

[Why the Italian Mezzogiorno did not Achieve a Sustainable Growth]

Social Capital and Political Constraints

Abstract: This article analyses the reasons for the persisting economic and social backwardness of the Italian Mezzogiorno. The South of Italy, a large and densely populated region, has lagged behind the rest of the country over the last 60 years, despite considerable investments in development aid. Understanding the reasons for this failure is particularly important not only for the future of Italy citizens but also for regional development policies in Europe. Current explanations focused on either an insufficiency of economic aid from the central government or a lack of *social capital* in the Southern regions. Both of them are weak in a number of respects. The insufficient aid thesis overlooks the large absolute scale of net transfers from the state to the South (especially in terms of spending on public services). The social capital thesis points out the weaker endowment of civiness in the Mezzogiorno, but overlooks the role of political institutions that hinder economic development and the growth of civic culture. The major argument of this article is that the problem of the South should be explained primarily through reference to the dynamics of the political system (both local and national). The prevalence of clientelism in the politics of the South helps explain the inefficiency of aid policy, and also provides a more convincing explanation for the lack of social capital. Clientelism in local politics is supported and even encouraged at the national level because of the importance of the Mezzogiorno in national electoral politics.

Keywords: Italian Mezzogiorno, clientelism, political system, social capital.

Introduction

The Italian Mezzogiorno is probably the most important case in Western Europe of failed integration at the national level. Its significance comes from both its size and population, which enhanced its impact as a source of instability in both Italy and Europe at large, but is also related to the long duration of policy attempts to promote growth and convergence. Large transfers from Northern regions to the South have been intermediated by the state, but have nevertheless largely failed to reach their goals.

In this article, I seek to explore the reasons why the Mezzogiorno is still lagging behind the rest of Italy, looking especially at the failure of integration policies pursued over the last 50 years. In so doing, I will bring out more important general lessons for regional policy as a whole.

The paper is structured in the following way. Part one places the Mezzogiorno in context, giving a brief overview of its social and economic characteristics, and exploring the extent of the gap between Northern and

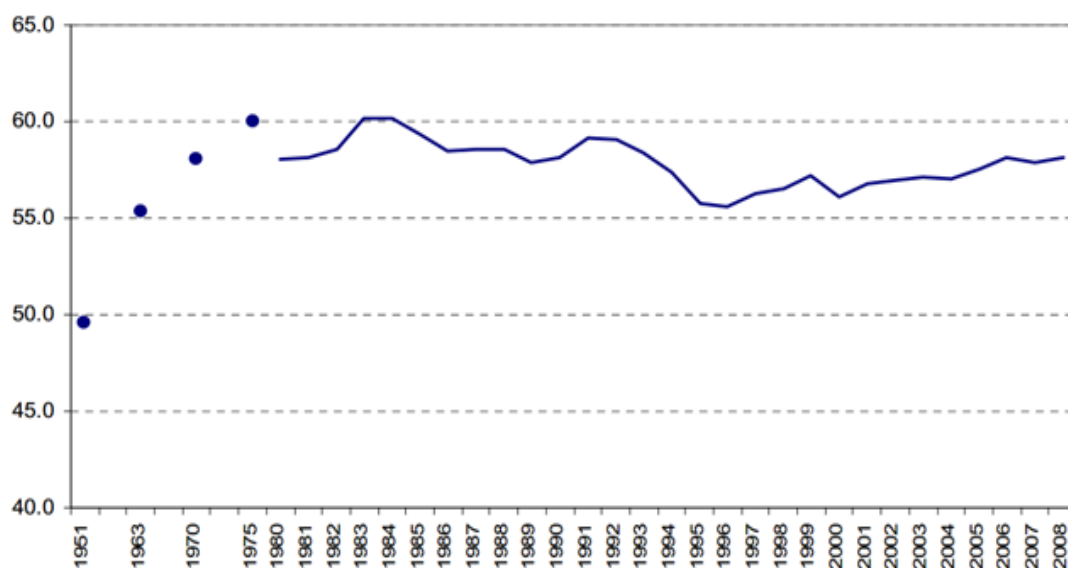
Southern Italy. I will show how the divergence between the two regions is felt not only in economic terms, but also in the quality of basic infrastructure and services. Part two looks at the reasons behind this divergence. Two frequently advanced hypotheses (that the amount of aid received was insufficient, and that Southern Italy suffers from a lack of “social capital”) are discussed. Then a third explanation is advanced which focuses on the characteristics and behavior of local political elites, and their relationships with the national political system. Local politicians have largely deployed financial aid to their own political and electoral ends, through transfers to the local population. Local politics has become, in other words, clientelistic, and large amounts of aid have thus been diverted away from the task of promoting investment in economic growth (e.g. through spending on infrastructure and efficient public services). This arrangement has also won the tacit support of national governments, who have seen the Mezzogiorno as both a useful means of propping up internal consumption and as an electoral “reserve army” whose votes can be bought through generous transfers. This mutual interest has meant that Mezzogiorno aid policy has remained trapped in an inefficient cycle, leaving the whole area dependent on public transfers with little possibility for autonomous growth.

