

Convergence among Italian Regions 1861-2011

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Aim of the paper:

- Evaluate the convergence of per capita income among the Italian regions, identifying the “turning points” in the process over the last 150 years
- Assess the role of economic (income: productivity, employment, economic structure) and demographic (population: fertility, migration) factors underlying the trends of per capita income
- Assess the related changes in regional “human” development indicators
- Identify the role of national public policies and of regional development policies in the process of convergence

Main findings:

- North-South large income gap is a relatively recent phenomenon (post WWI)
- Its economic and demographic determinants have changed substantially in the different historical periods
- North-South convergence was limited to the early post WWII period, but was associated with the strongest growth of the Italian economy
- Policies have always played an important role in influencing convergence

Regional disparities varied substantially in the 150 years; 5 main periods:

1861-1881: small disparities (North/South and West/East), weak divergence

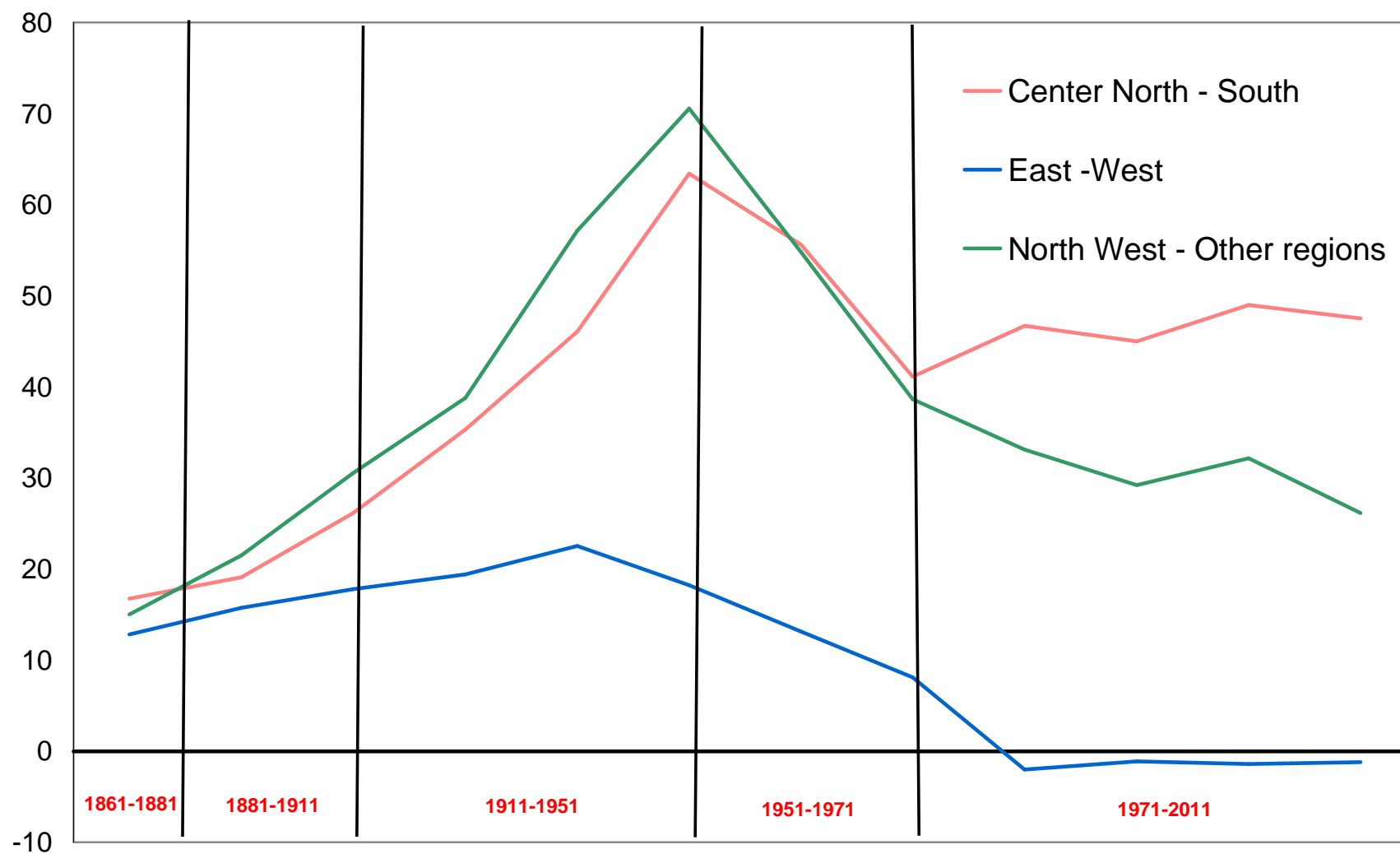
1881-1911: industrialization in the North-West, causing growing divergence vs the rest of the country

1911-1951: fast growing regional divergence, creating huge North-South divide

1951-1971: strong convergence, but still large disparities

1971-2011: convergence in the North-East and Centre; large disparities Centre-North vs South remain unchanged

GDP per capita gaps between macro-regions (percentages)



1861-1881:

Small Regional Differences; weak divergence

- All regional economies based on agriculture
- Small West-East disparities (economic role of ancient capitals of pre-unitary states), as well as very limited North-South differences
- Some Southern regions perform well in agriculture
- But the North-West and the South already show very different conditions for industrialization (education, transport, energy)

