

UNIVERSITÀ DEGLI STUDI DI CATANIA

## **Culture and the development of Southern Italy**

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Economics is the discipline that studies the creation and distribution of material wealth within politically organized societies. Although its roots reach back far into history, only in the last three centuries has it been raised to the rank of a separate branch of the social sciences.

Philosophy satisfies man's eternal thirst for knowledge, his love of learning. It originated in Ionia and ancient Greece as the study of *archè*, the primal element, as meditation on the world and the principles that explain life and the reality around us. From the very beginning man has felt the need to look beyond the perceptible world about him; consciously or not, his mind and his thoughts lead him into the realm of eternal and universal laws.

Nowadays, the issues of globalization, bioethics, the nation-state and supranational law, poverty and wealth, peace and war challenge earlier explanations and interpretations, projections and plans, and established equilibria. Accordingly, they call for a resumption of efforts to discover more general principles, analyses and framework of interpretation that can shed light on the new situations and help solve the new problems.

Such an effort has always come in response to sudden changes in historical scenarios. It happened with the fall of the Roman Empire and the barbarian invasion; it happened again with the great geographical discoveries at the dawn of the modern age that disclosed new worlds to European civilization and prompted a profound reconsideration of anthropology, of the relationship between peoples and civilizations and, on a broader and deeper level, of the economy as well.

Great thinkers – like St. Augustine observing the sack of Rome by the Goths – have always striven to understand the ultimate significance of events; they draw up visions of the future. Theologians, moralists and philosophers were able to rethink some of the foundations of our Western civilization.

The idea of looking beyond physical reality certainly already existed among the “Pre-Platonists” here in Sicily. Ecphantus of Syracuse, a follower of Pythagoras, explained the unity of the cosmos not in mechanical terms but by reference to the rational operation of an ordering principle.

At Elea, a Greek colony in Southern Italy, Parmenides — the founder of metaphysics, whose thinking is the subject of renewed study and is discussed in the writings

of Professor Manganaro — developed the theory of Being, likening the search for truth to a journey that lead him, after an arduous ascent, from the “Halls of Night” to the gates of the Temple.

Plato went beyond the naturalism of earlier philosophical doctrines. According to the Athenian philosopher, ideas pre-exist matter. There is a hiatus, a lack of communication, separating the empirical world from the ideal world that the Demiurge is unable to remedy completely. Perceptible things, the human body, needs, work and hence the economy are shadows that contaminate the soul’s purity and divert reason away from truth. Only philosophy enables man to gain knowledge of the absolute. Politics must seek to create forms of government that are consistent with the ideal reality.

Moving beyond Plato, Aristotle developed the theory that physical things are actual beings but not the whole of reality; he worked upwards from them, by abstraction, to a transcendent reality, to the “unmoved mover”, who is the unifying principle of the universe, who knows and directs all things.

Aristotle’s method, which lead him from the observation of single phenomena, of actual and individual beings, to general ideas and hence to the highest causes was revived in the West during the Renaissance after the rediscovery of the Stagyrte and the dissemination of his doctrines by the mediaeval Scholastics through the Universities of Naples, Paris, Oxford, Bologna, Padua and Catania. That method is the foundation of the development of science.

### **1. *The economy according to the ancient and mediaeval philosophers***

Aristotle’s teleological vision was the source of his belief that all of man’s activities are directed not only towards an immediate objective that changes on each occasion but also towards a supreme goal, which is self-fulfillment, the good life, *eudaemonia*.

The concept of the common good of the city was elaborated in the *Politics* as something quite distinct from and superior to the good of the citizens. By nature man is suited to live in society: those who live alone are either a beast or a god. Man has needs but is unable to satisfy them on his own: he needs other people; man is a social animal who attains completeness through his relations with others.

Some of the elements that constitute the economy were analyzed; discussion bore upon the function of money. It was believed that commutative justice, in exchanges, and distributive justice should govern the orderly life of the community and strengthen the links between its citizens.

In the thirteenth century the resumption of trade after the waning of the manorial economy, the increase in the circulation of money, commercial enterprises, and the exchange of currencies gave rise to reflection on lending, interest and insurance. The one and only objective was to draw a distinction between the payment of a fair return on funds and usury.

At the beginning of the fourteenth century Duns Scotus evolved a theory of value based on production costs and the utilization of labour that was taken up in the nineteenth century by Ricardo and Marx and then again in the middle of last century, in a broader and more sophisticated form, in the models of Leontiev and Sraffa.

