

11. THE SOUTHERN ECONOMY AND REGIONAL POLICIES

In the last decade southern Italy's GDP has grown in real terms at about the same pace as that of the rest of the country. The gain in employment has been smaller in the South, where one fifth of work is unreported and migration from the South to the North has picked up again. The economic and social indicators of the quality of life of the southern population do not show any significant narrowing of the gap with more highly developed areas. Although less so than in the mid-1990s, lags persist in the ease of access to credit and the cost of loans, reflecting the greater fragility of the southern economy.

The South is home to one third of the population but accounts for one quarter of GDP. A lasting increase in Italy's low growth rate cannot be achieved without overcoming the underutilization of the South's resources. In the last ten years regional policy in support of the South has drawn on a substantial volume of financial resources, comparable to that of the extraordinary intervention discontinued in 1992. Launched in the second half of the 1990s in the new context of EU territorial cohesion policies, its hallmarks have been: the construction of an extensive, detailed database; the modernization of intervention procedures, now focused on assessment of results and greater responsibilities for local authorities; and the attention paid to the provision of essential public services for the population and firms.

Ten years since its inception, the overall results have fallen short of the objectives both in terms of economic and social development, as gauged by the performance of the firms that benefited from incentives. Several of the most innovative aspects of the new regional policy have proved difficult to implement: notwithstanding the progress made, information gaps have hindered evaluation of the effects of support measures; "reward" mechanisms have failed as a whole to produce sufficiently virtuous behaviour by local government.

The effectiveness of regional policy has also been affected by the acute forms that the structural lags in the Italian economy display in the South, as well as by the differing territorial effects of national economic policies. The quality of basic public services, such as justice and education, is markedly lower in the South. The southern regions have proved less able to translate national deregulation measures into actual liberalizations, and they have been less inclined to promote the restructuring of the local public services sector. In several areas, criminal activities continue to exert a pervasive influence on economic relations. Flexibility in the use and remuneration of labour has increased but not enough, considering the persistent imbalance in the southern labour market.

Growth

Between 1995 and 2007 real GDP grew at almost the same average rate in the South and in the Centre and North, by 1.3 and 1.4 per cent respectively. While growth was slightly higher in the South in the second half of the 1990s (2.1 per cent as against 1.8 per cent), in subsequent years it was greater in the Centre and North, in the context of a general slowdown in productive activity (Figure 11.1). The gap appears to have widened in the last two years. According to Svimez estimates, in 2007 the South recorded growth of 0.7 per cent, compared with 1.7 per cent in the Centre and North.

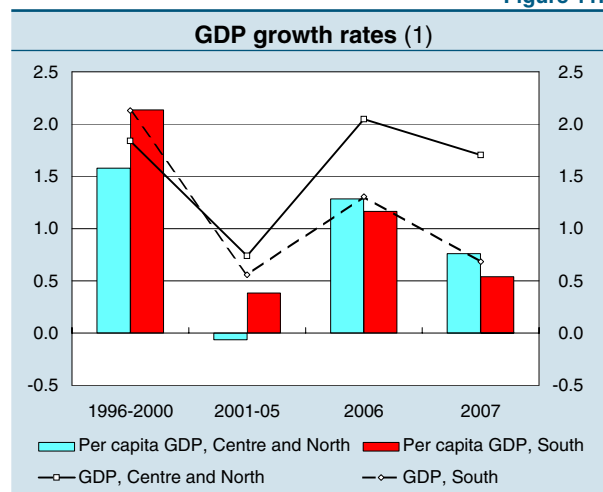
The ratio of the per capita GDP of the South to that of the Centre and North rose from 54.7 per cent in 1995 to 57.5 per cent in 2007. In the same period the population of the Centre and North increased by 0.6 per cent per year, while that of the South remained stable (+0.1 per cent). Between 1995 and 2007 per capita GDP growth in the South outpaced that in the Centre and North by just under half a percentage point (1.2 as against 0.8).

