

# **Regional development policies in the EU – experiences and trends**

## **Italy and the division between North and South**

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# Plan of the talk

## 1. Facts & numbers

- long run
- euro and the two crises

## 2. Why is the South poorer and not converging?

- Is it a matter of money? Bad policies?
- Social Capital? Organized crime?
- Political economy bad equilibria?

## 3. Conclusions & way-outs (if any)

## Appendix

# Punch line

- South has **similar problems** than North, low productivity growth, firms that are too small, low quality of public services, low respect of rule of law –just much worse.
- Economic crisis has increased the distance between North and South and reduced the flow of interregional resources, jeopardizing traditional **political equilibria**. This is a challenge, but might also be an **opportunity**.

# Punch line

- The experience of more than 60 years of different regional developing policies is **mixed at best**. No convergence for 40 years, divergence last 8 years as a result of the crisis.
- It is **not a problem of money**. Resources per capita are approximately **uniform** on the territory and even the differences in the stock of infrastructure are limited.
- The problem is that even with similar resources the **quality** of the provision of fundamental services (justice, education, health) is much **worse** in the South.

# Punch line

- South needs **more special policies to make these fundamental services** work than special development policies as such.
- For the central government, this means mainly **Education** and **Justice**. Even to contrast lower endowment of social capital and higher presence of organized crime.
- For regional and local government, **hard budget constraints** and the **diffusion of best practices**. Some specific national policy would also help.

# Punch line

- Current Constitution does not help because it does **not condition local competences to performance** and make it difficult to enact national policies. But steps have and can be taken.
- South would also benefit by a reform of collective bargaining, creating a **stricter link between wages and productivities** at the local level. This would also reduce irregular work and evasion.

# Punch line

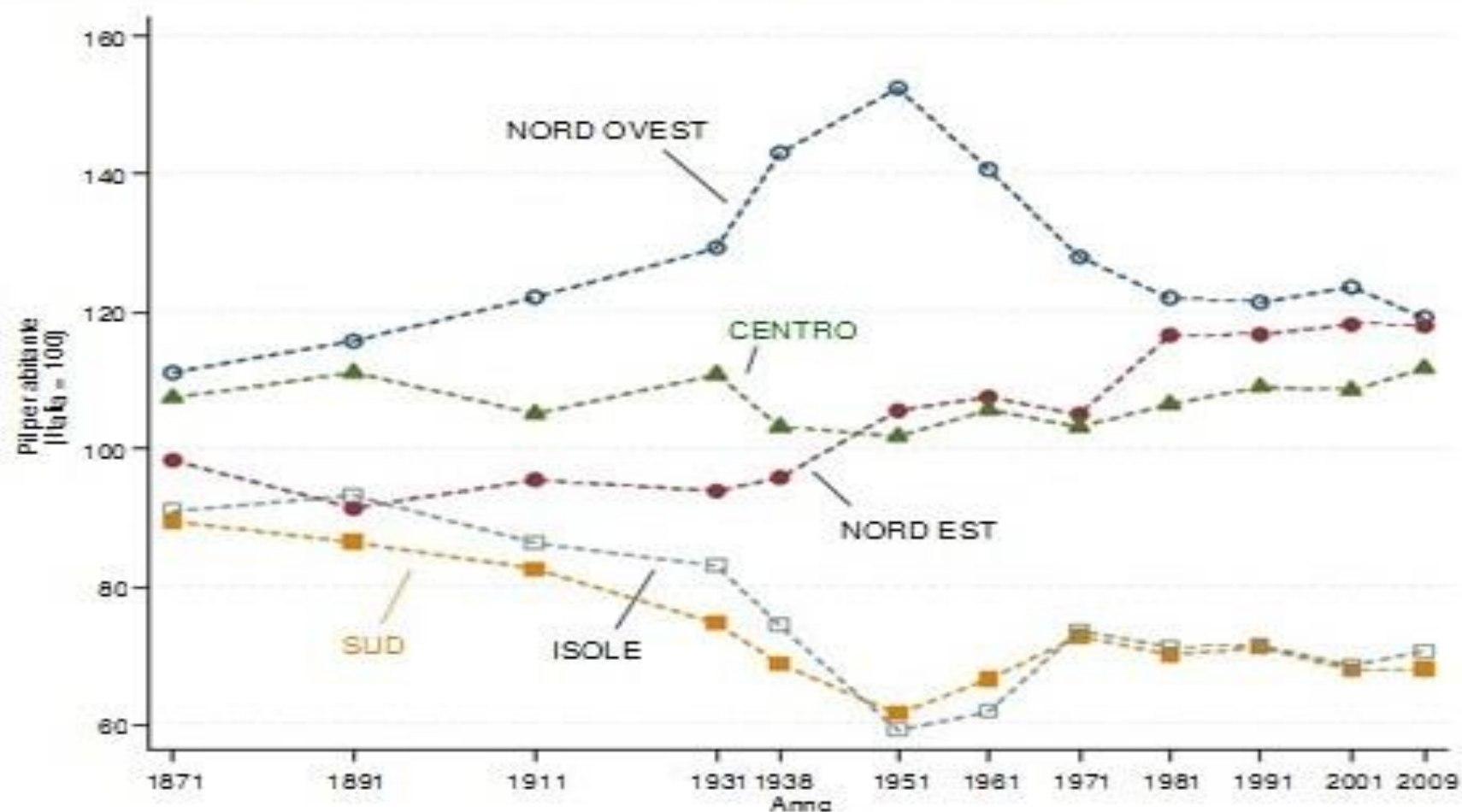
- South would also benefit by a more modern welfare state with universal schemes for protection from **poverty and unemployment** and **active labor market** policies.
- Some steps have been taken, but still insufficient.

# Facts & numbers

1. South was poorer and less developed at the time of unification of the country; it has become poorer up to the 2 WW as growth and industrialization were concentrated in the North West.
2. There is a discussion among historians on how much poorer the South actually was and to which extent, if any, it has been made such by exploitation of the North (e.g. Malanima & Daniele, 2011; Felice, 2013).
3. The **broad picture however does not change**. Divergence up to 2WW, convergence in the period 1950-75; stability after up to recent years.



## La grande divergenza: Pil e regioni, 1871-2009



*Evoluzione del Pil per abitante (misurato lungo l'asse verticale, con Italia=100) per ciascuna ripartizione geografica. La distanza fra il Pil medio di ciascuna macroarea aumenta nel tempo (salvo la parentesi degli anni 1951-1971). Un secolo e mezzo all'insegna della divergenza. Fonte: academia.edu*

# Facts & numbers

Why convergence stopped in mid '70's?

1. External factors; **the two oil crises** in the 70's that interrupted the "Italian Miracle". South more hit because its economy was more fragile and less open.
2. **Wage push** after social conflict in 1968-70, **unified collective wage and regulations** beginning in the 70's (Statuto dei lavoratori). Productivity for worker was lower in the South and wage drift not enough to compensate; loss of competitiveness of southern firms.
3. Also political economy aspects. North producers & trade unions did not like **southern competition**.

# North-South and the economic crisis

1. However, even the relative stability between North & South of the last 40 years is now being **threatened**. South lost grounds with euro and was more hit by economic crisis.
2. Italy went through **two crises**. The international crisis of 2008-9; the Euro crisis of 2012-14.
3. During the first crisis, Italy could not reflate its economy, for lack of fiscal space. During the second, Italy had to run a **severe fiscal adjustment** in spite of the falling economy, a financial crisis and massive capital flights.

# North-South and the economic crisis

1. The effects have been **devastating**, comparable to a war event. Worse crisis ever in contemporary Italy's history.
2. As was the case with other recessions, **South suffered the most**. For two basic reasons. Its economy is more fragile and **less open internationally**; hence it suffered for the collapse of internal demand more than the more export driven North (South exports, net of oil, only 1/10 total ).
3. Second, the **fiscal retrenchment** following the Euro crisis reduced public expenditure, which is in % terms more important in the South than the North.

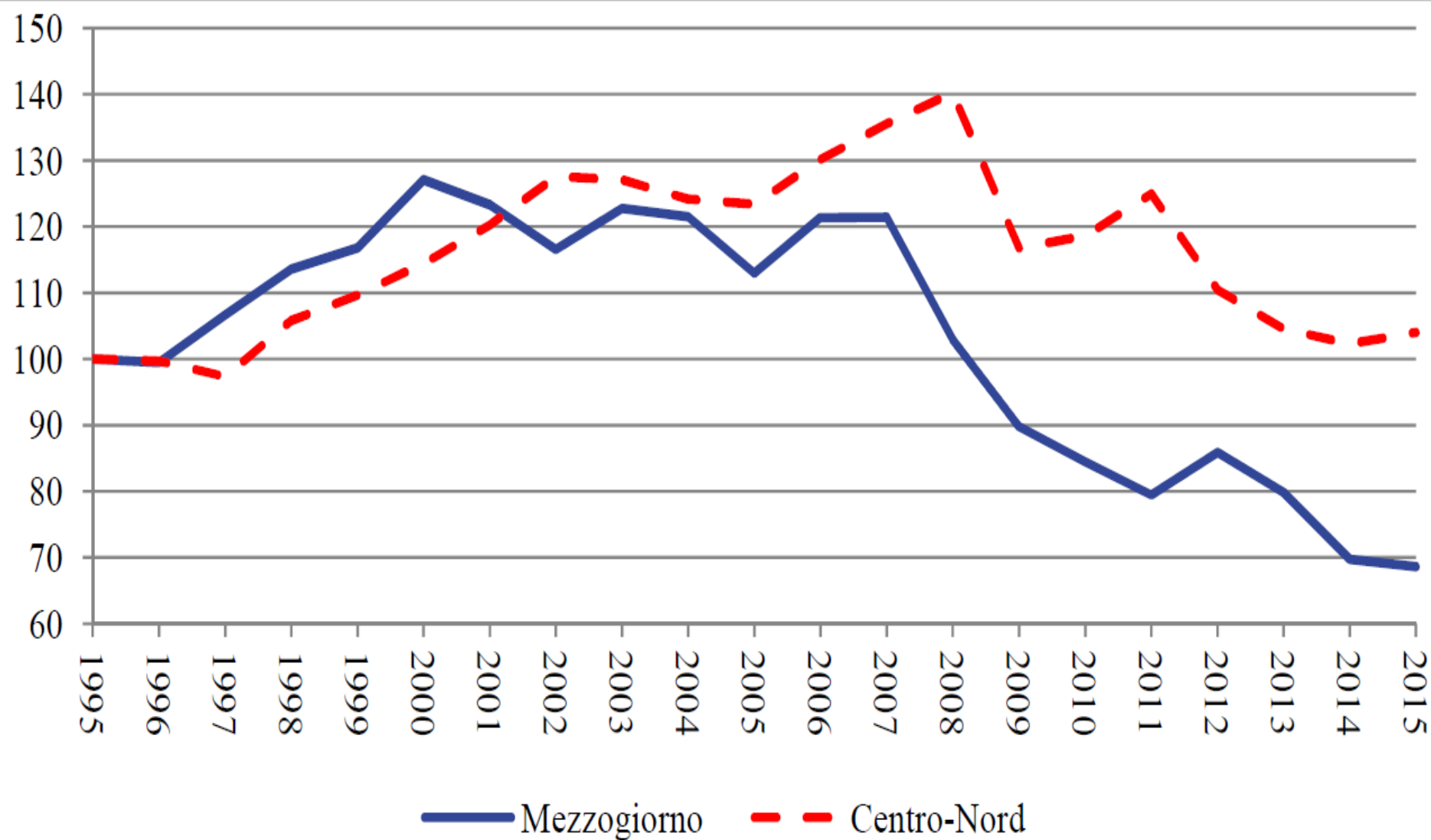
# The economic crisis: cumulate and annual rates of GDP growth

Paesi	1996- 2000	2001- 2007	2008- 2014	2014	2015	2008- 2015	2001- 2015
Mezzogiorno	10,5	4,5	-13,2	-1,2	1,0	-12,3	-8,3
Centro-Nord	10,3	9,7	-7,8	-0,1	0,7	-7,1	1,9
Italia	10,4	8,5	-9,0	-0,3	0,8	-8,3	-0,6
Unione Europea (28 paesi)	15,4	17,0	0,9	1,4	2,0	2,9	20,3
Area dell'Euro (18 paesi)	14,8	14,7	-0,9	0,9	1,7	0,8	15,6
Area non Euro	18,3	23,9	6,1	2,7	2,8	9,0	35,1
Germania	10,0	10,2	5,3	1,6	1,7	7,1	18,0
Spagna	22,2	27,7	-6,3	1,4	3,2	-3,3	23,5
Francia	15,4	13,8	2,6	0,6	1,3	3,9	18,2
Grecia	19,6	32,0	-26,0	0,7	-0,2	-26,2	-2,5

