

ECONOMIC DEPRESSION AND DEVELOPMENT POLICIES FOR "MEZZOGIORNO" AND ITALY

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Abstract

This paper considers the economic depression that in the period 2008-2014 has hit most traditionally less advanced Mediterranean regions and particularly the South of Italy. It interprets their economic performance mainly on the basis of the theory of late capitalism, develops some reflections and outlines some possible policies to promote the recovery and realize in the long run a significant reduction in the inequality of working conditions and of life between these peripheral regions and the most advanced region of Eurozone.

1. Introduction

In order to identify some useful policies for the development of the South and therefore of the whole of Italy, whose economy is traditionally conditioned by the southern question, this paper starts from the interpretation of the regional economic trends.

It assumes the theory of capitalism lately developed (Fuà, 1980; Cardoso de Mello, 1982) and tries to verify its validity in the long period of economic crisis in Europe after 2007. In particular, it tests the hypothesis that at the macroeconomic level, using the classic indicators of wealth, the international gap shrank in favor of countries politically independent from the capitalist core countries and that they have already registered the economic take-off (as the emerging economies of Bric). This reduction of the gap goes on, however, until when the prolonged crisis affects the same emerging economies, the more the more their economy is based on exporting.

Instead, the countries of Southern Europe bound by the rules of the Union, and, in addition, with income levels and labour costs so high not to be competitive with countries of the Southern World, cannot take advantage of the delay of their capitalist development; so their macroeconomic gap grows with respect to the capitalist core countries of Northern Europe.

This growth of the gap is even more evident at the regional level, between the developed and underdeveloped regions within a same country of the South of Europe. In these regions - as in the poorest countries of the South, which unlike those emerging benefited less from globalization and received less external investment - even if their

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macro economic gap is accentuating in the crisis as well- show some positive development trends. Lack of external investment and difficulties in importing stimulate the nativity of local micro-businesses that - if favoured by specific policies, in particular against organized crime - makes possible the generation of a sustainable endogenous development.

2. Some data of the Eurozone periphery depression.

Countries/ regions	2001-‘07	2008 -‘09	2010-‘11	2011	2012	2013	2014	2008-‘14	2001-‘14
	comulativ e	comulativ e	comulativ e					comulativ e	comulativ e
<i>Mezzogiorno</i>	4.2	-6.3	-0.5	0.0	-2.9	-2.7	-1.3	-13.0	-9.4
<i>Centre-North</i>	9.6	-6.3	3.2	0.7	-2.8	-1.4	-0.2	-7.4	1.5
Italy	8.3	-6.3	2.4	0.6	-2.8	-1.7	-0.4	-8.7	-1.1
E.Union (28c.)	17.1	-3.9	3.9	1.7	-0.5	0.1	1.3	0.7	17.9
Euroarea (18c.)	14.6	-4.1	3.7	1.6	-0.9	-0.4	0.8	-0.9	13.6
Not Euroarea	24.6	-3.4	4.4	2.0	0.4	1.4	2.7	5.5	31.4
Germany	10.2	-4.6	7.8	3.6	0.4	0.1	1.6	5.0	15.7
Spain	27.7	-2.5	-0.6	-0.6	-2.1	-1.2	1.4	-5.0	21.4
France	13.8	-2.8	4.1	2.1	0.2	0.7	0.2	2.3	16.3
Greece	32.8	-4.8	-13.8	-8.9	-6.6	-3.9	0.8	-25.8	-1.7

Table 1: Cumulative and annual growth rates of gross domestic product in real terms (%) (a) - Source: Rapporto SVIMEZ 2015 sull'economia del Mezzogiorno
(a) Calculated on linked values - year of reference: 2010.

On some peripheries of the Eurozone, and in Italy in particular, the recession is so pronounced and prolonged that it can be considered already for these reasons a depression. Moreover, in previous recessions - and in total period since the crisis of the ford-taylorist capitalism in the years 1970ies which marks the start of the transition to the current capitalism flexible and globalist (Adamo, 1984; Adamo et Al.,2000). Regions and cities at that time peripheral were characterized by a higher relative growth compared with regions and cities central in economic development.