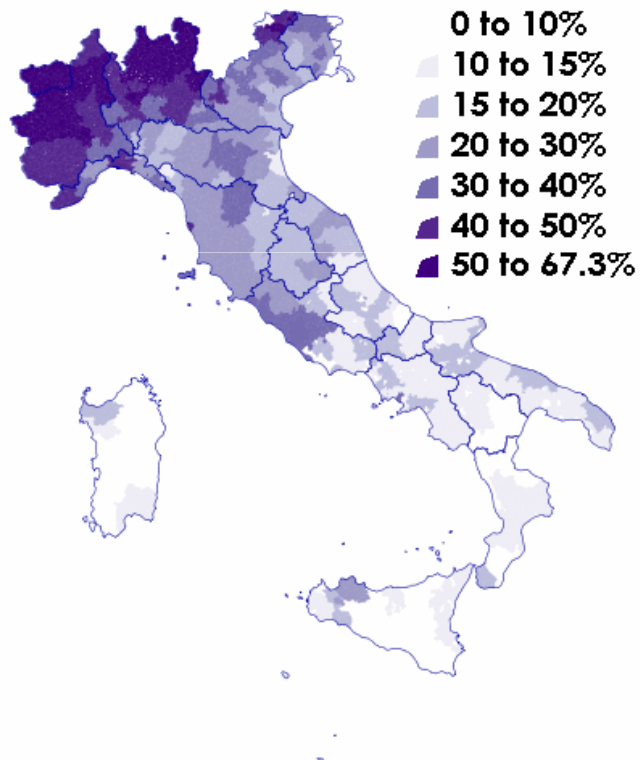
1861-1881: Conditions for industrialization: better in North-West and worse in Southern Italy

(percentage deviation from national average)

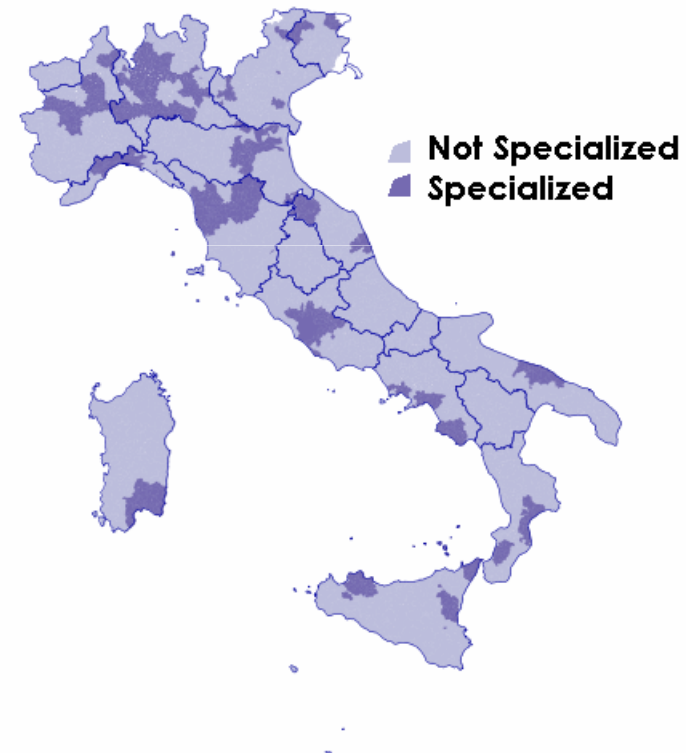
Regions	Human Development			Infrastructure	
	Literacy rates	Life expectancy at birth	Totale crimes per capita	Railway network (km per capita)	River flow (per hectare)
North West	78,1	1,3	-34,7	70,2	169,6
North East	-10,4	-1,5	-25,9	48,7	45,4
Center	-11,2	0,4	-1,5	28,5	-57,8
South	-44,2	-3,9	32,7	-73,3	-53,7
Island	-54,3	3,8	75,0	-100,0	-95,7

Map of industrial agglomerations and literacy rates in 1871: administrative districts

Literacy rate



Highly specialized industrial districts



1891-1911:

Industrial take-off in the NorthWest: limited, “normal”, regional disparities appear (the first “turning point”)

- Industrial growth is concentrated in the Industrial Triangle (Genoa, Turin, Milan), because of favourable conditions: geography (market size), education, transportation (roads, railways, rivers), energy (water)
- Regional disparities in per capita income explained exclusively by productivity (positive productivity differential in the North-West due to industrialization)
- Similar regional demographic trends; since the 1980s strong emigration abroad from most regions (but in the XX century emigration from the South becomes relatively larger)

1891-1911:

The role of policies during the industrial take-off

- Public policies are limited (large defence expenditures, limited education expenditures, no welfare); they improve to a limited extent overall economic conditions but don't change different regional conditions (e.g. education, roads)
- Trade and industrial policies (e.g. tariffs, public procurement) help industrial development and harm specialized agriculture in the South, favouring disparities
- The “Questione Meridionale” emerges: first regional development policies for the South planned and implemented (since 1904)
- But the possible turning point (emigration + diffusion of industry) is not reached: the war changes everything