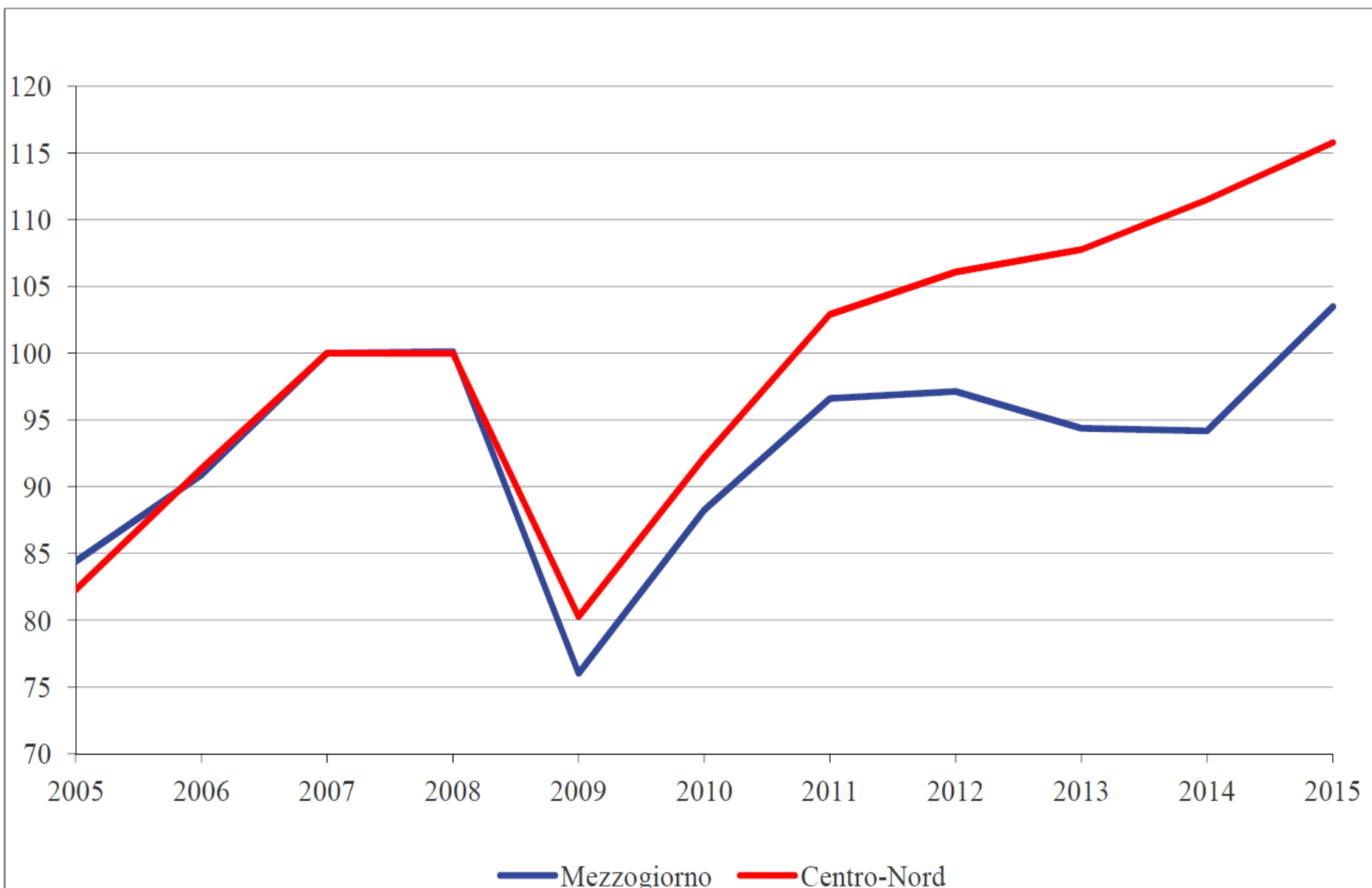
(a) Valori concatenati, anno di riferimento 2010.

Fonte: Elaborazioni SVIMEZ su dati EUROSTAT, ISTAT e stime SVIMEZ.

# Private Investments (manufacturing) 1995=100



# Exports, net of oil products (2008=100)



# Fiscal adjustment 2009-2014

1. Fiscal pressure went up by 2% of GDP to about 44%;
2. Capital expenditure was **cut by half** in nominal terms;
3. Current expenditure was **frozen** in nominal terms (reduced in real terms). Through a public sector wage freeze, a block on new hiring for public employees and new mechanisms for public procurements.
4. The only component that increased was **social expenditure**, partly for cyclical reasons (unemployment benefits), partly for aging of the population (pension system).



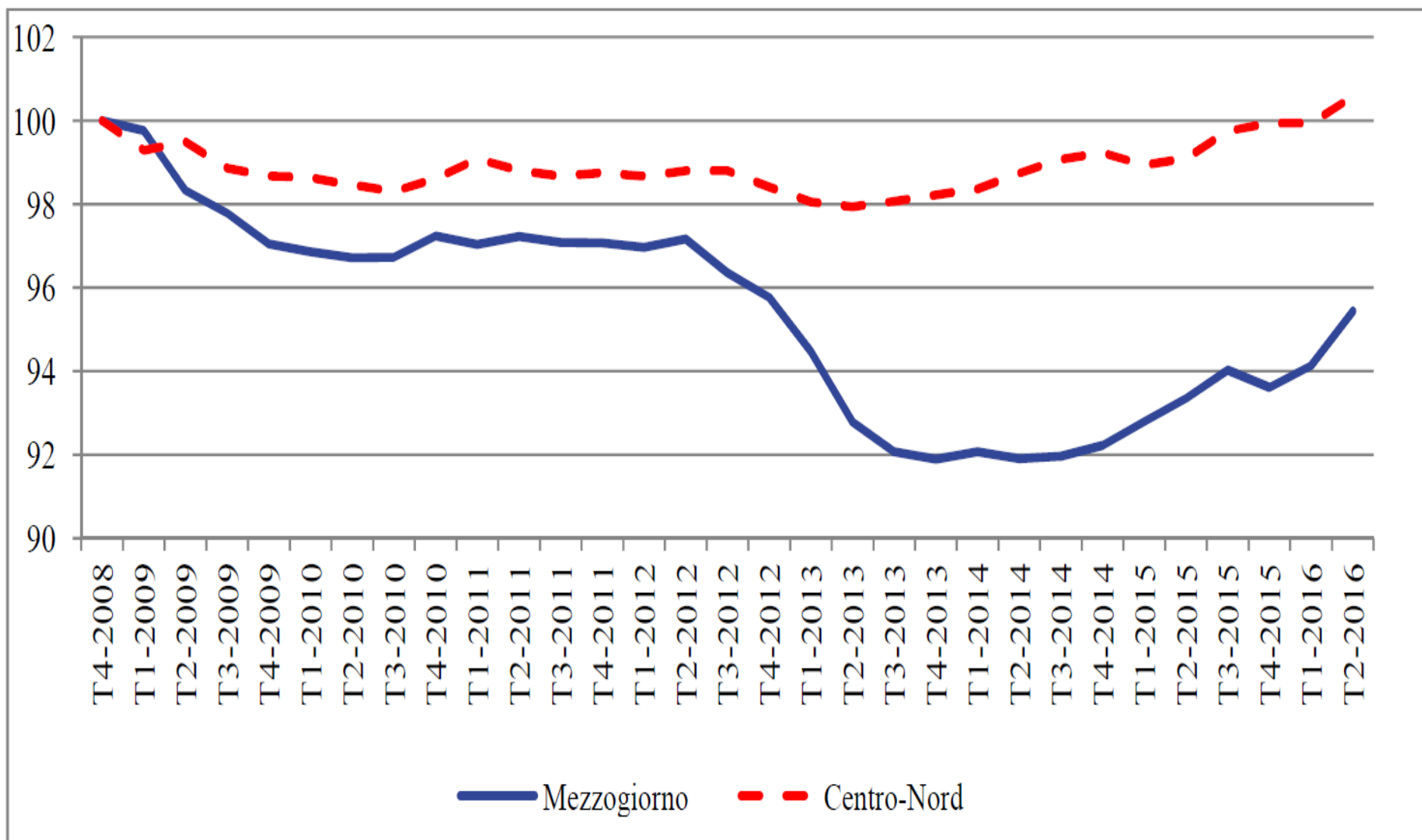
# Fiscal adjustment 2009-2014

1. The increase of social transfers could have helped the South, as this was the part of the country more hit by the recession.
2. But because of the **inefficiency** of our social security mechanism, this did not happen.
3. Italy has **not yet an universal system** against poverty or unemployment. Only people who were already employed have the right to support.
4. And the pension system helps old workers with regular careers, but the latter are mostly in the North.

# North-South and the economic crisis

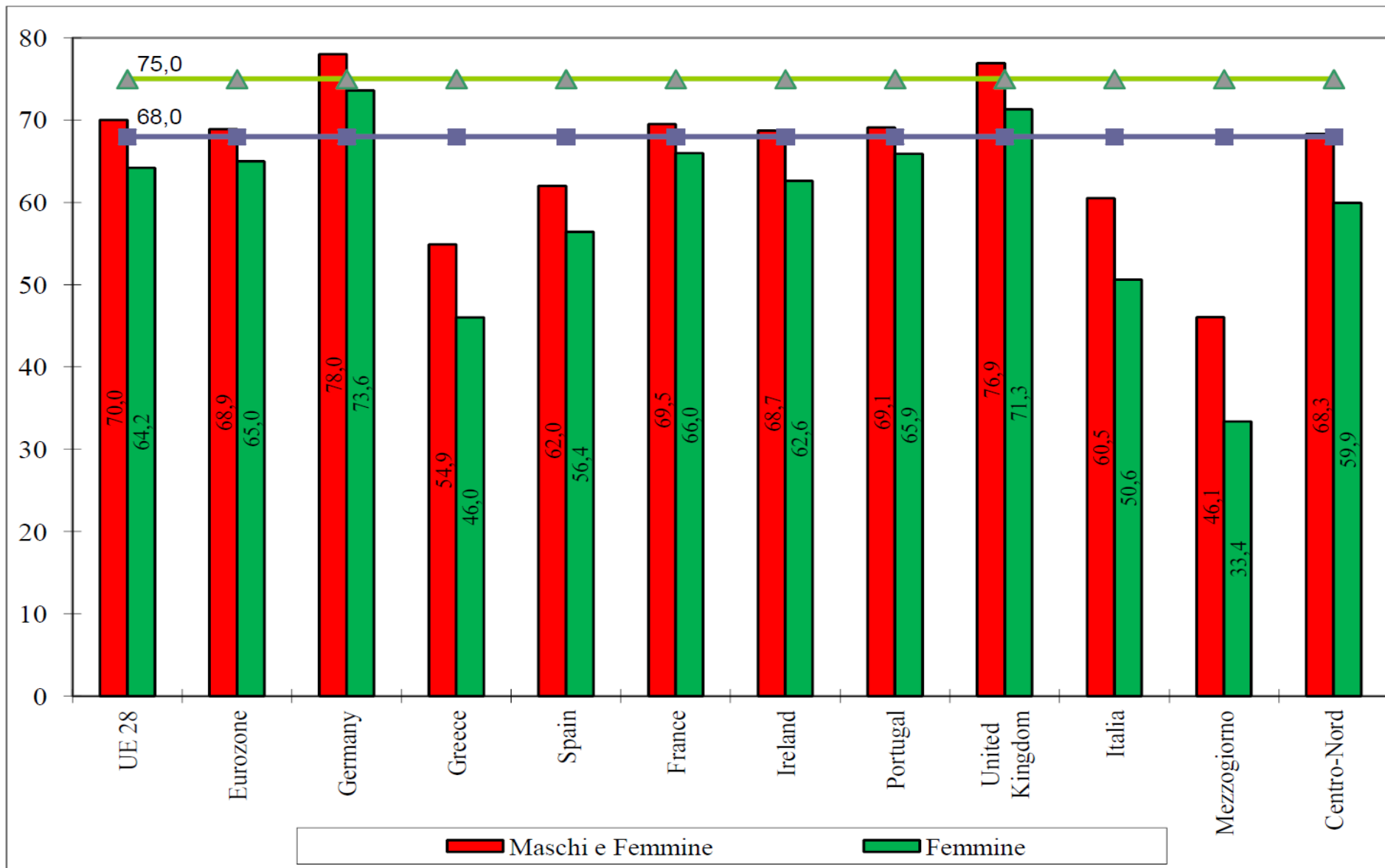
In an already weak economy, as the Southern one, the effects were terrible, particularly for the **weakest components** of society, young people and women.

## Total employment (2008=100); red Center-North, blue South



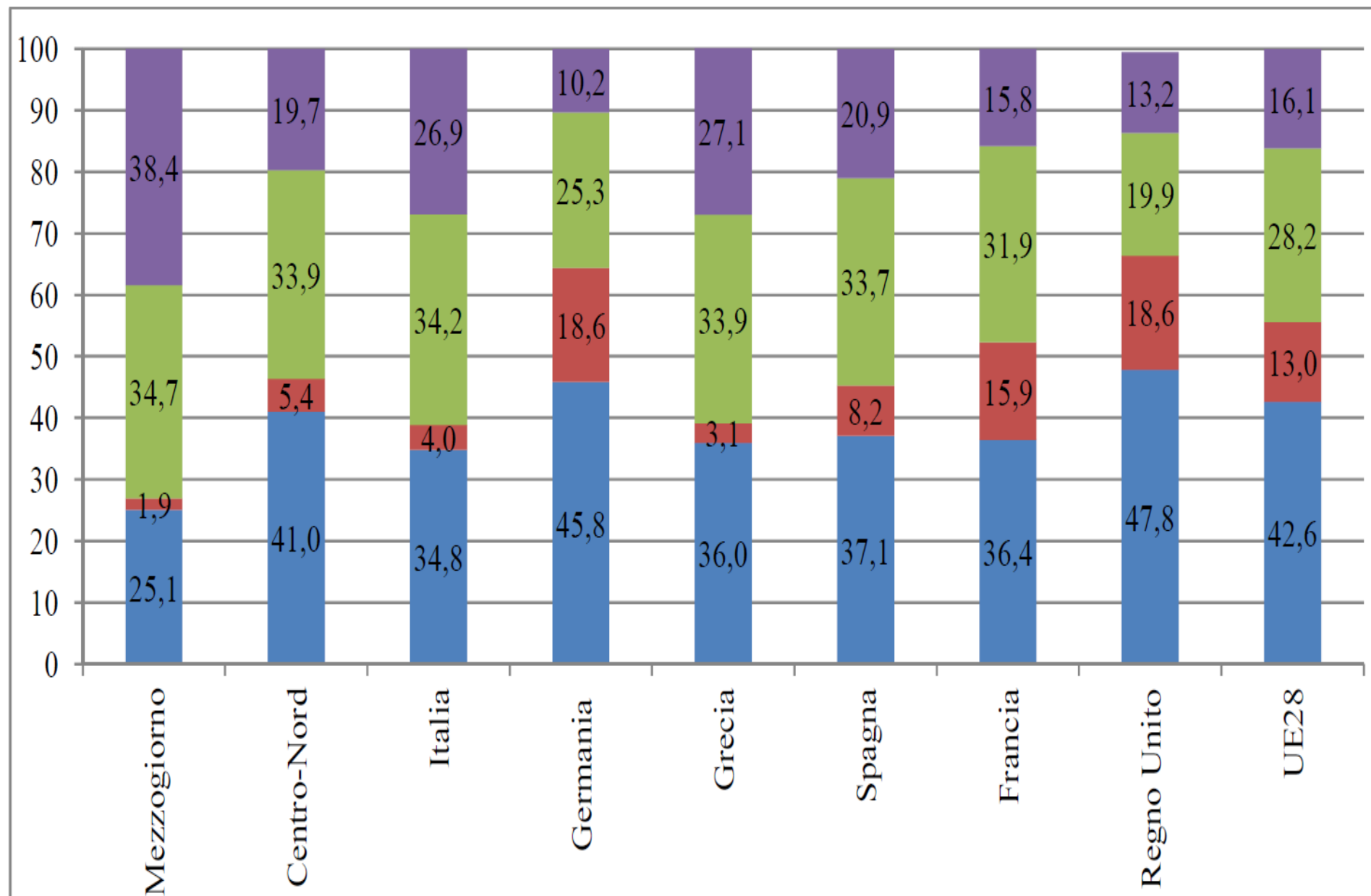
Fonte: Elaborazioni SVIMEZ su dati ISTAT. Indagine continua sulle forze di lavoro.