Part three looks at the contemporary situation of the Italian Mezzogiorno. I argue that a combination of increasing globalization, accession to the Euro zone and the current financial crisis are conspiring to pressurize the existing aid settlement, making it less financially sustainable for the central government. This situation creates significant challenges for the Mezzogiorno but also opportunities for change: and I will conclude by setting out some policy priorities for a renewed approach to the Italian South.

1 - The Italian Mezzogiorno

Southern Italy, known as *Il Mezzogiorno* (literally meaning *midday*), incorporates around 41% of the country's surface area and around 36% of the population, a proportion which has remained more or less stable since 1951. The striking economic differences between Northern and Southern Italy have been equally durable during this period. The Mezzogiorno produces less than a quarter of Italy's GDP, whilst the majority of the Southern regions have a domestic product approximately half that of Lombardy. The income gap between North and South diminished slightly between 1951 and 1975, since that time the GDP of the Mezzogiorno has remained stable at more or less 60% of that of the Northern regions (see Figure 1).

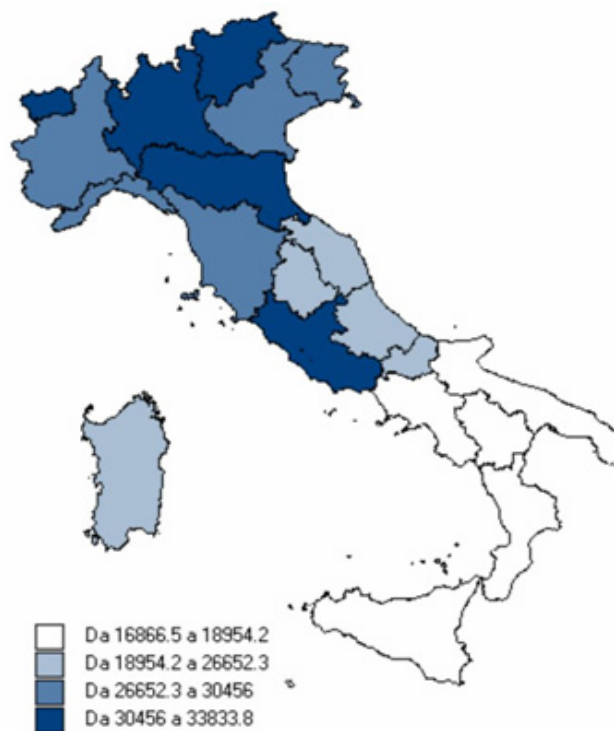
Fig. 1 - GDP per capita. Ratio of South to Center-North (% , current price)



Source: Franco 2010

The official employment figures are approximately 20 percentage points lower than that of North Italy, whilst in Calabria, Sicily and Campania less than half of the working age population is employed. The proportion of irregular and black market work, meanwhile, stands at around 20% of total employment (around double that of the North) (Figure 2).

Fig. 2 - GDP per capita (quartiles, current euro per inhabitants, 2008)



Source: Franco 2010

However, while great economic inequality has remained, it would be wrong to say that nothing has changed in Southern Italy. The fact that the gap between South and North has not widened has meant that the South has at least grown at the same rate, with GDP tripling in real terms since the beginning of the 1950s. The importance of the shadow economy (not to mention outright criminal activity) also helps explain why the difference in consumption between South and North is much less than that in production (approximately 10 percentage points).

