italian regional and national policies on social and economic development of the Mezzogiorno. The study has an historical dimension, analysing the relationship between economic policies and growth in the South of Italy from the fifties to the nineties, and it is focused on the recent “new regional policies“, and the effect of the national programmes on the regional divide.

The literature on Italian economic disparities, or on the “Southern question”, and the role of the policy actions is immense, and cannot be synthesised in few words. Several references can be found in Eckaus (1961), Saraceno (1974), Gerschenkron (1965), Castronovo (1975), Toniolo (1988), Romeo (1988), Zamagni (1993), Cafiero (1996), Cohen and Federico (2001), Fenoaltea (2006), Ciocca (2007), Vecchi (2011). Recent references to the impact of public policies on regional divide

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are in Trigilia (1992), Rossi (1998), Del Monte and Giannola (1997), Barca and Ciampi (1998), Felice (2007a), Viesti (2009), Mauro and Pigliaru (2011), Cannari et al. (2010), Barucci et al. (2011), Iuzzolino et al. (2011, 2013). In recent years the availability of more and better quantitative data than in the past allows for comparing regional development and policy outcomes: time series on regional GDP, sectoral productivity, industrial value added (with detailed sectoral and territorial disaggregations), the local components of public spending, the geographical distribution of educational levels, health, and poverty have been collected and published, especially in the works of Daniele and Malanima (2007), Felice (2007b), Federico (2007), Vecchi (2011), and in the Bank of Italy's project on the reconstruction of the Italian National Account. These new resources are used in this paper to focus on the decisive periods in Italian regional and economic history, linking the development with the effective policies in the period.

The results of the analysis show that the policies are essential in explaining the economic development of the southern regions in Italy, and the dynamic of the convergence process. However, the effect has been both positive, such as when the welfare actions were extended to the whole country, or negative, as in the case of policies against immigration, or oriented to the support of war industries in the North, or the abolition of the "wage cages". In the focus on the "new regional policy" the paper suggests that the larger effects are imputed to the lower quality of public expenditure in the South and the decline of the intensity and quality of public services in this area (see also Iuzzolino et al. 2011). The significant disparity in the supply of many public services affects competitiveness and growth differentials. The institutional framework defining the role of the regions, especially those in the South, and of the Central Governments can explain part of the weakness of the public action. The recent institutional innovations have determined a sort of imbalance between the role of the regions, especially those in the South, and Central Governments. This led to a fragmentation of effort and excessive consensus at the local rather than the national level. Moreover, there was a deficiency of political impulse, with the reduction and the procrastination of several policies for the development of the Mezzogiorno. The most obvious symptom was the continued reduction of financial resources dedicated to the South, which reduced the achievement of objectives.

The paper is structured in the following way. The first two sections place the Italian regional divide in context, giving a brief overview of its social and economic origins from the country's unification in the second half of the nineteenth century, and exploring the causes underlining the "golden age of convergence" of the South in the fifties and sixties. The third section analyses the role of public policies in the halting of the convergence process in the seventies and eighties, opening the path to a protracted period in which regional income and output gaps have remained more or less constant. The fourth section describes the crisis of regional policy at the beginning of the nineties, the characteristics of the following new regional policy, and its effects on regional differences. The fifth section explores the role of national policies and the differences in the supply of public services on the growth of the southern region. Some comments on the relationship between national and regional

policies, and how they affect the development of the whole country, conclude the paper.

9.2 The Origin of the Regional Divide

Italy has been characterized in its economic development by marked geographical disparities. This has been a distinct feature of several countries, in Europe as outside Europe, but in Italy we have registered a persistent backwardness of the regions making up the South. However, the economic divide is a feature of roughly the last century. Actually, Italian macro-areas and regions at unification (1861) and for the first two decades thereafter, were uniformly poorer, all basically still agricultural economies, even if we could have observed different degrees of backwardness in terms of the size of industry, infrastructure, living conditions, and human capital. In the estimates by Daniele and Malanima (2007), the per capita product in the Mezzogiorno was equal to the level of the Centre and North in 1861, dropping to 88% in 1900 (Fig. 9.1).