# Employment rate. Year 2015, age 24-65, by gender



Fonte: Elaborazioni SVIMEZ su dati ISTAT e EUROSTAT.

## Year 2015, age 15-34. Pink NEET, blue workers, green students.



## Percentage of people in absolute poverty: 2005-15.

Anni	Mezzogiorno		Centro-Nord	
	Persone povere (in migliaia)	Incidenza di povertà (%)	Persone povere (in migliaia)	Incidenza di povertà (%)
2005	1.021,4	5,0	889,8	2,4
2006	781,1	3,8	879,2	2,3
2007	786,5	3,8	1.002,0	2,7
2008	1.073,2	5,2	1.040,0	2,7
2009	1.234,3	6,0	1.084,2	2,8
2010	995,8	4,8	1.475,9	3,8
2011	1.269,2	6,1	1.383,2	3,6
2012	1.521,3	7,3	2.030,7	5,2
2013	2.207,2	10,6	2.213,0	5,6
2014	1.866,0	9,0	2.235,3	5,6
2015	2.084,0	10,0	2.514,0	6,3

*Fonte:* Rapporto SVIMEZ 2016 sull'economia del Mezzogiorno.

# North-South and the economic crisis

Even if there is a recovery, the effects of the crisis will be **long lasting**.

**Less investment** in the future, both in terms of new born and in terms of human capital.

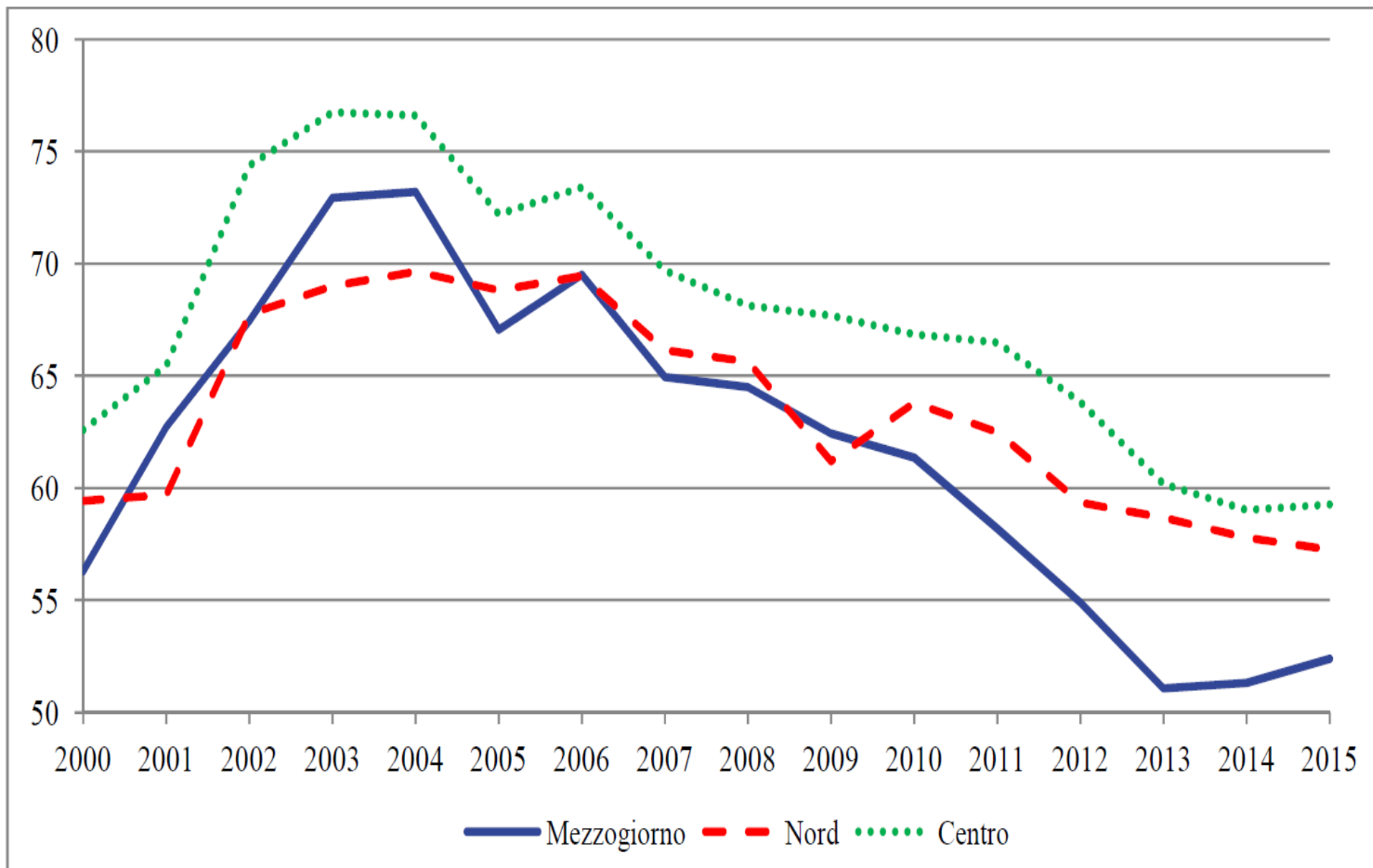
## Numbers of children per woman

Circoscrizioni	1980	1990	2000	2015
Mezzogiorno	2,20	1,71	1,35	1,30
Centro-Nord	1,36	1,15	1,18	1,41
Italia	1,68	1,36	1,26	1,37

*Fonte:*Rapporto SVIMEZ 2016 sull'economia del Mezzogiorno.



# % of high schools graduate who enroll to university (several years)



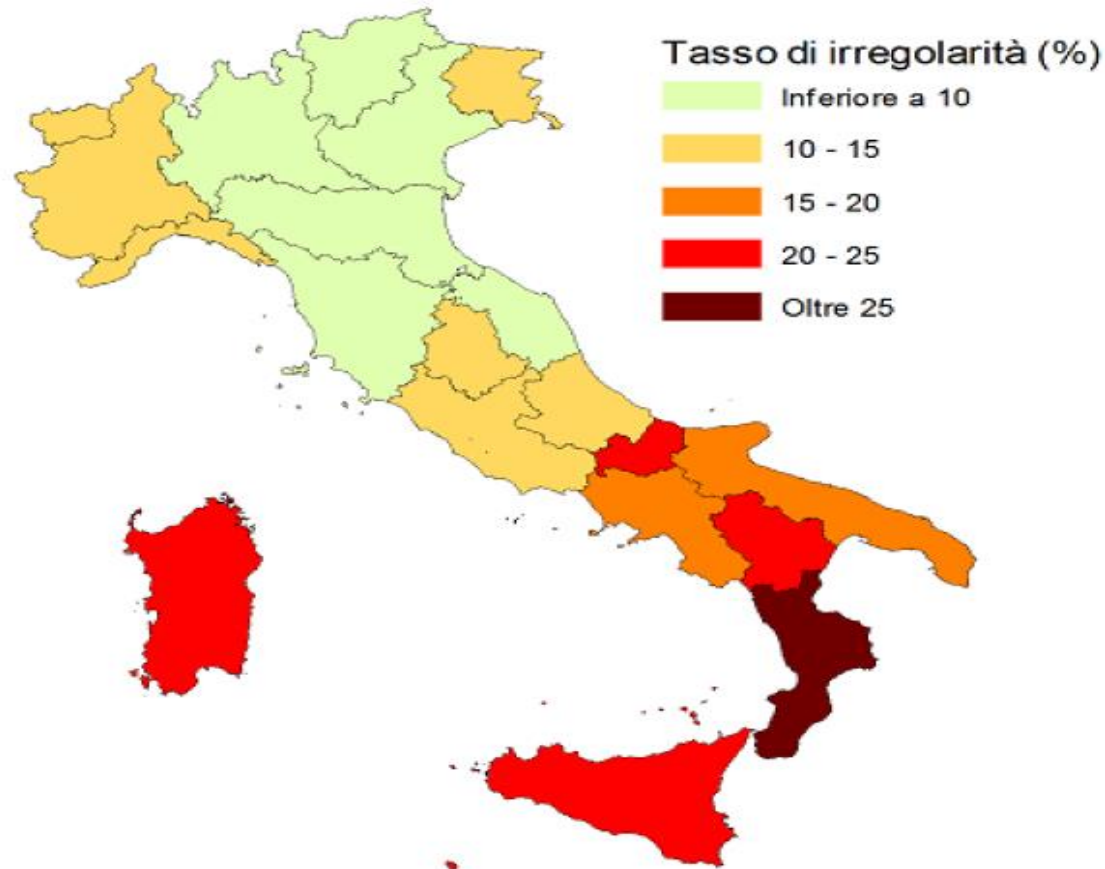
# Behind the crisis

1. Behind these depressing economic results, there is a **disappointing growth of both labor and total factor productivity** in the last 15 years. South is like North, just worse (difference in value added per worker about 20 points)
2. The loss of competitiveness with respect to European partners, and the excessive deflationary policy that was followed in Europe after the Euro crisis explain the bad outcomes.
3. The good results in terms of export are due to a subset of **highly competitive firms**, mostly in the north. However these are **too few** to change the general picture.

# Compensating factors

1. Poverty indicators are computed using a national price index. But **cost of living is lower** in the South (housing & food); about 16% according to some estimates (Bank of Italy, 2011).
2. Tax & transfers **equalize consumption**. GDP per capita is 44,5% lower in the South than in the Center-North; but disposable income per capita is only 35% lower and consumption only 32% lower (Istat, 2015).
3. During the crisis the **informal sector** acted as a (perverse) fiscal stabilizer; according to Istat (2015) the “% of irregular workers” is 8-10% in the North, 20% in the South (increasing since 2009).

% of irregular on regular workers at regional level as computed by ISTAT (2012)



# Compensating factors

1. **Internal and external migration** helped cushioning the crisis, particularly in the South.
2. However, people leaving were **mostly young and educated**, jeopardizing future growth.

# Migration flows: 2002-14

Voci	Unità	(%)
<b>Emigrati</b> dal Mezzogiorno	<b>1.627.188</b>	
- di cui laureati	281.256	17,3
- di cui giovani (15-34 anni)	843.367	51,8
- di cui laureati	181.653	21,5
<b>Rientrati</b> nel Mezzogiorno	<b>973.601</b>	
- di cui laureati	102.428	10,5
- di cui giovani (15-34 anni)	365.188	37,5
- di cui laureati	48.253	13,2
<b>Saldo migratorio</b> netto	<b>-653.587</b>	
- di cui laureati	-178.828	27,4
- di cui giovani (15-34 anni)	-478.179	73,2
- di cui laureati	-133.400	27,9

*Fonte:* Rapporto SVIMEZ 2016 sull'economia del Mezzogiorno.

# Compensating factors

- Mobility, irregular work and grey economy (somewhat considered in GDP estimations by Istat) helps explaining why in per capita terms the distance between Center-North and South did not increase that much during the crisis..

# GDP per capita, GDP per employed, employed per residents

Anni	Prodotto per abitante		Prodotto per occupato		Occupati per abitante
	Euro correnti	(a)	(a)	(b)	
1995	11.481,4	55,6	74,1	76,5	75,0
2000	14.523,6	56,2	76,4	78,9	73,5
2007	18.370,5	56,9	76,9	77,7	74,1
2008	18.473,0	57,0	77,1	77,7	73,9
2009	17.944,2	58,0	79,4	79,8	73,1
2010	17.914,2	56,8	78,1	78,1	72,7
2011	18.037,3	56,1	77,0	77,0	72,9
2012	17.900,5	57,1	78,7	78,6	72,5
2013	17.651,9	56,8	78,6	78,2	72,3
2014	17.514,7	56,1	78,0	78,0	71,9
2015	17.886,7	56,5	78,1	77,9	72,3

(a) Valori correnti.

(b) Valori concatenati, anno di riferimento 2010.

*Fonte:* Elaborazioni SVIMEZ su dati ISTAT e stime SVIMEZ.