This is 1) because they "enjoyed" their late capitalism and could still afford extensive economic growth, not founded on innovative products or production processes; 2) because their products, intended mostly for the domestic market, are not substantially affected by short recessions, in contrast to export products offered by companies in the North.

For the last reason the recent signs of recovery in output - which, although weak, are finally certified by companies of regions and cities of the central and northern Italy, more export-oriented - do not occur again in the South and, given that, unlike the production, employment and consumption do not show signs of growth (apart from a few statements of propaganda) it is difficult to think of an economic growth of the South (so of reducing divergence, unemployment and new poverties) without adequate policies on different scales.

3. Which policies

a) At European level and particularly for the Eurozone, it is needed to abandon the present ordinary economic policy, based essentially on austerity, for policies ensuring

the necessary stability of economy not only without preventing growth, as the ECB is trying to do, but also promoting growth so as to achieve the convergence of economies. These policies, however, will be fully realized only through an actual agreement between the Governments of the Eurozone, to build a fiscal and monetary policy for the Eurozone and therefore a real European Ministry of Economy and Finance. Meantime, it is urgent to define: compensatory mechanisms of fiscal and monetary disadvantages of peripheral regions of the Eurozone, with respect to other countries of EU, especially the countries that joined the EU enlargement of 2004, b) a bolder industrial policy, development of IT and competitiveness.

b) At the national level, it is necessary to adopt, as a fundamental instrument of government, a planning (which also means full monitoring of the actions and their effects) of the territory development (socio-economic, cultural and physical) with a systemic and multi-scale approach. This planning policy should be capable of combining the objective of growth and progress of the South with that one, with it strictly linked, of the growth of the competitiveness of companies and the Italian production system overall. To this end, the national planning will have to define, in consultation with the regions and communities affected, strategic decisions, establishing areas and places of intervention, and to monitor projects and coordinate regional plans. The Priority should be, in my opinion, the networks of transport and communication, alternative energies, higher education and research in science and technology, the strengthening of local systems of enterprises and the creation of new ones, especially through the promotion of IT investments, enabling a revival of industrial production, a further growth of the agro-industrial productions and handicraft of quality (fashion), a growth of sustainable and responsible tourism.

c) At a sub-national scale it is necessary a specific regional policy for the South, carried out by State and local Regions, having as main objective the industrial development. In particular, effective measures are urgently needed to support employment (such as works on infrastructure and public services still lacking) and consumption, but also measures to promote growth of the total productivity of enterprises. It is also necessary that the national strategic choices of industrial policy of high profile, mentioned above, interest adequately the South – particularly some of the places most endowed with conditions for progress of knowledge economy – and enter in synergy with actions within their regional plans, based on bottom-up projects or , nevertheless , which exploit local potential.

Like at national level, development policy in the South can not be limited to tourism (whose promotion announced in the National Strategic Plan for Tourism 2013 is, among other things, still on paper). It must point to the agro-food quality, which already made great progress, and not least on the development of new enterprises and local systems of enterprises of the knowledge economy, enhancing the network of universities which is fitted into the South and a network of partnerships with universities and Italian and European research centers.

You can not give up this goal neither at national level, unless you want a reduction in income, nor in the South if you do not want better educated and intellectually rich young people increasingly fleeing, depriving the region of the main resource for its progress.

Emigration from the South, essentially blocked since 1974, from the beginning of the second millennium has recovered and is intensifying. “Between 2001 and 2014 they have migrated from the South to the North-Centre over 1,667,000 people, compared with a return of 923 thousand people, with a net migration of 744,000 units. 70% of this loss of population, 526,000 units, concerned the youth component, of which just under 40% (205,000) graduates”. (SVIMEZ, 2015) With the resumption of emigration, together with the natural negative balance since time, the South risks desertification.

4. Assumptions and arguments in support of the above political lines.

For monetary union to be sustainable, the economic convergence between the member countries is fundamental and the convergence needs, if you don't like a reduction of the GDP of central countries, the growth of peripheral countries.