From the fourteenth to the sixteenth centuries the moralist philosophers developed theories of finance that remain impressive for their practical knowledge of the phenomena and the depth of their analysis. The discovery of America and the massive import of gold into Europe prompted analyses of the relationship between the money supply and prices.

Molina discussed the nature of the money markets, which in some cities were particularly flourishing, and the need to avoid collusion between participants and the exploitation of confidential information that might alter market conditions. Interest, when ethical, was considered fair only when it was paid at the rate obtaining in the money market.

The relationship between monetary interest and entrepreneurial profit derived from the use of borrowed sums was scrutinized more closely. The concept of the joint stock company developed, justifying the receipt of profits on the sums invested in an enterprise if they generated new wealth.

In the first half of last century, the great Keynes admitted in his *General Theory of Employment, Interest and Money* that the doctrines he himself had initially disdained as meaningless in fact represented a major step forward. He revived them and made them the cornerstone of his theory.

According to mediaeval Scholasticism, economics was a practical science that regulated the behaviour of individuals and communities, and, with politics, formed part of philosophy. The field of knowledge incorporates logic, which teaches us how to move from premises to consequences and thence to causes. At the summit we find the sciences

dealing with reality, which cannot be influenced by human behaviour, natural philosophy, mathematics and metaphysics.

In the extraordinary and unique anthropological vision of St. Thomas Aquinas man is by no means just the expression of economic needs. His motives do not spring only from narrow considerations of usefulness but include, in a position that is far from marginal, such notions as duty to the community and service. Man achieves completeness through his relationships with others. Society has a profound ontological dimension and justice is one of the constituent elements on which it is founded.

Nominalism, and later on English naturalism, represented a step backward. The former rejected the ontological nature of society and justice; the latter disputed the teleological and anthropocentric visions of the world.

## **2. *The modern age up to the “short century”***

The creation of modern states in the form of absolute monarchies did not fail to have effects on the theories of the social body. Some theoretical visions, such as the Leviathan and later the social contract, postulated that an individual belonging to a political entity had no choice but to pass all power to interpret his will and foster his interests to the head of that entity. The idea of the common good of the society ceased to exist in modern contractualism; the social contract could justify any type of political system.

The concept of democracy professed in ancient Greece and in Rome, rediscovered and enriched by Scholasticism, tended to disappear. The economic doctrine that prevailed in Europe was that of mercantilism, which stressed the power of the sovereign state; economics was set to become the “dismal science”.

In 1754 in Naples Antonio Genovesi was appointed to the first chair of Political Economy in Europe; economics was set within a broad framework of social and political analysis. Genovesi introduced the problem of what objectives should be adopted by the sovereign and by government; he advocated the aim of the greatest economic welfare for the greatest possible number of citizens.

In his *Wealth of Nations* of 1776, Adam Smith laid the theoretical foundations of what is now called the modern market economy. However, he did not theorize an abstract economic vision.

Only in recent decades have his followers begun to teach abstract economics that make no reference to actual societies, to men forming part of a complex reality.

As a moral philosopher, Adam Smith considered production and commerce always within the framework of civil society. The members of the community, who are bound together by a sentiment of “sympathy”, set up a system of collaboration based on the division of labour, production and exchange that achieves the good of the community. It is essential that exchange be ruled by standards of proper conduct; in this way, individuals and the whole community benefit.

The enormous development of technology, the industrial revolution and mass production, together with the doctrines of positivism, emphasized the distance between science and man; economics, by then a separate discipline, concentrated on the concept of *homo oeconomicus*, studied him and virtually dissected him with the aid of increasingly sophisticated models.

The philosophers of society returned to the analysis of economic phenomena as part of a real social and political context.

Utilitarianism was superseded by Kant’s moral philosophy in what amounted to an intellectual revolution, giving rise to philosophical idealism. This was later reduced to Hegel’s interpretation of reality and history based on dialectical principles.

Among the left-wing Hegelians, Marx saw society as dominated by the evolution of the structure of production, of economic relations; spiritual life as well as political life are *superstructure*. His labour theory of value hinged on the concept of surplus value, which is the basis for the accumulation of capital, the exploitation and alienation of the workers. The consequences he draws from the decline in the trend rate of profit point to the triumph of the proletariat, whose emergence will in the end annul society’s division into classes. The temporary assignment of ownership of capital to the State gives rise to a new social equilibrium, the self-government of producers and finally the withering of the State itself.