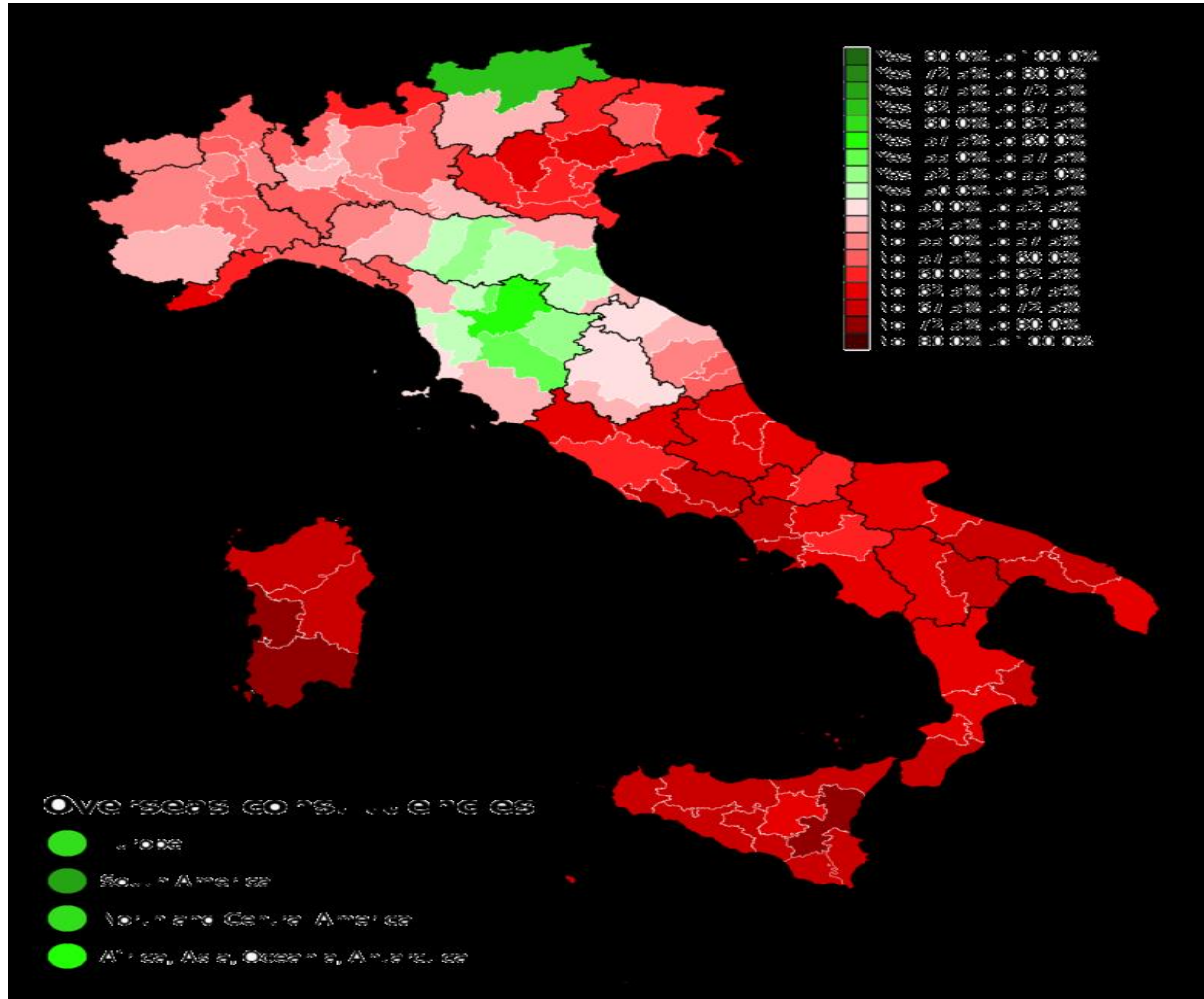
# Compensating factors

1. Finally, not all South is south as not all North is north: Very **heterogeneous landscape**.
2. Between the richest (Abruzzo) and the poorest (Calabria) Southern region there are almost 30 points of difference in GDP per capita.
3. Some (smaller) Southern regions actually did better than the country as whole, while some larger regions did worse.
4. Some specific sectors (e.g. some components of agriculture, tourism, industry) did better in the South.

# Political consequences

- These compensating factors help explaining why social conflict is still subdued in the South;
- But disaffection is on the rise. The South, traditionally a supporter of (any) government in charge, has **radicalized**.
- Support for populist M5 Star is **larger** in the South than in the North (34% of votes in Sicily last political elections).
- At the recent (December 2016) national referendum..

# The results of December 2016 Constitutional referendum



# Why the south is poorer and not converging ?

- It is **not a matter of** (public) **money..**
- Ambrosanio, Bordignon, Cerniglia (2010). Total **(recurrent) public expenditure** net of interests p.c. is **approximately uniform** on the territory, except for pensions (more paid into the North) and some components of local expenditure (municipalities), lower at South.
- Capital exp. pc is traditionally **higher** in the South (because of development policies, see below).
- See Appendix for more recent data telling the same story.

# Ambrosanio et al., 2010. Per capita distribution of (recurrent) public expenditure net of interests (reference year 2005)

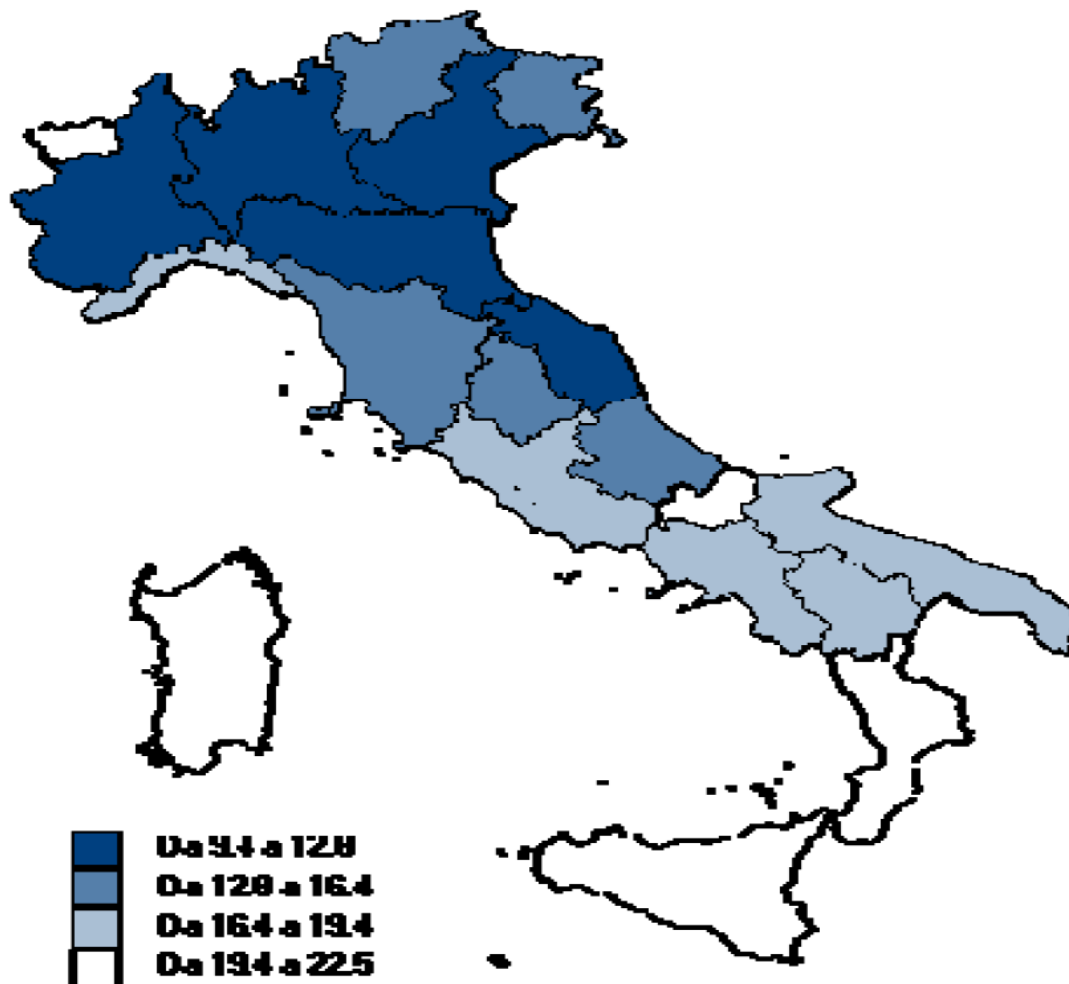
Regions	National public goods	Health and education	Social protection	Other functions*	Total expenditure
Puglia	1160	2199	3474	1201	8033
Campania	1160	2447	3062	1415	8084
Calabria	1160	2298	3386	1503	8347
Basilicata	1160	2342	3436	1551	8489
Sicilia	1160	2434	3354	1694	8641
Veneto	1160	2256	4209	1167	8791
Abruzzo	1160	2511	4100	1375	9146
Molise	1160	2683	3729	1664	9235
Lombardia	1160	2229	4819	1236	9444
<b>ITALIA</b>	<b>1160</b>	<b>2400</b>	<b>4432</b>	<b>1496</b>	<b>9488</b>
Marche	1160	2316	4595	1432	9502
Sardegna	1160	2399	3944	2123	9626
Piemonte	1160	2303	5239	1524	10226
Emilia Romagna	1160	2407	5307	1382	10256
Toscana	1160	2447	5143	1526	10276
Umbria	1160	2488	5164	1791	10602
Lazio	1160	2797	5113	1727	10796
Friuli Venezia Giulia	1160	2457	5518	1930	11065
Liguria	1160	2490	6239	1703	11592
Trentino Alto Adige	1160	2991	4775	2877	11803
Valle d'Aosta	1160	2888	5449	4587	14083
Mean	1160	2362	4331	1722	9502
Standard deviation	0	216	904	754	1495
Coefficient of variation	0	0,09	0,21	0,44	0,16

\* It include local pure public goods, economic affairs, environmental protection, housing and community amenities, recreation, culture and religion

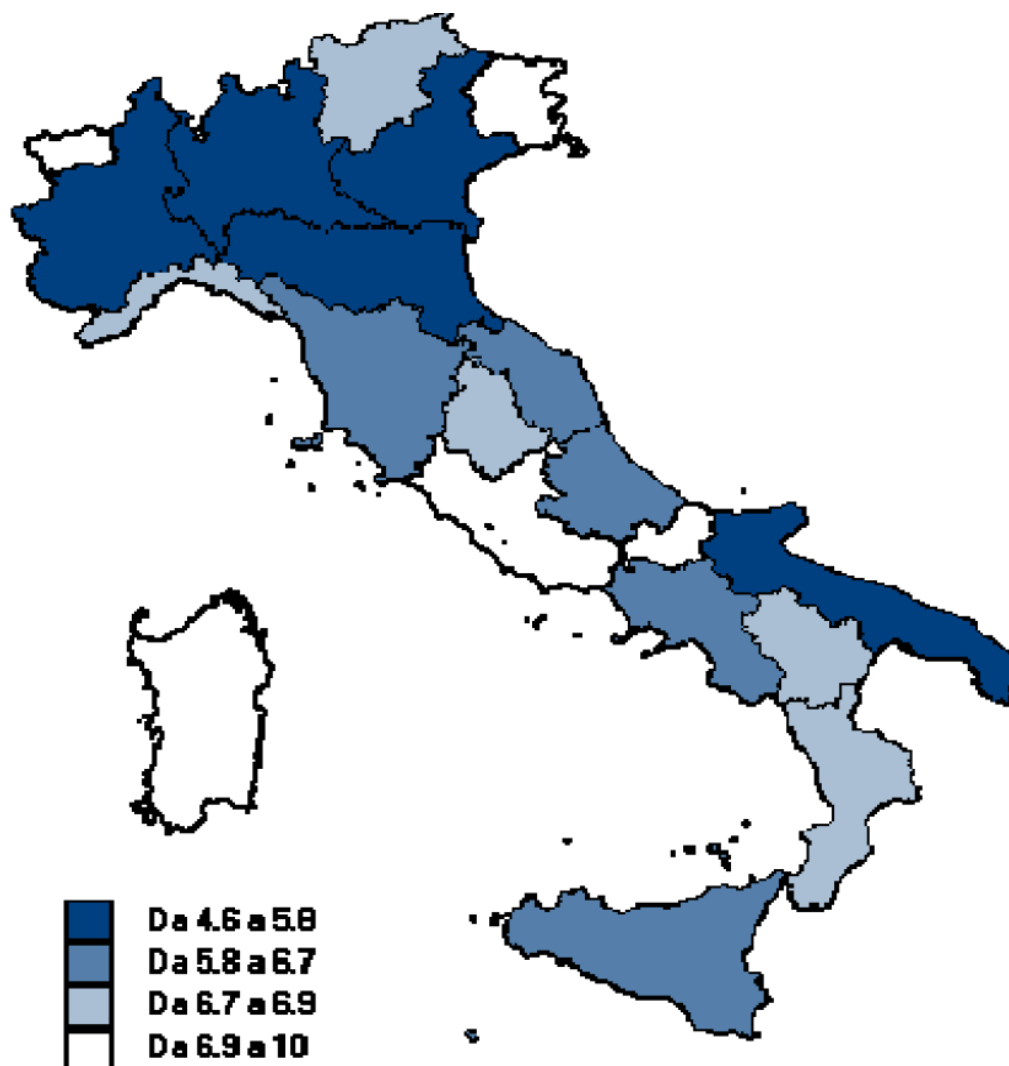
# Public Employment

- With some distortions, however. Public employment is **higher** in the South (both in terms of population and total employment), particularly so in some sectors and regions (e.g. Sicily, RSS).
- This is partly the result of **deliberate policies** by local govs. (public employment as a substitute of unemployment benefits), partly the result of **on the job mobility**.
- Many southerners find work in the central public sector in the north and then manage to get back home, where nominal wage is the same but real wage is higher (e.g. , teachers).

## Public employment on total employment (reference year 2005)



## Public employment on population (reference year 2005)





# Quality of services

- But in spite of the uniformity of resources, **quality** of public services is **much lower** in the South.
- This is true **regardless** if services are provided by the central gov (justice, education), by regional gov (health care), or by municipalities.