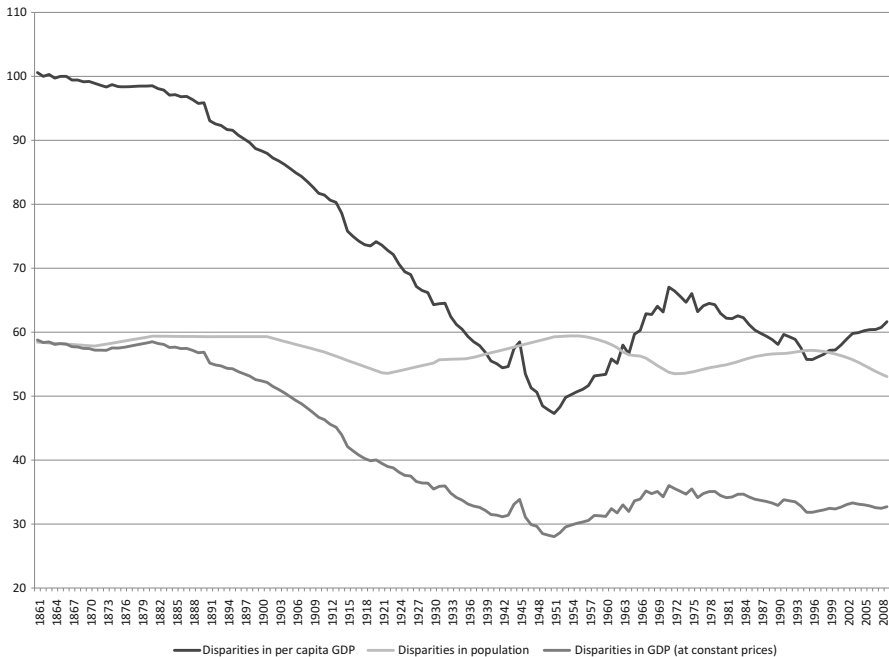


Fig. 9.1 Disparities in population, GDP (at 1911 constant prices), and GDP per capita between Mezzogiorno and Center-North (Mezzogiorno as percentage of Center-North). Source: Iuzzolino et al. (2011)

As noted by Iuzzolino et al. (2011), the relative uniformity of per capita income did not mean, however, that the living conditions of the national population were similar across regions. The diffusion of “well-being” was lower in the southern regions than in the country as a whole: Amendola et al. (2011) point out that the share of the population classified as poor at the unification was equal to 52% in the South and 37% in the Centre and North.

The differences in the preconditions for industrial development were also large. The advantages were mostly polarized in some cities and areas in the North-West, favoured by particularly promising environmental, economic and social conditions for industrialization. The widening of the development gap started in the decades around the turn of the century, when industrialization was concentrated in the “industrial triangle” of Milan, Turin and Genoa and bordering zones. The rapid development of the textile industry was also followed by the rise of more modern industries, like light manufacturing but also steel and chemicals.

Even if the awareness of the existence of a “southern question” came very early on, the government policies were not oriented to the reduction of the differences but, in some sense, contributed to the enlargement of the gap. On one side, the financial investments associated with public policy were low compared to European standards: up to the First World War, overall spending by the central government and local administrations rarely exceeded one fifth of GDP. Moreover, central government spending consisted very largely of interest on the public debt and armaments. Attention to defence entailed not only heavy current spending (naturally greater in the North, along the country’s borders) but also major support for Italian industry. Furthermore, the most important public programme, the building of an extensive rail network, does not appear to have had any significant impact on the more distant (southern) regions’ access to interregional markets. Finally, the effects both of fiscal unification and taxation and spending across regions also fostered rather than fought the emergence of these disparities.

On the other side, as pointed out by Iuzzolino et al. (2011), social and education spending was minimal. Social solidarity and health care were in the hands of private bodies or mutual societies, which for historical reasons were more common in the North. Education was charged to municipal budgets, and its expansion was affected by differences in fiscal capacity. This is one of the main reasons why the regional literacy gap did not narrow, but widened.