“Since the Maastricht criteria were introduced in 1992, the spread between GDP per capita (in purchasing power parity) of the countries of the core and the periphery narrowed... However, this convergence, which never consolidated, started to reverse with the onset of the global financial crisis of 2008...

In short, the convergence occurring between peripheral and core countries over the last few decades has been very limited. Moreover, the convergence that has occurred has been due to higher growth in labour and capital factors in the periphery, making this improvement short-lived. At the end of the day, productivity must increase more in the periphery than in the core in order to achieve durable convergence between countries. Translated into concrete actions, those countries lagging behind must improve the efficiency of their economies by adopting the institutions, technologies and production methods of the advanced countries and must also make more use of the advantage of the economies of scale offered by the single market. Total factor productivity is the key element that determines long-term growth. Only by increasing this productivity in the periphery will convergence between countries be stronger and more sustainable”(SVIMEZ, 2015).

Well, convergence and monetary union need an intensive growth of peripheries , that is of both their GDP and their productivity and competitiveness. They need new policies by EU, by peripheral States of Eurozone and by their peripheral regions, as announced above.

In fact, just some liberists - the most obtuse and ideologised - can think about dealing with the depression of some Eurozone peripheries without a stronger public leverage and even that the timid resumption of growth in the core countries is sufficient to promote growth and convergence of the peripheral ones, maintaining the current policies at EU and national level, from the ordinary austerity to industrial and regional. As claimed by many other economists - although the media did not spread much their arguments and opinions - are indispensable important public investments. The financial resources made available by Europe 2020 strategy are thought generally insufficient and especially poor are capital investments needed for intensive growth of the economy of the European peripheries and Europe.

As of the current constraints of the fiscal compact - a deal that in principle it is certainly important - it is very difficult, if not impossible, for countries such as Italy find

financial resources for public investments necessary to sustain the recovery and development the South and then the entire national economy. Apart from the request of a certain easing of these constraints, which me, public financing of growth of the South can and must find other channels (v. Cappellin et al., 2014; Pianta, 2014). Just to begin, an important contribution should be given by the European Union as compensation for competitive disadvantages that Italy and especially the South are suffering as a result of the aggravation of the disparities in 2004 with the entry of Eastern

European countries, which enjoy tax much more advantageous, a lower cost of labour and the further competitive leverage given from any devaluation of its currency, in addition to the EU structural funds. These asymmetries are certainly the main competitive advantage that enables the growth and convergence of these European peripheries, but meanwhile heavily penalize some other peripheries.

According to Sterlacchini (2014), Europe 2020 strategy was a definite improvement on the “previous (failed) Lisbon strategy by establishing, for example, a small number of targets in support of growth, employment, environment and social inclusion. Among them, the so-called "industrial compact" aims to reverse the decline of the manufacturing sector reporting, in 2020, his weight to 20% of European GDP (currently at 16%)”. However, besides the fact that for this purpose "the financial resources in the field appear totally inadequate ..., the emphasis on quantitative target is likely to overshadow the ways in which you can pursue."

While it is for the nation states and regions to define these methods, according to their vocations and potential, it would be desirable to introduce measures that discourage the adoption of an industrial policy of "low profile", based on price competitiveness, which is definitely a loser for the advanced economies of Europe. Unless you want to reduce wages, consumption and income, these countries need to focus on policies of "high profile", that privilege research, innovation, product quality (see: Figure1) having as targets growth productivity, competitiveness and quality of life (Adamo, 2003).