The growth gap compared with the Centre and North is accompanied by a net total inflow of public resources to the South, which reflects the broad correlation between tax revenue and income levels and that between many expenditure items (net of interest payments) and the size of the population. The financial resources generated in the southern regions (tax, duties and contributions) are significantly less than those spent on services (healthcare and social assistance), transfers to households (pensions) and to firms, purchases of goods and services, investments and the remuneration of public employees. According to a reconstruction using the database of the Ministry for Economic Development, between 1996 and 2006 the net inflow of public resources to the South was equal to between 10 and 15 per cent of the area's GDP; that was lower than the average for the period between 1970 and 1992, which on the basis of previous reconstructions can be estimated at just under 20 per cent.

Foreign trade

In the second half of the 1990s, the average annual rate of growth in exports at current prices, excluding oil products, was higher in the South than in the Centre and North (7.8 and 5.3 per cent respectively; Figure 11.2). Southern export growth was also stronger in the traditional sectors (textiles and clothing, leather products,

Figure 11.1

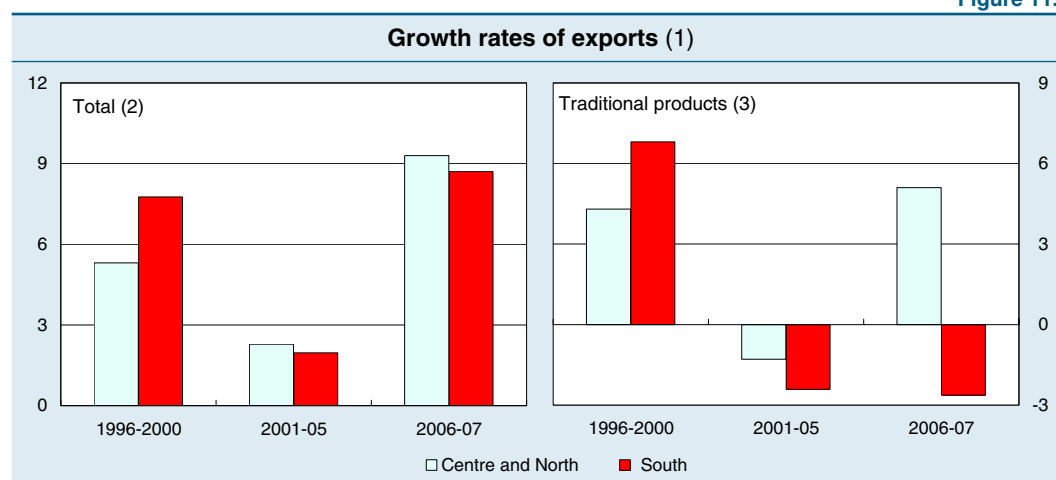


Sources: Istat, Conti economic territoriali, for 1996 to 2006; Svimez estimates for 2007.

1) Chain-linked prices. Average annual growth rates for the periods 1996-2000 and 2001-05.

footwear, and other manufactures, which include furniture). In the early 2000s this trend was inverted. Between 2000 and 2005 exports expanded slightly more rapidly in the Centre and North. The intensification of competition from the newly industrialized countries had a stronger impact on the traditional sectors of the South than in the rest of the country, reflecting the greater incidence of medium-low quality products in their product mix. Exports of traditional products declined annually by 2.4 per cent in the South and 1.3 per cent in the Centre and North. In the two years 2006-07 the recovery in exports, which was nationwide, included traditional goods in the Centre and North but not in the South.

Figure 11.2



Source: Istat.

1) At current prices. Average growth rates for the periods 1996-2000, 2001-05 and 2006-07. – (2) Excluding oil products and, to make the data comparable over time, ship's stores. – (3) Including textiles and clothing, leather products, footwear and other manufactures (including furniture).

Employment, its composition and the unemployment rates

According to Istat's labour force survey, in 2007 employment in the South remained basically stable at the previous year's level, in contrast with a significant expansion in the Centre and North (1.4 per cent). While in the Centre and North the employment rate of persons aged between 15 and 64 rose by 0.4 percentage points to 65.4 per cent, in the South it declined by 0.1 points, to 46.5 per cent.