Max Weber overturned Marx’s paradigm regarding the causal link between structure and superstructure. Taking European history as an example, he stated that modern capitalism was not so much the cause as an effect of the religious ideas that had spread throughout the continent.

The twentieth century saw the rise of fascism, nazism and communism as the product of the degeneration of left-wing and right-wing Hegelianism and as a reaction to the grave economic and social imbalances.

Although it was not until the end of the “short century” that these doctrines finally collapsed, in 1936 Maritain already foresaw that communism, as actually implemented in Russia on the basis of the model of Marxist-Leninist theory, would break down because it was unlivable, contrary to man’s deepest nature. Drawing in part on the American tradition and following lines of thought that were to be found in Rosmini and Newman, and in Toniolo and Sturzo in Italy, he demonstrated the fundamental concord between democracy, liberty and Christianity. He considered the sovereignty of the State as lying in the people: “*The People is above the State, the People is not for the State, the State is for the People*”. In this context, the economy could not be other than at the service of man.

After the terrible experience of the Great Depression, in England Keynes formulated the *General Theory* not only from the standpoint of an economist but also from that of an economic and social policy-maker. He abandoned microeconomics to some extent, despite his mastery of that field, reverting to a classical approach hinged on the major macroeconomic aggregates, the overall equilibria of the economic system. He became the prophet of economic policy in the middle decades of the twentieth century. His vision also formed the basis of the new international monetary order founded with the Bretton Woods Agreements.

Economics resumed the role it had played for eighteenth century writers as the science that studies the prerequisites for making the best use of available resources and ensuring the welfare of states and peoples.

Popper’s “open society” rested on the notion of human fallibility, on the need for tolerance and the education of individuals. In this vision, the market is more efficient and productive than a centrally planned system, which is bound to degenerate into totalitarianism.

Although Hayek initially based his reasoning on premises similar to those adopted by Popper, criticizing dictatorship and socialism, his final positions were in many respects opposed and paradoxically contained elements of historical materialism, which set the economic dimension above the philosophical and spiritual dimensions. In fact, in his system of thought freedom is important not as a value in itself but principally for its economic consequences.

The Nobel Laureate Amartya Sen has replaced the utilitarian concept of welfare with a vision based on Aristotelian philosophy. Sen also believes that man strives to achieve *eudaemonia*.

A deeper appreciation of the insights into the present world that these schools of thought can offer is possible if we examine some aspects of the Italian economy, notably the performance and characteristics of the economy of Southern Italy in the second half of the last century.

Interest in the South is part of a noble tradition that developed gradually after the unification of Italy and then expanded forcefully in the first half of the last century.

The economy is an integral part of the life of a community; the abundance of material goods and, above all, their equitable distribution are an important aspect of the society's welfare.

It is not a matter of setting having against being, but of assessing how far having can contribute to being in a real context.

Participation in civil life mainly finds expression through labour.

This principle is clearly present in our legislation. Labour, which enables people to achieve self-fulfillment and earn a decent living for themselves and their families is the cornerstone of the Constitution.

### **3. *The uneven development of Southern Italy***

In the 1950s the policy of pre-industrialization pursued in the South laid the basis for the progress of the subsequent decade. Output growth was nearly 5 per cent a year, slightly slower than in the rest of the country. Between 1952 and 1961 nearly a million southerners emigrated to the Centre and North of Italy and some 2 million went abroad.

In the 1960s the South kept pace with economic growth in the rest of Italy. State intervention with major public works and a contribution to the creation of industrial centres, mainly in steel and petrochemicals, powered the expansion of output at an annual rate of 5.6 per cent, as well as consumption and employment. Nevertheless, emigration to the

Centre and North of Italy and to Northern Europe continued. Per capita GDP rose to 60 per cent of that of the rest of the country.

The oil crisis of the 1970s resulted in a slowdown in the world economy and in Italy, where GDP growth fell below 3.6 per cent. Conflicts over income distribution and the exceptional rise in the cost of labour caused difficulties for Italy's large firms. Above all, the crisis affected energy-intensive heavy industry, which in the South accounted for a considerable part of the entire industrial sector. Smaller firms kept the economy going, taking advantage of their greater organizational flexibility and their ability to adapt to the demand for personalized products. They benefited from the depreciation of the lira. Especially in the North-East and the Centre, the organization of small firms in industrial districts gained ground.