The economic conditions of the Mezzogiorno are not uniform. The Adriatic coast has witnessed a significant growth in small businesses specialising in the food and clothing goods usually grouped together with footwear and furniture under the rubric “Made in Italy”; whilst other areas have seen innovative enterprises springing up despite the difficulties posed by the context of the Mezzogiorno and the lack of infrastructure and services (see Viesti 2007, Asso and Trigilia 2010). On the whole, however, this type of economic activity has not been sufficient to stimulate a substantial move towards autonomous development in the South.

Furthermore, what is also striking about the South is that its relatively stagnant economy stands in stark contrast to that of other economically disadvantaged regions of the European Union (which receive aid through the EU’s structural funds). Whilst in general these types of regions have been catching up with the overall EU average, the Mezzogiorno has been slipping backwards). GDP per capita in the South is now 70% of that European

lagging regions, down from 80% approximately a decade ago (see Cannari and Franco 2011, Svimez 2010).

Even stronger than the economic divergence between South and North is that between the quality of infrastructure and services available, which are vital not only for the quality of life of individual citizens but also for the overall economic development of the region. Several examples can be given to illustrate this point.

The proportion of non-electrified railway with only one platform 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 kilometers of motorway per 1,000 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. Meanwhile, only a fifth of air passengers take-off and land from airports in the South. Infrastructure construction is also significantly more expensive in the South, which may be related to difficult terrain but also to corruption and criminality, with the case of the construction of motorway between Salerno and Reggio Calabria an emblematic example (see Cannari, Magnani, Pellegrini 2010, Golden, Picci 2001, and D'Antone 2008).

Just as important is the divergence in the quality of services (regardless of whether they are provided by national or local government). The water supply is interrupted three times as frequently in the South than it is in the North; electricity, twice as frequently. Medical infrastructure such as hospitals and clinics are in shorter supply, and those there are offer significantly worse care, meaning that many patients travel northwards when they are in need of medical attention. This is despite the fact that the cost of healthcare in the South is approximately 22% higher. In education, meanwhile, 23% of students do not finish high school (compared with 16% in the North), whilst the justice system is also less efficient, taking 40% longer to resolve cases and creating significant inconvenience for completing tasks basic to business administration such as transferring property (Bianco and Bripi 2010).

In conclusion, the division between North and South is both persistent and felt in a variety of different sectors. While living standards have undoubtedly risen in the last 50 years, sharp differences remain in economic opportunities, infrastructure and basic services. Furthermore, and perhaps most importantly, there are few signs of the autonomous growth that could over time reduce the South's dependency on external transfers.

2 - Explaining the North-South Divide

In this section, I will move on to examine the reasons why Italy's North-South divide has been so remarkably persistent. I will begin by exploring two often repeated hypotheses: that the economic aid provided has been insufficient; and that the South suffers from a lack of what has been described as "social capital".

2.1 - The Insufficient Aid Hypothesis

The "insufficient aid hypothesis", as I will call it here, is one that appears often both in political debate (where it typically refers to the recent past) and in academic literature, where a more long term view is generally taken. In politics, the idea of an overlooked South, denied development aid by the action of the state is one which is deployed by local politicians, the media and business elites alike, often to confront criticism attracted from other parts on Italy (especially the strengthening *Lega Nord*, a federation of Northern regional parties founded in the early 1990s). In the academic literature, research reports produced by the Svimez, probably the most authoritative research centre on the politics of the South, have taken up the same theme. Svimez has called attention especially in recent years to the shrinking amounts of aid being sent southwards and the potentially worrying consequences this could have for the entire country (see Giannola 2011).

Two major points can be made to counter the insufficient aid thesis. Firstly, it must be noted that there are two major types of public spending which are 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).

In terms of economic development funds, it is true to say that in the previous decade there has been a decline in development aid of approximately 17%, measured in terms of per capita capital account transfers to private enterprises, families, social institutions and public works. The majority of this decline has occurred in the area of business transfers (such as incentives and tax credits) which have fallen by around 40%; spending on public works has been more or less stable (though business transfers still occupy the majority of the budget). However, if we look at the situation over the last 50 years, the picture is different: development aid to the South has fluctuated between 0.5% and 1% of GDP (Cannari and Franco 2011: 9), but has remained more or less stable (which has amounted to expenditure of around 324 billion Euros in 2008 prices). In real terms, aid to the South is currently not that different to the level it was at in 1996.