Nevertheless, up until the First World War the country’s surprising development was not only limited to the North-West, but involved the entire territory, albeit with varying intensity. For instance, life expectancy at birth increased by more than 16 years on average and by 6 years even in the region with the worst performance. The growth of industry, though concentrated in the North-West, had effect on all parts of the country. Therefore, as late as the mid-1920s, the scale of regional development disparities was not particularly unusual by European standards, and in the meantime the awareness of the question of southern industrialization increased.

The disparities strongly increased in the period that followed. In the estimates by Daniele and Malanima (2007), the gap grew from 25% at the beginning of the twenties to 45% in 1940 and 50% in 1948. In the years between the two World Wars, dominated by the Fascist government in Italy, policy actions not only

blocked the beginnings of convergence, but also transformed the North-South disparity into a long-lasting critical gap. Actually, the per capita output difference between the South and the rest of the country widened more rapidly during the Fascist years than during the initial era of Italian industrialization. The economic policy choices that negatively affected the regional convergence were basically two: on one side, emigration abroad was blocked, and Fascist policies first discouraged and then banned any form of internal migration, which could have accompanied the differences in income and economic structure between regions. On the other side, available capital was concentrated in the industries already established in the North-West: first with the abnormal growth of the war industry; then with the repeated rescue operations in the 1920s. Finally, the birth of the Institute for Industrial Reconstruction (IRI) in 1933 transferred to the State a major part of the Italian banking sector and manufacturing. As Iuzzolino et al. (2011) noted, the Second World War and post-war reconstruction in the late 1940s continued to act in the same direction. During the war the modest industrial apparatus of the South was hit much harder than that of the North. At the end of the war the gap of the South was the widest in its history (53% in 1951).

9.3 The Golden Age of Convergence

In 1951, the southern economy was in disastrous condition. Iuzzolino et al. (2011) point out that southern industry's share of value added amounted to just over 11% of the national total, well under half of its share in 1911; for every thousand inhabitants the South had just 43 full-time equivalent workers, compared to 77 for the North-East and 171 for the North-West; and labour productivity at current prices was almost 40 points lower than the Italian average, and 54 points lower than in the North-West.

However, beginning in 1951 the South underwent a period of exceptional growth, the highest in its history. From 1951 to 1971 per capita GDP in the South rose at an average annual rate of 5.8%. The South was outperformed significantly only by Japan, and slightly by Greece and Spain. Even if the whole country grew quickly, the output gap between South and North was reduced significantly. All the southern regions took part, if to differing extents.

What are the reasons for this exceptional development? An important cause was the removal of the policies responsible for the artificial containment of migration and of the sectoral distribution of the public spending. The combined effect of those dynamics and of the new economic policy approaches would produce the first considerable convergence between North and South, stimulated by the extraordinary increase in productivity. The modernization process was intense in both agriculture and industry, the latter following with a lag of some years. The share of per capita income of the South increased from 47% in 1952 to 67% in 1971, more than 24 points in two decades, more than a point each year.

The role of national and regional policies was essential in the development. It was not only the removing of the barrier to the free trade and movement of factors

with the creation of a truly integrated national market, the result of a radical decrease in transport and transaction costs, but the strong impact was also due to the active policies oriented to the reduction of the regional divide. There were specific southern development programmes, where the key player was the Southern Italy Development Fund, which for the first decade focused on the infrastructure endowment for agriculture, water supply and government services and from the 1960s on extended its action to direct industrial promotion. The overall intervention of the Fund was valued at 6.6 trillion lire in 1970, to which one must add the funds appropriated by the regions of Sicily and Sardinia to additional projects. As noted in Iuzzolino et al. (2011), the impact of the Fund was of fundamental importance to the economy: in 1971 the investment rate in the South was 37%, nearly twice as high as the 21% rate of the Centre and North. Therefore, investment in the South was 58% of the amount invested in the rest of Italy, although regional GDP was only 36%.

The national programmes, oriented to increase the welfare in the entire country, also had a role: the welfare, health and education systems were strengthened. These policies were not expressly targeted at the weakest regions, but spending on them was proportionate to population, not output, so while their per capita effect was similar in North and South, their impact in relation to aggregate economic activity was greater in the South. The result of the increase in per capita public spending was an implicit transfer of substantial resources to the population of the South.

