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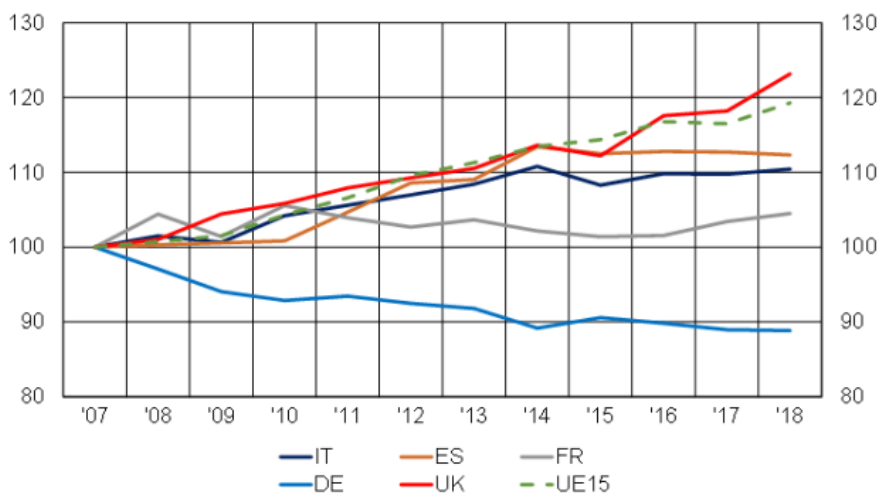
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The issue of the economic underdevelopment of Southern Italy needs special attention in the context of European economic governance. This is because it impacts Italian financial stability, worrying Italy's EU partners. Italy's indebtedness and low growth are one of the main factors preventing the euro area from proceeding to tighter economic and political integration.

In this working paper, we aim to identify the characteristics of the economic underdevelopment of the Southern regions in the context of the literature on the "left-behind" regions of the European Union. Throughout this paper, we will highlight the economic policy implications and the more explicitly political-institutional ones. We identify local administrators and their political sponsors as critical actors that prevent state and European funds from being efficiently used, causing a syndrome of dependency in the population and in the economic actors. The National Plan for Resilience and Recovery proposes a new institutional structure and a more effective channeling of funds.

Policymakers in charge of European economic governance should take lessons from Italy's experience, consider the possibility of more direct and penetrant institutional engagement, scrutinize local administrations limiting "place-based" policies, and instead attach stricter conditionalities to the provision of common funds. Since these conditionalities need to include legislative reforms at the national level, a more open and exacting dialogue with Italy's government and parliament is required.

In a recent policy brief published by the Luiss Institute for Economic Analysis and Policy, we have observed that around a third of the European Union (EU) population resides in regions or provinces where the average income today is lower than it was twenty years ago. This has led to a growing sense of detachment and disassociation from the rest of the European community. In many cases, this has contributed to the weakening of the European project. Over the same period, there has been a significant increase in the use of aggressive and polarizing political language, which has further widened the gap between various social categories. Public discourse has become increasingly antagonistic, both nationally and internationally. Bashing Europe and Brussels has become a common trait for many political actors claiming to represent the local malaise. As a result, the electoral base of Eurosceptic parties has grown and in the upcoming European elections of June 6-9, 2024, populist and anti-European parties are expected to make significant gains.

Fig 1. The variation coefficient of regional GDP per capita (2007 = 100) in selected European countries¹

Italy's situation is unique due to the persistence and extent of its regional issues. One relevant factor distinguishing Italy from the other European countries is that the regions “left behind” are not on the fringes of political power. Rather, it could be argued that they have exerted strong influence on the national political system. This is probably one of the reasons why change has been hard to enforce, and the solutions to the problems have been procrastinated. This has led to political radicalization in the wealthier “not-with-them” regions that feel neglected by the system.

A unique case of (reverse) polarization

The disparity in the economic and social conditions of the regions of Southern Italy compared to the rest of the country is exceptional, both for its persistence and the breadth of the geographical area involved.

Southern per capita income has been declining compared to northern levels since the unification of the Kingdom of Italy in 1861 and, except for a period after WWII, continues to do so. Even the size of the economically backward area has few comparisons in other European countries. The South, or *Mezzogiorno*, refers to all the regions south of Rome, plus the insular regions, corresponding to a third of the total population.²

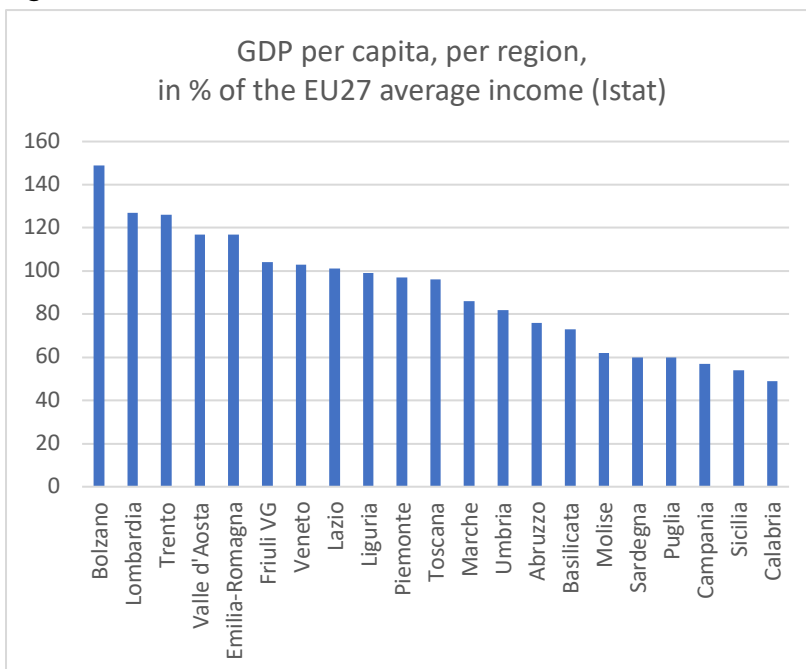
The combination of persistence and population has given the issues of the South national prominence. Economic challenges that stem from regional disparities have thus intertwined with political issues. The “Southern question” has had a significant impact on the political and economic decisions of the entire country since the establishment of the Republic, often dictating the national political choices.

¹ Antonio Accetturo, Giuseppe Albanese e Roberto Torrini: in Banca d'Italia “Il divario Nord-Sud” page 19 - 2022

² ISTAT: censimento 2020: <https://www.istat.it/it/files/2021/12/CENSIMENTO-E-DINAMICA-DEMOGRAFICA-2020.pdf>

Although Italy's case has exceptional persistence and breadth, other European countries experience wider differences in the per capita income between poorer and richer provinces. This is because significant financial and fiscal transfers have attenuated relative poverty in Italy's southern regions and provinces³ (Fig 2). The economic relevance of the state's intervention can be easily understood through a few figures: The southern population accounts for 33.8% of Italy's total, but the southern manufacturing sector makes up only 12% of the national manufacturing sector and the total value-added of the South is 20% of the national total. In the North, 65% of the population (aged between 15 and 64) is employed, while in the South the figure is 45%.⁴ The share of irregular jobs is double in the South compared to the rest of the country. The data on fiscal capacity, i.e., the hypothetical revenue that is obtained by applying a uniform rate at the national level to the local tax base, highlight a gap of approximately 33 percent between the Center-North and the South. Three times more people are receiving state pensions for physical invalidity in the southern region of Calabria than in the central region of Emilia-Romagna. The public administration contributes to one-fourth of the total added value in the South but only to one-seventh in the rest of the country.