Furthermore, and perhaps more importantly, it must be noted that development aid is a much less significant part of public spending than more general transfers designed to finance basic public services. According to Bank of Italy's estimates, the yearly net transfers from the state to the Southern regions ranged between 15% and 20% of the Mezzogiorno's GDP in the past 60 years. In the last decade, their amount was around 60 billion euro (equal to 16% of the Southern regions' GDP and the 4% of the national GDP).

In the South, per capita public spending is only 7% inferior to the national average, whilst per capita tax returns are around 40% less. In other words, a significant amount of resources are redistributed from North to South through the Italian State in the process of financing public services; and, as we have already seen above, the quality of public services produced in the South is significantly worse.

With these points taken into account, it becomes difficult to sustain the argument that the insufficient growth of the South results simply from a lack of economic aid. Transfers for economic development have declined over recent years but over the long term have remained more or less consistent. Transfers for public spending have also been relatively consistent, and despite rough equality in terms of per capita expenditure the quality of services is notably inferior. Indeed, given the amount spent, a more pressing question appears to be why this money has achieved so little. The inefficiency of aid to the Italian meridian is a result of its heavy focus on business incentives, especially incentives to single firms. The dominance of incentives in development spending in the South can be seen throughout the history of Italy's Mezzogiorno aid policy.

Following an initial period in the 1950s where the focus was on large infrastructural projects linked to the transformation of agriculture, during the period 1960 to 1980 development policy, organized and run by a state agency (*Cassa per il Mezzogiorno*) focused on large scale heavy industry such as petro-chemicals (see Scalfari and Turani 1975, Graziani and Del Monte 1973). The way the incentives were designed stimulated especially investment in large, highly capital intensive projects, which were not able to trigger a wider local development, earning them the moniker "cathedrals in the desert" because of the way they sharply contrasted with their surroundings. The effect of such projects in terms of employment and subsequent induced consumption was minimal, and many of them soon shut down or passed into public ownership.

In the second half of the 90s, following the closure of the *Cassa*, a new development aid policy was put in place, based on mobilizing local actors around local development projects (Barca and Ciampi 1998). The motive for such a switch emerged from both the EU's regional policy and also a greater appreciation of the importance of local systems of small businesses in the Mezzogiorno. The aim was to promote above all the growth of "social capital" by stimulating efficient forms of cooperation between local public and private actors. While this new program generated much hope and expectations after the negative experiences of the *Cassa*, in the end the results were also disappointing. Despite its apparent focus on public goods, the majority of the aid ended up destined towards 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. In other words, these incentives used up the vast majority of the aid.

Recent research into the utility of providing direct incentives to business has been highly critical. Less than 30%

of the aid received is translated into additional investment: that which there is it appears that businesses would have anyway conducted. The major effect of the incentives therefore seems to be to bring forward investment which has already been decided upon: businesses which have received such incentives typically reduce their investment spending afterwards to a level below that of those businesses who receive nothing. Furthermore, and somewhat paradoxically, the existence of incentives to single enterprises has created something of a vicious circle. As the majority of aid spending is directed towards incentives, the Mezzogiorno experiences a deficiency of spending in public services and infrastructure. This creates further demand for incentives to compensate for such difficult conditions, triggering a spiral which places an ever greater burden on public finances without producing meaningful results.

In conclusion, the insufficient aid hypothesis is not fully satisfactory for explaining the fragile production and inefficient public services found in the South. Resources transferred from North to South have been significant, but aid has been dedicated more towards a kind of compensation to firms for external diseconomies found in the South rather than means which could favour outright growth (such as the improvement of infrastructure and services). The major question here is therefore *why* those directing the aid (local and national politicians) have employed such inefficient tools. This, as I shall argue below, is explained by the structure of politics in the Italian Mezzogiorno, and its relationship with the rest of Italy.

2.2 - Explaining the North-South Divide: A Lack of social capital?

Before looking at the role of politics, however, it is to be considered a competing explanation for the problems of the Italian South that has come to prominence in recent years. Driven by a desire to resolve the general question of the North-South divide in the face of the apparent weakness of the insufficient aid hypothesis, new analyses have moved the focus from strictly economic matters towards socio-cultural factors that might be responsible for holding back growth. In particular, there has been a focus on an apparent lack of "social capital" in the Mezzogiorno.