# Regional divide: Civil Justice

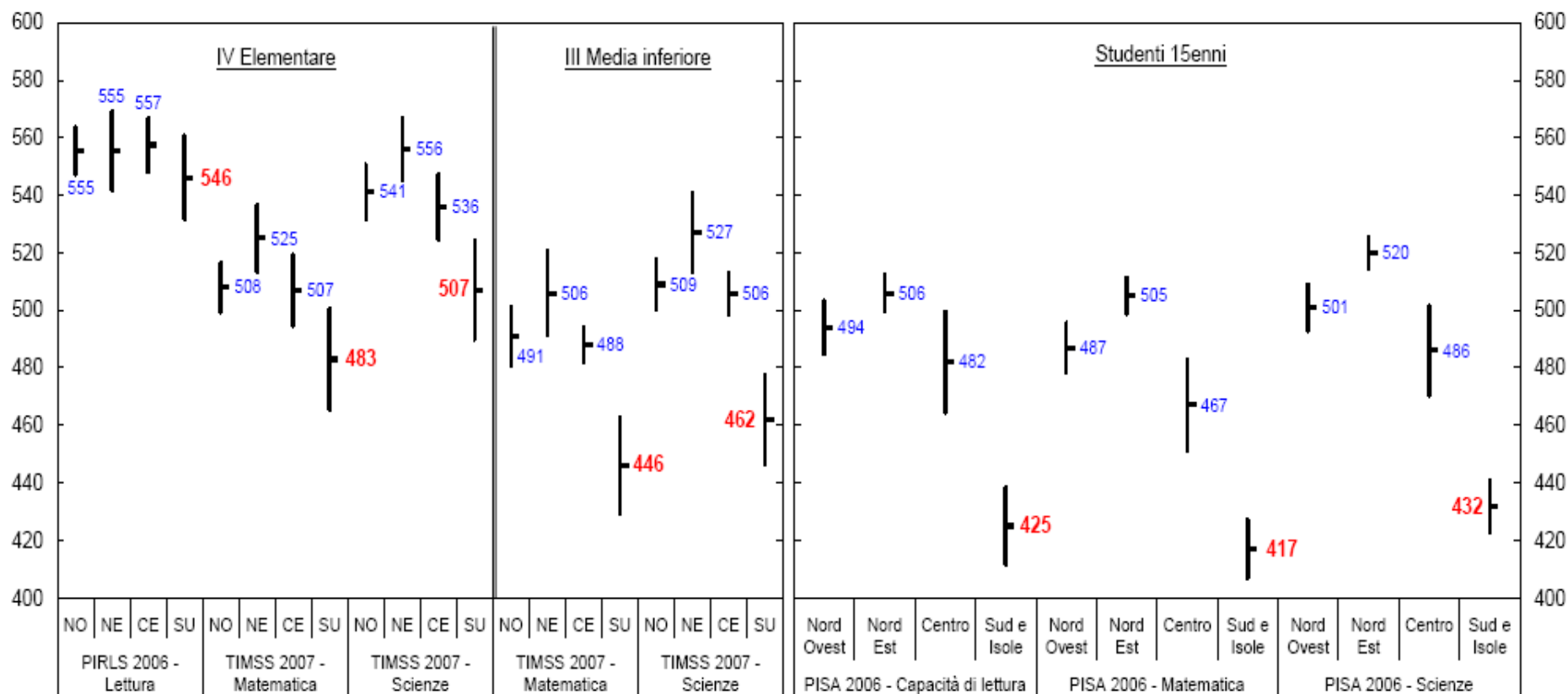
Country	Length in days of trials
France	250
Germany	157
Italy	480
Spagna	244
Italy	474
<i>North West</i>	<i>306</i>
<i>Nord Est</i>	<i>361</i>
<i>Center</i>	<i>433</i>
<i>South</i>	<i>590</i>

Fonte: Banca d'Italia (2011); durata media in giorni

# Regional divide: Education

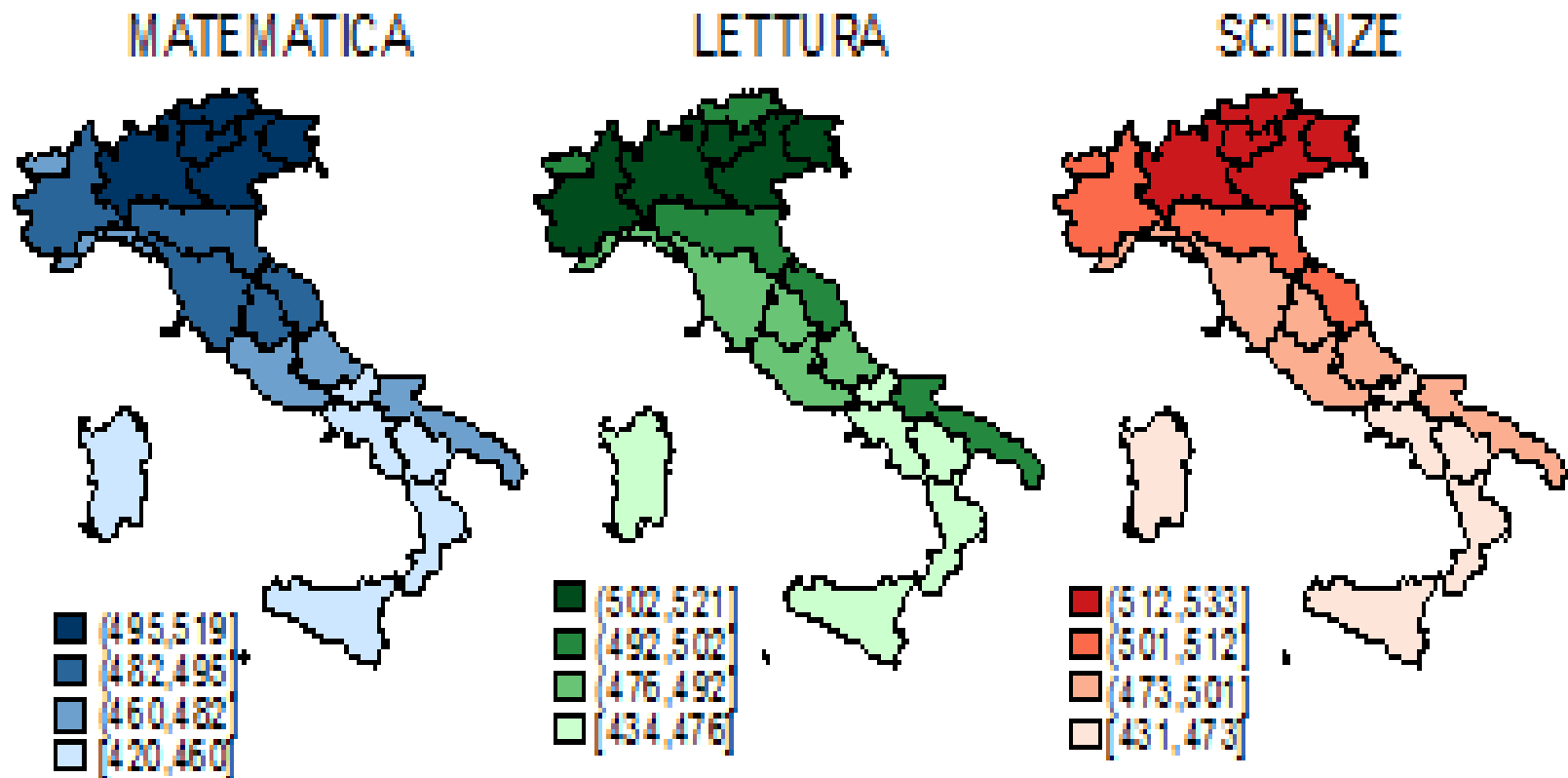
## I divari territoriali nei punteggi delle indagini internazionali (1)

(punteggi medi e intervalli di confidenza al 95 per cento; media internazionale=500)



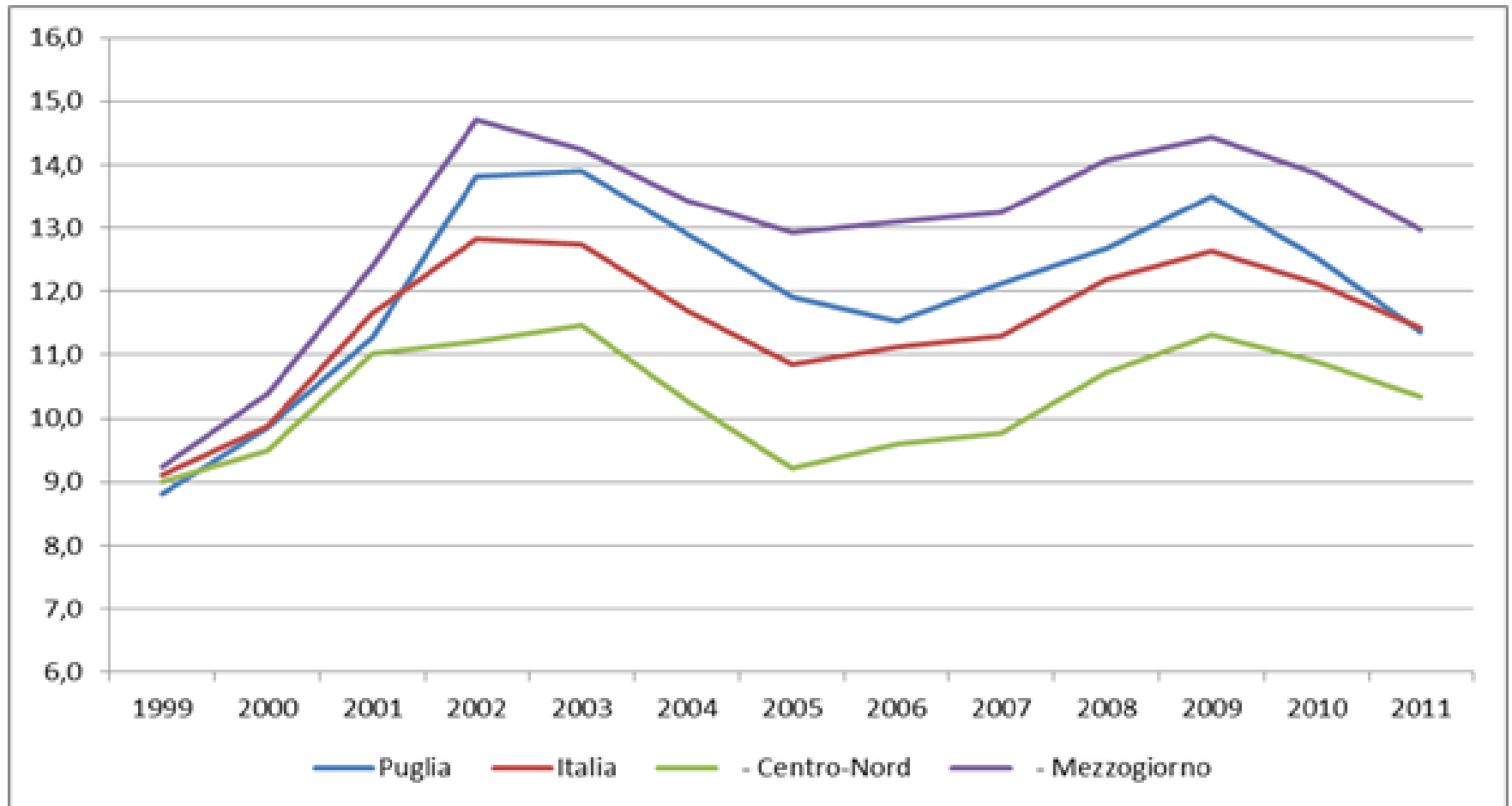
Fonte: Banca d'Italia (2011)

# Regional divide: Education (PISA test, 2012)



# Regional divide: Education

## % Dropouts from compulsory schooling



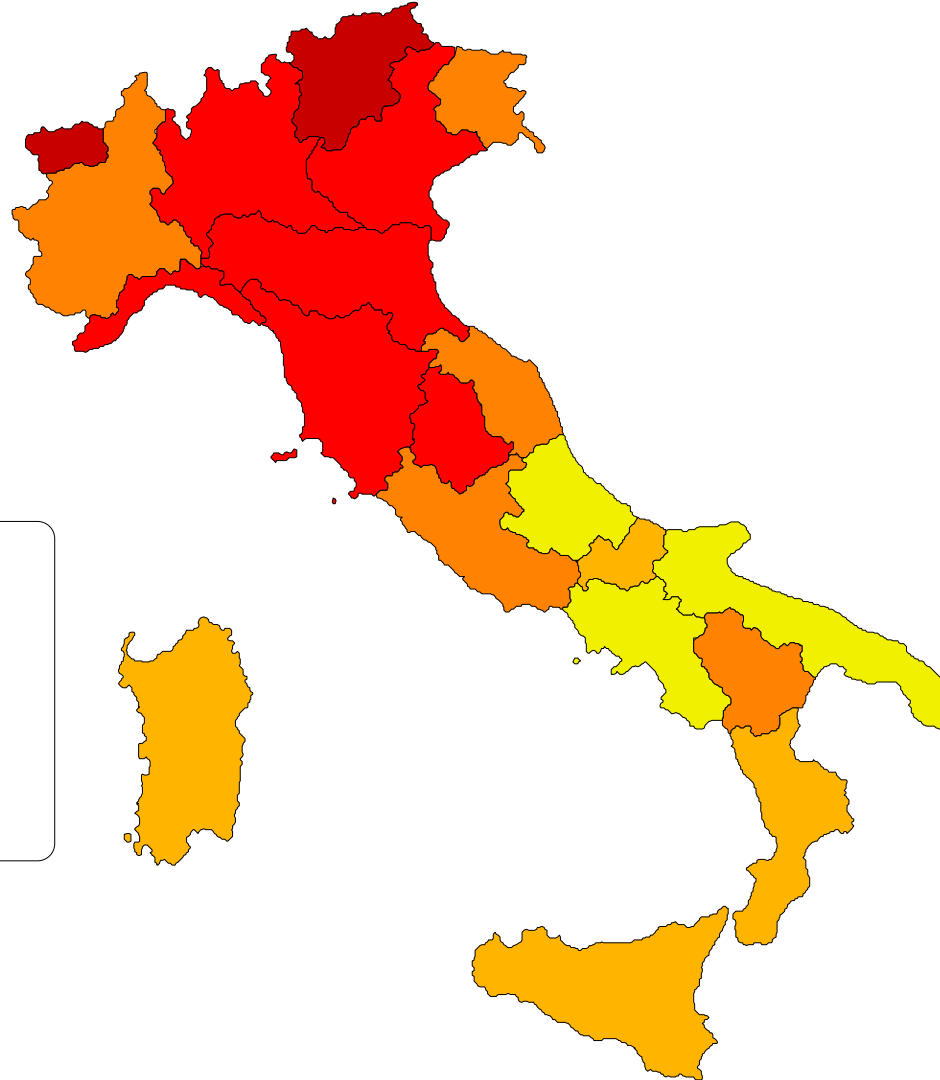
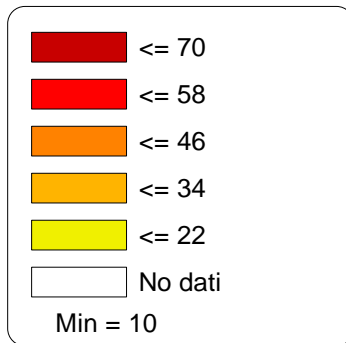
Fonte: Banca d'Italia (2011)