Fig 2.



Over the past decades, Italy's sense of solidarity has been tested due to the cost of fiscal transfers from one area to another, either through the accumulation of the country's public debt or an increase in tax collections on citizens of other regions. Inevitably, severe political tensions have emerged. However, what makes Italy unique from a polarization perspective is that the left-behind regions have never been politically radicalized.

³ OECD "Regions and Cities at a Glance 2022" <https://www.oecd-ilibrary.org/sites/14108660-en/1/3/4/2/index.html?itemId=/content/publication/14108660-en&csp=355ee23bb469df35bc8b9adb40cbfd3d&itemIGO=oecd&itemContentType=book> Fig. 4.6

⁴ Banca d'Italia "Il divario Nord-Sud" - https://www.bancaditalia.it/pubblicazioni/collana-seminari-convegni/2022-0025/n-25_mezzogiorno.pdf

On the contrary, they have exerted a strong influence on the national agenda by aligning with the governing parties.

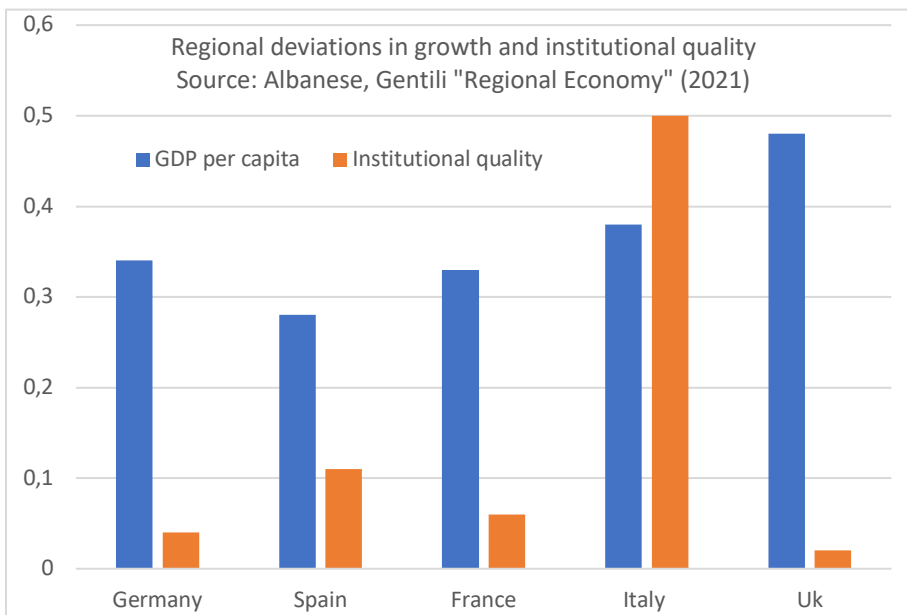
Interestingly, until 2018, political polarization in Italy came from advanced regions. This is what may be called “reverse polarization”. In the 1980s-90s, a new party called the Northern League (Lega Nord) emerged, demanding the secession of the North. Later, Berlusconi’s Forza Italia called for lower taxes while sowing the first anti-European sentiments. In recent times, since 2018, political polarization has been geographically divided, with the northern electorate majority supporting Lega and the Brothers of Italy (Fratelli d’Italia), and the southern electorate majority supporting the Five Star Movement (Movimento Cinque Stelle).

Italy has faced continuous tests in its political stability, financial stability, and even in its national unity. The “Southern question” has played a significant role in the country’s economic and civil development, to the extent that it has become a “national question” and even a “European” one since other EU countries are reluctant to share common resources and policies with Italy due to its fiscal weakness.

Institutions

When the disparity in economic conditions persists in a country for over 160 years, apparently without a solution, it begs the question of whether an entanglement of economic, cultural, and institutional problems has grown too intricately to unravel. This entanglement calls into question the effectiveness of place-based policies, such as large financial transfers with both economic and social goals entrusted to the local administrations of the interested areas. Unfortunately, based on Italy’s experience, there appears to be a correlation between the backwardness of the economy and the lack of quality⁵ of the regional political-administrative services. Fig 3 shows Italy’s unparalleled regional variability in institutional quality. In these cases, decentralizing allocative powers to the regional level (place-based) can aggravate the existing problems.

⁵ Albanese G. ed E. Gentili: “Indicatori territoriali di qualità delle istituzioni: un aggiornamento”. *Regional economy*, 5(Q3), 43-58. (2021).

Fig 3.

It can be useful to consider the institutional structure in addition to the economic and cultural factors. Article 5 of the Italian Constitution establishes that "the Republic, one and indivisible, recognizes and promotes local autonomies; implements the widest administrative decentralization in services that depend on the state; adapts the principles and methods of its legislation to the needs of autonomy and decentralization." However, the issue of administrative decentralization has remained controversial to this day. Ever since the Republic was established, there has been a heated political and institutional debate on the persistent economic divergence and declining sense of sustainability of the situation.

The Italian regions "with ordinary statute" (distinct from those with "autonomous statute") were established in the 1970s. In the 1990s, the responsibilities entrusted to their administrations increased. In 1999, a constitutional law provided for the direct election of the presidents of the regions, giving them a political personality that has grown year after year. In 2000, the modification of "Title V" of the Constitution, which assigns broader powers to the regions, was approved through a popular referendum. After the failed referendum of December 2016, which would have limited regional autonomies, a trend known as "regional sovereignty"⁶ prevailed. The empowerment of regions found strong support in the North after the Northern League's "preaching of the 1990s,"⁷ which promoted the secession of the North from the rest of the country. At the same time, the strengthening of the role of the regions elicited in the South the desire to secure additional public resources. Finally, at the request of three regions (Lombardy, Veneto, and Emilia-Romagna), a parliamentary initiative for the so-called "differentiated autonomy" is now underway. The legal innovation would attribute broad competencies to the individual region, weakening national legislative unity in areas such as education, health, infrastructure, and industrial policies. Moreover, if the reform is approved, a larger share of the residents' taxes would be withheld in each region.

⁶ G. Viesti: "Contro la secessione dei ricchi" – Editori Laterza (Bari) 2023

⁷ G. Viesti: *ibidem*

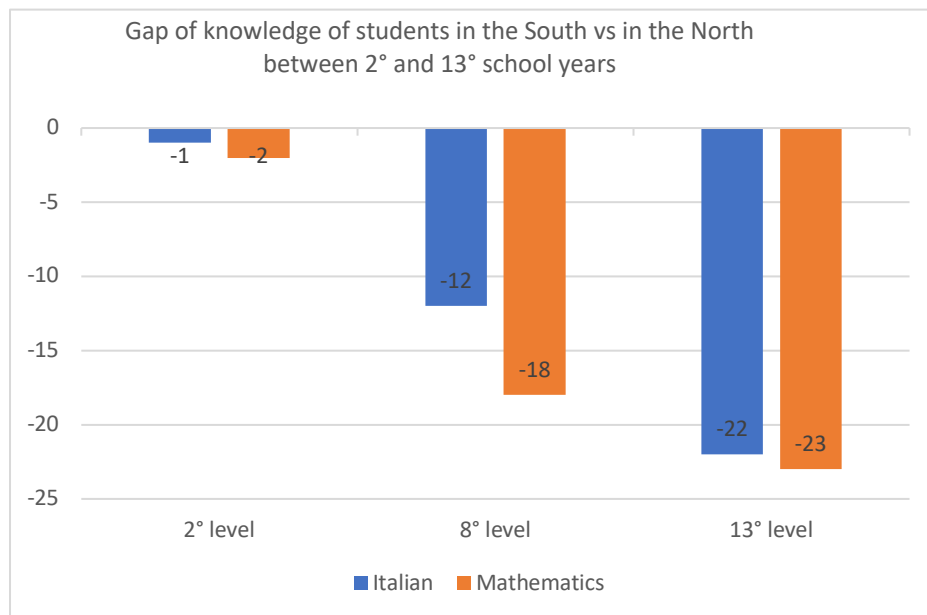
In her inaugural declaration as head of government on October 25, 2022, Giorgia Meloni stated that her coalition, where the League is the second largest party, supports the reform. However, Meloni's party, Fratelli d'Italia, believes in a highly centralized state. Therefore, Meloni framed the approval of the Lega's pet project of "differentiated autonomy" only in the context of a reform that would make Italy a presidential Republic. If the legislative agenda enters into force, stitching together regional decentralization and presidential centralization, it will revolutionize the entire framework of Italian institutions.