The result was a strong increase in productivity, especially in the manufacturing sector, from 76% to 99% of that of the Centre-North. Productivity grew both within sectors and in the economy as a whole, as a result of the changing sectoral composition of economic activities. An important part in the productivity catching up was played by the many new large plants, driven by public subsidies or the impetus imparted by public industry. Bodo and Sestito (1991) signal that direct employment in state-owned corporations in the South rose from 40,000 in 1960 to 150,000 in 1975.

The positive assessment of the Fund's activity and of regional development policy should not hide the feebleness of the stimulus that it provided for self-sustained growth. The expansion of the capacity to supply goods basically served the industrial sector, and consumer demand occurred in other parts of the country. No internal southern market had ever existed, and certainly none did in the 1950s and 1960s. The geography of the South and the lack of good transport networks, with the consequent absence of a tradition of interregional trade within the South, meant that for small southern manufacturers the "internal market" was strictly local. Therefore, the expansion of the southern industrial base proved insufficient in number of enterprises and in maintaining equilibrium in the labour market. The differential in unemployment rates, which had been practically eliminated by the mid-1960s, widened again to nearly 3 percentage points in 1971.

On the other side, the southern market became highly important to northern Italian industry. Iuzzolino et al. (2011) point out that access to a growing domestic market enabled northern firms to achieve economies of scale that proved to be a major factor for success on the international market, while southern firms were often reduced to a local dimension: in 1959 the South took 70% of the Centre and

North's net exports; net imports from the rest of Italy and the rest of the world came to 24% of southern GDP at current prices in 1951 and 38% in 1963, reducing to 30% in 1970.

9.4 The Limit of the Regional Policies in Seventies and Eighties

The South's convergence process came to a sudden halt around 1970: in the decades that followed, regional income and output gaps remained more or less constant. The question is why the convergence stops and if there was a role of regional policies in the slowing down.

During this period, the Italian economy was affected by three important shocks: a rise in the cost of energy, a rise in labour costs, and depreciation of the currency. Industry in the South, given its size and sectoral and technological characteristics, was more exposed to adverse economic developments and less able to follow the new paths that Italian industry would take following the oil shock.

The reaction to rising labour costs was an accentuated decentralization of production. At the end, significant competitiveness gains occurred in smaller firms, especially in industrial districts. However, the manufacturing in the South was only marginally affected by these developments. As described in Iuzzolino et al. (2011), the decentralization of production followed economic criteria of geographical contiguity and swept through the Centre and North-East, but the South participated in it to a far lesser extent. Convergence between the North-East and North-West was completed, and the Centre also made up ground. The gap between the South and the rest of the country increased.

Even if these dynamics were caused mainly by external events, national and regional policies were at work, but unfortunately often in the wrong directions.

First of all, the competitiveness of southern industry was negatively affected by the abolition in 1968 of "wage cages", which differentiated wages geographically. Employers were compensated by having a portion of their social security contributions bill charged to the state budget, a scheme that would absorb growing portions of the public resources earmarked and that was eliminated from 1995 onwards. Labour costs in the South moved into line with the national average, but in a context of significantly lower levels of productivity.

The negative effect was also due to the decline of the intensity and quality of public policy programmes. Southern development action, though formally extended, became less incisive, less concentrated, technically poorer and more subject to political influence, increasingly focused on ordinary investment that definitively eradicated its quality of additionality. The extraordinary public expenditure for the South came to 0.7% of GDP in the 1950s and 1960s and 0.9% in the 1970s. It was reduced to 0.65% in 1981-86, rose to 0.75% through 1993 and then to 0.8% thereafter. Thus, in the end the reduction in public intervention may have played a role in convergence. But the question is broader, going to the nature of

development policy in a backward region of a developed country as compared with the situation in an underdeveloped country proper. There are fewer instruments available, and reconciling the industrial development of the rich and poor areas is complicated.