# Health care: perceived quality of services

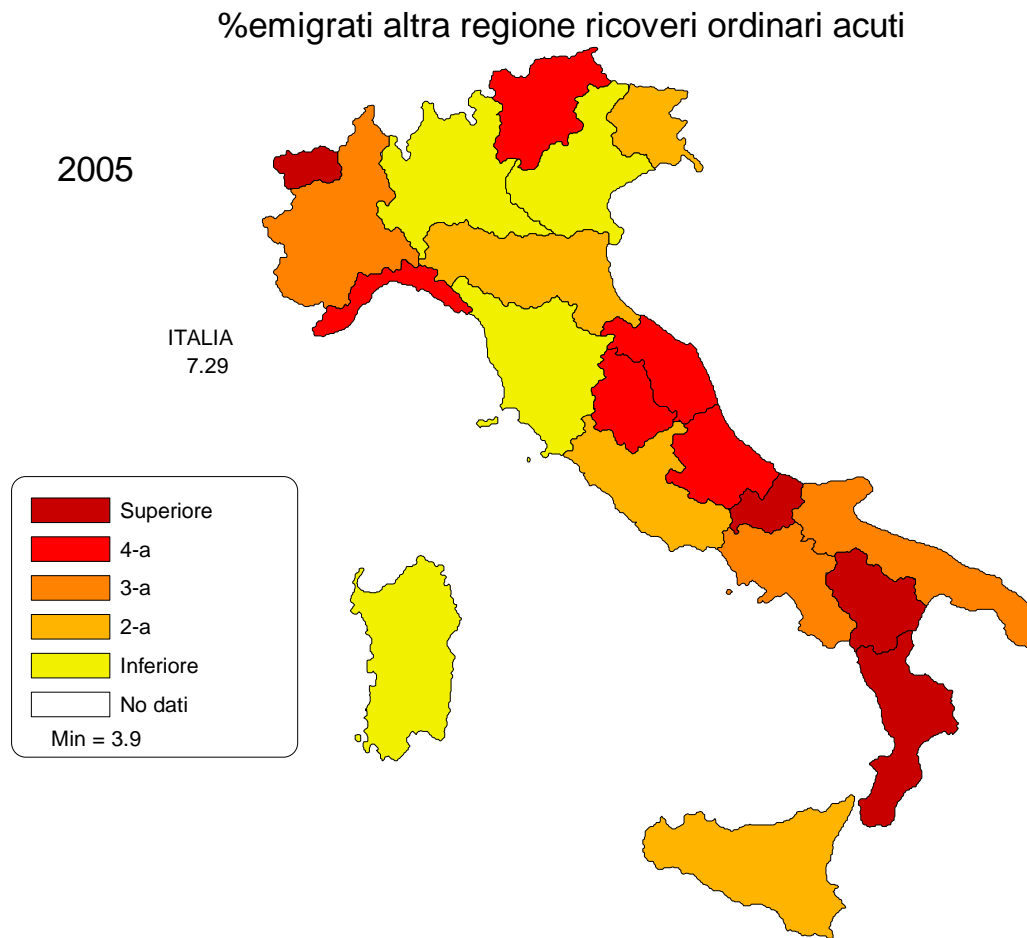
Persone molto soddisfatte assist.medica osped. M+F

2006

ITALIA  
39.14



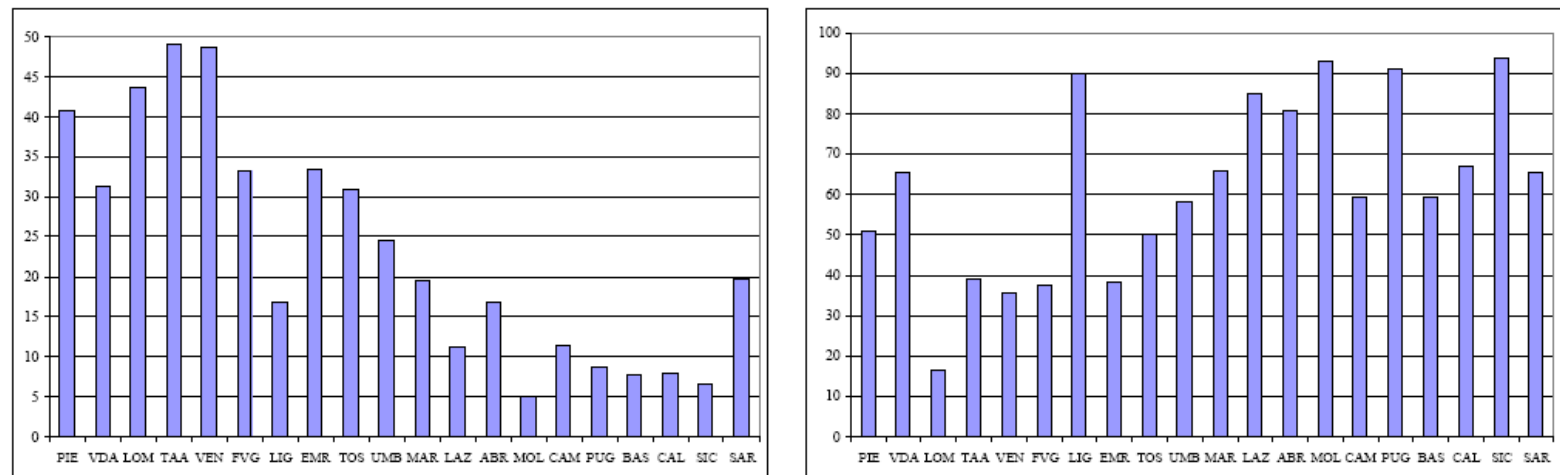
# Regional divide: patient mobility



# Regional divide: separate waste collection

- Servizi locali: Raccolta rifiuti

Il servizio di gestione dei rifiuti urbani (1)  
(quote percentuali)



Fonte: elaborazioni su dati APAT (2006) utilizzati in Chiades e Torrini (2008). (1) Nel grafico di sinistra è riportata la percentuale di raccolta differenziata sul totale, in quello di destra la percentuale di rifiuti smaltiti in discarica.

Fonte: Banca d'Italia (2011)



# Special development policies

- Besides **normal redistribution** through national budget & transfers to local govs (about **3-4%** of national GDP is yearly transferred to the South this way), South always also benefitted by **special development policies**, for about **0.5-1%** of GDP per year.
- **Cassa per il Mezzogiorno** (1950-1994). Basic infrastructures (roads, schools, hospitals, water pipes, electric nets) & industries location as a result of incentives offered to private companies and restrictions imposed on government owned companies. Very successful at the beginning but political cronyism in a later phase leads to its dismantlement.

# Special development policies

- In 1998 substituted by **Nuova Programmazione (NPP)** and a specific Department at the national government was set up to manage it.
- Specifically, the new Department was in charge of the allocation of European structural and cohesion funds, plus the additional money sets up by government.
- More **discretionary, place based policies** based on the interaction of local govs, trade unions and private companies to define projects and finance them. Accompanied by central incentives & monitoring.

# Special development policies

- These special policies and EU funds (80% earmarked to South), plus various pro-South constraints on public company investments, helps explaining why the **difference in infrastructures** between North & South, while still existing, is **not large..** (or at least not that large as one would expect on the basis of GDP..)

# Infrastructure (2015-Svimez)

Regioni e circoscrizioni	Autostrade	Rete FS			Rete ferrovie concesse
		Elettrificata	Stazioni	Alta Velocità	
Abruzzo	238,0	121,8	173,1	0,0	49,3
Molise	102,0	97,6	176,9	0,0	0,0
Campania	68,0	74,7	61,7	138,3	98,5
Puglia	68,6	75,2	47,1	0,0	254,1
Basilicata	44,7	186,6	182,1	0,0	536,2
Calabria	133,7	125,9	166,8	0,0	180,4
Sicilia	116,1	80,1	88,8	0,0	47,6
Sardegna	0,0	0,0	71,9	0,0	602,0
Mezzogiorno	91,3	81,4	88,3	38,8	172,3
Centro-Nord	104,6	109,7	106,1	132,1	61,5
Italia	100,0	100,0	100,0	100,0	100,0

# Recent developments

- NPP has been criticized for **low coordination** with national policies and for financing too many **heterogeneous** projects, aimed at increasing local consensus rather than growth.
- In response, last govs reacted by developing a **new program** for the South (Masterplan), setting up a head center at the national level (“**cabina di regia**”, now a specific Ministry) aimed at coordinating national policies with development policies and by introducing a **novel legislative instrument** to jointly implement policies (“patti per il sud”).

# Recent developments

- The new mechanism was instrumental to **speed up procedures** (expenditure out of EU and Italian funds doubled in 2015); this helps explaining the better performance of South in 2015.
- However, this just means that **money is spent faster**, not necessarily that is spent in “good” projects or in projects more conducive to growth. Plus, these sums are small w.r.t. bulk of public expenditure in the South.

# Incentives & tax expenditure programs

- South also benefitted along the years by several “special” or **enhanced programs to support desirable behavior by firms** such as more investment or employment (contributions and tax deductions for investments, reductions of social contributions on new hires etc.)..
- Even today (2017), these policies have been re-enacted by the present gov.

# Incentives & tax expenditure programs

- These policies are usually quite costly for central budget.
- However, empirical analysis suggests that their effects in the past have been **very limited** (e.g. De Blasio & Lotti, 2011 on incentives; Bordignon, Turati and Schmitz, 2015 on Prodi 2007-10 policies), affecting more the **timing** than the **level** of investment or of new hires.



# Why the south is poorer and not converging ?

- Is it a matter of a **lower endowment of social capital** in the South due to long term historical reasons?
- Banfield (1958), “Amoral familism”, Putman (1993), field analyses on South Italy. Lower social capital reduces **trust and cooperation** and increases transaction costs, making exchanges more difficult with negative effects on credit markets, firms, public sector efficiency etc.
- Strong support in economic literature (e.g. Guiso et. al., 2004, Tabellini, 2007), now also some confirming experimental evidence Casari et al., 2016.

# Why the south is poorer and not converging ?

- Possibly, but social capital is **elusive notion** and it is hard to see what one could do if this story were true (can't redo the past).
- Perhaps, an interaction is more convincing and more **useful**. In a context with low social capital & high transfers, **democracy doesn't work** properly. At the loc level, gov. finances inefficient policies but that maximize consensus (say, excessive employment or ad hoc distribution). At the central level, gov buys consensus from the South with transfers. This **reinforces low level of social capital** & political cronyism.

# Why the south is poorer and not converging ?

- One implication is that **South remains poorer** because **there are political rents** to be gained **for letting it remain poor**, based on the monopoly of the distribution of central resources by local and central political class.
- “**Bad**” political economic **equilibrium**; with variants, this is the explanation provided by several authors (e.g. Rossi, 2006, Trigilia, 2011, Salvati, 2011) to describe persistent South/North difference.

# Why the south is poorer and not converging ?

- A second implication is that local Southern political class is “exploitative” (Felice, 2013); specialized in obtaining and **intermediating central resources** in order to maintain social consensus, but **unable** or unwilling to use them to stimulate **growth**.
- A corollary is then that this political class should be **excluded** by development policies, preferring instead **automatic, not discretionary**, policies (e.g. general reduction in taxes or contributes rather than the funding of specific projects).

# Why the south is poorer and not converging ?

- This view is strongly **rejected by** theorists of **NPP**, arguing for the need of involving local participation from loc govs, interest groups, private sector etc. in order to **collect information**, identify suitable projects and to generate sustainable development (Barca, 2011, Viesti, 2008).
- This conflict of views raises the question if indeed political southern class is specialized in intermediation.

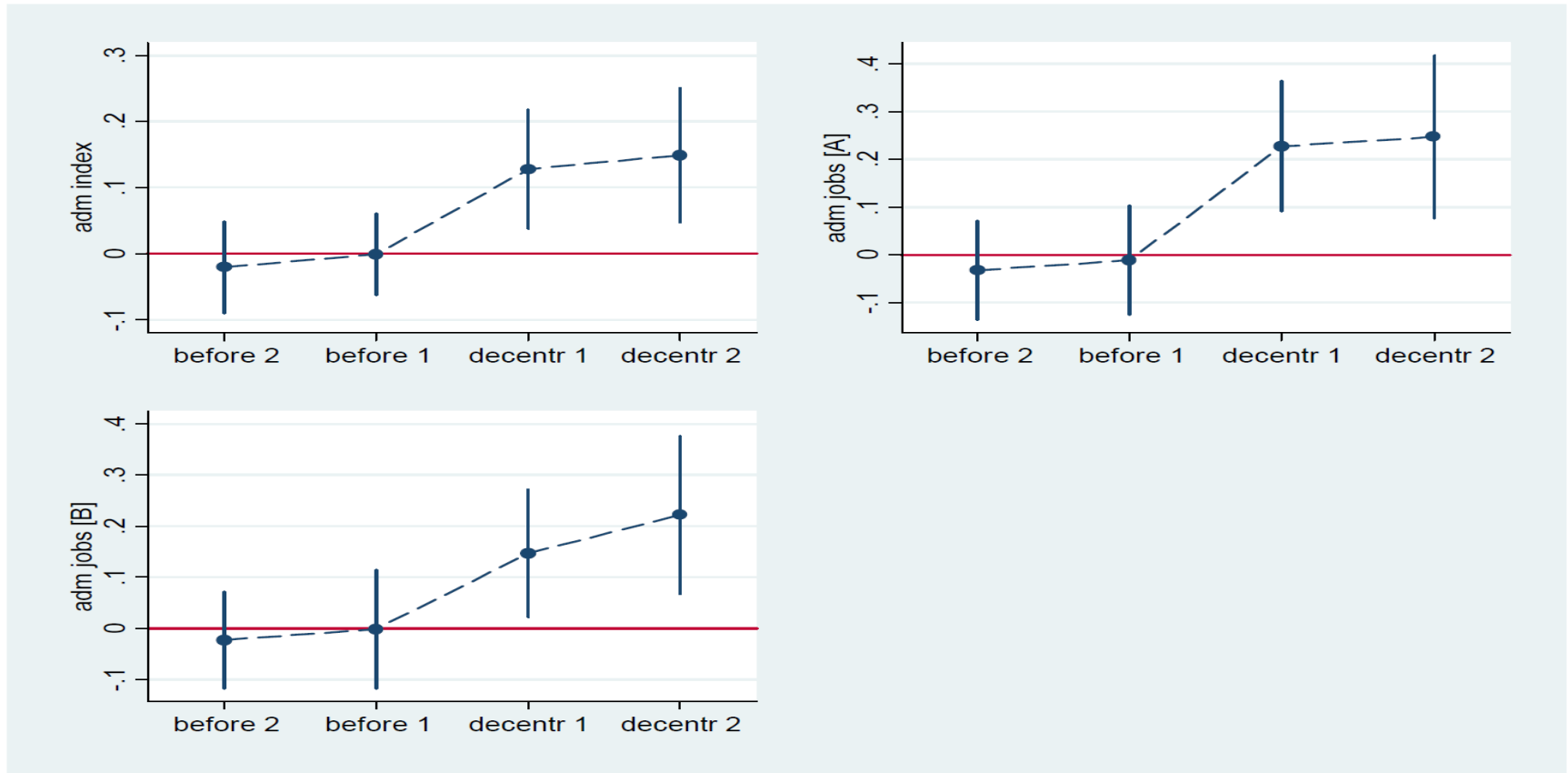
# Selection of the political class

- Some empirical evidence: Bordignon, Gamalerio, Turati (2015).
- In 1993, change in municipal electoral rule. **Direct election** of Mayors. At the same time, **new autonomous tax resources** (property tax in 1993, PIT surcharge, 1999), that however helped particularly Northern cities because of their higher tax base. As an effect, **north cities almost financially independent**, **south** cities still strongly **dependent** on transfers.
- Which kind of politicians would the citizen choose for Mayor in these different contexts?