The focus on institutional quality is crucial because institutions can be defined as the structure that shapes the incentives of economic and social actors. In turn, institutions are influenced and shaped by the choices of the individuals. Over time, citizens are expected to realize that short-term personal interests, non-cooperative behaviors such as tax evasion, failure to respect public order, and dependence on external aid are counterproductive in the long run. This process of institutional maturation corresponds to what Friedrich von Hayek referred to as an evolution of collective learning and which Douglas North believed was passed down from generation to generation through laws, informal norms, and codes of behavior until it formed a social culture.

The lack of improvement in Italy's economic and social conditions led to questions about the cultural specificity of the country's southern society. It is important to note that over one or two generations many millions of southern migrants have successfully integrated into other regions and countries. Consequently, one must flatly dismiss the frequent temptation to identify an anthropological difference in the civilization of Southern Italy. However, cultural factors do play a role in the lack of social capital in the southern regions. Social capital has nothing to do with the experience of personal warmth and a colorful lifestyle that is widely acknowledged in Italy's southern society. Social capital refers to the quality of relationships between unrelated people, respect for norms and rules, the sense of community, and general interests.

The belief that the lack of social capital is the cause of the backwardness of the South has been the subject of abundant research.⁸ Some reconstitute the cause to the lack of development of *Comuni*, or "town-level civilization", which in the rest of Italy has guaranteed a developed structure of civil rights since the Renaissance. In the absence of civic culture, the public function was carried out by the administration of the Bourbon Kingdom, centralized and notoriously inefficient, conniving with the aristocracy owning large rural estates (*latifondi*), which were often left underdeveloped. While in other European nations centralization was a factor of progress for the entire state, in Italy centralization occurred on a macro-regional basis and the poor quality of the Bourbon administration aggravated the backwardness. For example, mass education was not in the interest of the foreign absolutist power. A clear and current symptom of the continuing lack of social capital is the poor functioning of the education system even today, evidenced by the lower level of scholastic preparation of students in the South compared to their peers in the North (Fig 4).

⁸ Robert D. Putnam, *La tradizione civica nelle regioni italiane*, with R. Leonardi e R.Y. Nanetti, Milano, Mondadori, 1993. Putnam famously adopted the definition of amoral familism.

Fig 4 - Divarication in educational quality grows from the second grade to the end of high school⁹

An alternative explanation for the South's historical underdevelopment is that the dominant class, which may be described as "extractive" according to the definition of Acemoglu and Robinson,¹⁰ was driven by greed or rapacity. From the Unification of Italy to the end of fascism, landowners and their political-administrative representatives formed the dominant class. This led to the rise of large-scale criminal organizations which continue to be relevant to this day. In recent times, the extractive ruling class has been associated with the administrative bureaucracy, part of the liberal and notary professions, public service providers connected to the public administration, and significant segments of the regional political class. Cases of collusion with criminal organizations by the ruling class¹¹ and the general populace are also well-documented.¹²

The third explanation, popular in the South, claims that Italian and European development policies have not been sufficient in terms of quantity. This observation is made especially with regard to the regions ("*statuto speciale*") on the northern borders of Italy, which have been generously financed to prevent the emergence of secessionist temptations among the local population. According to *Mezzogiorno* scholar Gianfranco Viesti,¹³ this issue is especially relevant in light of greater differentiation of regional autonomies (including fiscal differentiations). However, this claim overlooks the fact that the funds allocated to the southern regions, in particular the huge ones of the European cohesion policy, are not spent effectively, nor are the planned

⁹ Invalsi data, elaborated by Bovini and Sestito as in Banca d'Italia, Quaderni di economia e finanza N. 645 (2021).

¹⁰ D. Acemoglu, J.A. Robinson "Why Nations Fail" (2013) – Profile Books

¹¹ Each year a dozen of town administrations are revoked because of mafia infiltration. In 2022 the number was double according to the Ministry of Interior: <https://www.interno.gov.it/it/notizie/enti-sciolti-mafia-presentata-relazione-2022-ministro-dellinterno-sulle-attivita-commissioni#:~:text=Nel%202022%20sono%20stati%2036,popolazione%20complessiva%20di%20747.159%20abitanti>. In

March 2024, Bari's Mayor contended that he had to rule a city in which 14 different criminal organizations were active.

¹² In 2023, Matteo Messina Denaro, suspected to be the head of Cosa Nostra, was arrested after thirty years spent on the run, hiding among the citizens of the province of Trapani.

¹³ G. Viesti, *ibidem*

investments completed. This issue seems to refer to previous explanations on the lack of quality of local administrations and the lack of civic awareness of the misuse of public resources.