This problem influenced the changes in political priorities. The huge exodus from agriculture and the development, even if incomplete, of a modern industrial apparatus was followed, at the same time, by a remarkable increase in per capita income. The “Southern question” converted from a fight against poverty to a remedy for a lack of jobs: regional income differentials were (and are) dominated by huge differences in employment rates, and not primarily by the productivity gap. Especially up to 1992, many current public programmes sought to compensate for the lack of work and mitigate situations of social hardship. Iuzzolino et al. (2011) note that they proved ineffective, however, both because they were often designed for a particular exchange between politicians and final beneficiaries, and owing to the simultaneous lack of structural measures to reduce the imbalance between labour demand and supply.

Finally, another negative factor that is broadly linked to the policy choices was the creation of the regions. Until the 1980s regional governments had no significant role in the implementation of local development policy, save for the five special-statute regions. Starting in the mid-1970s a number of functions were devolved to the regions and a good number of officers seconded from the central government, resulting in increasing decentralization of territorial policies and programmes. Mauro and Pigliaru (2011) find that the process had a significantly negative differential effect for the South. The reason is that the decentralization of programmes makes them more vulnerable to local pressures and interest groups and, in a broader sense, more sensitive to the level and quality of social capital, lower in the Southern regions.

These aspects contributed to the halt the convergence process. This does not mean that the industrial apparatus of the South became insignificant, but it was unable to accelerate growth with respect to the rest of the country, and suffered from the acute problems of internal and external competitiveness. The effects of the reduction in quantity and quality of the regional policies reinforced these developments.

9.5 The Crisis in 1992 and the New Regional Policy

1992 was a crucial year from a social and political point of view: a dramatic crisis of the public finances was coupled with the crisis of the political system in general. The Italian economic system faced a strong devaluation until Italy qualified for the European single currency, whereas strong competition came from the new emerging countries.

In the presence of a strong fiscal effort, the credibility of southern development policy sank: the amount of money and the low quality of public policy programmes

devoted to the South, increasingly subject to political influence, was strongly questioned. In 1992, in order to prevent a negative vote in a national referendum, the Southern Italy Development Fund and its activities were definitively liquidated and its technical personnel, many of them highly skilled, were dispersed in a range of general government bodies. The ending of special investment for the South came after a long period of stagnation, which coincided with the fiscal adjustment effort of the mid-1990s that hit the South hard. The reduction, or elimination, of investment policy was an important factor in the halt in convergence (Barucci et al. 2011). Investment played an important part in the South's post-war catch-up, and its disappearance had a negative effect in the subsequent period.

The paralysis of the Italian regional policy lasted through 1995, when Law 488/1992 for the funding of selected investment projects went operational. The charging of southern employers' social contributions to the central government budget was phased out under a 1994 agreement with the European Commission, and no offsetting policy measure was taken. The impact of restrictive fiscal policy was especially heavy for the economy of the South, which was more dependent on public resources.

During these same years the European Union's economic and social cohesion policy took shape with the Community Support Frameworks. In 1995 the first structural funds planning cycle began. The discretionary powers of the member states were considerably reduced; the criteria, calendar and procedure for the assignment of funds were established; progressively, power was shifted to the Regions, which since the 1970s had been exercising some powers formerly assigned to the Southern Italy Development Fund.

However, in the second half of the 1990s, following the closure of "old" regional policy represented mainly by the Cassa del Mezzogiorno, a new development aid policy ("New Regional Policy", NRP) was put in place, based on mobilizing local actors around local development projects (Barca and Ciampi 1998). The sources of changes were mainly two: the coherence with EU's regional policy, required by the EU Commission and a greater appreciation of the importance of local systems of small businesses in the Mezzogiorno, which, in the presence of the vacuum of the regional policy, unveiled some form of auto-sustaining growth.

The NRP was a clear example of place-based action to promote regional growth. The aim was to encourage above all the development of "social capital" by stimulating efficient forms of cooperation between local public and private actors. It gave special attention to the involvement of local communities in the policy design, exploiting local knowledge. For that, it made a great effort to develop an extensive information system on local economies, which has been used to measure regional policy performance.¹

¹The database "Indicatori di contesto chiave e variabili di rottura" was a joint effort of Istat and the Ministry of the Economic Development to serve as a quantitative support for the Objective 1 2000–2006 programming period. It has become an important tool for the analysis of regional imbalances.