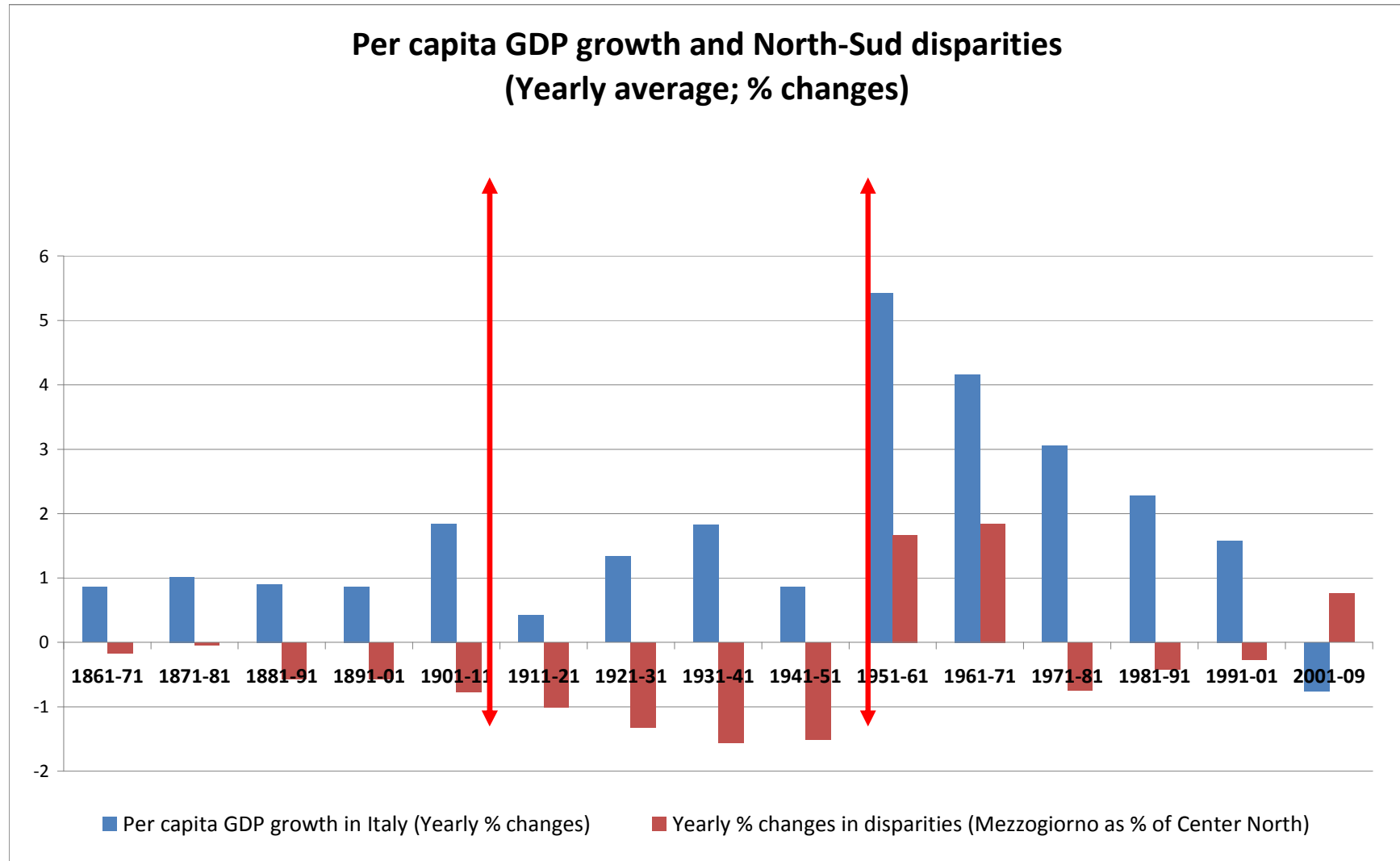
1911-1951: the North-South divide - 1

- With WWI there is an industrial boom in the North West (defence related productions)
- After WWI, several firms are rescued by banks; in 1933, when IRI takes over a major part of banking and manufacturing industries; industry is protected by autarkic policies, and grows because of domestic demand
- Industry remains localized mainly in the North-West, but there is a first, natural, expansion towards the North-East (Emilia, Veneto); regional development policies for the Mezzogiorno are abandoned (limited regional policies in favour of the North-East and the Center)
- The South remains agricultural, with no export possibilities; decreasing agricultural productivity (“battaglia del grano” and international crisis)