While the insufficient aid thesis focuses on an apparent lack of economic capital, the social capital thesis focuses on the structure of civic relations in the South. This type of socio-cultural explanation argues that the motivation of individuals, their commitment and, crucially, their capacity to cooperate and organize are the real foundation of development.

This thesis is often related to two well-known studies. In the 1950s, following an anthropological study of a village in Basilicata, Edward Banfield advanced the concept of «amoral familism» (1958) to describe a culture where familial ties took precedence over other forms of cooperation and collective action. Later, in 1993, Robert Putnam took up a similar theme, describing an absence of «civic culture» as the fundamental factor discouraging development. For Putnam, social relations in the South were characterized by opportunism, mistrust of others, and a lack of respect for collective rules, a climate which could not help but impede growth.

However, though not entirely novel, in recent years social capital research has certainly been on the increase, and has also moved out of purely academic discourse into the research conducted by international organizations such as the OCSE and the World Bank. Recently, the Bank of Italy has also financed an important investigation on the subject. This report points out a low level of social capital on the basis of a diverse variety of indicators such as low political participation and limited extra-familial social networks. This lack of social capital was attributed to long term factors (for example, the South of Italy did not experience *l'età comunale*, the age of Italian city states, which has been seen as a crucial period in the development of civic culture) as well as more specific recent causes such as low levels of schooling or electoral laws which discourage participation.

The report held that low levels of social capital had a direct influence in reducing development because it hinders productivity by making workplace cooperation more difficult and increasing absenteeism and opportunism. It also affects entrepreneurship through lower levels of trust and higher transaction costs between businesses (owing from the elevated risk of entering into contractual disputes). Low levels of social capital also have an indirect effect on development by reducing the efficiency of public administration, the capacity of producing collective goods and services, and therefore a deleterious effect on the external economies of local businesses (as well as the quality of life of individual citizens). This is in itself linked to low oversight of public services stemming from low

levels of political participation.

Placing a focus on social capital therefore has the potential to significantly expand the analysis of the Italian Mezzogiorno's economic difficulties. However this point of view is also not without its weaknesses.

Firstly, it offers an incomplete explanation of the behavior of local (and national) politics in the poor functioning of public services, which cannot be explained solely through reference to a lack of oversight stemming from low political participation. Local politics especially is not just poorly controlled: it has a specific mode of building consensus which tends towards the creation of clientelism and a culture of dependency (see Salvati 2010, Trigilia 1992). National politicians have not just tolerated this trend, but sometimes actively encouraged it. Secondly, the explanation for the reasons for an absence of social capital, based on long term historical factors such as the Mezzogiorno's experience of the *età comunale*, are not wholly convincing.

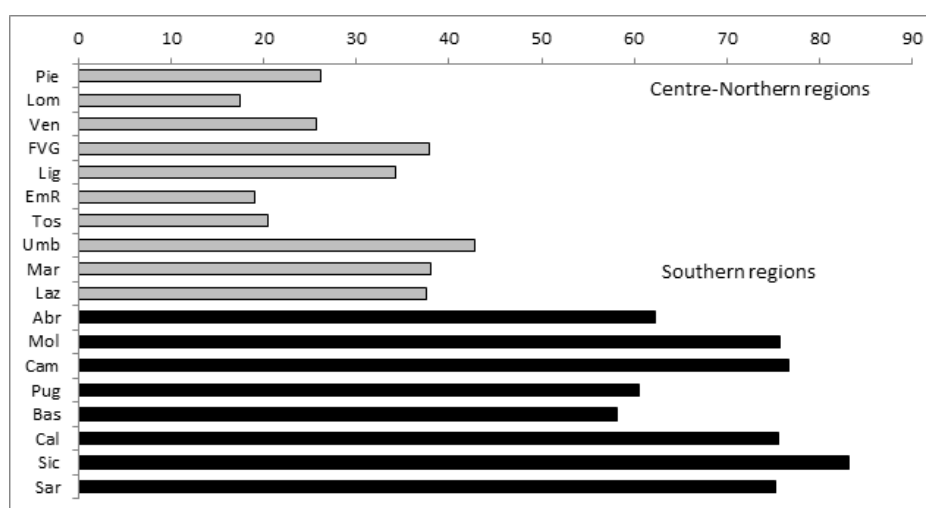
However, while we might question the validity of the reasons for an absence of social capital, to abandon a focus on socio-cultural factors would be a mistake. As I shall argue below, the current politics of clientelism, corruption and dependency also play a role in hindering the development of social relations. This new approach to the social capital issue allows us to preserve the explanatory value of the lack of social capital whilst rethinking the question of its origin.