An important characteristic of NRP was that some statistical indicators were used in an outcome-based financing scheme. The “conditionality” approach, strongly appreciated by the EU Commission, conditioned the amount of money distributed to the region by the results of the policy with respect to the targets, named “obiettivi di servizio”. In the implementation of the “conditionality” approach, public funds were disbursed on the basis of the results obtained by local governments in four areas: education, child- and elderly-care, waste disposal, and water provision. The incentive scheme was based on 11 quantitative indicators. The ex-post assessment of the policy indicated some positive results (e.g., improving the quality of administrative procedures) but also some critical aspects emerged. On one side, the achievement of the target was also influenced by external factors that were out of the control of local governments, affecting the credibility of the all scheme. On the other side, very specific objectives encouraged opportunistic behaviour, when local government concentrated its efforts on reaching the objectives subject to conditionality, disregarding other important services.

While this NRP generated much hope, energies and expectations after the negative experiences of the Cassa del Mezzogiorno, in the end the results were also disappointing (Cannari et al. 2010). Clear shortcomings came from the setting of too many and confused priorities, that resulted in overlapping responsibilities. On the other side, not enough attention was paid to the effects of ordinary policies in the South. However, the quality of public services was generally worse than in the Centre North, and regional policies alone cannot offset these effects: additional capital expenditure in the South was about $\frac{1}{2}$ of total capital expenditure in the area, but only about 5% of total public spending in the South (Cannari et al. 2010).

Another problem was related to the ineffectiveness of incentive schemes. Trigilia (2012) points out that, despite NRP’s apparent focus on public goods, the majority of the aid ended up destined toward incentives for single firms (which averaged 7 billion Euros per year in the period 1996–2009). In the period 2000–2006 the total aid destined for the Mezzogiorno from the EU’s structural funds (including national co-financing) amounted to 45 billion Euros, the vast majority of the aid.

Empirical work on the utility of providing direct incentives to business points to modest effects and highly critical performances. The Bank of Italy’s 2008 survey of 4000 companies indicates that additional investment amounted to no more than 30% of subsidies, but only 6% excluding changes in timing of projects (De Blasio and Lotti 2008). The results of “Patti territoriali”, a typical new local program of NRP, showed that dynamics of employment and plants in municipalities within the Pacts did not differ from those of similar municipalities outside the Pacts. The ineffectiveness could reflect some shortcomings due to the mismanagement of the program: lengthy procedures, uncertainty about funding and policies, and few financial resources. Recent research on other policy instruments devoted to increasing new private capital at the local level, like Law 488/92, indicates better performances (Bernini and Pellegrini 2011; Cerqua and Pellegrini 2014).

In the end, the data available underscore that the NRP was also unable to overcome the South’s difficulty in keeping up with even the slow growth of the

rest of the country. Per capita output, equal to 59.6% of that in the Centre and North in 1991, increased to 61.6% in 2007, gaining only a percentage point per decade. And even this minimal gain was due entirely to demographics: in terms of output alone the gap widened, as southern GDP slipped from 33.8% to 32.7%.

9.6 National Policies, the Provision of Public Services and Growth

The previous analysis shows that public policies were central, for better or worse, in determining the scope and the dimension of the economic and social gap between the South and the rest of the country. But the regional policies (the “place-based” policies), explicitly oriented to the economic and social development of the backward areas, cannot be blamed for all the differences. During this period, powerful territorial effects from general, national policies (i.e., central government programmes for the entire country but whose effects differ from region to region) were at work.