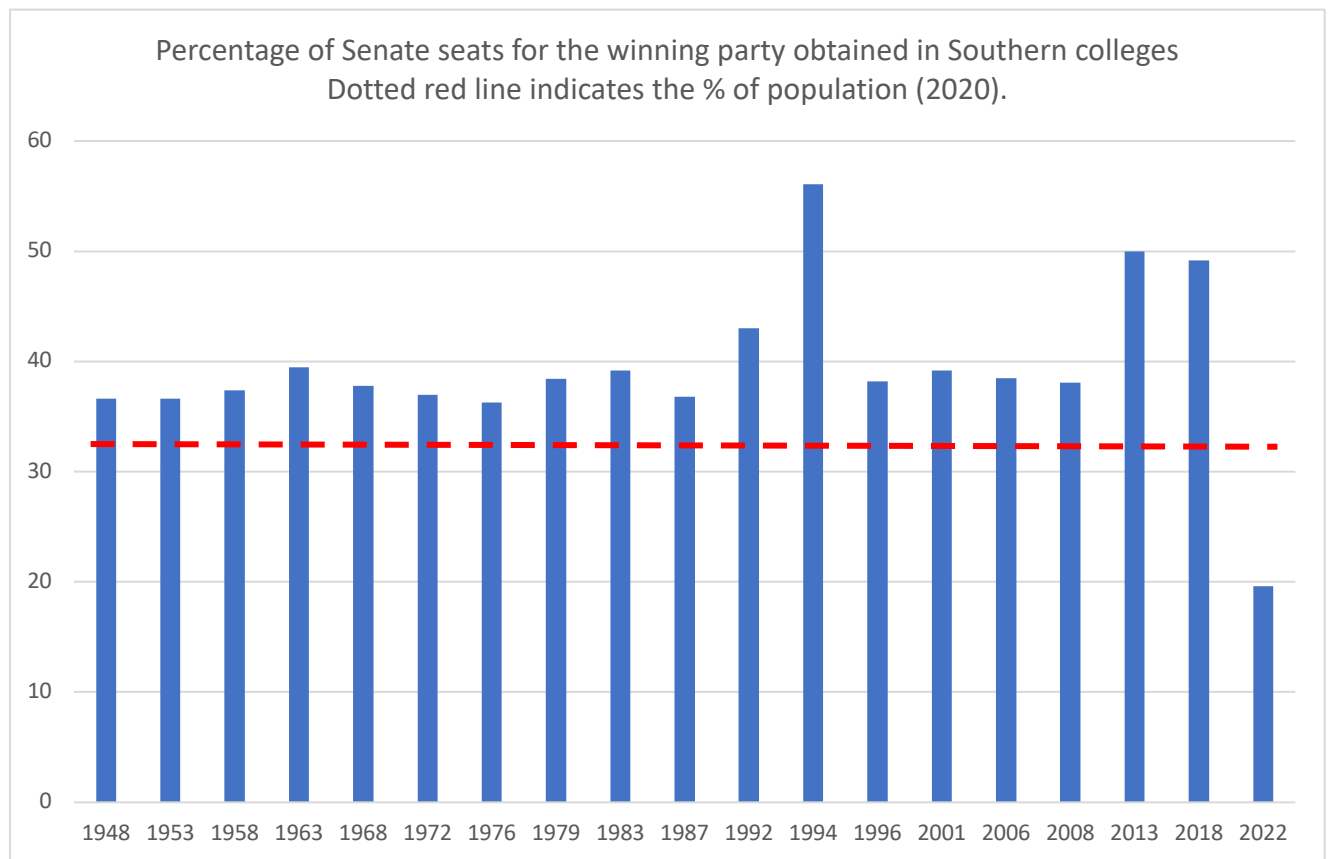
The last explanation, connecting the previous ones, is expressed by Claudio De Vincenti,¹⁴ former Minister for Territorial Cohesion and the South from 2016 to 2018, who focuses on the character of the social relations of production. The social structure of the South was centered on pre-modern relationships between landowners, an extractive bourgeoisie, and masses of poor laborers. The latter were often employed "by the day", and were unaware of individual and collective rights. The Southern backwardness could be a consequence of this centuries-old structure of social relations through "the continuation, even after the Unification of Italy, of networks of clientelist relations, the lack of respect for the value of norms, the refuge in the defense of particular interests in deficiency of adequate state institutions to act as a guarantee for all citizens."¹⁵ The usefulness of this last explanation is in identifying a path of public intervention: facilitating the emergence of private entrepreneurial activities and formalized labor relationships, skipping the intermediation of extractive bureaucracies, and allowing personal relationships typical of liberal democracies to prevail, with a functioning market economy and the acknowledged value and function of individual and collective rights.

The question is whether the development of social relations can occur without changing the role of public institutions and local administrations. As mentioned before, economic interests and institutions are connected. Until 2022, the majority of the southern electorate consistently supported the political party that won the most seats in the general elections, thus determining the national outcome. This resulted in the electorate aligning itself with the party that had greater decision-making power in allocating resources to the South, creating a loop of subsidies, consensus, and more subsidies. This may explain why Italy has accumulated an excessive amount of public debt and why its political leaders have struggled to reverse the course of public finance.

In the 2018 elections, an interesting trend was observed where the southern vote was significantly different from the vote in the rest of the country (as shown in Fig 8). However, despite this difference, the southern electorate continued to vote for the party that would get the relative majority at the national level. The Five Star Movement, led by Giuseppe Conte and Luigi Di Maio, who were known as "men of the South," campaigned on objectives that resonated with the southern electorate, resulting in significant success in the region. In fact, M5S became the most voted party nationwide. This pattern of voting for the majority party at the national level is similar to what has been observed for decades after WWII, when the Christian Democrats, a party known for subsidization, enjoyed relative majority support (Fig 5).

¹⁴ Dialogue with the author

¹⁵ G. Coco – C. De Vincenti, *ibidem*

Fig 5.

Author's elaborations. Data source: "Eligendo" – Ministero dell'Interno – Direzione centrale per i servizi elettorali.

In 2022, the traditional voting pattern in Italy was disrupted due to a significant number of southern voters abstaining from voting. This abstention was also observed throughout the rest of the country. As a result, a political party with post-fascist roots and a *sovereignist* ideology emerged victorious, heralding an unprecedented political era for Italy. The trend of abstentionism was further confirmed in 2024 during the regional elections in Sardinia and Abruzzo.

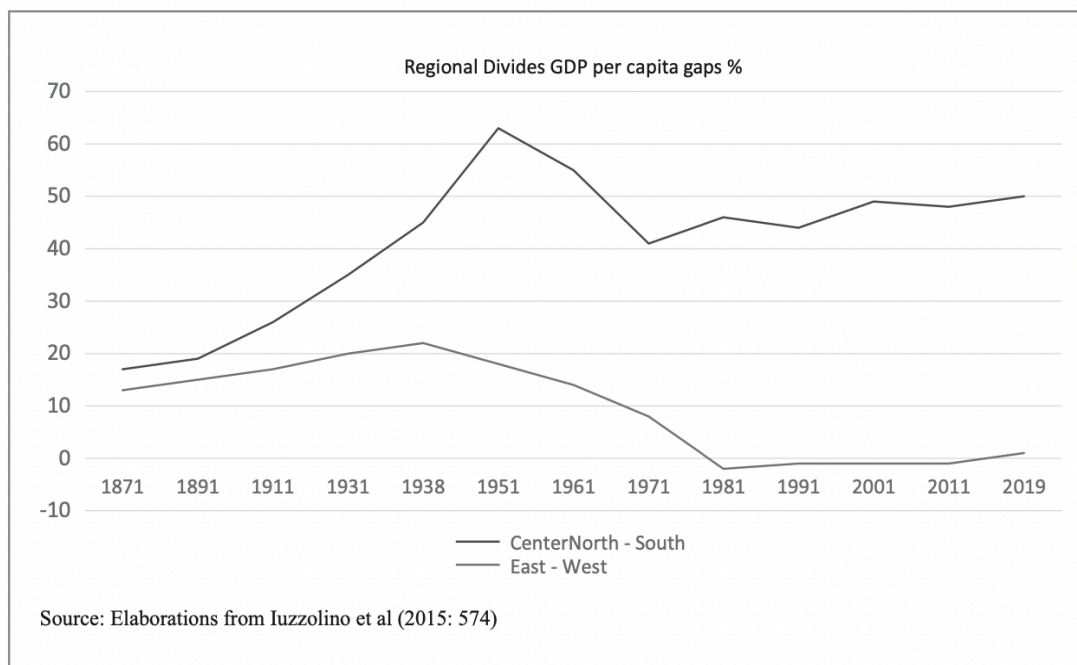
Southern backwardness: historical roots

During the Unification of the Kingdom of Italy and the first two decades that followed, per capita income in the southern regions was relatively close to that of the central-northern regions. This was because agriculture was the predominant activity throughout the country, and productivity levels were uniform. At that time, the network of mobility infrastructures that would later dictate the agglomeration of production activities around the northern industrial triangle (Turin, Genoa, Milan) was not yet well developed. The southern regions had had very populous urban centers which acted as agglomerations of trade linked to rural activities until unification.