2.3 - Explaining the North-South Divide: The role of politics

In order to provide a better explanation for the insufficient growth of the Italian Mezzogiorno, we have to place a focus on the role that politics plays in both hindering the development of social capital and making the use of public transfers and public intervention inefficient.

Politics in the South of Italy is characterized by clientelism, a peculiar type of political system whereby consensus and political popularity is achieved through giving out advantages to particular families, economic groups, or local communities. This clientelism can be demonstrated through several indicators. The high usage of the *voto di preferenza* throughout the Mezzogiorno (whereby voters would express a preference not just for a party but for a specific individual within a party list) is one indication: while this device was eliminated in national elections in 1993, it continues to be present in regional elections (see figure 3)

Fig. 3 – Preference votes in regional elections (mean of relative preference rate, regional elections from 1995 to 2008)



Source: Raniolo 2010

Another is the much lower rate of participation in consultative referendums compared to that of political and administrative elections, and the growth in electoral lists presented. These factors indicate that political participation in the South is much more likely when it involves a direct relationship between a voter and an individual politician; less so when it involves a political party or a referendum on an individual piece of policy.

Politicians, in other words, are evaluated not on the basis of their capacity to face collective social problems but rather according to their ability to hand out benefits to the individual voter. This type of vote-buying is the major political force in Southern Italy, more important than both party loyalty and more general public opinion about policy goals (Parisi and Pasquino 1977, Parisi 1995).

The upshot of this clientelistic type of politics has been political instability. As the electorate is constantly on the lookout for the best political “offer”, no one political party has been able to dominate politics in the South (with the exception of Sicily which has typically been controlled by the centre-right and Basilicata which is usually in the hands of the centre-left). With the crisis of the 1990s, which brought down the major Italian parties, this tendency towards volatility has been accentuated, with the Southern electorate frequently shifting from centre-right to centre-left (see Raniolo 2010, Diamanti 2009). Increasing volatility has encouraged more and more local politicians to engage in the game of vote buying.

The consequences of clientelistic politics for the economic development of the South can be seen in three areas. Firstly, there is a tendency to favor direct transfers and incentives for single businesses rather than more general infrastructure projects, which might have a greater development impact. Direct transfers to businesses have an immediate economic effect, and establish a direct connection between individual citizens in the South (both business owners and trade unions) and politicians, but they are poorly effective. Alternative investments in public goods and services (e.g. infrastructure) have been much less popular, because they take a long time to complete and their benefits are difficult to divide and transform into immediate economic gain for single actors (families or firms). Clientelistic politics, in other words, helps explain the inefficiency of Italian aid policy towards the South (and also the often noted difficulty that the Southern regions have in spending EU funding).

Secondly, and of equal importance, has been the extension of the welfare state in the South (paying for which, as I argued above, constitutes the majority of North-South transfers). The construction of the welfare state in Italy constituted a huge political opportunity for the regions. Increasingly, the Southern political elites based their electoral claims on the distribution of welfare provisions, an area which is largely financed by the national government but whose control is in local and regional hands.

This focus on welfare has contributed to the considerable expansion of the public sector in the Italian South. While in the last 15 years public spending as a percentage of GDP has gone from 48% to 40% in the North, in the South it has risen to 55%. Furthermore, 7.5% of workers are employed in the public sector (compared to 4.5% in the North); whilst a large number of people are formally employed as private workers in businesses that largely depend on public spending (such as healthcare, professional education and other types of social services). Hence, much of the need for achievement and entrepreneurship is attracted into the public sector, which appears to individuals as both a more agile and more protected source of potential employment and income when compared to the much more difficult task of competing in the private market. This further depresses the possibility for autonomous growth.