On one side, the nationwide extension of several policy interventions on some economic factors for the country’s growth and on social aspects of welfare, such as schooling, health programmes including compulsory vaccination, and the building of infrastructure, enabled the South to share in national development. This development was in part inclusive: a number of public programmes ensured that income differences were no longer accompanied by unsustainable social disparities (Cannari et al. 2010). Thus the fact that since the 1970s the income and output gap has remained virtually unchanged does not mean the South has not made progress. Actually, the southern Italian regions have managed to keep pace with one of the most advanced areas of Europe. The totally obvious conclusion is that living conditions in the South today are better than 30 years ago. There is still a difference in the quality of these public services, such as education or health, but now the “Southern question” is no longer associated with huge poverty, illiteracy or early death. This is a great success story of social development, and it depends in part on the existence of national public services, whose upkeep implies redistributive transfers between territories. However, some differences in “well-being” remain if they are measured by the more sophisticated indicators. If we look more closely at the present, observing students’ educational attainment rather than just the illiteracy rate, or at life expectancy without disability rather than infant mortality, or at felonies that indicate organized crime rather than total crimes, alarming dimensions of the disparity emerge (Iuzzolino et al. 2011).

On the other side, the significant disparity between the South and the rest of the country in the provision of many public services has affected (and is affecting today) competitiveness and growth differentials. Recent studies by the Bank of Italy (Cannari and Franco 2011) show that, while the intensity of public action has become relatively similar from region to region (excluding the major outlays on

pensions, a good deal higher in the Centre and North), the quality of public services is significantly lower in the South.

Several examples and case-studies are reported in Cannari et al. (2010). For instance, the gap in transport and communication is wide: the proportion of non-electrified railways with only one platform in the South is approximately double that of the North, whilst only 18% of Italy's high speed network is found in the South; in terms of the road network, there are only 17 km of motorway per 1000 km² in the South (and only 13 on the islands), compared with 32 in the North-West of Italy and 23 in the North-East.

The quality of local public services is much lower in the southern regions: the water supply is interrupted three times as frequently in the South than it is in the North; electricity, twice as frequently.

Strong differences are also found in nation-wide public services: in education, where in the Mezzogiorno 23% of students do not finish high school (compared with 16% in the North); in the justice system, where the time to resolve cases is longer by 40% in the Mezzogiorno in comparison with the rest of the country; in the provision of health systems, where in the Mezzogiorno hospitals and clinics are in shorter supply, and those there offer significantly worse care, meaning that many patients travel northwards when they are in need of medical attention. An important problem is also the poorer state of public safety and legality in the southern regions. In some parts of the South these phenomena were already present at the time of national unification, in others they have spread in recent decades, in others still they are practically absent.

The importance of national compared to regional policy is given by their relative financial size. Cannari et al. (2010) show that regional policies have a very low weight with respect to national ones. Total general government per capita primary expenditure in the period from 2004 through 2006 averaged 9800 € in the South, 10,800 € in the rest of the country. The difference depends mainly on current spending, in particular pension transfers. Capital expenditure, which is explicitly targeted to sustain long-term growth, counts for only a tenth of total spending. On a per capita basis, average capital spending in the South was about 10% higher than in the rest of Italy. But if we also count investment by state-owned corporations, such as the State Railways, the difference vanishes (Viesti 2009).

There are lights and shadows on the role of the public sector in the South, especially in the last 30 years. Many observers underscore the distortions of public action, especially of regional policies, and hold it responsible for throttling growth. However, several studies and undeniable facts show that, while the intensity of public action has become relatively similar from region to region, the quality of public services is significantly lower in the South, negatively affecting economic and social development.

The institutional framework defining the role of the regions, especially those in the South, and of the central governments is at the base of the distribution of policy responsibilities and the level of decentralization in Italian administrations; it can explain part of the weakness of the public action. From this point of view, the recent institutional innovations have determined a sort of imbalance between the role of

the regions, especially those in the South and the central governments. The principle of subsidiarity, the change of Title V of the Constitution, the direct dialogue with the Commission, but also the advent of a new regional management comparable in quality to the national one has encouraged the regions to plan entire projects only within their administrative boundaries. The central administration, on the other hand, showed several difficulties in combining national and regional policies, often failing to impose principles of national interest. This led to a fragmentation of effort and excessive consensus at the local level rather than at the national level. Moreover, vertical institutional cooperation between regional and local governments has remained complex, because the administrative decentralization was only partially carried out, and because forms of centralization of decision-making that characterized, and sometimes still characterize, administrative centres, were reproduced at the regional level.