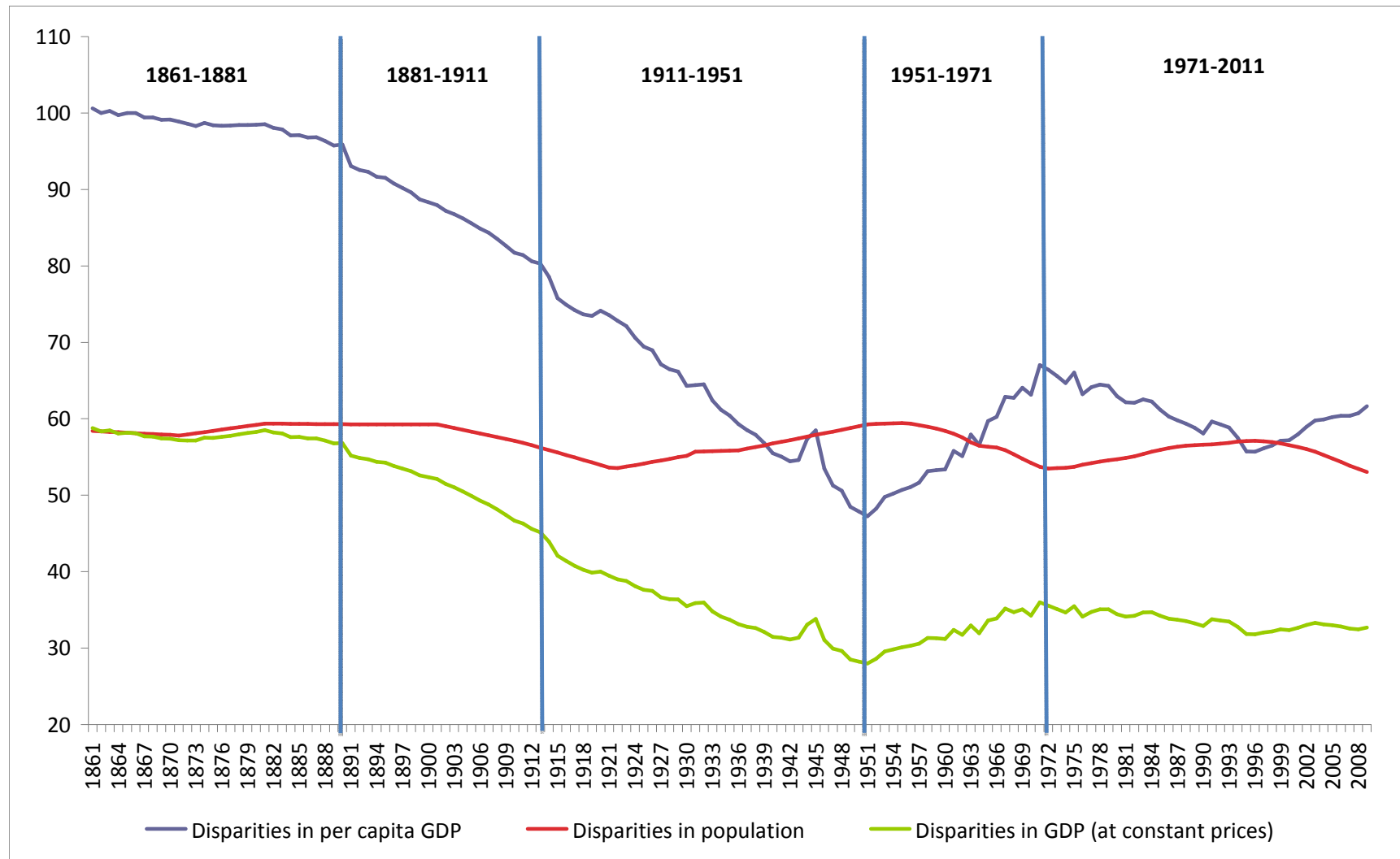
1911-1951: the North-South divide - 2

- Fascist policies impede migrations and sustain fertility; natural demographic trends start to diverge: fertility is higher in the South (thus favouring divergence)
- Several public policies favour divergence: first welfare is linked to industrial employment, transport infrastructures are concentrated in the Centre-North (they follow development), social infrastructures (e.g. hospitals) are privately financed
- Post WWII: after war reconstruction effort is totally devoted to reinforcing industry (in the North)
- In this period a growing gap of per capita income of the South vs North-East and Centre emerges

1911-1951: the North-South divide :



Disparities in population, GDP (at constant prices 1911) and per capita GDP between Mezzogiorno and Centre North (Mezzogiorno as % of Centre North)



1951: a key year

- After the acceleration of divergence in the previous decades, Italian regional disparities are now exclusively North-South; huge disparities: per capita income in the South is less than 50% than in the North; different conditions for industrialization are as large as (maybe larger than) in the past
- The South is poor; most employment is in low productivity agriculture; huge underemployment
- There are two Italys poorly integrated and very different
- But the “Questione Meridionale” emerges again (as at the beginning of the century) as a key policy issue for the Italian development
- Following the New Deal experience, the “Intervento Straordinario” begins: to improve agriculture and infrastructures first, to promote industrialization later (since late 1950s)

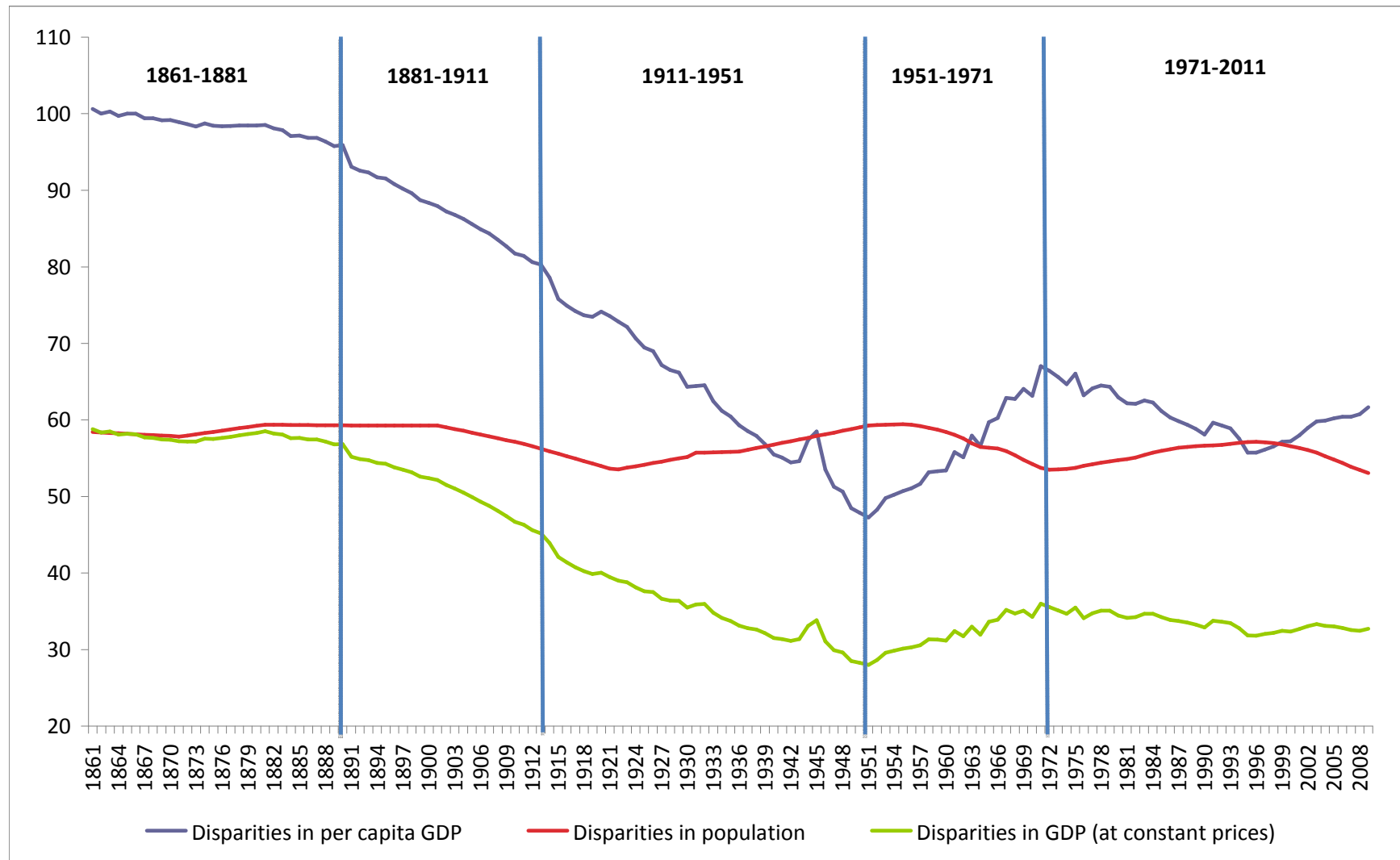
1951-1971: the great Convergence (the second “turning point”): - 1