Finally, local political elite have contributed to the modernization of organized crime which has traditionally been present on some Southern areas. This type of crime frequently forms a dangerous partnership with local politicians whereby administrators allocate public resources in return for personal gain (both economic and political). This occurs most frequently in contracts and public works, but also in public-private healthcare, alternative energy, and supermarket chains. It is clear how this relationship with organized crime has heavily negative consequences for autonomous local development.

It must also be noted that the dynamics of clientelistic politics are self-reinforcing. As I have argued, they prevent investment in important public services and help hold back economic development. The poor economic conditions of the South then feed back into clientelism: the worse the possibilities are for gainful employment, the more likely individuals are to support politicians who might be able to provide them with direct economic benefits. The

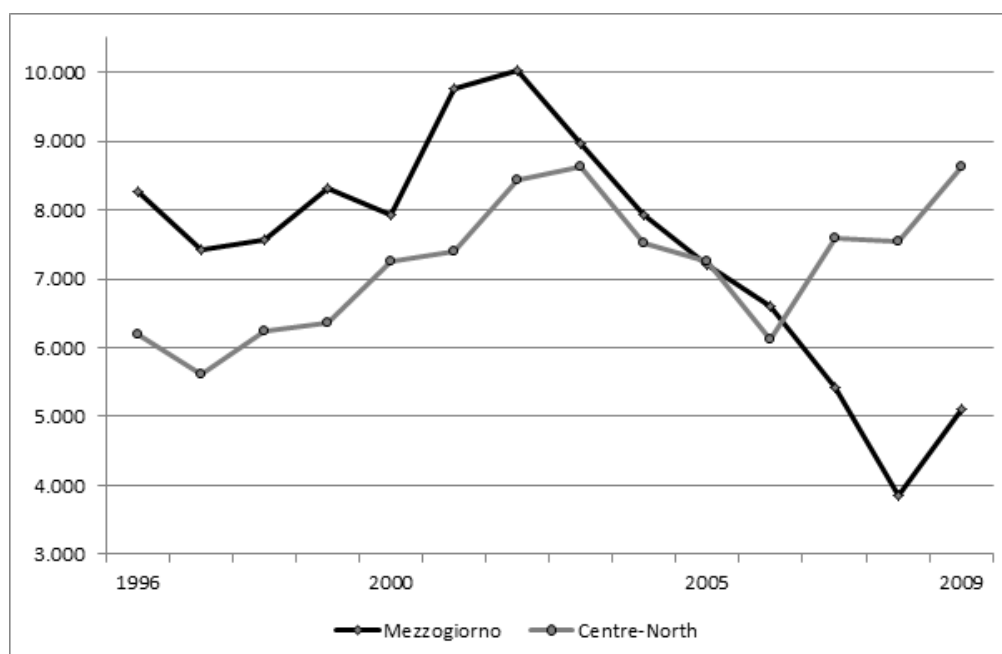
corruption and opportunism of the political class also helps to create a climate where the development of social capital and civic culture is discouraged: and this same absence of civic culture makes clientelistic politics more likely. As Sabino Cassese argued: «The gap between North and South does not result from insufficient investment or aid. It results from a lack of social capital, which itself is a product not only of diffuse social institutions but also of the capacity of the state to produce collective goods: trust and norms which regulate collective living» (2011: 79-80).

It would be wrong however to attribute the problems of the Italian Mezzogiorno solely to the behavior of local elites. National politics has also had a considerable role. In order to understand this role, two points about the functions of the Mezzogiorno in the national politics of Italy need to be made.

As was noted above, the Italian South has become, especially since the 1990s, even more politically volatile. This volatility makes the region a key electoral battleground, often decisive for national elections, which has increased the political importance of the South on the national stage. Furthermore, the Mezzogiorno also acted as a kind of captive market for Northern firms, with economic transfers to the South fuelling consumption and thus growth in the North. Hence the Mezzogiorno forms a crucial part of electoral politics in the North as well.

This electoral connection helps explain why national governments have always had a very weak commitment for evaluating the effectiveness of development spending in the South. Indeed, rather than restraining the actions of local politicians, the central government has often mimicked them. National political elites have had a tendency to treat the South as a sort of “electoral reserve army”, who could be mobilized to win elections at the cost of increasing welfare and distribution. Hence these politicians have continued to favor a large redistribution of public resources without any effective control of their use. They also backed direct business incentives. With this type of incentive, which has rapid distributive effects, central governments have been able to gain approval throughout Italy amongst businesses, trade unions and local politicians (see figure 4). As we have already seen in the case of local politicians, large infrastructure projects are not nearly as politically beneficial: taking longer to realize and producing less divisible benefits.