The ability of southern firms to grow came to depend increasingly on public intervention.

The abolition of regionally compartmentalized labour contracts detached wages from the productivity of firms. The fragility of the South's model of development emerged.

The area's relative gain in per capita GDP came to an abrupt halt. Emigration slowed owing to the economic slowdown in the North of Italy and Europe.

During the 1970s the policy of reducing geographical disparities became less effective. The greater attention paid to small and medium-sized enterprises had beneficial effects, but did not come up to expectations.

From the mid-1980s onwards, as a consequence of the restructuring of large firms that had begun in the previous decade, the Centre and North of Italy profited from the international economic upswing that followed the sharp decline in oil prices and recouped competitiveness. In the South the restructuring of public enterprises was postponed in order to save jobs.

In the 1990s the Italian economy slowed down further, to an average annual rate of growth of 1.4 per cent, compared with 2.4 per cent in the 1980s. The slowdown was common to other industrial countries as well, but it was more pronounced in Italy. Once the

effects of the devaluation of the lira in 1992 had been exhausted, there was a gradual loss of world market shares. The rate of increase in labour productivity diminished sharply.

The less export-oriented southern economy benefited less from the devaluation. The termination of the extraordinary Southern Italy development programme decided on at the end of 1992 meant a halt to investment grants for three years and the gradual phasing out of social contribution relief. It resulted in a fall in public investment. The tax burden increased, with a consequent expansion of the underground economy. The cyclical slowdown culminating in the recession of 1993, and the decline in public investment in connection with judicial action against grave episodes of corruption worsened the crisis. Many companies failed, with severe repercussions for the southern banking system.

Between 1992 and 1996 GDP in the South of Italy increased by no more than 2 per cent, 5 points less than in the Centre and North. Employment in the South contracted by more than 8 per cent.

The ability of the leading southern banks and other local credit institutions to cope with the recession was hampered by their low degree of risk diversification, modest operational efficiency and largely inadequate credit management procedures. From 1993 to 1995, an average of 8.6 per cent of all loans to firms in the South had to be classed as new bad debts each year, and in Sicily 10.9 per cent. By comparison, in the regions of the Centre and North the figure was 3 per cent. During these years, southern banks' loan losses far exceeded their profit on ordinary operations. Overall, the losses recorded during those three years consumed two-thirds of the capital and reserves that the banks had had in 1992.

Intervention by the supervisory authorities and public support, at a moderate cost by comparison with those of banking crises in other advanced countries, succeeded in safeguarding the operations of southern banks and avoided a break in the flow of finance to firms and households.

Since the middle of the 1990s the rate of growth in GDP in the South of Italy has exceeded that in the Centre and North by just 0.3 percentage points; it has been less than the EU average. The resumption of emigration has helped to narrow the gap in per capita output compared with the rest of Italy.

From 1995 to 2001 the exports of the southern regions expanded at an annual rate of 8.2 per cent, compared with 5 per cent in the Centre and North. Nevertheless, the export growth was slower than the expansion of world trade, and Southern Italy's share of world trade declined.

Employment turned upwards again in 1997 and by July 2002 had risen above the level recorded at the start of the 1990s, although only just. Since 1996 the number of jobs in industry excluding construction has increased by 1.7 per cent per year in the South, while remaining unchanged in the rest of the country.

The renewed widening of the gap between the South and the rest of Italy in the last quarter-century has been accompanied by the differentiation of growth paths between individual regions. Whereas in the early 1970s per capita output was very nearly the same in all the southern regions (with the exception of Sardinia), they have since diverged.

Abruzzo and Molise, and more recently Basilicata, have gained ground by comparison with the four most populous regions of Sicily, Campania, Puglia and Calabria.

The three largest regions, Sicily, Campania and Puglia, have all suffered, to a varying extent, the consequences of the slowness with which public enterprises restructured and reorganized production. Unemployment, concentrated mainly in the capitals of the largest regions, caused problems of law and order and urban decay virtually unknown in the other regions.

However, these regions have also given birth to nuclei of successful firms that resemble the district networks of the North-East. Productive establishments in innovative sectors have grown in number.

Per capita GDP in the South is currently about what it was in the rest of the country thirty years ago; it is equal to 58 per cent of that in the Centre and North, as it was in the mid-1960s.