- Per capita income in the South grows by 5.8% p.a., one of the fastest rates in the world, so that per capita income gap vs. the North declines from 53% to 33%: one point per year; this happens in the 20 years of the “golden age”, when growth in the Centre-North is the fastest ever
- Convergence is mainly explained by industrialization; structural transformation of the economy, increasing productivity (productivity increases also in agriculture)
- Cassa per il Mezzogiorno is crucial for improving (in part) economic conditions and attracting investments

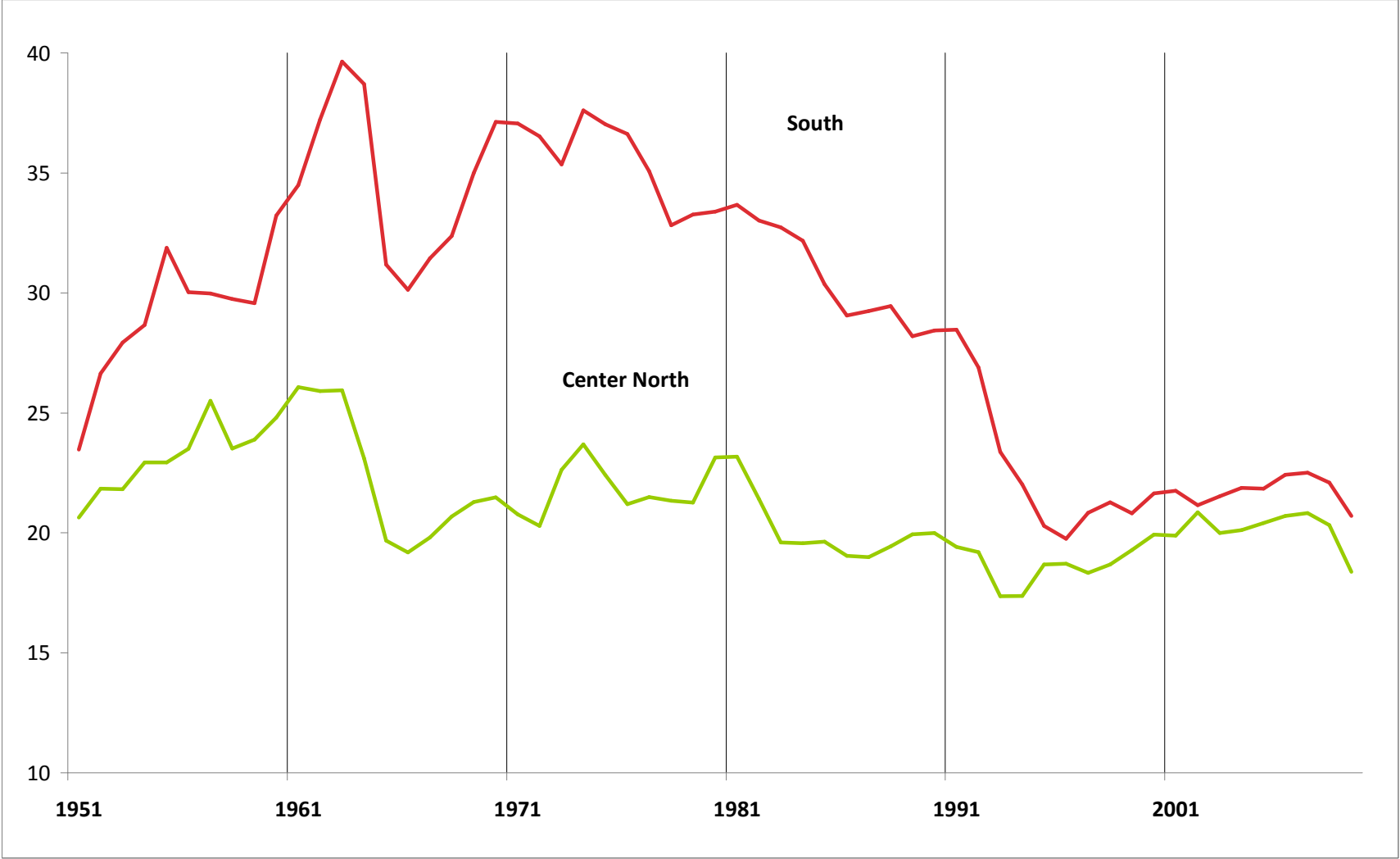
1951-1971: the great Convergence (the second “turning point”): - 2