# Selection of the political class

- Theoretical argument. In rich cities, citizens choose good administrators, **in poor cities politicians with connections** because this guarantees flows of money from the center. Different types of politicians self-select, or are selected by political parties, in different cities following these citizens' preferences.
- We proxy Mayor skills by looking **at his profession** before entering in politics (administrative skills) and **at his history** of previous political engagement (political skills).
- Looking at the 90 principal Italian cities in 1988-2014 we find strong support for this story.

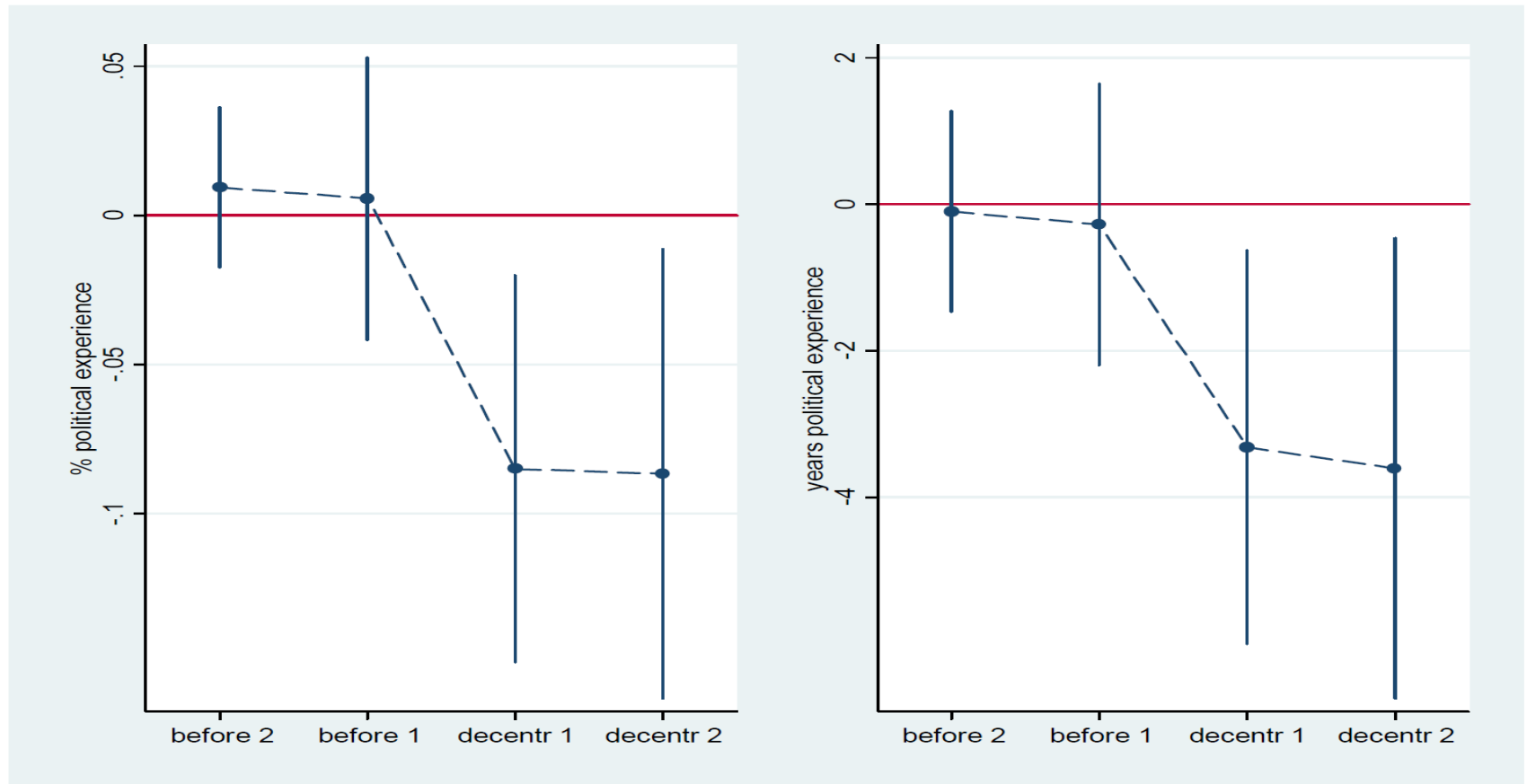
# Regression analysis: administrative skills of Mayors related to higher tax base of municipalities



Variable definition: adm\_index: log of the index for administrative skills (ISFOL); adm\_jobs [A], jobs included: school managers, entrepreneurs, directors, engineers and architects, veterinarian, dentists, traders, biologists, university professors, surveyor, business consultants and pharmacists; adm\_jobs [B], jobs included: school managers, entrepreneurs, directors, engineers and architects, traders, surveyor and business consultants.



# Regression analysis: political skills of Mayors related to higher tax base of municipalities



Variable definition: % political experience: percentage of working years a candidate had already dedicated to politics before becoming mayor; years political experience: years of past political experience before becoming mayor.

# Why the south is poorer and not converging ?

- Another element that specifically characterizes South is the presence of **organized crime** (Ndrangheta, Camorra, Mafia) particularly in Campania, Sicilia & Calabria, with ramifications in the rest of country.
- This is **complementary to** arguments above, as organized crime builds on low social capital and it is often connected to local and national politics.
- Organized crime **reduces growth** by distorting competition, appropriating rents from public investments, scaring away private investments.

# Why the south is poorer and not converging ?

- Estimations on the extent of criminal activities vary a lot (Unioncamere, 2016), from 40 up to more than **100 billions euro** per year.
- Pinotti (2015) uses modern econometric techniques to **estimate the loss of output** induced in Basilicata and Puglia (where the phenomenon was unknown before) by the arrival of organized crime since 1970. He estimates a **cumulated loss of 16% of GDP pc** against counterfactual due to **lower private investments**.

# Concluding remarks and ways out (if any)

- South has **similar problems** than North, low productivity growth, firms that are too small, low quality of public services, low respect of rule of law –just much worse.
- Economic crisis has reduced the flow of resources from North, jeopardizing traditional political equilibria. This is a challenge, but might also be an **opportunity**.
- South needs **more special policies to make the fundamental services** work (education, justice, health, basic infrastructures) than special development policies as such.

# Concluding remarks and ways out (if any)

- **Education** (to increase social capital) and **Justice** (to contrast organized crime) are the obvious policies to focus on. There have been **some improvements recently** following gov reforms (civil justice procedures, “buona scuola”) that need be strengthened.
- Some special policies to make these services work better might also be **less prone** of organized crime involvement. Say, a temporary policy to hire 10,000 young teachers in the South paying them more is less appealing for organized crime than building a motorway that costs the same.

# Concluding remarks and ways out (if any)

- Leaving aside pensions, **local govs** in Italy are responsible for **about half public expenditure**. It is then important they perform well.
- **Best practices** should be introduced and **strict budget constraints** enforced on local governments particularly in the South.
- The present Constitution (which is going to remain after the rejection of the proposed reform) **does not help**, as it gives too much powers to local government, without conditioning them to results.

# Concluding remarks and ways out (if any)

- However, **some steps forwards** have been made in the direction of **enforcing hard budget constraint** (e.g. the procedures for bankruptcies at local levels and the new controls on regions with health deficits) and to **increase knowledge of best practices** (e.g. the computation of standard costs for local governments made publicly available on the net) that need to be further enforced.

# Concluding remarks and ways out (if any)

- Eight years of freeze on hiring in the public sector has eased the problems, but many local govs in the South are still **burdened by an excess of low skilled personnel** either in offices or in controlled local private firms. For reasons of political consensus they will never be able to face the problem alone.
- A national policy, accompanied by active labor market policies and pre-retirements could help to address the problem. But it will depend on resources available.



# Concluding remarks and ways out (if any)

- The Constitution also does not help in running **national policies** that affect regional or local competences (say, a national policy on kid gardens to free women work) but existing space should be exploited.
- For the reasons discussed above, **automatic incentives** are preferable to more discretionary interventions for development policies. Without denying the need of a **better coordination** with normal policies. The new system seems to be working better but the jury is still out.

# Concluding remarks and ways out (if any)

- Italy badly needs an **universal system** to support **poor families** and to encourage **active labor market participation** for young and women. Some new mechanisms have been just introduced, but still with no sufficient resources.
- These mechanisms would **help** disproportionally **the South** as the above problems are here much more severe.

# Concluding remarks and ways out (if any)

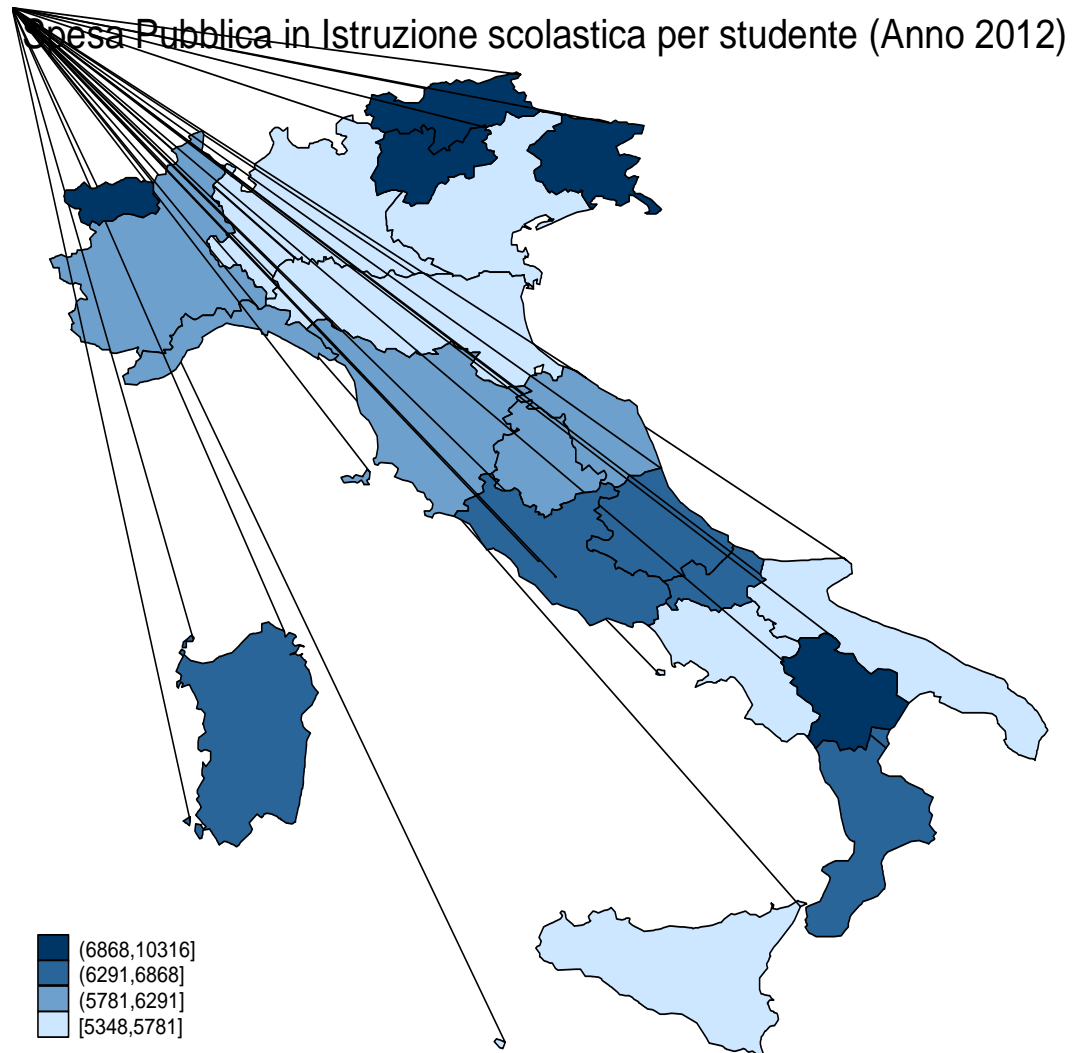
- Wages are still set **uniformly** at national level via collective bargaining. A new wage setting policy that **linked more wages to firm performance** (currently discussed at national level) could help the South, reducing incentives for irregular work and increasing employment.
- **Differentiating public salaries** on the basis of **cost of living** indicators should also be considered (for future labor contracts) as would reduce the traditional mis-allocation of public employees in the territory.