The employment rate for the population aged 15 to 64 is just over 44 per cent, about 17 percentage points lower than in the rest of Italy. For southern women it is only just over 27 per cent.

Although the unemployment rate has declined from 22 to 18 per cent in the last three years, it is still four times as high as in the rest of the country.

The difference in the cost of housing is an impediment to the geographical mobility of the labour force and the reduction of disparities. The Bank of Italy survey of household income and wealth has found that, taking building quality, location and local population density into account, the cost of housing services in the Centre and North was 40 per cent higher on average than in the South between 1993 and 2000.

The South's lower per capita income is also more unequally distributed. According to the Bank of Italy survey, the concentration of household income is greater in the regions of the South than in those of the Centre and North. The level of concentration in Sicily is the highest of all the southern regions.

#### **4. *The causes of the gap***

According to the regional economic accounts, which include irregular economic activity, labour productivity in manufacturing industry in the South is nearly 20 per cent lower than in the Centre and North. The differential in labour costs is of about the same magnitude, owing to lower wages, greater social contribution relief, and the more extensive underground economy.

Company accounts show that regular industrial and private service enterprises in the South face labour costs that are unwarranted in view of their lower productivity. Labour productivity is more than 30 per cent lower than in the North-West and 20 per cent lower than in the North-East and the Centre of Italy. Especially among the smallest firms, southern productivity is far lower. Higher unit labour costs undermine the competitiveness of these firms.

Productivity is affected by the atomization of the southern productive fabric. The size gap in industry was appreciably reduced between 1961 and 1981 but has since widened

again. Southern firms are now 20 per cent smaller than the Italian average, which is itself small by international standards.

The smallness of firms and the widespread practice of off-the-books work are the economy's response to the rigidity of the official labour market, the tax burden, the complexity of the rules governing economic activity and to the difficulties of the economic and social environment.

Underground or unreported labour now accounts for 22.6 per cent of total standard labour units in the South, nearly twice the proportion found in the Centre and North. In construction the proportion is equal to 30 per cent and in agriculture to nearly 40 per cent. The lowest rates of irregularity are found in Abruzzo and Molise, where growth has been fastest; the highest are in Campania, Calabria and Sicily.

Productivity and living conditions are weighed down by lack of infrastructure, inadequate security and inefficiency in government.

Setting Italian infrastructural endowment equal to 100, that of the South is 78. The shortfall is greatest for airports, energy and environmental systems, telephone and electronic information networks. The worst indicators are found in Molise, Basilicata and Sardinia. The highest levels of infrastructure endowment in the South are those of Campania and Abruzzo.

The overall index of infrastructure endowment is higher in Sicily than in the South as a whole, but this reflects the region's wealth of port facilities. Excluding these, Sicily is more or less on a par with the rest of the South, with infrastructure indicators about a third lower than in the Centre and North. The serious shortcomings of the road and rail networks produce severe congestion of the links between the main cities. For an island that lies distant from large outlet markets, it is essential that ports and airports be equipped with logistical systems that can handle ever-growing movements of people and goods.

Even more harmful, especially for living conditions and the development of agriculture, industry and tourism, is the insufficient supply of water.

The discrepancy found in the past between the infrastructure put in place in the South and the costs sustained calls for an improvement in the quality of the procedures for evaluating investment projects.

Detailed analysis of the costs and benefits of public investments, transparency in the allocation of resources, efficiency in carrying out works and correctness on the part of administrators are all essential to the success of projects. If these conditions are satisfied, the impact on productivity and the quality of life will certainly be positive.

In the past decade foreign direct investment in the South has been extremely modest. In the last two years it has amounted to scarcely 3.5 per cent of foreign direct investment in Italy, itself scanty by international standards.

Recent statistics show a higher rate of serious crime in the South than in the Centre and North. In 2000 there were 14.6 violent crimes for every 10,000 inhabitants in the South, 11.9 in the rest of the country. The regions most severely affected are Campania and Sicily, while Abruzzo and Molise have lower crime rates than the Centre and North.

Over the last decade the gap has been narrowed. Since 1990 the number of crimes reported has fallen by 22 per cent in the South and 9 per cent in the other regions of Italy. The number of homicides has fallen by 70 per cent in the South and 30 per cent in the Centre and North. Even larger reductions have been recorded for crimes committed by the Mafia and other criminal organizations. Criminal activity nonetheless remains one of the main factors impeding direct inward investment in the southern regions.

