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- Is history important for the (current) performance of countries and regions?
- If so, what are the mechanisms generating high persistence?
- Acemoglu & Co.: formal institutions, randomly “assigned” to countries by the European colonialists’ choice about where to migrate
- But performances are heterogeneous even across areas who share the same formal institutions
- So informal institutions (also) matter
- If so, why?

- Perhaps, because **social capital** (SC) endowments are historically determined and very persistent over time

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Italy and the Mezzogiorno as a key case study

Italy as the ideal playground to test how history affects current outcomes through SC persistence

In this respect, the paper is a further test for Putnam's two main propositions:

•The Centre-North of Italy has developed faster because it has been better endowed with SC

•Regional endowments of SC have been highly persistent over the centuries

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Main hypothesis tested

The impact of local endowments of SC on three individual outcomes – labor productivity, entrepreneurship, female labor market participation.

Suggested links (labor productivity):

•Low SC facilitates shirking

•Low SC has an impact on the credit market

•Low SC has an impact on **local government performance**

What we learn from this paper

•The component of SC explained by history is positively correlated with the three individual outcomes

•History affects individual outcomes only through the persistence of SC

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General meaning

The paper yields important additional evidence supporting the hypothesis that in the Italian economic divide **history matters**, and that part of this relevance is due to the slowness of the process leading to the accumulation of SC

There is much controversy about this important role of history in SC dynamics – but for the sake of this discussion I will take **SC persistence** for granted

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Specific meaning

Should we conclude that large persistent differences in local performances are the **necessary** result of large persistent differences in SC endowments?

Should we conclude that only (slow) changes in SC will close the North-South economic gap in the future?

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It depends…

The answer is “Yes” to both questions only if we have reason to think that the observed North-South economic gap is a **steady-state*** one

* As in a model of neoclassical convergence across economies in the presence of heterogeneous fundamentals, with SC among them

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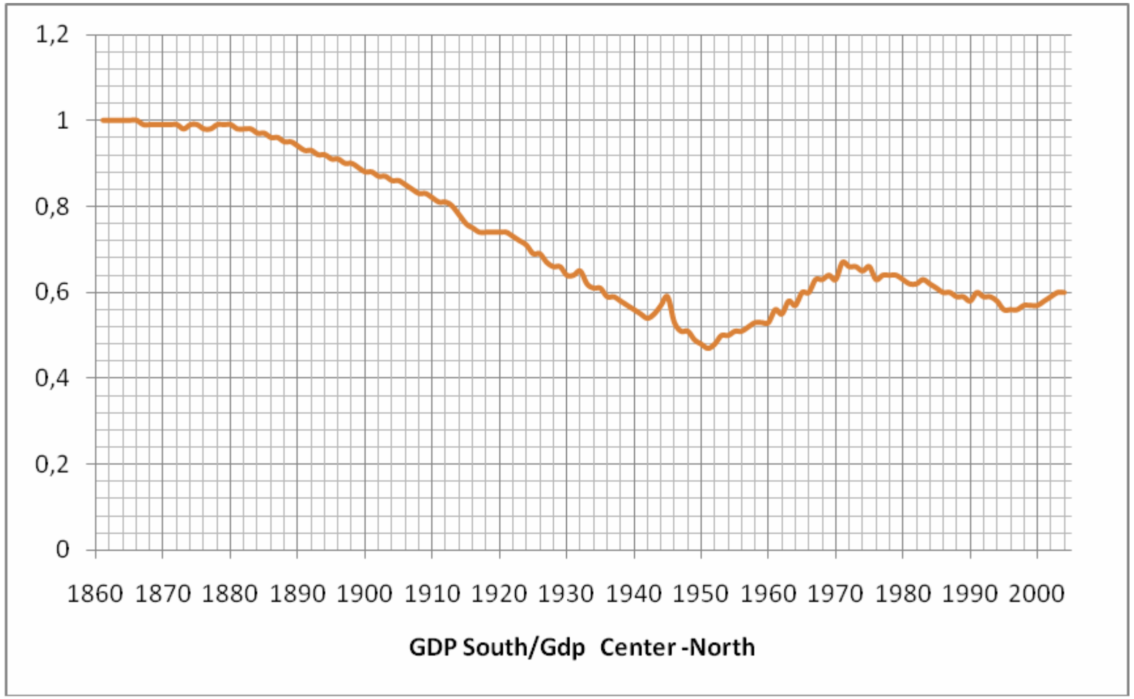
Steady-state?

Figure 1. Daniele and Malanima (2007)



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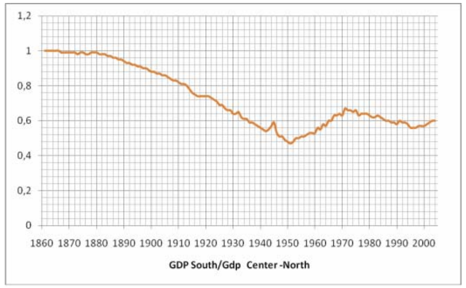

Two facts

The individual outcomes in the paper are from 1993-2000, when the aggregate economic gap was stable at a high level

However, strong convergence took place between 1951-1971, with SC gaps in place and stable

Two possibilities

Either **(A)** the post-1971 performance is the typical “conditional convergence” outcome, with the (market) transition to the steady-state accomplished

Or **(B)** the break of 1971 is not the “natural” outcome of a standard process of convergence

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(A) v (B): Reasons in favor of a (B) story

Was the halt of convergence a **policy-induced** outcome?

