

CENTRO DI SOLIDARIETÀ INTERNAZIONALE
GIOVANNI XXIII

“Universum International Prize”

**The Mezzogiorno:
prospects and policies for development**

Address by the Governor of the Bank of Italy
Antonio Fazio

Potenza, 19 October 1998

In the five years from 1992 to 1997 the economy of the South of Italy grew by just 1.7 per cent. Employment in the region shrank by about 600,000, more than half the overall employment contraction in Italy. Emigration from the South to the Centre and North of the country resumed, with net outflows of 50,000 persons a year.

The Italian economic crisis culminating in the devaluation of 1992 was compounded by the end of special development assistance for the South in 1993 and the consequent drastic cut in government transfers. The European Commission was calling for the phasing-out of the social contribution relief enjoyed by firms in the area and for quicker public financial adjustment.

The decline in the region's internal demand was not offset by an increase in external demand. The presence of viable firms producing for export, though it did increase, was not sufficient to revive overall economic activity. Restructuring in industry and in wholesale and retail trade and increased unemployment were associated with company insolvencies. The banking system's capacity to provide finance was reduced.

The gap with the more highly developed parts of the country widened. Per capita output in the South fell from 59 per cent of that of the Centre and North in 1991 to 54 per cent in 1997.

Public capital expenditure per inhabitant, which had traditionally been much higher in the South than in the rest of the country, fell below the national average in 1995, by the estimate of the Association for the Development of Southern Italy. Value added in construction fell by 24 per cent in the region between 1991 and 1997, while the share of construction investment accounted for by public works dropped from 19 to 15 per cent.

Behaviour and expectations have changed profoundly. In the course of the nineties there has been more and more widely recognized that development cannot be ensured by public financial support alone. The lesser availability of resources has resulted in an alteration in the structure of industry and also in the strategies of firms.

Even in this context of stagnating economic activity, a good number of small and medium-sized southern enterprises began the process of capital formation and growth through the acquisition of greater competitiveness. The renewed ability to compete in foreign markets following the devaluation of the lira enabled these firms to expand their activity, rehearsing in some respects the experience of the Centre and North.

The South's exports have risen at an average annual rate of 15 per cent in the last five years — beginning, admittedly, from very low levels — outpacing the overall national rate of increase. Southern exporters — numbering more than 18,000 — made sales abroad totaling 39 trillion lire last year. However, exports account for only 8 per cent of the region's output, compared with 25 per cent in the Centre and North.

The diffusion of more dynamic firms in the area appears to be related to infrastructural endowment, the availability of skilled manpower and the efficiency of public administration.

Disparities between the different southern regions themselves have widened. Some parts of the South are experiencing rapid development. Between 1992 and 1997, while national exports expanded at an average annual rate of 13 per cent by value, export growth exceeded 20 per cent per year in the provinces of Aquila, Chieti, Teramo, Avellino, Matera, Caltanissetta and Ragusa; in Isernia, the rate was above 40 per cent.

A map of local development underscores the creation of clusters of productive enterprises in the textile and clothing industry and in footwear, furniture, housewares, electronics and telecommunications; the regions where such clusters are most common are Abruzzo, Molise, Campania, Apulia and Basilicata.

Here in Calabria, from 1992 to 1997 the economy has grown as fast as in the North-East of Italy. The most important developments have been in the automobile industry, furniture and lingerie. Promising initiatives have been undertaken within the framework of territorial pacts, area contracts and industrialization plans, including the province of Potenza. Discussion of the exploitation of energy resources has begun.

The development process in the South of Italy still appears fragmented and uncertain. The structural gap between the southern economy and the more advanced parts of Italy and Europe is still too wide for reliance on endogenous growth alone. The Italian Parliament, like the European Union itself, for that matter, is once again engaged in designing wide-ranging regional development programmes. Direct subsidies to private investors have now been flanked by programmes to foster the creation and growth of productive initiatives through territorial pacts and area contracts.

The concertation between business and labour organizations and local administrations envisaged by these new instruments is a spur to cooperation. It brings transparency in decision making. It binds the contracting parties to carry out the programmes. But the procedure can be lengthy and confused, sometimes for the lack of adequate planning capability at the local level. Of the 412 initiatives begun, 68 have been abandoned; only 18 have actually received funds. Many businessmen apparently still prefer to act under Law 488 of 1992.

Government action to increase infrastructural endowments must be continued and stepped up. The South is particularly lacking in infrastructure. Private capital must be brought into the construction and the management of such structures. This will foster greater competitiveness for the productive economy and enhance the ability to attract outside investment.

To strengthen confidence and foster the sound development of productive activity, it is necessary to ensure the efficient function of the public administration and full respect for law and order in society and in the economy.

Private investment can be sustained through direct subsidy, but above all it must be able to count on good profit prospects.

Underground economic activity is very widespread in the South. Official data indicate about 1.5 million irregular workers in the region, about the same number found in the rest of the country; but this irregular employment accounted for 31 per cent of overall employment in the South in 1996, about twice as high a share as in the Centre and North. Empirical studies, moreover, have found that even this incidence is greatly underestimated, especially in some manufacturing industries.

In some respects underground economic activity may be a reaction, albeit an inefficient one, to labour market rigidities and the heavy fiscal burden. Appropriate institutional responses are indispensable.

The quality of the academic and vocational educational system must be improved and the cost sustained by firms for on-the-job training must be reduced.

An essential contribution to the competitiveness of southern enterprises must come from improving the productivity of the banking system. The higher cost of money in the South depends chiefly on the greater riskiness of loans in connection with the weakness of the region's economy, the enormous slowness and above all the grave uncertainty of credit recovery in some areas.

The Bank of Italy's supervisory activity remains firmly directed to increasing the efficiency of the southern credit system through restructuring and reorganization and an increase in internal and international competition.

In recent years the Italian South has become more familiar with the opportunities but also the difficulties of competition. After a half-century of protection thanks at first to financial assistance and later to social security contribution relief, firms have been obliged to cope with an unprecedented crisis in a context of increasing international openness of the Italian economy.

The underutilization of labour resources has become dramatic in magnitude. In recent years the Italian economy as a whole has grown less than the other European economies.

To create stable jobs we must strengthen the country's competitive capabilities. Structural policies, liberalization of markets, investment in education and research and improvement of public services are essential; equally fundamental, however, is action to contain and where necessary rapidly cut costs to businesses.

Competitiveness has to be preserved and enhanced by cooperative conduct on the part of business and labour to seize the opportunities and respond to the threats of globalization.

Earnings and the cost of labour cannot, in the long run, be out of line with company productivity. When they are, the firm is driven to take refuge in a market niche or in the underground economy. Labour market disparities are aggravated. For equity, among other things, public resources must be directed to new priorities. Industrial relations must take explicit responsibility for those, mostly young people, who are excluded from the production process and from full participation in society.

An essential contribution to employment, to the reduction of the area of underground work and the related illegality must come from incomes policy, administered with renewed dedication by business and labour, an incomes policy more attentive to the close connection between labour costs and productivity at the industry, regional and company level.

Monetary and financial stability, now regained, is essential to attenuating uncertainty and imparting new vigour to investment. Investment may be stimulated by regional development policies, but it depends first and foremost on the capacity, the will to innovate and the drive to enterprise of private entrepreneurs.

The urgent need, in many parts of the South, to restore the objective of expanding output and employment stems from the necessity of avoiding further deterioration of the economic and social environment. The development of the Mezzogiorno constitutes a great opportunity for the development of the entire Italian economy.