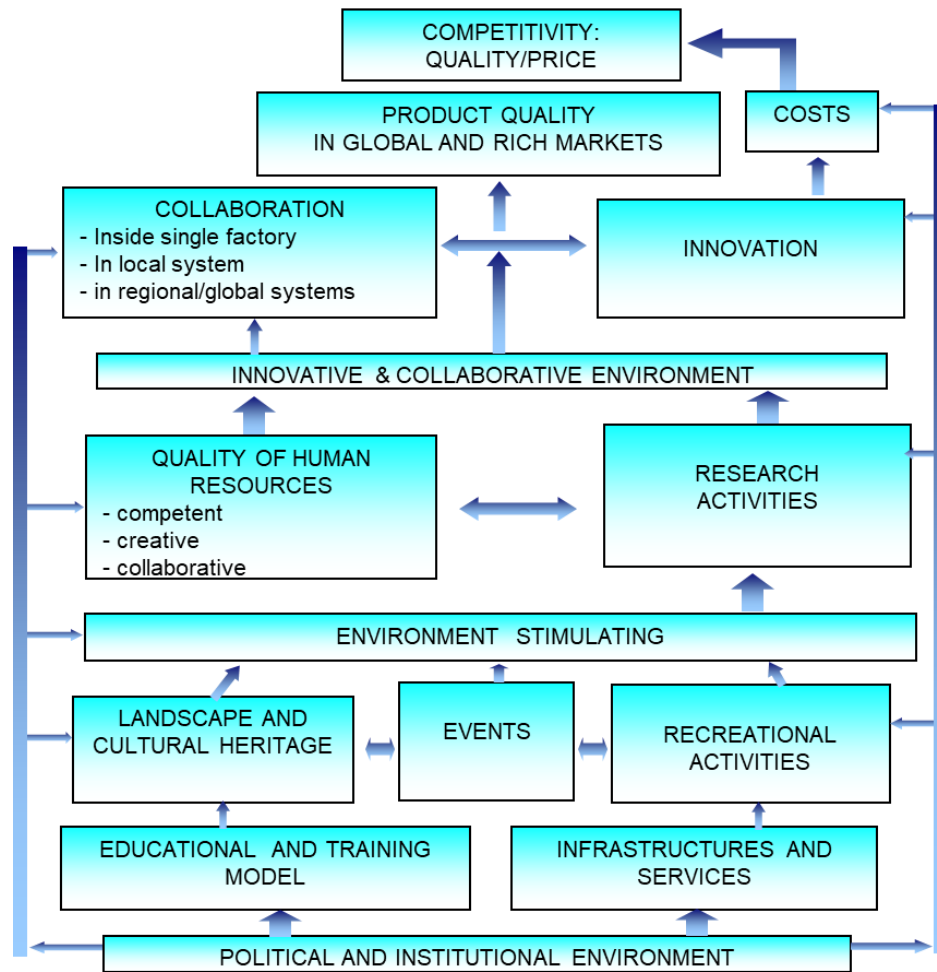


Figure 1: Global competition and local environment values

In fact, only few European countries have adopted effective measures of industrial policy to enable it to compete with large economies, such as those of the United States, Japan, Canada, and that address the growing competition from emerging countries (BRICS). Overall, Europe's lower growth compared with the United States is, at least partly, due to a lower growth of investment in IT capital, both in core and peripheral countries of the euro area. "Between 2009 and 2013, public investment fell by 20% in real terms in the EU, as they grew substantially in the United States" (Focus Economics). "Considering the pre-crisis period, Buiges (2011) distinguished the major European countries which have increased or decreased their competitiveness with respect to the emerging economies. Among the first, there are Germany, Austria, Sweden and Finland; among the latter France, UK, Spain and Italy. The countries in the first group reported wages above the EU average, they invest more resources in R&D and support with higher subsidies environmental protection, energy conservation and renewable sources. Italy did not follow this path (Sterlacchini, 2014), nor has it changed direction during the recession. If you don't consider the mere declarations of political will of the last two years, the Italian State seems to have given up on pursuing the policy of high profile necessary, for the South, Italy and Europe. Suffice it to say that in the intensity of spending on R&D to GDP, Italy's objective for 2020 is 1.53%, i.e. a percentage slightly higher than that recorded in 2008 (1.2%). If the 3% target set

for the whole EU would be unrealistic, such a low target by Italy constitutes a waiver to production growth and to be a competitive economy in the world market, and at the same time increase its gap in the Eurozone and jeopardize its monetary union.

To understand the importance and the need to increase public investment, as well as private, for a policy of growth and particularly growth in the “Mezzogiorno” (South) is enough to recall that both the national and regional policies and the policy of the European Union structural funds, while with their many shortcomings and even errors, led to a huge advance in these regions: a great progress in living conditions, the rise of a widespread entrepreneurship, still represented mainly by micro-enterprises, but also from some interesting companies. This despite the difficulties of penetration of capitalist enterprise in this environment where traditional social relations of production were opposed and still oppose resistance to be replaced.