However, despite similar economic conditions, social conditions were not the same in the North and South. Over 50% of the southern population lived in poverty, compared to 37% of the central-northern population. Life expectancy in the South was more than two years lower than the lowest life expectancy (around 30 years) in the rest of the country. Public order was also degraded, compared to the Center-North. The population in the South had a much lower literacy level, which was only one-third of the literacy level of the rest of the country. Structural obstacles also hindered the South from engaging in development. This was due to various reasons, such as the limited availability of natural resources, especially energy-generating water flows and the geographical distance from the industrializing European markets.

As was noted by Stefano Fenoaltea,¹⁶ at the time of unification, the disparity between the North and the South was very similar in size to that between the West and the East of the new Kingdom (Fig 6).¹⁷ Over the following decades, however, the distance between West and East was completely leveled out and recently even reversed, while the longitudinal one has been constantly growing, except for the years between 1951 and 1973 when the entire country, and in particular the southern regions, benefited from a phase of exceptional economic growth.

Fig 6.



In the decades of the economic miracle, growth in the southern regions averaged 5-6% per year. The gap between per capita income in the southern regions and that in the rest of the country narrowed from 53% in 1951 to 33% in 1971 due to productivity gains and the doubling of industrial activity. Public industry, supported by massive state interventions, represented the driver of convergence. Industrial development accentuated social uniformity between the South and the North, demonstrated by the equalization of life expectancy. The public intervention, in which both the Cassa per il Mezzogiorno, established in 1950, and the IRI (Industrial

¹⁶ S. Fenoaltea: "I due fallimenti della storia pre-economica: il periodo post-unitario" – Rivista di politica economica 97 (2007).

¹⁷ C. Bastasin – G. Toniolo: "The Rise and Fall of the Italian Economy" – Cambridge University Press (2023).

Reconstruction Institute) played a fundamental role, was based on the creation of "development poles" in which state enterprises had to concentrate at least 60% of their total investments. The result was that in 1971, the investment rate in the South was almost double that of the rest of the country. In these years, the Cassa and IRI created an infrastructural network - railways, roads, transport, electrification, methane, and water systems - like it had never existed in the South. However, the development strategy centered on large state production plants was successful only marginally in expanding to the surrounding area by stimulating private economic activities. The limited transport infrastructure constrained the economic growth of the new enterprises, which did not take advantage of the population's growing demand for consumption. The latter, however, was satisfied by the offer of products from northern companies.

In the decades following 1970, the gap between the incomes of the southern regions and that of the rest of the country grew significantly again. The reasons are manifold: from the rigidity of the labor market regulated at the national level to the decline in productivity of public plants, up to the reduction in the volume and rate of investments, which at the beginning of the 1990s returned - as in the rest of the country - to the levels of the beginning of the 1950s. However, one of the most relevant reasons was the poor management of the ruling classes and local administrations. The Cassa per il Mezzogiorno was entrusted with tasks of political convenience aimed at addressing employment and social objectives disconnected from economic criteria. The state apparatus returned to being a welfare machine, interrupting industrialization. Social relations returned to being characterized by social hand-outs, clientelism, personal interests in conflict with general ones, and concentration of power in political intermediaries.

The phenomenon also extended to national policies, connoted by patronage rather than social support. Disability pensions exceeded old age pensions in number, and excessive job creation exploded in recognizably inefficient public administrations. Welfare spending ended up representing an essential source of income for many families in the South, creating conditions of dependence.

In the same period, the regions "with ordinary statute" were constituted, and the state transferred increasing competencies to them. With this decentralization process, the influence of the local extractive classes increased further. The state limited itself to distributing resources to regional administrations that used them poorly or not at all, favoring rent-seeking in the public and private tertiary sector linked directly to the use of public resources. Alongside a nascent layer of autonomous businesses, which had drawn on the management culture brought by the industrial poles, a whole galaxy of low-quality public services supported by the distorted use of public resources and the political and personal interests of the class expanded, hand in hand with the power of local politicians.

The crisis of the 1990s

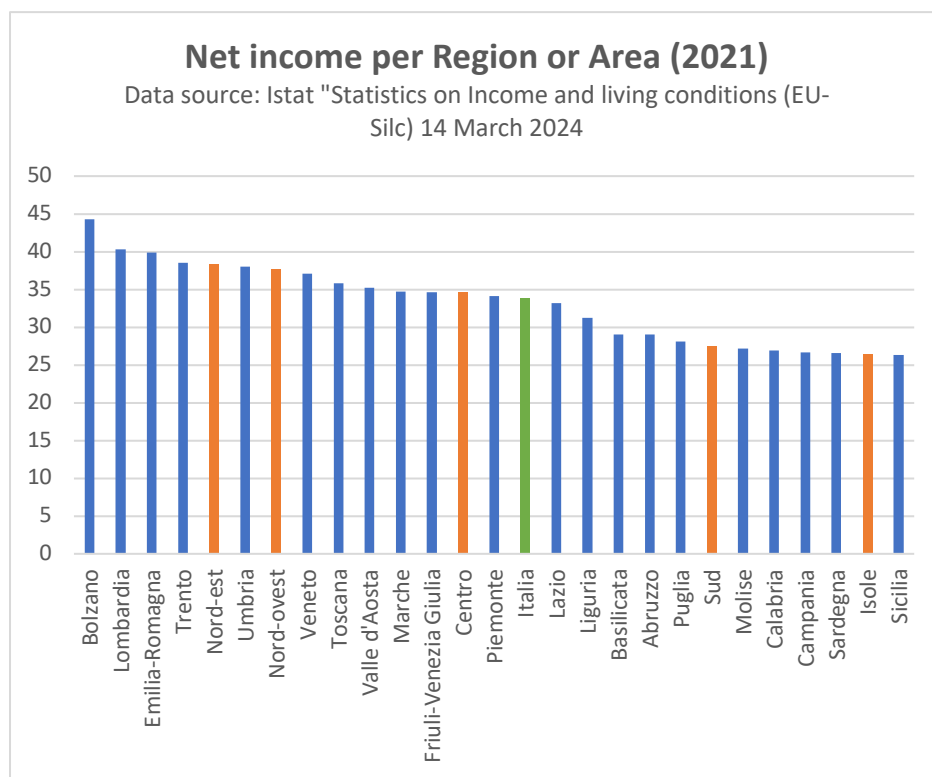
In Italian economic history, the beginning of the 1990s was a watershed. Since then, the country's productivity, which in 1995 exceeded the American level, began to decline, and economic growth turned into decades-long stagnation. The reasons behind this disruptive phenomenon, which has no comparison in the rest of the advanced economies, were the coincidence of multiple crises around 1992: a severe public finance crisis, the

exclusion of the lira from the European monetary system, the dramatic loss of credibility of the political system following investigations into corruption, the failure of industrial and cooperative groups controlled by the parties, and finally, the tragic mafia attacks on the judges who were fighting organized crime in Sicily and other southern regions.

In the following years, restrictive fiscal policies and the cancellation of subsidies in conflict with European legislation burdened the southern regions, which were highly dependent on state aid. Between 1992 and 1993, the Cassa per il Mezzogiorno was liquidated, having exhausted the driving force it had had for twenty years. Between 1991 and 2006, manufacturing employment in the South halved.

The decline of the southern regions almost entirely explains that of the entire country in international comparisons. However, other forms of support, "place-based", both national and European, have preserved the income level of the South compared to that in the rest of the country (Fig 8), preventing the gap from opening to an irrecoverable extent. Capital spending in the southern regions by the state remained higher than in the other regions.

Fig 7.