Last year's developments are part of a longer-term trend: between 1996 and 2007 employment increased by 18.5 per cent (2.5 million persons) in the Centre and North, where it was buoyed by substantial immigration, and only by 8.2 per cent (0.5 million) in the South. In the same period, the employment rate of the population of working age in the southern regions grew by barely three percentage points, compared with an increase of over eight points in the rest of Italy. The gap widened in particular for women (Figure 11.3): in 2007 the female employment rate was 31.1 per cent in the South, compared with 55.3 per cent in the Centre and North (in 1995 the gap had been 17.1 percentage points).

Figure 11.3



Source: Based on Istat, labour force survey.

In addition to its lower employment rate, the South also has lower levels of private-sector employment. The proportion of fixed-term work is higher; unreported work is more widespread.

After widening the second half of the 1990s, the differential between the rates of unemployment in the two areas began to narrow again during this decade, thanks in part to the large migratory flows from the South to the Centre and North. In 1999 the two areas showed a differential of almost 13 percentage points (18.8 in the South and 5.9 in the Centre and North). In 2007 the unemployment rate in the South fell by 1.2 points to 11 per cent, that in the Centre and North by 0.4 points to 4 per cent.

Population and migratory flows

Between 1995 and 2007, principally following the measures taken to regularize the status of foreign immigrants, the resident population in the Centre and North increased by 2.2 million inhabitants (as against 96,000 in the South).

The influx from abroad has been accompanied by substantial internal migration. Transfers of residence from the South to the Centre and North (including changes of legal residence by foreigners) consistently surpass flows in the opposite direction; after falling to historic low levels in 1994, the numbers rose until 2000 and then dropped back in subsequent years, albeit to consistently high levels. Most internal migrants are between 25 and 35 years of age and move for work-related reasons, with a growing proportion of highly-educated persons. In addition to the flows registered from changes of legal residence, there are other workers who move but still maintain legal residence in their region of origin: according to the labour force survey, last year on average almost 120,000 more people worked in the Centre and North while legally residing in the South than vice versa.

Wages and the cost of living

According to the Bank of Italy's Survey on Household Income and Wealth (SHIW), the negative difference between earnings in the South and those in the Centre and North, net of taxes and social contributions, was about 15 per cent in 2006 among workers with the same individual characteristics. Based on data from the National Social Security Institute (INPS), which do not enable educational levels to be taken into account, for workers of the same gender, age and country of origin the difference in gross wages is of the order of 20 per cent.

The high levels of unemployment and unreported work suggest that labour costs in the South, while lower than in the Centre and North, do not permit equilibrium between labour demand and supply, given the persistent lag in the area's productivity. Where there are inadequate wage flexibility mechanisms, migration helps bring demand and supply back into balance. For a resident of the South, the negative pay differential and the lower likelihood of finding employment translate into incentives to look for work in the Centre and North. The higher cost of living in the more advanced regions of Italy works in the opposite direction.

No exhaustive comparative estimates are available of regional differences in the cost of living for all households. Partial indications can, however, be obtained for major expenditure items (rent, food products, clothing and furniture). According to the Survey on Household Income and Wealth, in 2006 average rents in the Centre and North were approximately 30 per cent higher than those in the South, for dwellings with comparable characteristics and similarly-sized municipalities of residence. Recent Istat estimates, referring exclusively to regional capitals, indicate that the prices of food, clothing and home furnishings are all higher in the Centre and North, by around 10, 3 and 18 per cent respectively.

Bank credit

In 2007 credit in the South expanded at a high rate (9.2 per cent), even though it showed a sharper deceleration compared with the other areas in the country. In particular, the growth in loans to businesses declined from 18.1 to 10.1 per cent, reflecting the stabilization of credit flows to the services sector at high levels. By contrast, loans to manufacturing firms and especially to the construction sector continued to expand more rapidly in the South than in the other regions. Between 2003 and 2007 lending to firms in the South increased by 10.7 per cent per year, compared with 8.2 per cent for lending to firms in the Centre and North. The differentials in the growth rates between the two areas were wide in all sectors and involved both small and larger companies.