- Industrialization is driven by external investments: state-owned firms (“Partecipazioni Statali”) and private North-Western firms: the level of investment (public and private) is very high: new investments in the South complete the Italian productive structure
- Investments in the South and growing Southern demand (due to rising income) help the industrial boom in the North; the national market for goods becomes integrated; this helps overall Italian development; But a large part of Southern SMEs disappear: Centre-North firms are more competitive in the integrated national market

Disparities in population, GDP (at constant prices 1911) and per capita GDP between Mezzogiorno and Centre North (Mezzogiorno as % of Centre North)



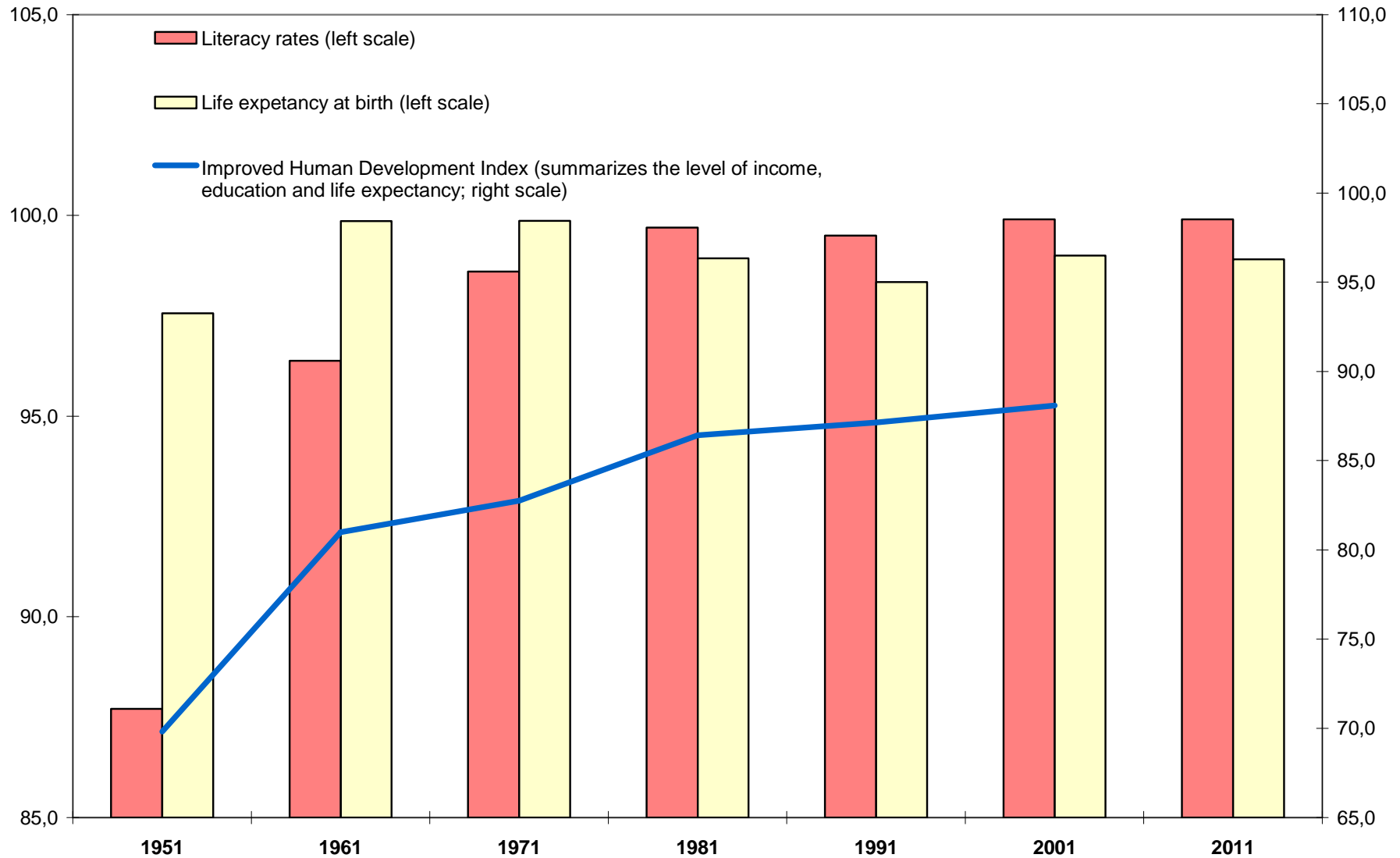
Rate of accumulation (investment to GDP) by area (*current prices*)



1951-1971: the great Convergence - 3

- Population dynamics help convergence; even if natural growth in the South is still higher, people now are again free to move: emigration from the South (abroad, and for the first time also towards the North West) is so strong as to reduce population growth rate in the South below the national average
- Labour migration moderates wage increases in the North helping its industrial boom; the national market of labour becomes more integrated, and this helps overall development
- For the first time, public policies (education, health, welfare) favour convergence; they become more homogeneous in all regions
- As a result of income growth and public policies there is a strong improvement in human development indicators: after one century, elementary school enrollment becomes similar all over the country

Human development in the Mezzogiorno (indices Center-North=100)



Mid-1970s:

The end of the “miracle” (the last “turning point”) - 1

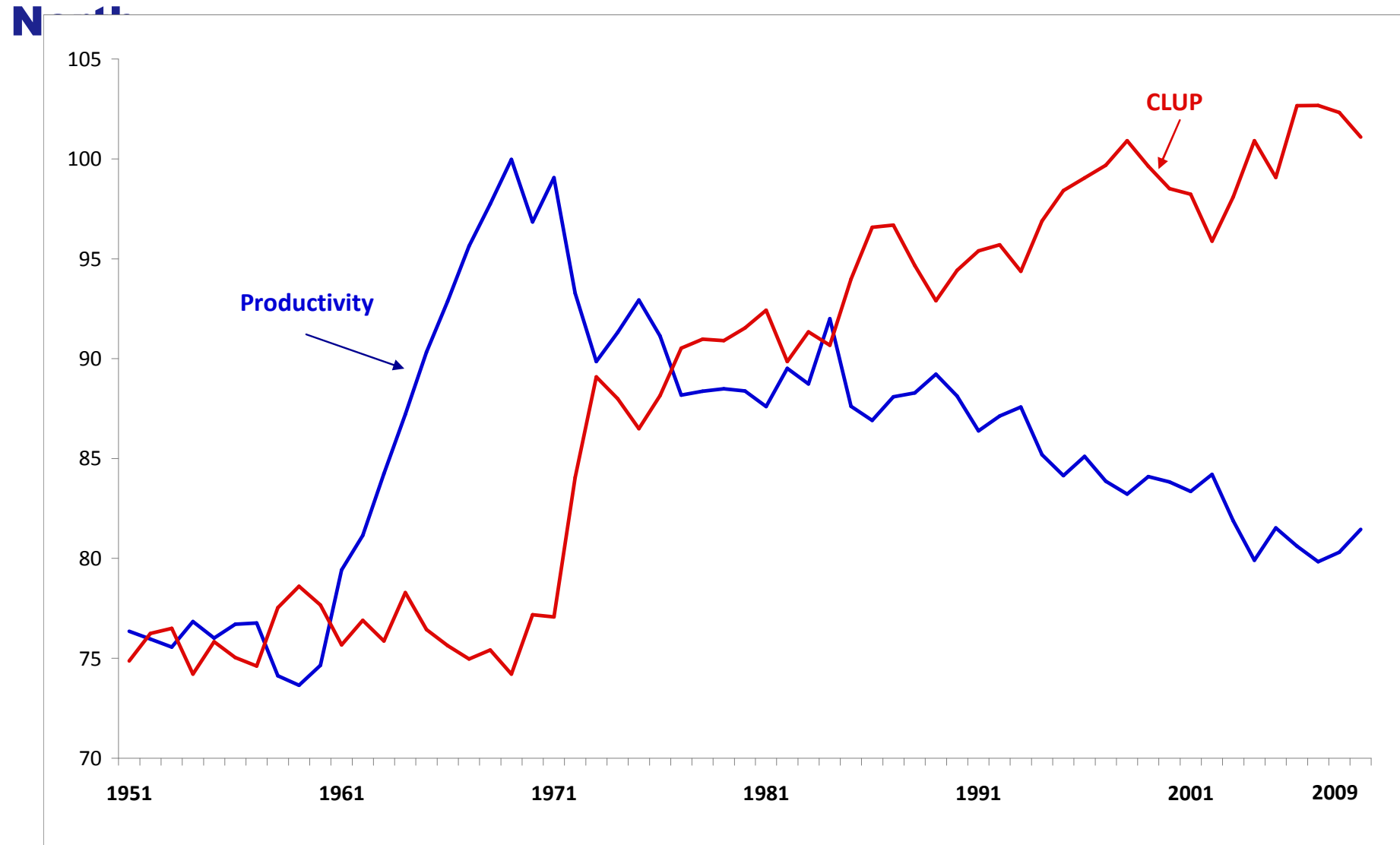
- Regional converge ends; slight divergence in the 1980s and then small change. Why this turning point?
- Changes in the international scenario hit much more the Mezzogiorno, because of the dimensional and sectoral composition of its industry (energy-intensive and large scale productions, proportionally larger in the South, lose competitiveness); because of its inward orientation (to serve the internal market)
- Also due to the exchange rate push, export-oriented specialized firms (and industrial districts) in engineering and made-in-Italy differentiated consumer goods producers are now on the lead (they are much fewer in the South)
- The North-West is hit as well. The Centre and the North-East (the “Third Italy”) are now favoured for the same reasons. So the North-East and the Centre (starting from much higher levels than the South), converge towards the North-West, leaving behind the Mezzogiorno.

Mid-1970s:

The end of the “miracle” (the last “turning point”) - 2

- Overall Italian rate of growth declines; investments are now much more devoted to restructure than to enlarge production; so they decline particularly in the South
- Labour demand in the North slows down, so inducing a much lower level of internal migration; but natural population increase continues to be higher in the South (until XXI century)
- Productivity differentials remain unchanged; labour cost differentials are too rapidly closed after 1968 (even if they increase again after the 1990s). So unit labour costs differential worsens
- Endogenous industrial firms grow in the South, but their total size remains small
- Labour demand in the South is too small, starting to create a huge differential in employment (and unemployment) rates
- The “Questione Meridionale” loses (and never regains) its importance in the economic policy scenario

Productivity (2000 prices) and unit labour cost (CLUP) in manufacture and energy sectors: South as % of Centre