We have clear evidence that regional policy changed significantly after 1970

•Two major institutional shocks took place, in the labor market and in the role played by *local* governments

•Suddenly, regional policy became more "**local-SC intensive**" [Helliwell and Putnam (1995)]

Perhaps, without these institutional shocks convergence would have gone further, and better performances would have been compatible with a large, persistent SC divide [Mauro and Pigliaru (2010)]

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Discriminating between (A) and (B) is essential to understand better the deeper implications of the results we are discussing today

- Either SC has a strong, **direct** influence on individual performance
- Or an important part of this influence goes through the functioning of the **local institutions** (*levels of government*) in charge of providing essential public goods for development

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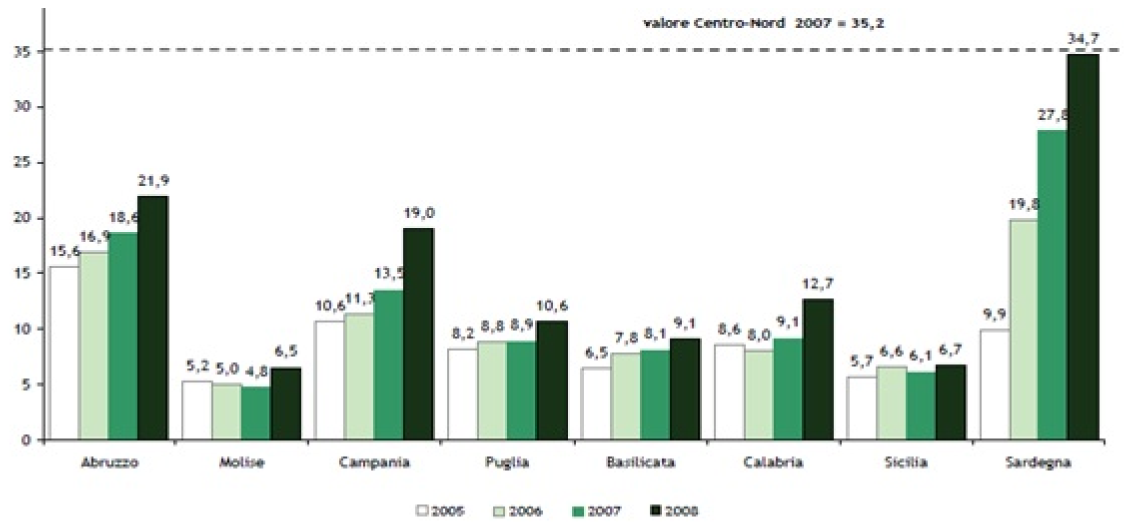
Do changes in LGs have an impact on collective outcomes?

Figure 2. Percentage of separate collection of urban waste out of total Italian regions, 2005-2008. Centre-North Value 2007 = 35.2



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As the authors recognize in their concluding remarks,

“It remains to be uncovered why SC impacts on development in some periods but not in others”.

My impression is that addressing this important question would lead us to not-too-pessimistic conclusions

•Yes, history does exert a significant influence on today’s performance

•But **carefully designed policies** can perhaps achieve more and *in much less time* than a simplistic reading of De Blasio’s and Nuzzo’s results would otherwise suggest

2. Cingano-Pinotti

Hypothesis

Interpersonal trust is key to the development of large organizations because it sustains cooperation

A principal-agent problem that -- in the presence of low trust -- may be solved by relying on personal relationships

So, low trust = smaller organization/firm size

Empirical strategy

Rajan-Zingales approach (with both sectoral and regional fixed effects) to "*exploit industry-level variation in both measures of decentralization to estimate the effect of trust on firm size across Italian regions and OECD countries*"

Decentralization is defined as the industry-level number of decision centers obtained from firm-level data

Interpretation of results

A positive significant β implies that, "in high-trust regions, firm size tends to be disproportionately higher in industries that require more decentralization of activity"

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Robustness check

Mechanisms linked to *comparative advantage*

- financial development (areas) / external finance intensity (sectors)
- schooling levels (areas) / HK intensity (sectors)

Mechanisms linked to *firm size*

- judicial system (area) / intangible asset intensity (sectors)
- trust (area) / intermediate goods intensity (sectors)

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Robustness again

Is interpersonal trust THE KEY to the development of large organizations? Can we think of other important factors? Such as **market size**?

- Firms located in different areas might have different costs to access non-local, larger external markets
- Staying in smaller markets might be disproportionally negative for firms in sectors with a higher potential for decentralization
- So, cross-region heterogeneity in “fixed costs to export” might play a role similar to *Trust* in limiting decentralization and firm size

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Robustness

Fixed costs to export do exist [Italy: Castellani (2002); Bugamelli and Infante (2003)]

Typically, fixed costs to export are composed of: Transport costs / Distribution and marketing costs / Labor pooling

They can be heterogeneous across Italian areas for historical, geographical and infrastructural factors

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Are they likely to matter? Consider this:

"Serti and Tomasi (2008) find evidence that the Italian firms which began to export (following sharp depreciations of the lira) later succeeded in improving their output levels and increasing in size."

And this:

The presence of large tourist flows has a positive impact on the TFP performance of local firms [Marrocu and Paci (2010)]

When costs to access external markets decrease **exogenously**, firm size increases

Both facts seem to signal that fixed costs to export are (another) key to the development of large organizations

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Fixed costs of this type are likely to be correlated with SC stocks across Italian areas

Some component of these costs would even be explained by SC [Golden and Picci (2005)]

Nonetheless, it would be interesting to see some further robustness checks along these lines