If in the past some actions of industrial policy, as well as of development policy for the South, have not yielded the expected results, not for this one policy should be eliminated. Rather we must carefully evaluate strategies, actions, formality and way of implementation; so, by understanding the reasons for failures and successes, we should change policies. The failures then are not necessarily due to an inherent inability of public administration, as claimed by the supporters of a utopian Market without State. If we look to the experience of the Italian Mezzogiorno and industrial policy, many failures are due to the behavior of private companies, although the responsibility remains of the State, as responsible for funding and evaluation of projects. The government, in any case, can be reformed - and when necessary it must be - in order to have public managers even more responsible than private ones, since good management should be in their own interest and in the public interest.

Let me be clear, however, that the lack of convergence and the inequality of the South, as for other European countries with economies dualist, does not mean that state intervention has not produced, along with the mechanisms of the market growth, a big improvement in conditions of life. It must now be an additional effort, national and EU as well as local, to increase its production structure and especially its productivity and competitiveness, in the interests of all of Italy and the strengthening of the European Union.

A confirmation of the importance of public investment in this regard is the comparison of the southern economy with that of the Centre-North in recent years. The greatest difficulties of the South derive not only, as mentioned, from its less resilience to the recent recession, from the tax dumping and generally its competitive disadvantages compared to Eastern Europe, but also largely from the much smaller public investment, as rightly highlighted by the last report SVIMEZ (2015). "While between 2000 and 2007, the level of productivity in the manufacturing sector in South stood at above 70% of that of the more developed regions of the country, since 2008 it has been gradually reduced, and stood around 58% in 2014. Between 2008 and 2013, while the advantages granted to firms in the Centre-North... decreased by -17% (from 3.2 to 2.6 billions euro), those intended for the South fell by -76% (from 5.5 to 1.3 billion euro)". In the pre-crisis period 2001-2007 the South had held almost the same rate of industrial growth of the rest of Italy (+ 5.9% against + 7.5% of the central and northern regions). In the seven years 2008-2014, the southern manufacturing sector, already not very

present in the economy of the South and in difficulty due to the increased impact of globalization on their production, showed a fall of 34.8%, more than double the amount of in the Centre-North, equal to -13.7%. For comparison, in the same period the cumulative decline of the manufacturing sector was -3.9% in the Eurozone and by 3.2% for the entire European Union.

Finally, I have to clarify in the case of Italy, unlike perhaps in other dualist countries of late capitalism, why a specific regional policy for the growth of peripheral regions is an absolute need and therefore it is necessary to avoid the risk of generalizing the positive direct correlation between national growth and regional convergence, and thus of its political implications. This risk derives from the possible influence of the findings of this positive correlation in several countries and recently confirmed in some Spain studies (De la Fuente, 2004; Barrios and Strobl, 2005). These studies certainly “fit well with the original predictions of Kuznets (1955) as well as with a model à la Tamura (1996) and Lucas (2000) where the transition dynamics of regional economies towards their steady state level of income can generate such a curve and where spillovers play a central role in transmitting growth and technological progress across region .. De la Fuente (2004), estimates that, in the case of Spain, which has largely benefiting from EU aid since the late 1980ies, the allocation structural funds would have provided greater welfare through more concentration on the most dynamic regions in order to favour nation-wide growth” (Barrios e Strobl, 2005).

These findings are probably correct and it may be rational in some country, as in the case of Spain, but the generalisation of a positive correlation between national growth, particularly growth of the nation central areas, and convergence of peripheral regions, is wrong. This generalisation is common to the neoclassic theories of regional development and misleads policy makers, to consider useless public interventions in favour to peripheral regions, or justifies the choices of those who have contrary interests. Leaving aside these interests, the error of generalisation derives from the assumption that territory is just pure space, without environment. This reductive assumption (explicit or pity, often, just implicit) - common to all other theories of regional development by economists - not allow to explain, in the case of Italy, why the convergence process between central and peripheral regions and cities was achieved within Centro-Nord (from 1950s to 1980s) and why, instead, the divergence respect the South or “Mezzogiorno” is still wide.