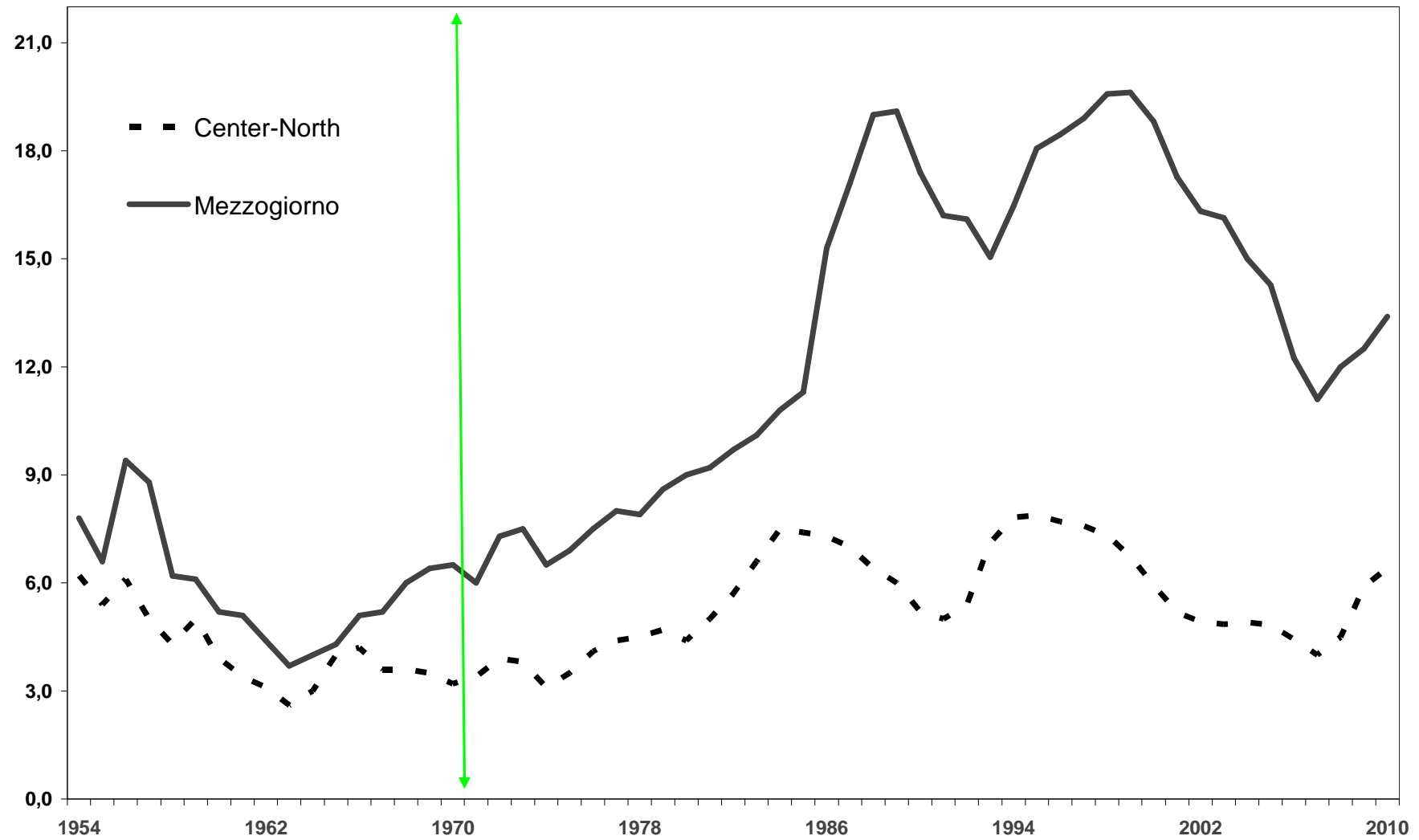


1971-2011: an unfavourable scenario for Southern development; the policies

- Regional policies lose momentum; they become technically weaker and more related to political needs (to create labour); Intervento Straordinario dies in 1992; several years with no policy at all; after that an interesting new policy “Nuova Programmazione”, that however gets limited results
- Current public expenditures increase in the South, as all over the country; but its quality (especially in the South) is poor: political patronage, corruption; the quality of (local and national) public services remains relatively poor in the South
- Organized crime increases its importance in several Southern regions
- The regional differential in conditions for competitive firms remain very large

The Southern question becomes a question of employment

Unemployment rate: 1954-2010



1991-2011:

Mezzogiorno in the Italian “decline” - 1

- Very limited rates of growth all over the country; internal migrations start again; very large international immigration increases population more in the Centre-North; population growth is now larger in the Centre-North
- Privatizations and public expenditure cuts (in 1992-1996 and then after 2008) hit more the South than the rest of the country
- Inward investments stop definitively, also because of the new international competition (delocation towards East Europe and Asia)
- Levels of income per capita remain different: South suffers from a relatively low productivity gap and from a huge employment gap

1991-2011:

Mezzogiorno in the Italian “decline” - 2

- Convergence of basic human development indicators almost complete; but more detailed indicators of quality of life still show a regional gap
- The future of convergence crucially depends upon the future of overall Italian economy: South – as in the time of the “golden age” – may be an engine of growth for the entire economy

CONCLUSIONS:

“Turning points” and different trends -1

- In 150 years, the regional inequality in Italy has followed different patterns; the gap between western and eastern regions first expanded and then was closed. The North-South gap instead increased abnormally (1911-1951) and today remains a major anomaly in the Italian context
- But the long duration of the "Southern question" does not mean at all that nothing has ever changed. Productivity, sectoral composition of the economy, fertility, migration, play different roles in explaining per capita income levels and dynamics
- The large income gap does not seem a matter dating back to feudal Italy, but to the inter-war period. Our suggestion: do not look into the Middle Age, look at the Fascist era

CONCLUSIONS :

Policies matter - 2

- Policies matter: history and geography of industry were influenced by policies; the convergence with respect to social variables was very slow in the first 100 years, and it is a success mostly due to post-WW II policies aimed at: education, health, infrastructure, poverty alleviation
- Policies have played an important role in the turning points: the birth of the fascist regime created very negative conditions for the South; post WW II convergence was also due to “Cassa”; after the oil shock Italian economic policies created unfavourable conditions for the development of the South
- National policies produce decisive effects even today on the geographical divides. The inadequate provision of public services in the South and its still lagging location factors for competitive firms are still the main causes of the gap