<http://dati.istat.it/Index.aspx?QueryId=22919>

However, the quantity of available resources is not a telling indicator. Often, public spending was inefficiently used due to the mediocre quality of local public administrations. The result was that fundamental services such as health, education, fiscal and financial management, and public order remained of a much lower quality than in the rest of the country.

Furthermore, institutional degradation has reproduced itself through patronage and political and personal networks aimed at preserving the status quo. Coherently, political parties focused their programs on demanding further transfers and subsidies to the state.

According to Coco and De Vincenti, “Place-based rhetoric has ended up, beyond its intentions, distributing public resources in directions other than those necessary to trigger the development processes that the South needs.” According to some studies, the “Territorial Pacts” of the early 2000s, which involved a very laborious negotiation between the state and local stakeholders, resulted in the distribution of money to subjects capable of negotiating with the Central Administration. The same fate has befallen European cohesion policies, which Italy is both a major beneficiary of and the country where such policies have had the least effect, again due to the poor local institutional quality.

More recently, initiatives that aimed to bypass local political intermediation - including the “Pacts for the South” of the Gentiloni government (2016-2018), tax credits for investments in the South, in combination with national policies to incentivize advanced industry - have proven to be more effective. In the South, several companies are growing in the food, clothing, automotive, aerospace, and pharmaceutical sectors. This phenomenon gives rise to hope for the establishment of modern social relations. If these encouraging signs persist, Southern Italy might record higher-than-average growth rates in the future, meaning it has the potential to “catch up”. Even traditional sectors, like tourism and hospitality, apparently low-hanging fruits, have large margins of improvement, although their future development is related to overcoming the abovementioned lack of social capital. A critical step, regularly underscored by Italy’s Central Bank, is the contrast to what has been defined as the “triangle of illegality”,¹⁸ consisting of tax evasion, corruption, crime, factors that reward opaque businesses, and the use of illegal labor, hindering the success of the best entrepreneurial initiatives.¹⁹

The cultural clash between private activity, sometimes linked to companies already active in the North, and activities dependent on resources intermediated by politics is decisive for the development of the South. From a political point of view, it is a clash between those who encourage bottom-up market initiatives and those who prefer having public assistance flow from the top to the bottom.

Political polarization

The South’s economy has long been reliant on state transfers and investments, which has had consequences for society and consensus building. This has had repercussions on national public life and politics. In the post-war period, the Christian Democrats were the dominant political party and gained consensus by intermediating public resources and channeling them to voters. They collected an over-proportionate share of votes in the South. This led to the development of patronage and collusive relationships in a context that was historically sensitive to interference from non-state actors, including criminal organizations.

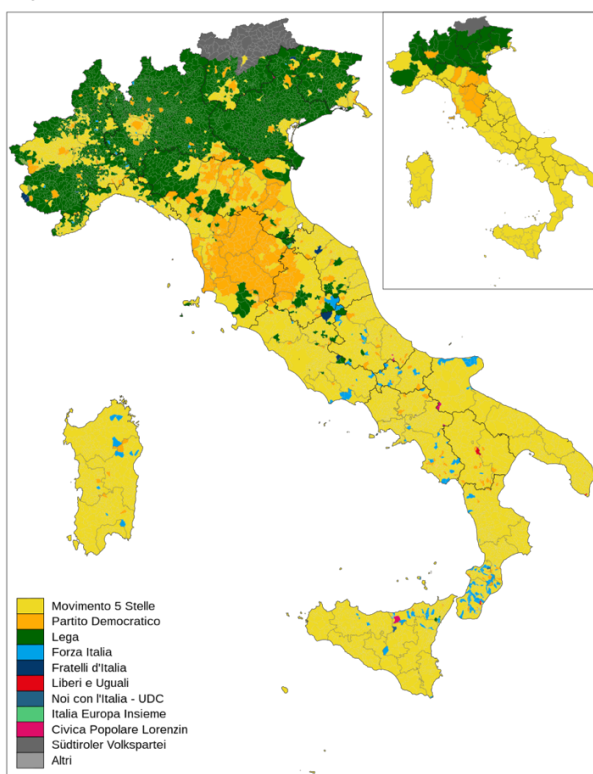
¹⁸ F. Panetta: https://www.bancaditalia.it/pubblicazioni/interventi-direttorio/int-dir-2019/Panetta_21_settembre_2019_Foggia.pdf

¹⁹ Banca d’Italia: “Il divario Nord - Sud” - 2020 - page 8.

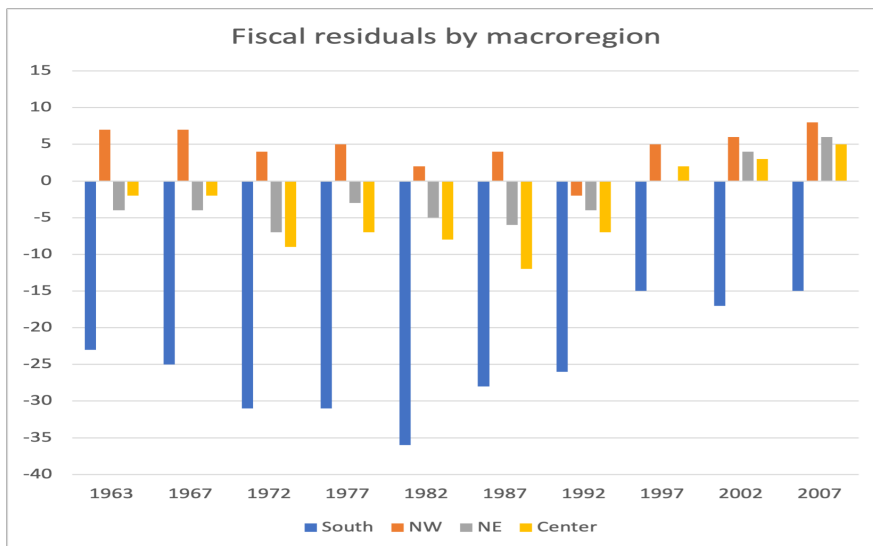
In the 1990s, the risk of unsustainability of public finance and the thinning out of financial subsidies disrupted the old party system and led to regional revindications through new political formations, both in the North and the South. The most striking case coincides with the populist wave that led to both Brexit and the election of Donald Trump in the United States in 2016. In Italy, the phenomenon peaked in 2018 with the electoral victories of the League in the North and the Five Star Movement (M5S) in the South. Despite being seemingly irreconcilable, the two parties formed a joint government led by Giuseppe Conte.

Fig 8 shows the unprecedented geographical split of the Italian electorate, with the League prevailing in the Center-North and the 5 Star Movement dominant in the South and a good part of the Center.

Fig 8.



The political divide among the electorate was significantly influenced by the impact of the European economic governance rules on Italy's public life. Since the 1990s, countries aspiring to participate in the euro have been required to adhere to fiscal discipline rules that include maintaining a public deficit of no more than 3% of GDP. These rules have transformed the relationship between the state and citizens in countries with high levels of public debt. Consequently, disciplined budgetary policies have become necessary and thus have an impact on the transfer of public funds from the state and between taxpayers of different regions.

Fig 9.

A necessarily arbitrary calculation (Fig 9)²⁰ of the fiscal residuals of each region (i.e., the difference between the tax revenue and the public expenditure that takes place within the borders of the region)²¹ estimates that in the South the deficit-to-GDP ratio until the 1980s was around 30%, ten times higher than the European target. A critical factor behind such a large fiscal deficit is the reduced fiscal loyalty²² of taxpayers compounded by the incapacity of local administrators to collect taxes, especially those that have a local base (real estate or local services). The “tax gap” is testimony to the perverse interrelation between the low quality of public institutions and the incentive structure of the citizens who may be tempted to elect political parties expressing the inefficient tax collector.