The difference can not be simply consider as due to the physical distance of the Mezzogiorno from the centres of the Italian and European capitalism, and even less of a perverse lack of goodwill by Northern capitalists. The most important reasons are both in the social and cultural environment of Mezzogiorno, where people remained long time subjects and only in recent times - as showed by growing accusations against corrupts and “Mafiosi” - are becoming citizens. For this socio-cultural obstacle, a relevant role is given to the historical political compromise of Northern and Southern ruling classes: between Northern industrialists and Southern “land lords” who until the middle of XX century were recipients of agrarian rent, after the recipients of urban rent together their representatives who are local politicians - "owners" (controllers) of a package of adhesion cards to a political party and/or collectors of votes - conceding employments, like once the “caporali” (recruiters of day laborers) of the agrarian lords did.

A new European and national policy for “Mezzogiorno”, but also policy for every other regions, have to take seriously into account and face eventual “political deficit” of Local Administrations (Regions and Municipalities) and in particular their capacity and efficiency in spending national and European funds.

At national level, like within each region, is certainly incorrect both simply to wait local initiatives or the execution of projects already funded and to adopt mechanisms that reward the most virtuous administrations. Incapability and inefficiency of spending by local Administrations are part of the local weakness and of the development problems of peripheral regions. While respecting the competences (not sovereignty that belongs to State) of local institutions, the State (as well as Regions toward Municipalities) has first the role to stimulate local bottom up initiatives of development and the implementation of local projects funded. Moreover, it has right and duty to apply the subsidiarity principle, that is to intervene when implementation of a project is late or incorrect, promote local initiatives based on local resources when they do not exist or are poor, coordinate local projects with national development plan. After decades that bottom up development is emphasised, I also have to make clear that bottom up does not exclude top down development and in any case top down monitoring and coordination actions are necessary to create synergies among local initiatives, besides the conditions of their implementation.

5. Conclusion

The current economic situation in Europe and Italy and political trends leave no means to predict a reduction of regional disparities. Indeed, giving the increasing importance of the knowledge economy and the importance of dense locations for knowledge-based industries it leaves open the prospect of an increase in regional disparities.

What is worse, in the Italian case, is the apparent prospect of a growing impoverishment of the South of Italy, to avoid that, it requires industrial and regional policy aforementioned, large public investments in favor of the South must be far greater than those granted on average per year since the creation of the “Cassa per il Mezzogiorno”, that does not seem to be many².

These public investments - compatible with fiscal compact insofar as they allow to increase GDP - should be to attract local entrepreneurial initiative and private

² When compared to the amount of resources committed by other dualist economies, such as Germany, or even just to the huge Italian Statedebt, which certainly is not due to the support of the South and it may be consider even among the causes of the persistence of the gap after decades.

"It has been established that the total expenditure for the extraordinary intervention for the Mezzogiorno, between 1951 and 1998, amounted to 379,229.1 billion lire (calculated in constant values, referred to the final year), of which 108,998.1 represented incentives for private investment; ... at the same time the contributory benefits were equal to 202,420.4 billion lire ". If these figures represent a substantial public commitment by the weak Italian economy, you can resize the criticism to their effects, if one considers the financial resources committed by Germany to try and reduce its great dualism after unification. According to estimations of the German Ministry of Finance, in fact, in the first 10 years after reunification the transfers to the eastern Länder for promoting development and infrastructure, were about 390 billion. This amount is of the same order of magnitude as realized in 50 years for the South, excluding spending on contributory benefits" (Lepore, 2011).

investment from outside, so, they should primarily be aimed at creating necessary conditions for IT and generally productions of high quality, among them a prominent place is the presence of human resources of high quality (skills, creativity and aptitude for collaboration), required by high profile productions; so a significant proportion of public investment will have to be engaged in education and vocational training, as well as in the growth of accessibility (transport and communications) and in scientific and technological research.

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