Success in combating crime is first and foremost a matter of civil living, which can have significant positive repercussions on the prospects for economic growth in the South.

## **5. *Economic opportunities and governmental institutions***

The unsatisfied needs of the South are vast and varied, but the region also has at its disposal unutilized resources and emerging entrepreneurial capabilities.

It is important to close the infrastructure gap with the rest of the country, so as to guarantee adequate living conditions for the population, heighten the productiveness of the economy and of individual firms, avoid being excluded from the process of European integration, and attract capital from other parts of Italy and from abroad.

Businessmen in the Centre and North of Italy, when polled on the factors determining the location of investments, have often complained of southern infrastructure shortcomings, which are even worse than those of their highly congested home regions, especially in the North-East.

Istat surveys have also revealed unserved needs and difficulty of access to public services as well. Waiting lists for health care services are longer in the South than in the Centre and North. Severe inadequacy in the supply of drinking water is reported by 29 per cent of southern households, compared with 7 per cent in the North and 11 per cent in the Centre. The problem is especially acute in Calabria, Sicily and Sardinia.

Human capital in the South is young and well-trained. In 2001 the population over 65 was smaller than that under 15, while in the Centre and North it was 50 per cent larger. Nonetheless, the fertility rate in the South, though higher than in the rest of Italy, is well below its equilibrium level. A younger population has a better chance, through investment in education, of successful entry into the emerging knowledge-based society.

In the South, 8 per cent of people aged 25-64 have university degrees and 36 per cent have high school diplomas, values not dissimilar to those of the Centre and North. The number of university students has increased sharply in the past decade.

Many of these well-educated people are ready and willing to work immediately. Many others have left the South for lack of jobs. The drain of skilled labour from the southern regions remains substantial. Male university graduates show an unemployment rate of 7.4 per cent and university-trained women of 14.3 per cent, values about twice as high as in the rest of Italy.

The South is rich in environmental and cultural resources. But the provision of tourist services is fragmented and undersized compared with the region's potential. The South accounts for only 20 per cent of all tourist overnight stays in Italy. Seasonal variations in tourism are more marked than elsewhere. Better travel links with the rest of the country and abroad could mitigate the adverse consequences of the market trend towards shorter stays.

Developing the South's environmental and cultural resources requires more vigorous information and promotional campaigns, especially abroad, together with action designed to overcome the current limits of the supply of tourist services and widen the range of products.

Opportunities are opening up for the South to capitalize on quality food production. In the past few years southern producers have entered a market dominated until now by the large producers of the Centre and North. The importance that Italian consumers have traditionally attributed to food products of a high standard has led our productive system to concentrate on variety and quality, and this has ended up by giving Italian firms a comparative advantage in Europe. Economic benefits have been obtained by the producers readiest to grasp the new market opportunities, with vertical integration allowing them to capture a larger share of the value added in processing and marketing products.

Medium and high-tech firms are established in the South, *inter alia* in the sector of information and communication technology. Such firms are highly concentrated in Italy. In 1996 the first three regions — Lombardy, Lazio and Piedmont — accounted for 53 per cent of the sector's employment, the South for only 17.7 per cent. Partial data suggest that the growth of this sector in the South has outpaced that in the rest of Italy in the past few years.

As recent international experience shows, the ICT sector tends to concentrate in more developed areas but also where human capital is abundant and labour costs are lower. The availability of the professional resources required or to be trained, under conditions ensuring appropriate flexibility and costs, together with the presence of research centres, constitutes an important location advantage. The success stories of Naples, Cagliari and Catania attest to this.

These initiatives benefited from support policies keyed to financing research and creating specialized skills. Innovative local entrepreneurs favoured the local diffusion of activities connected with the technologically advanced sectors. The process of imitation, stimulated by the positive results achieved by the first plants, led to the formation of important agglomerative externalities.

For these success stories to be more than isolated cases, it is necessary to make the policies in support of scientific and technological research more effective and strengthen cooperation between the education system, especially at university level, and industry.

The reorganization of the banking system in the South has been particularly rapid and extensive. In the last ten years more than 200 mergers and acquisitions have been carried out involving banks accounting for two thirds of the assets of the southern banking system. In Sicily, there has been a radical restructuring of the banking system. Today, southern households and firms can turn to the same banks that serve the Centre and North; they have corporate finance and professional asset management services available to them that could not be supplied on a limited scale.