To sustain high levels of deficit in the South, the central-northern areas had to run very low primary deficits and, in the north-western regions, even high surpluses. The fiscal disparity led to the exasperation of the northern electorate towards the South, which, justified or not, found expression in the political instances of the early 1990s favoring secession of the North from the country, a policy voiced by the Northern League.

After Italy adopted the euro, fiscal discipline became much more stringent in all regions of the country. In the South, the deficit was halved (to around -15% of GDP in the early 2000s) by cutting public services. In the North, taxpayers had to pay much higher taxes to bring the regional budgets into levels of surpluses that have no comparison around Europe. Northern primary surpluses reached 6-8% of local GDP, while all member states in the EU posted primary deficits, except for Germany, which had a very low average surplus. Producers

²⁰ The estimates in Fig 10 are an aggregation of results drawn from different studies: Buiatti et alia “The origins of the public debt of Italy: Geographically dispersed interests?” *Journal of Policy Modeling* 36 (2014) – but also Galli, E., & Padovano, F. (2005). “Sustainability and determinants of Italian public deficits before and after Maastricht,” CESIFO Working Paper 1391; and Staderini, A., & Vadalà, E. (2009). “Bilancio pubblico e flussi redistributivi interregionali: ricostruzione e analisi dei residui fiscali nelle regioni italiane”. *Banca d’Italia, Mezzogiorno e politiche regionali November 2009*, (pp. 597–621)

²¹ It must be noted that scholars studying the Mezzogiorno, often criticize this indicator because it overlooks several interdependences and retro-effects.

²² Ministero dell’Economia e Finanza 2021 – Rapporto sull’evasione fiscale.

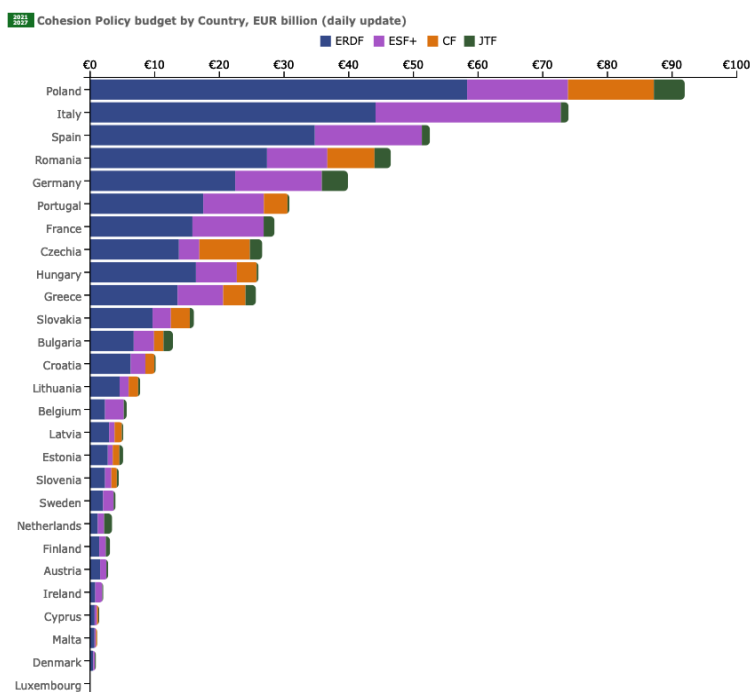
and exporters in Lombardy or Veneto had to pay more taxes and receive fewer services from their state than all their competitors. The political consequence was the emergence of tensions - in different forms, but in all regions - that were no longer only between North and South but also between Italy and Europe, which was the enforcer of the new rules.

Anti-Europeanism came of age at the turn of the century. Hence, the strengthening, after the global and European financial crises, of two formations, the League and the M5S, identifiable with geographically different electorates and instances but united by their anti-European propaganda. The southern electorate complained about the lesser availability of state aid, while the northern electorate criticized the growing tax burden. Both complaints pointed against "Maastricht Europe".

The emergence of anti-European sentiments is all the more surprising given that Italy is still the second country to benefit from European cohesion funds (Fig 10), which are also intended to reduce regional disparities.

However, the internal geographical divisions remained, so much so that in 2014 and 2015 the regional administrations of Lombardy and Veneto - later joined by Emilia-Romagna - called for a referendum in favor of deeper regional differentiation of administrative powers. It was an initiative that resulted in a bill for the "differentiated autonomy" of the regions.

Fig 10.



It is often observed that the M5S party's success, despite not having roots in the northern territory, was due to the central chapter in its electoral program. This chapter consisted of providing a "state income" (reddito di cittadinanza) to poorer citizens. Other factors were probably equally important, starting with its protesting

against Italy's elites and Europe. Europe was a substantial pillar in the political program of the Democratic Party (Partito Democratico) and other center-left parties, which, between 2018 and 2022, lost almost 20% of their votes in the South. During this period of heated internal political clashes, the country found itself in a "populist trap". It was torn between competing populisms, and their harsh rhetoric prevailed over the rational assessment and comparison of their political programs. Fiscal constraints were a constituent part of the rational exercise. Limiting the amount of the available resources, fiscal constraints imposed choices among competing goals.

Populist success was made possible by the absence of fiscal constraints for the first time in three decades. In Spring 2020, fearing the economic repercussions of the pandemic, Europe approved the Recovery and Resilience Facility, an unprecedented financial aid program for Italy (among others) linking the distribution of European financial resources to the implementation at the national level of investments and reforms. The EU also suspended the application of rules of fiscal discipline, thus, between 2020 and 2024, Italy's governments could use public finances disregarding the usual constraints. State aid and welfare provisions allowed all parties to gain consensus by increasing the state's deficit, claiming that the new policies vindicated their anti-European stances. The country's longstanding unresolved problems were addressed by the European program while national politicians indulged in a rhetoric of national victimization. While Italy's non-partisan prime minister Mario Draghi was implementing the reforms agreed with the European institutions, politics could deploy irresponsibly all its rhetorical weapons, transposing at the national level the same rhetoric that was common in the debate about subsidies for the South. Thus, with respect to Europe, revendication took the place of gratitude, and competition of nationalist overtones set in.