In 2007 the increase in short-term interest rates was smaller in the South than in the Centre and North; the credit cost differential between the two areas narrowed by 0.2 percentage points from the previous year, to 1.3 points (in the mid-1990s it stood at 2.5 points). When the average interest rate for firms in the South is calculated using the sectoral and size composition of the loans granted to firms in the Centre and North, the differential in 2007 is less than one percentage point. The remaining cost

differential reflects the greater riskiness of firms in the South, which can be attributed to the external diseconomies that weigh on productive activity in the area.

Public services

The quality of public services in the South is generally lower than in the rest of Italy, and this has serious repercussions on the standard of living of the populations and the functioning of the economy. The lags in the southern regions concern both the services for which the regulatory, organizational, and spending responsibilities fall primarily on the national government, such as education and civil justice, and those which are subject to greater local decentralization.

Civil justice. – The resolution of legal disputes in southern courts requires significantly more time than in the Centre and North. In 2005 first-level proceedings in the South lasted 1,124 days for ordinary civil trials and 1,011 days for labour, pension and social assistance disputes or 42.6 and 74.1 per cent longer than in the courts of the Centre and the North.

The level of litigiousness, measured by the number of proceedings initiated in any given year per inhabitant, is significantly higher in the South. In 2005 the number of new ordinary civil trials and labour and pension cases that opened in the South was 2.4 for every 100 inhabitants compared with 1.2 in the Centre and North.

The territorial distribution of court judges with respect to the population is weighted in favour of the regions of the South. Data from the Ministry of Justice and the Magistrates' Governing Council for 2005 show that the ratio between the number of judges assigned to the civil sector and population resident in the South is 28.2 per cent higher than that of the Centre and North. The higher presence of judges in the South reflects the greater number of pending trials: the number of new civil proceedings that opened in the courts in relation to the number of judges assigned to the civil sector was relatively uniform throughout the country in 2005, with only slightly more judges in the South than in the other areas. However, due to a backlog of disputes judges in the South now find themselves having to clear a heavier caseload than their peers in the Centre and North, with potentially adverse effects on the length of proceedings.

Healthcare. – The decentralization under way in the healthcare sector has led to the emergence of new organizational and management models in the regions, which are associated with varying levels of spending efficiency and quality. Several indicators show that expenditure is less efficient and less able to meet the demand for healthcare services in the South than the Centre and North. There is a higher incidence of inappropriate hospital care in the South. Advanced medical services are less readily available. The numbers of patients electing to receive treatment in hospitals outside their region of residence is higher than in the rest of the country.

Local public services. – Albeit to varying degrees in the different sectors, local public services in the South display elements of backwardness compared with the Centre and North, as regards both the quality of the services and the efficiency of

firms. The implementation of liberalization measures and the modernization of the sector, a process that began in the 1990s, has proved less effective in the South. The recent development of national operators, generally multi-service and listed on the stock exchange, has been limited exclusively to the Centre and North.

Available indicators show that, on the whole, the population of the South receives lower-quality services than people living in the Centre and North. Moreover, services in the South show greater lags in achieving the environmental policy targets that characterize local public service regulations.

The greatest delays in implementing reform and the most glaring shortcomings compared with the rest of the country are found in waste collection and disposal services. Regional authorities, which by law are assigned vital tasks in planning the waste cycle and building infrastructures, have been placed under special administration in Calabria, Campania, Puglia and Sicily.

Regional policies and instruments

General government capital expenditure. – Total spending by general government in the South is based on ordinary and additional resources. The latter are drawn from the national Fund for Underutilized Areas, 85 per cent of which has been reserved to the South since 2003. This national fund is allocated under the Finance Law and distributed among the various programmes by the Interministerial Committee for Economic Planning. Extra resources also come from the European Structural Funds (with the related national co-financing), which are determined at EU level. These extra resources meet the additionality criterion established by the Community for regional policies in the Union; 30 per cent of ordinary resources must, instead, be allocated to the South. At the start of this decade a target was set of 45 per cent of total general government capital expenditure to be allocated to the South.