Consolidation has been accompanied by an expansion of banks' branch networks. The number of bank branches in the South has grown by 70 per cent over the past ten years, in line with the national trend.

Between 1998 and 2001, during the most intense phase of restructuring, the net flow of credit granted by banks resident in the South continued to expand at an annual rate of nearly 8 per cent, outpacing GDP. Thanks in part to low interest rates, even during the current general slowdown in bank lending borrowing conditions for firms in the South have generally remained non-restrictive, for small businesses as well.

The rate on medium and long-term loans is 0.6 percentage points higher for firms in the South than for those in the Centre and North. The differential between the short-term lending rate has narrowed steadily since 1996, from 2.3 to 1.3 points. Considering the same sectoral composition and size of borrower firms, the differential between the two areas narrows to 0.9 per cent. It reflects differences in the riskiness of firms and the fragility of the economic environment in which they operate. The complexity of civil law procedures is a factor: lesser protection for creditors, together with the greater difficulty of recovery, raises the cost of bank credit.

The new setup of local government will have to be able to give further impetus to the improvement of public action in the economic field. The institutional arrangements must be consistent with the values that unite civil society. Opportunities for growth will come from a more rational distribution of tasks among the different levels of government in accordance with the rules of subsidiarity.

Bringing the management of public services closer to the area in which the benefits they produce are enjoyed can make it possible to achieve a closer fit between supply and users' preferences, make administrators more responsible and allow new approaches to producing and financing such services to be tried out.

In a country with pronounced geographical disparities of income, substantial elements of solidarity are necessary to ensure social cohesion. The amount of redistribution must be decided *ex ante*. The transfers must not constitute a channel for eluding the budget constraint.

The positive effects of self-government depend first of all on local authorities' efficiency, which is still extremely uneven.

According to a recent Bank of Italy survey, the percentage of clerical staff with computerized workstations in southern local authorities was about half that recorded in the regions of the North.

The effectiveness of governmental administration plays an essential role in promoting growth, at least equal to that of the quality of investment in education and infrastructure. Minimization of direct and compliance costs is crucial. Local authorities in the South must make a qualitative leap, proceeding more speedily with the organizational and technological innovations that other regions are introducing.

Some measures in favour of the economy can be the focus of policies designed and managed by the regional governments, within the scope of their exclusive or concurrent powers and in accordance with the structure of the local economy. The priorities could be conservation of natural resources in tourist areas, or perhaps in supplying business services and support for firms' internationalization. Other priorities for local action, agreed with the national government, can regard action to solve the problems of the declining industrial areas. Finally, local government can concentrate on supporting action to enhance the quality of food and agricultural production or the attractiveness of research centres.

Cooperation between the different levels of government and the prompt resolution of any conflicts of competence are necessary in order to ensure the availability of adequate infrastructure and the production of services of nationwide interest.

During the 1990s the process of European integration was accompanied by a reduction in inequality between the member states. It was not matched by an equivalent reduction in the economic disparities between the regions within each country.

The enlargement of the European Union constitutes an opportunity; it involves risks.

The economic integration of countries that differ in their level of welfare, productive structure, and the endowment and cost of factors generates positive effects in the long run for the countries concerned as a group through the operation of comparative advantages.

However, the benefits can be distributed unevenly among the different areas. The weaker and peripheral areas of Europe, such as Italy's Mezzogiorno, must put themselves in a position to grasp the opportunities offered by the globalization of markets and the intensification of international trade.

Economic policy must remove the obstacles to the location of productive activities in the territory and the constraints on growth.

## **6. A culture for growth**

In *The Elusive Quest for Growth*, a valuable volume published in 2001 by the MIT Press, William Easterly, drawing on his long experience with the World Bank, conducts a wide-ranging, careful empirical inquiry into the factors explaining the degree of development in different areas and countries of the world over the last twenty years.

The economic, social and institutional factors are systematically reviewed.

Many of the variables examined are those I mentioned earlier in examining the growth of the Italian economy and that of the Mezzogiorno.

Still, these factors do not provide a complete and satisfactory explanation of the wellbeing or backwardness of the different countries of the world.

There is something that both empirical analysis and institutional analysis fail to capture. An unexplained "residual", a concept well known to theorists of economic growth.

I should like to suggest the hypothesis that the level of culture in the most noble and concrete sense of the concept, high values, cohesion may contribute to determine the unexplained residual.