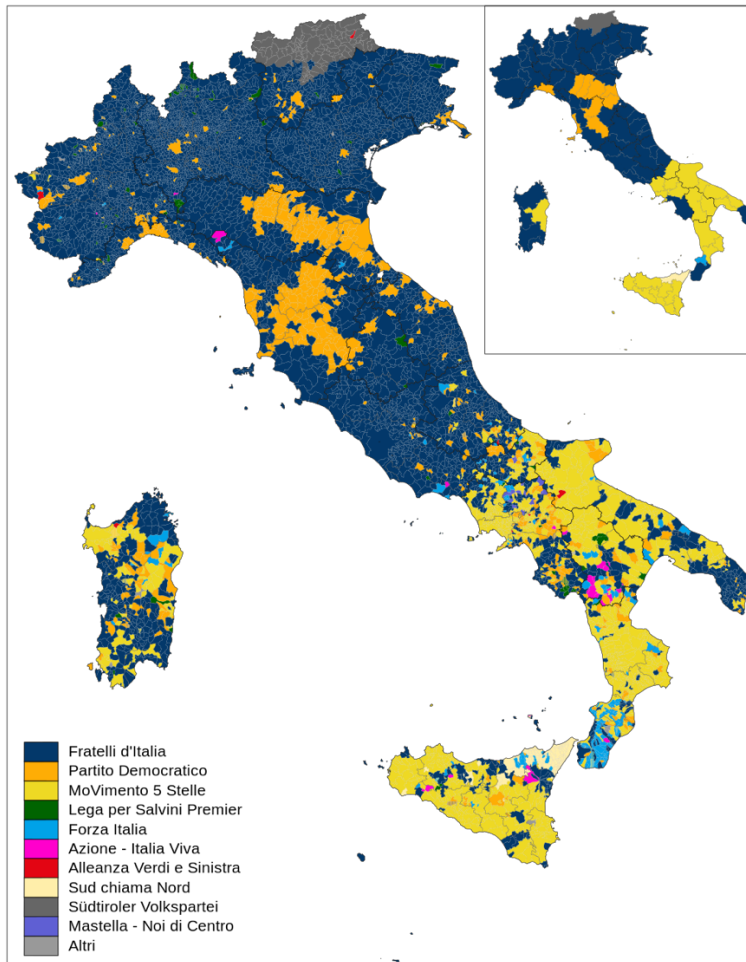
The national rhetoric had consequences: in the subsequent 2022 elections, the relative majority voted for Fratelli d'Italia (FdI), a party of anti-European inspiration with post-fascist roots. Fig. 11 shows the replacement of the vote for the League in 2018 with that for FdI throughout the North. The party led by Giorgia Meloni expanded its electorate to the center, also eroding the M5S dominance in the South and on the islands.

However, FdI's result partly depended on the dramatic abstentionism of voters who had chosen to vote for M5S in 2018. Out of one hundred southern voters, only 52 cast a valid vote, compared to 65 in 2018. The votes for the center-right in 2022 were only marginally higher than in 2018. For the first time in living memory, the electorate of the South did not vote en masse for the winning coalition. Interestingly, just a few months after taking power, the new government abolished the "reddito di cittadinanza".

In Italy's "geography of discontent", southern voters chose in 2018 to use "voice" rather than "exit", placing their trust in M5S, an eccentric or anti-system formation, which became the majority party in the country. In the following elections, the "exit" modality prevailed through a surge in abstentionism. In the 2024 local elections, in some southern regions abstentionism spread further. The southern electorate is likely to have entered a new age, searching for new representation. The phenomenon of abstentionism is taking hold among Italy's youth. The sense of irrelevance of national politics is discouraging young people to participate. The European political arena is not developed enough to motivate young people to move participation to a new level, from the national to the supranational decision-making process.

Concerning Italians, much will depend on the success of the massive European investments that will be executed in the coming years under the NextGen-EU program and on the political party that will appropriate the success or blame the program in case of failure.

Fig 11.



The last opportunity and its lessons

Political intermediation by local authorities emerges as a major obstacle to development in the South. Skipping it may occur in two ways: allowing market forces to deploy the reward/responsibility mechanism at individual and collective levels, or through the coordination and implementation of European and national plans. The first option requires the consolidation of the rule of law and the abandonment of dependency on the state. Both are unlikely in the short term. The second option depends on the success of NextGen-EU, the huge European program approved to counter the post-pandemic recession in 2020.

The National Recovery and Resilience Plan (NRRP), whose realization is a precondition for the post-pandemic European aid, can be a game changer for Italian society. After the approval of NextGen-EU by the European Council in June 2020, Italy's NRRP was designed by the second Conte government (2019-2020) and was later

modified in February 2021 by the successive government led by Mario Draghi. The plan represents a significant departure from the previous practice of planning and implementing public policies in Italy. Before the NRRP, planning was rigorously based on co-decision with the regions. Draghi intentionally reduced consultation with the regions to a minimum, bypassing the inefficient local administrators. The national government assumed responsibility for the plan with a hierarchical vertical organizational system. This completely new approach was only possible because, since his appointment as head of the government, Draghi enjoyed enormous trust from all the parties and did not need - at least on that occasion - to negotiate with them.

In the context of the NRRP, the regions only played an implementing role in matters of employment services and healthcare. Municipalities, on the contrary, proposed their projects directly to the government, skipping regional intermediation, and received huge resources for the implementation of investments in their territories. So far, this organization has had positive outcomes, sidelining political pork barrels and other malpractices.

The centralization of responsibilities has resulted in the neglect of certain aspects of the local territory. However, it has allowed the implementation of policies with identical targets for the entire national territory. The plan aims to distribute over 40% of the total resources in favor of the South. These unprecedented resources can solidify the bedrock of private enterprises that have been emerging in the South in recent decades.

Successful experiences of direct subsidies, without political intermediation, through tax credits and other measures aimed at innovative start-ups or tech companies can tap the reservoir of human potential. Finally, and more traditionally, hospitality and tourism, currently less relevant than in the rest of the country, also offer unique opportunities for the South once the related infrastructure is improved. Integrating tourism and health systems can also offer new opportunities.

The most evident effects of NRRP should be in the health system, which should level up health care in the South to that of the North, at least regarding resources and structures. Once the NRRP is accomplished, the structure of the National Health Service must uniformly cover the entire country. In the event of a lack of professional personnel, state resources from the National Health Fund would be used to complement the European funds.

The plan's success would represent a dramatic change in the perspective of the resident population. It would also be a rebuke of the place-based interventions which were administered by local authorities. The plan's success would also shape a new political dimension, linking the citizens directly to the European initiatives, skipping the regions and, at least in part, the central state. The social environment of the backward areas, with its traditions and untransparent powers, would thus have to adopt a more liberal way of functioning.

It is unclear if the traditional mindset prevalent in the southern regions of Italy would be receptive to the principles of the market economy, which emphasize reward and responsibility. For the citizens to truly embrace a modern economic system, they must see the benefits it brings. However, this is not an easy task. To accept the market economy, citizens must be willing to take risks for rewards, and the government must reduce state assistance and subsidies. This may lead to short-term costs that outweigh the uncertain long-term benefits,

causing political actors to claim the agreement is unfair or rigged. As a result, the system could end up in a stalemate, favoring older generations and harming younger ones. From 2007 to 2019, many southern citizens, particularly young ones, left their native regions, with 1.8 million people migrating to other Italian regions or other countries. Among them, nearly 400,000 had a university degree.

As mentioned, the issue of the economic underdevelopment of Southern Italy needs special attention in the context of European economic governance. The South's fiscal dependency and low growth capacity aggravate Italy's economic and fiscal problems, worrying Italy's EU partners and preventing the euro area from proceeding to tighter economic and political integration.

In this working paper, we have highlighted the economic policy factors and the more explicitly political-institutional ones behind the South's backwardness. We have identified local administrators and their political sponsors as critical actors that prevent state and European funds from being efficiently used, causing a syndrome of dependency in the population and in the economic actors. The strong influence exerted by local political interests prevents national politics from decisively reforming southern society. Differently from other "left behind" European regions, Italy's South has had a driving seat in national politics.

The National Plan for Resilience and Recovery proposes a new institutional structure and a more effective channeling of funds. The main innovation consists of skipping the regional authorities' intermediation and subjecting the national plan to strict scrutiny from Brussels.

Policymakers in charge of European economic governance should take lessons from Italy's experience, consider the possibility of more direct and penetrant institutional engagement, scrutinize local administrations limiting "place-based" policies, and instead attach stricter conditionalities to the provision of common funds. Since these conditionalities need to include legislative reforms at the national level, a more open and exacting dialogue with Italy's government and parliament is required.