Between 1998 and 2006 actual accumulative expenditure in the South amounted to €181 billion (an annual average of approximately 6.5 per cent of the area's GDP, just under €1,000 per inhabitant), of which €88 billion was financed by additional funds. In the same period the Centre and North received around €300 billion (3.4 per cent of the area GDP and around €900 per inhabitant on an annual average basis). The order of magnitude of the additional capital expenditure that poured into the South is similar to that of the extraordinary intervention in the period from the early 1950s to the early 1990s, which ranged between 0.5 and 1 per cent of national GDP. The estimates for 2007 indicate that general government capital expenditure in the South amounted to approximately €22 billion or 35.3 per cent of the national total.

The South stands out for the relatively high proportion of transfers it receives compared with direct investment (43.8 and 56.2 per cent, as against 35.2 and 64.8 per cent in the Centre and North); this reflects larger allocations for policies to provide incentives to local enterprises.

The instruments. – Regional policy is composed of a wide range of instruments for intervention, designed both to offset the disadvantages of location (capital grants, employment and tax incentives that are subject to automatic, assessment or negotiating

procedures), and to execute government investment (public works, services to businesses and persons), including through the use of incentive and “outcome-based” mechanisms, which were subject to a broad review in 2007. Tools for intervention include negotiated planning, aimed at promoting local enterprise systems and characterized by a mix of incentives to offset location disadvantages.

The negotiated planning instruments called territorial pacts are agreements aimed at promoting local development and entered into by local government and employers’ associations in bordering municipalities belonging to the underutilized areas. These instruments use public funds mainly for providing incentives to economic agents and to a lesser extent for local infrastructures. Comparing trends in employment and local enterprise units in the municipalities that entered into a territorial pact with those in municipalities with similar socio-economic characteristics that did not, it can be seen that participation had no significant effects on the growth of employment and of local units in the period from 1996 to 2004.

Studies on important investment incentives (Law 488/1992 and Law 388/2000), under which the South’s share of the total amounts granted between 2003 and 2006 was equal to 82.6 and 98.4 per cent respectively, indicate that their effectiveness is limited.

The new planning cycle for regional development policy

The national strategic framework. – In July 2007 the European Commission approved the Italian proposal for a National Strategic Reference Framework (NSRF), which defines the additional resources that regional policy can draw on in the period from 2007 to 2013.

The resources of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) are allocated with reference to three objectives: the Convergence Objective, covering several regions of the South (Basilicata in the phasing-out stage, Calabria, Campania, Puglia and Sicily); the Regional Competitiveness and Employment Objective, covering the regions of the Centre and North and the other regions of the South (Abruzzo, Molise and Sardinia in the phasing-in stage); the European Territorial Cooperation Objective, covering several Italian cities with the aim of boosting tourism. The three objectives are assigned 72.1, 26 and 1.8 per cent of the resources respectively, including co-financing allocated at national level. The regions of the South receive €47 billion (as against €12.3 for the Centre and North), to which are added the allocations from the Fund for Underutilized Areas (€53.8 billion, of which approximately €3 are for service provision objectives).

Service objectives. – The previous planning cycle introduced an “outcome-based” mechanism, which allocated additional resources to local administrations that had met certain objectives. Partly to bolster the supervision of this mechanism, a broad set of indicators was identified; those specifically used in the “outcome-based” system referred above all to innovations in local government procedures. The 2007-2013 National Strategic Reference Framework strengthens this mechanism and changes the logic behind it by taking into account actual performance in four service areas:

education, child care and assistance for the elderly, urban waste management and water services. All the regions of the South take part in the mechanism while the Ministry of Education participates in the education service objective only.

Measuring the actual performance of key public services based on objective indicators, and not on the declarations of the local governments involved, is an important new departure aimed at promoting an administrative approach that is more interested in results than in formal procedures. In many of the areas considered, it is nevertheless necessary that ordinary policy be reformed and redirected towards results. Possible distortions can derive from the temptation to consider only the aspects measured by the indicators to the detriment of others. An important contribution to the effectiveness of the initiative can come from an adequate knowledge of the “outcome-based” mechanism by the people directly concerned.