# Appendix

# Percentage of people risking poverty for age brackets

Classi di età	2014		
	Centro-Nord	Mezzogiorno	Italia
20-29	20,14	58,82	32,77
30-39	16,75	43,94	24,76
40-49	15,12	42,94	23,79
50-59	10,5	36,70	19,33
60-69	6,83	27,57	13,97

# Public expenditure in education, per student, 2012



# Human capital adults 2012 (score in literacy)

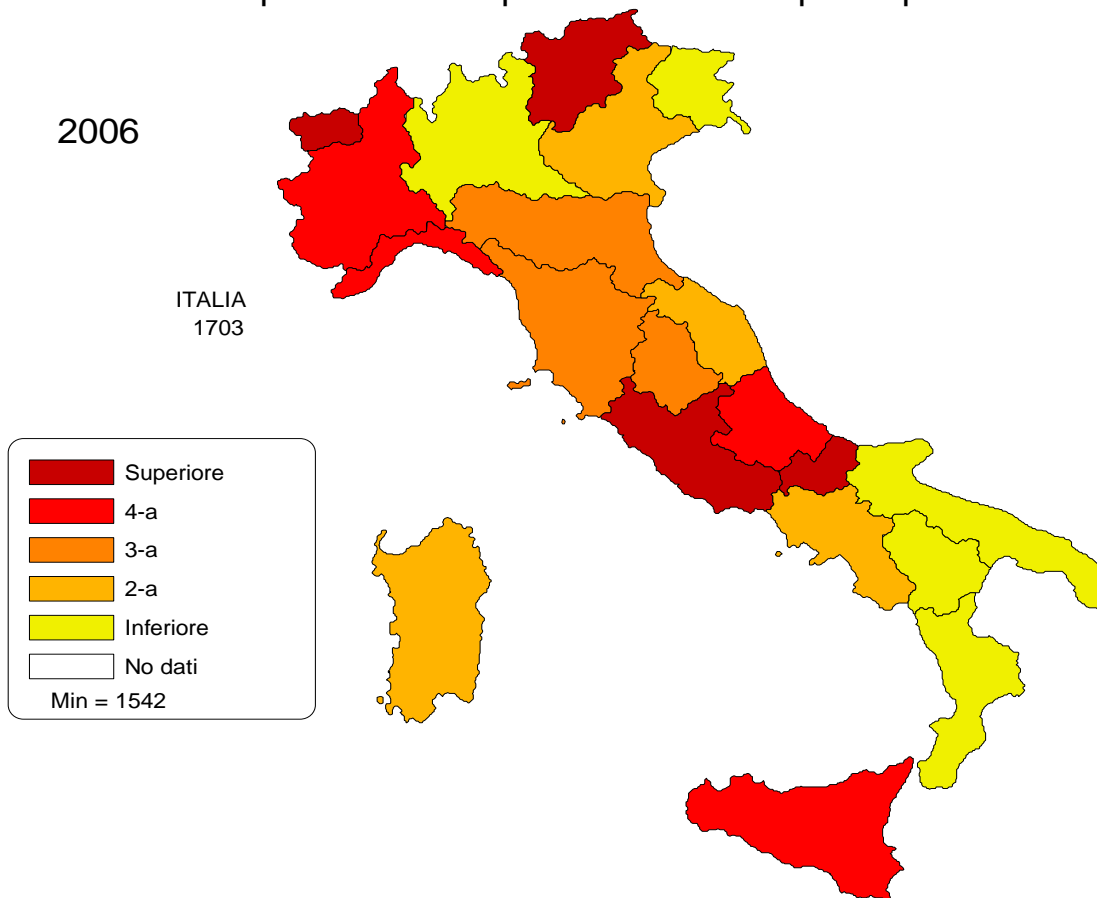
Figura 1 **Punteggio medio della popolazione italiana 16-65 anni per macroregioni sulla scala di competenze di *literacy***



Fonte: elaborazione ISFOL su dati OCSE-PIAAC 2012

# Public expenditure in health, per capita, 2012

Spesa sanitaria pubblica corrente pro capite

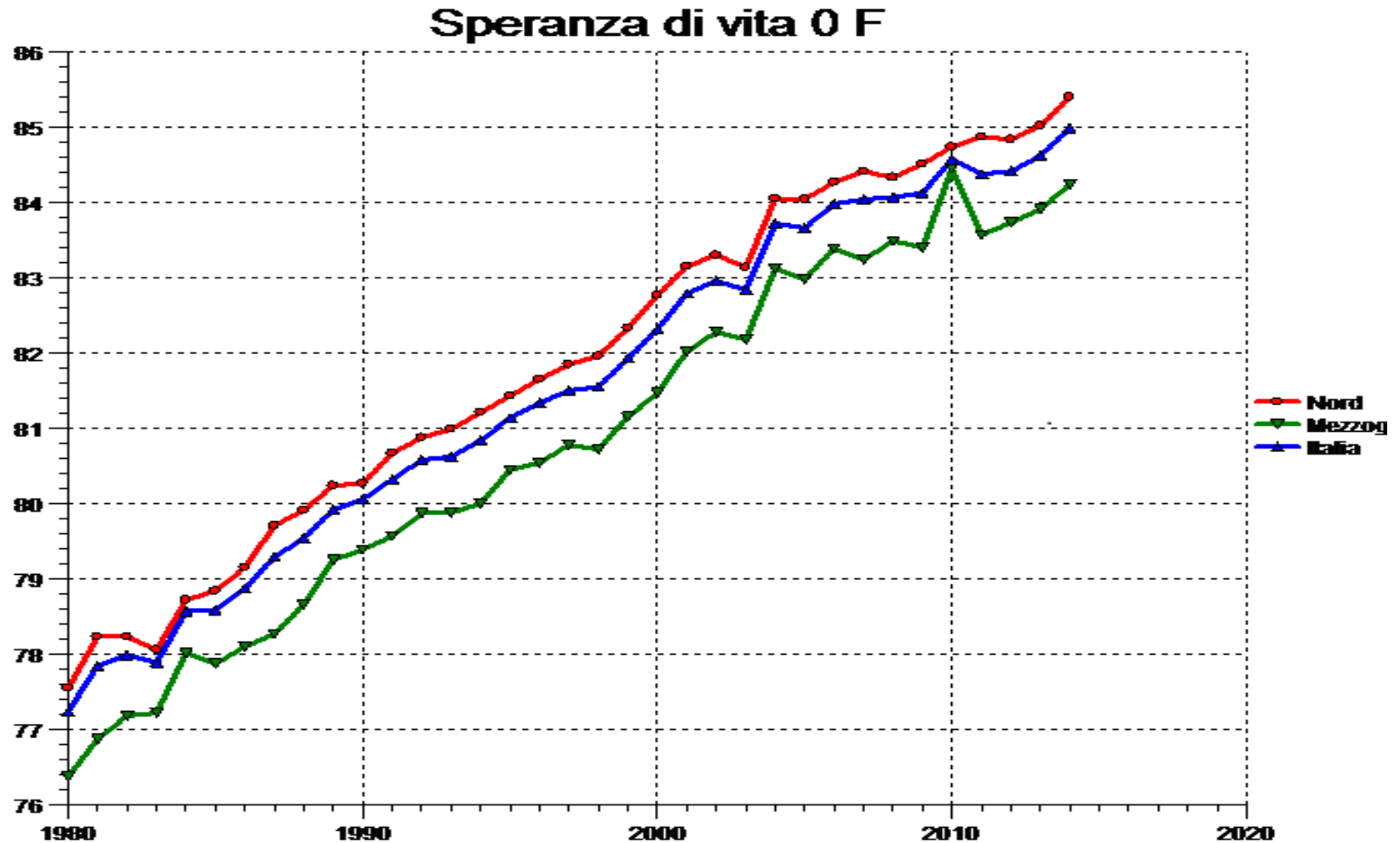




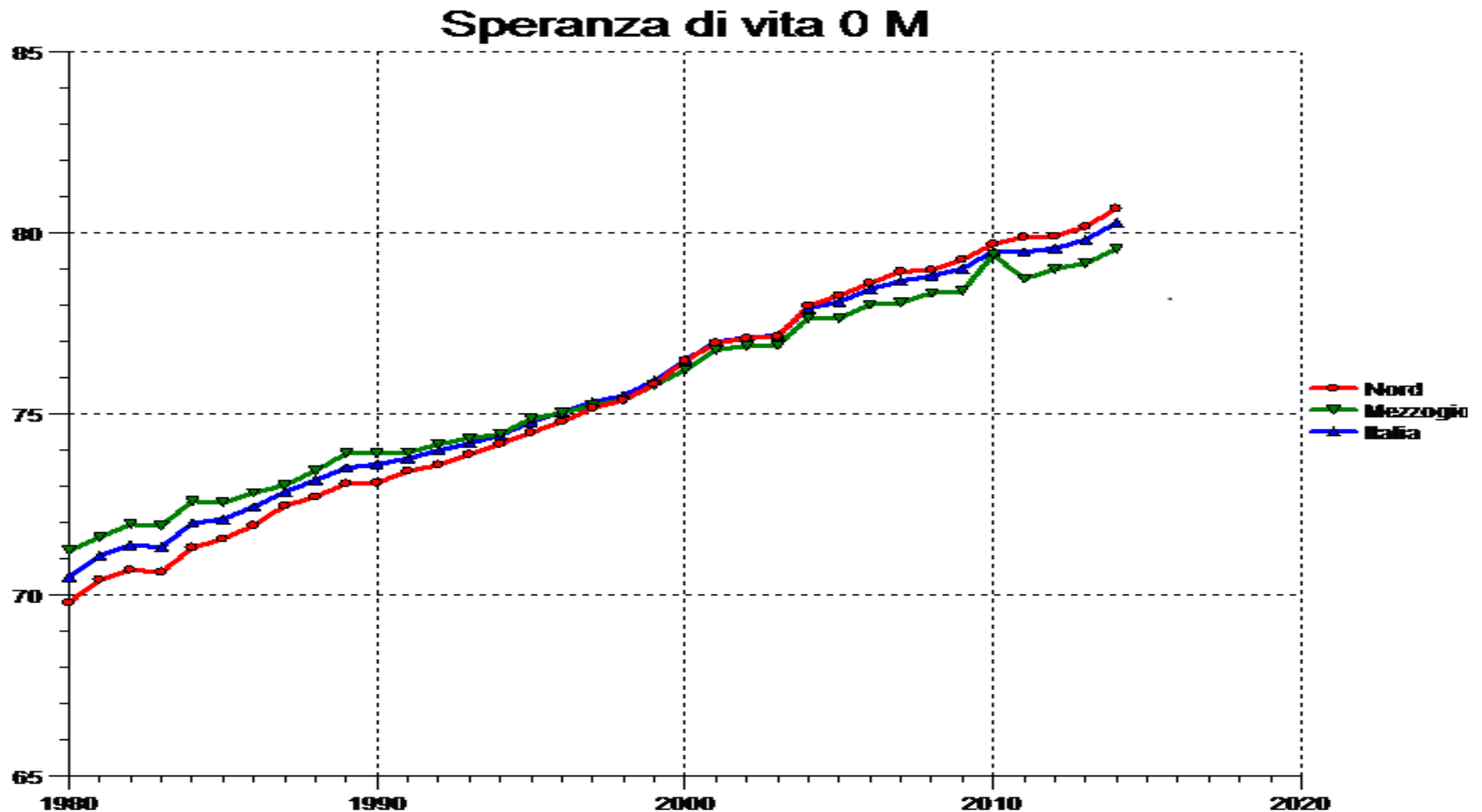
# Regional divide

- Per capita expenditure in Health care is higher in the North.
- But taking into account age of population and complexity of services the situation changes.
- According to Bank of Italy (2011), correcting for these factors per capita expenditure is 104 in Mezzogiorno, 101,9 at Center and 96 at North.

# Life expectancy at birth (women)



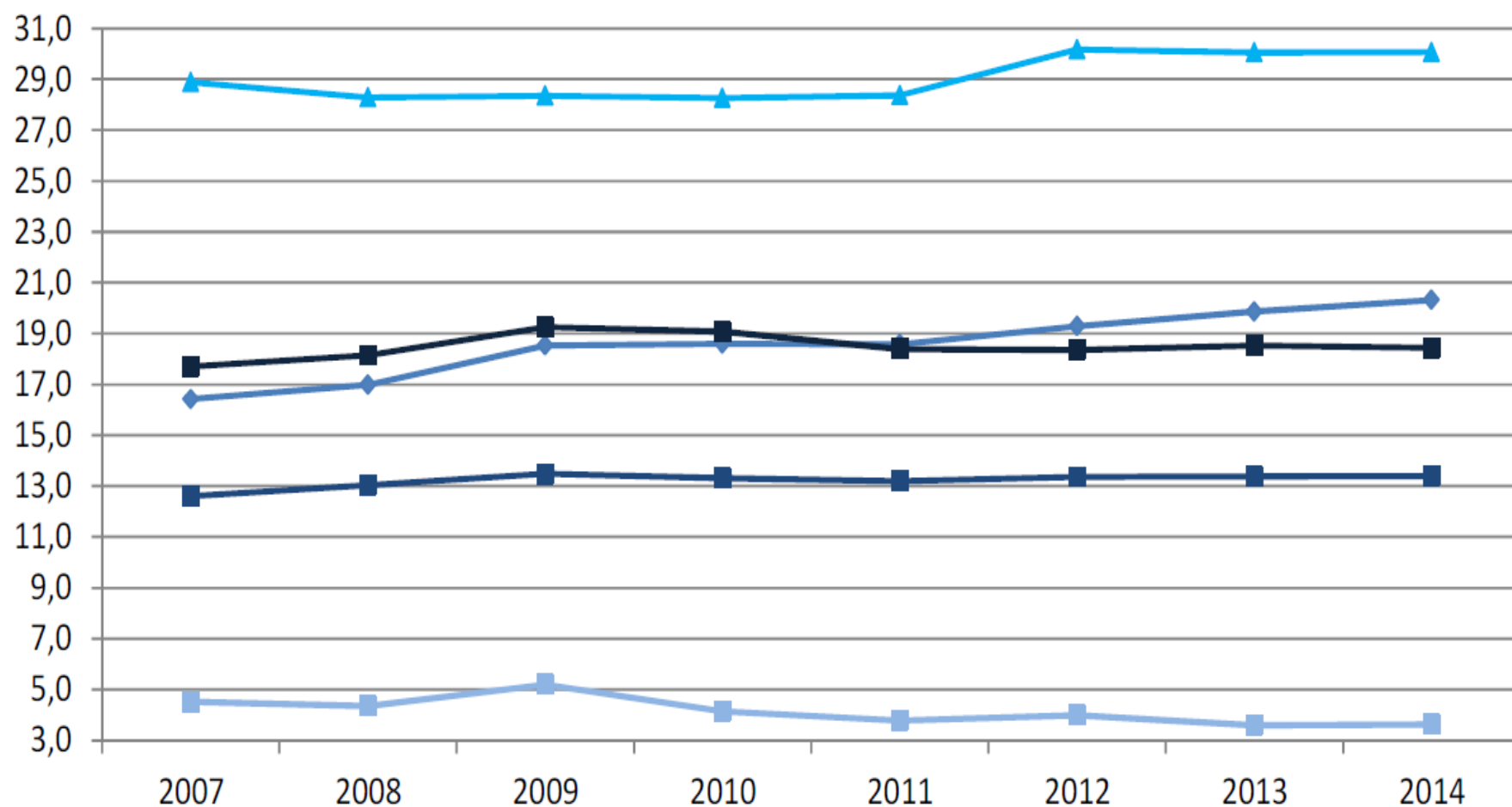
# Life expectancy at birth (men)



# **Fiscal adjustment 2009-2014**

**Fig. 2.1** – Principali voci del conto delle AP 2007-14  
(in percentuale del PIL)

- PRESTAZIONI SOCIALI IN DENARO
- REDDITI DA LAVORO E CONSUMI INTERMEDI
- ENTRATE TRIBUTARIE
- CONTRIBUTI SOCIALI
- SPESE IN C. CAPITALE



**Fig. 2.2** – Tassi di crescita medi annui delle principali voci di spesa pubblica