Fig. 4 – Capital transfers to private companies¹ (millions euro, 2009)



Source: Conti Pubblici Territoriali – Dipartimento politiche per lo sviluppo (DPS).

¹ Source: Conti Pubblici Territoriali – Dipartimento politiche per lo sviluppo (DPS).

In conclusion, I argue that a focus on the role of politics (both local and national) in the Italian Mezzogiorno fills in crucial gaps in our knowledge about reasons for the insufficient growth of the region. In particular, it helps explain why the large amounts of aid transferred from North to South have been used so inefficiently, and why the lack of civic culture (which makes business so difficult) has appeared to be so persistent. The dynamics of Italian politics have meant that, far from attempting to stimulate development in the South, the Mezzogiorno has become locked in a cycle of dependency which benefits many particular interest groups but hinders more general growth and development.

3 - Towards a breakdown in equilibrium?

In this final section, I will look at the contemporary situation of the Italian Mezzogiorno. After a long period of equilibrium, politics in the South (and national politics towards the South) are affected by strong pressures coming from the external economic and political environment (globalization, European integration). This could lead to important changes.

The politically motivated distribution of large and inefficient transfers from North to South, whilst embedded in the politics of Italy over the last 60 years, could only be sustained under three conditions. Firstly, relative stagnation in the South could be compensated for by favourable conditions for growth in the North, driven above all by zones of small firms specializing in “Made in Italy” products (and as we have seen, growth in the North itself was partially stimulated by Southern consumption). Secondly, public debt could compensate for increasing domestic costs without placing too much of a tax burden on firms. Finally, devaluation could exact as an escape valve, releasing pressure on public debt levels and increasing export competitiveness in times of need.

In the last two decades, several factors have come together to destabilize this equilibrium in North-South relations by removing these conditions. Increasing globalization has presented a challenge to the Centre-North, undermining the Italian small-firm model and slowing growth in the area. Membership of the Euro zone has made devaluation impossible (and indeed, the creation of the Euro zone has made the EU’s regional development policies even more important). Finally, in very recent years, the global financial crisis has created severe problems for Italian public finances, making reductions in spending a top priority. All of these factors have contributed to an increased central control over (and subsequent reduction of) the type of clientelistic spending described above (and it is hence no coincidence that this period has started to see the rise of local and regional political parties in both North and South, and the apparent reductions of aid referred to in section two).

The current crisis especially creates challenges but also opportunities for meaningful change in Italian policy towards its Mezzogiorno region. Several priorities are immediately apparent. There is a pressing need to reduce transfers by increasing the efficiency of social policies in the South. This is something that has been stimulated by the current need to reduce public expenditure and is hence already underway. More importantly, there is a need to reduce transfers by promoting self-sustaining growth in the South. This objective is much more difficult and so far little progress has been made towards it. As will be apparent from the previous remarks, this objective can be divided into two steps. Firstly, incentives to local firms should be sharply reduced, a move which will both produce some savings and free up some money for use elsewhere. Secondly, investment should be increased in the creation of collective goods, both tangible and intangible. These should include infrastructure, services, and stronger action to counter organized crime. These policies will be difficult to realize, but also carry with them the hope of meaningful autonomous growth for the Italian Mezzogiorno.

Therefore, the compact between local and national political elites over the Italian South, whilst in equilibrium for many years, has recently become less and less stable. Globalization has challenged the strong growth of firms

in Northern Italy (who are thus less able to finance the South), whilst membership of the Euro zone has meant devaluation in order to restore export competitiveness is now impossible. Perhaps most importantly, the current financial crisis has created a strong pressure to reduce public spending, meaning that the central government is at last starting to turn its attention to the inefficiencies of aid to the South. The current crisis, in other words, creates new constraints but also opportunities. The old form of integration of the Mezzogiorno in the national model of growth cannot continue any longer but a new equilibrium is not yet underway. Certainly, it will be much more difficult to return to economic and social growth without tackling the problem of the South more effectively than in the past.

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