However, the complex relationship between central governments and local governments should not make us forget that the reduction of interventions in the South is mostly due to the central government. The previous analysis showed that it is precisely the central government's lack of spending which explains at least part of the non-realization of major projects in the South. The possibility of an adequate policy intervention requires additional expenditure to avoid substitutions between ordinary and new policy intervention, beyond the formal adjustments. This was only partially true in Italy.

Last but not least there was a deficiency of political impulse, with the reduction and the procrastination of several policies for the development of the Mezzogiorno dropped from the key priorities of the various governments. The most obvious symptom was the continued reduction of financial resources dedicated to the South, which has helped to influence, as already mentioned, the achievement of objectives. After an initial phase, to be situated in 1998–1999, of a strong consensus on the new regional policy, there has been a continuous lack of actions to be taken in the protagonists of the political scene, except for a few individual figures of the national leadership, such as Carlo Azeglio Ciampi.

9.7 Conclusions

In the last 60 years, there were two major types of public spending which were directed towards the Mezzogiorno: funds specifically dedicated to economic development, and funds which form a more general part of spending on public policy programs (especially welfare provisions). According to many analysts, the regional policies (and in recent years, the New Regional Policy launched at the end of the nineties) should be blamed as the main cause of the unsatisfactory performance of the economy in the Mezzogiorno. This paper has a different position: even if regional policies are important, the fundamental effect is, in our opinion, rather attributable to general policies, particularly those with significant regional effects.

Moreover, the national dimension of the problem has also affected the effectiveness of regional policy. It is the paradigmatic case of organized crime: in the South it alters the conditions of competition, increasing the cost to the community, promoting the spread of a culture of illegality, and hindering the formation of social capital and trust between citizens and between citizens and institutions.

Therefore, despite the introduction of forms of “conditioning” related to the achievement of targets in the quality and offer of public services, there exists a problem of enforcement of rules that can only be assured by a good government. In the South, it is still not there. Moreover, just to increase the share of resources devoted to public investment, reducing the share of inefficient financial incentives is not in itself a sufficient condition to usefully support regional growth, if you do not remove the malfunctioning of the market. There are cases, among those just mentioned, which depend much more strongly on general policy than on regional policy.

In our opinion, the failure to narrow the gap between North and South in the last 20 years is attributable to areas that primarily ask the responsibility of national policies and where the backwardness of the South is pronounced, like justice, education and human capital, and crime. These areas are largely outside the control of territorial policies. In the presence of unequal conditions in the North and in the South, the same economic policy measure has different effects in the two areas. For instance, if government is inefficient in the South, the same rule will produce different results with respect to the rest of the country. Similarly, if the social and economic context is different (and worse in the South), even efficient administrations generally will get different results: if young people come from uneducated families and live in areas where crime is widespread, it is more difficult for them to obtain the same results in the PISA test achieved by the young people who come from wealthy and highly acculturated families, even if the quality of teachers and school infrastructures were exactly the same.

The whole history of Italy’s regional differences shows that the essential role of national policy in development should be reconsidered. The reduction of the gap requires that some essential services, like education, justice, security and health care, should have the same quality throughout the country. In many cases, the quality of public services is worse in the South. Sometimes, but not always, even spending per capita is lower than in the rest of the country. So there are situations where it may be necessary to increase spending in the South, and others where it is instead necessary to gain efficiency. Cannari et al. (2010) give some examples: it may be necessary to use more resources in the South for the fight against organized crime to ensure the same conditions of security throughout the country or to spend more money to reward teachers who work successfully in areas where students demonstrate high levels of early school leaving and social conditions less favourable to learning. In health care, there is clearly a problem of inefficiency if per capita expenditures higher than in the North lead to often poorer services. In this case the problem is not the amount of resources but the quality of the results.

To ensure the same quality of essential services in all areas of the country it is necessary that the South goes back to being a national issue. The good regional

policies are not enough: it is crucial to place the South at the centre of national economic policy, and then also to allocate the resources of regional and national policies with the aim of reducing regional disparities.

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