Rereading the pages of the ancients and the masters of economics, one finds repeated reference to social harmony and good government; to what we might nowadays call a fully-developed democracy in which, albeit amidst lively, deeply felt, sometimes heated debate on the organization of political and social life and the means, paths and instruments with which to spread progress, an agreement is nonetheless reached on the goals of development and the common good – material, but not only material.

Our western culture teaches us that the good of a community is based on a scientific and professional knowledge of material things, of technical matters, of the laws of the economy; but this knowledge must be animated and guided by a higher speculation, a higher wisdom.

In the Italian Constitution men of different creeds agreed to found our society upon the dignity of man and the substantial equality of all in terms of rights and duties.

Work – all work, whether spiritual, intellectual or physical – completes the personality of the worker and realizes the condition for effective equality, to give every man and woman what they deserve and at the same time what they need for their own material life and their family.

Access to work for all according to each individual's ability and capacity for commitment realizes distributive justice, which reinforces the ties of society and creates a fundamental condition for growth.

Deviant behaviour, especially when so widespread that it permeates the life of the community, is among the most serious obstacles to prosperous economy activity.

Every effort must be made especially in these regions to eradicate criminal behaviour that gravely disturbs civil life. This is up to the organs of the State first and foremost, but the conscience of the entire citizenry must contribute on both the individual and the political plane.

The market economy, correctly interpreted and appropriately regulated, and private enterprise are fundamentally in harmony with democracy.

The market, governed by behaviour that is ethical and informed by commutative justice, is indispensable to a thriving economy.

But the market alone is not sufficient; there are public goods that must be made available by central and local government.

Responsible for supplying them to the community are the people's democratically elected representatives, chosen, to use an expression of the Schoolmen, for their *virtus*, for their dedication to the common good.

We know from Keynes that in a financial economy there can be periods in which resources are less than fully utilized, which may be caused by international disequilibria, as in the current circumstances.

In addition, there can be backwardness and structural inefficiency connected with the legacy of the past or with geographical location.

Ultimately, both of these types of disequilibria manifest themselves in an insufficient level of employment, in unemployment, which in the modern economy is becoming the leading and most serious cause of social exclusion and inequality.

It is up to a modern economic policy, correctly conceived and formulated, to remove these grave impediments to an orderly society.

Overcoming these structural factors of backwardness may require a number of years of constant effort.

Some phases of the programme of special support for development in the South, animated, as I have recalled, by high political ideals, are a good example.

In recent years there has perhaps been a rekindling of hope in this direction after decades of oblivion.

The elements of public intervention are the time-honoured ones I have already mentioned: good administration, justice, transport infrastructure, water supply, telecommunications. The imbalances and disparities are still large. Some lines of public intervention are now again positively reoriented in this direction.

The inevitable difficulties must be overcome and confidence in the results fostered.

Investment in human capital, education and culture is an indispensable factor of progress everywhere, in every part of the globe.

Schools and especially universities have a mission to carry out in this regard.

In these months we are distressed by cyclical difficulties that are rooted, however, in structural difficulties and that are affecting unemployment and the standard of living of many families in Sicily.

The Bank has followed and will continue to follow the evolution of the situation with attention, by virtue of its constitutional and statutory mandate to protect savings. We have intervened in order to foster adequate solutions to the problems.

We are doing so also obeying the promptings of civil conscience.

We know that the social partners, albeit with necessarily different positions on individual actions and solutions, are working to the same end.

The firm, every firm, is an indispensable, potent factor of economic progress. The entrepreneur does not seek only profit, as a superficial view often suggests, but is well aware of the social importance of his activity.

The social partners and public authorities must converge on the same objectives.

I am aware of the difficulties, the tensions, the influences that run counter to their attainment.

The analysis and surmounting of these difficulties and constraints are part of my daily institutional and intellectual commitment. They are part of the day-in, day-out, reasoned, professionally qualified commitment of my collaborators, of those who work in the Institution that I am honoured to head, of its staff at every level and in every part of Italy, in Rome and the provinces.

The Bible teaches us that the multitude of the wise is the welfare of the world, that all good things come from the spirit of Wisdom, and innumerable riches are in her hands.

Philosophers are the friends of wisdom. Wisdom presides over science, which is born from the knowledge of perceptible things and phenomena. Universities are where this synthesis is achieved through study, teaching, cultural debate. Wisdom and knowledge radiate from the universities and flow together into the culture of the community.