

The Mezzogiorno* and the Single European Market: Complementary or Conflicting Aims?***

1. Introduction

The 'eighties will be remembered as the time when Italy became definitely aware of its due role in the gathering of nations and of the responsibilities flowing from that role, as is borne out by Italy's admission to the Finance Ministers Group of the most highly industrialized countries and the marked increase in its aid to developing countries, which has risen to 4,400 billion lire a year. Despite the notable successes achieved, especially by Italian firms, the economy continues to be plagued by serious problems. In addition to that of public finance, in which large deficits have generated a public debt which is now close to the level of the GDP, the old disequilibrium is still with us — the backwardness of the Mezzogiorno, an area of Italy with over 35% of the total population. Although there have been ups and downs, the gravity of the situation remains unchanged (Giannola 1987; Table 1).

Geographical disequilibria and their characteristics in Italy are deeply rooted in history. However, given forty years of extraordinary intervention to aid the South, it is in some ways surprising that the structural dualism of the Italian economy has remained broadly similar to that of the Community as a whole. The regional development gap is usually measured by the ratio of per capita income in

* In the English version, "Mezzogiorno" and "the South" refer to the South of Italy.

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TABLE 1

GROSS PER CAPITA DOMESTIC PRODUCT
(at 1980 prices)

	1971	1981	1987
	Absolute values (in thousands of lire)		
Centre-North	1,377	8,100	8,882
South	824	4,780	4,806
Italy	1,183	6,988	7,396
	as a percentage (of the Italian average)		
Centre-North	116	116	120
South	70	68	65
Italy	100	100	100

Source: ISTAT and SVIMEZ data.

each of the less affluent regions to the national average. From this point of view, the regional disequilibria in Italy are so marked that they manage to reproduce those between the industrial Northern and the Mediterranean countries of the Community. In Northwest Italy and in Lombardy, per capita GDP expressed in standard purchasing power units is similar to the average for Germany.¹ In the Mezzogiorno, the ratio is lower than the average for Spain and close to that for countries such as Eire, Greece and Portugal.² Other indicators such as the rate of unemployment yield a similar picture.³

For a country which has achieved a high level of development and well being, this situation seems hard to explain from the economic point of view and barely tolerable in political and social terms. The South increasingly runs the risk of being cast in the role of the scapegoat by sacrificing itself to save the country as a whole from the vicissitudes of the economic cycle and international integra-

¹ 113 and 120 standard units of purchasing power respectively for the two areas of Italy, and 117 for Germany in 1981-85. (*Third periodic report of the Commission on the socio-economic situation and on development in the regions of the Community*, 1987.)

² The Southern regions have a GDP of between 57 standard purchasing power units in Calabria and 76 in Abruzzi, as against average figures which are respectively 77 units of standard purchasing power units for Spain, 70 for Eire, 58 for Greece and 55 for Portugal, still with reference to 1981-85.

³ In the Centre-North, it is 8.4%, compared with 7.9% for Germany and 10.5% for France. For the South of Italy we have an average rate of 19.2%, against 20.5% for Spain and 17.7% for Eire. The figures of 7.1% for Portugal and 7.4% for Greece are markedly affected by underemployment (Tables 2 and 4).

tion, or as an area dependent on constant handouts, whose sole function is to provide a reservoir of additional demand for the industry of North Italy, with the aggravating circumstance that it makes even more stringent the external constraint on the Italian economy.

2. Processes of unification and preconditions for the functioning of an optimum currency area

At a time when the deadline for the realization of the single market is rapidly approaching, some authors consider that the South may be the real loser in the process. For what has happened in Italy in the postwar period as regards the effectiveness of regional development policies might be repeated, multiplied many times over, on a European scale. In addition, now that there is some discussion about the creation of a currency union as the next stage of integration after the creation of an integrated market, there is a risk that not only the most favourably endowed area, but the whole of Italy, too, will witness a repetition at the Community level of the drama of the country's currency unification and the deindustrialization of the South in the second half of the nineteenth century (T. Padoa Schioppa 1987).

The creation of an optimum currency area (Mundell 1961; McKinnon 1963) which would stimulate economic activity in all the regions composing it, according to the teachings of theory, must be accompanied by: a) flexibility of real wages reflecting differences in productivity; b) a high degree of factor mobility to ensure an optimum allocation,⁴ *i.e.*, one which, on the one hand, will prove the most efficient for the area as a whole and, on the other, will help to correct any emerging disequilibria; c) mechanisms ensuring "automatic" transfers, that is, of the kind which will not require long and laborious direct negotiations between the regions concerned.

As regards the inequalities between North and South, Italy's

⁴ Many years ago, I had occasion to demonstrate, in collaboration with Occhiuto, the existence of mechanisms for this kind of operation in the Mezzogiorno (Occhiuto and SARCINELLI 1961).

experience, which can be regarded as a development process inside a currency area, shows that the fulfilment of these conditions is all the more necessary, the more the different uniting areas start from dissimilar levels and show gaps in productivity of all inputs. Hence, it is, in my opinion, in this perspective that we must view events after the Second World War and the failure to narrow the differential between North and South which was the aim of the various development policies. In this context, the inability to achieve at the same time all the conditions for a currency area to be able to pursue an optimum course has helped to stultify the efforts to develop the South. In some phases, an important role was played by the geographic reallocation of the labour factor and by wage differentials; in others, there was a marked accentuation of public transfers because of the failure of the other variables to operate to the full. In point of fact, the interpretation of these events enables us to argue that, in the different phases of development policy, the various adjustment mechanisms have come into play one at a time, with the result that at each point a kind of necessary condition was fulfilled which was insufficient for the realization of the final goal.

Recent developments have moved more and more in the direction of greater wage rigidity and a lesser degree of mobility in the factors of production, which has certainly not furthered the pursuit of the optimum integration of North and South. There has been an increasingly sharp rise in income-support transfers, but this, while it has probably compensated the South for the costs arising from the draining off of its human resources during the long process of integration (recently estimated for the period of 1951-81 at between 1,500 and 3,300 trillion lire at 1986 prices; De Meo 1988) still remains, in any case, an obvious symptom of the relative weakness of the reasoning underlying the idea of an optimum currency area. Besides, if an explanation not specifically conceived in terms of social justice is afforded by the reimbursement of the costs of bringing up the children who later emigrated, it is also true that, if the outward flow dries up, as it did in the 'seventies and 'eighties because of a cultural model hostile to that process, this justification loses its force.

The present delicate state of affairs in public finance makes it doubtful whether it will be possible to continue indefinitely and as intensively as in the past to transfer resources to the South, especially when such transfers, rather than furthering the development of the area, help to support income and consumption. In addition, the

interventions for the improvement or defence of the South's industrial structure are being looked at with an increasingly critical eye by the Community, which is tending to restrict measures harming competition, and to bring the different forms of support into line with a European perspective.

Extending this analysis to all the regional inequalities in Europe, we will realize the danger that the differences in productivity will end up by operating in favour of the more developed regions, as Italy's experience shows. Within a currency area, these differences can no longer be corrected by changes in currency parities. There is therefore an increasingly obvious realization that the growing rigidity of intra-Community exchange rates, the creation of the single market, and at a future date which has not yet been determined, the establishment of a European central bank cannot be separated from the devices for the adjustment of regional disequilibria within the Community.

In the light of the conditions for the correct operation of an optimum currency area, this choice ought to take special account of aspects involving efficiency, even if it is not possible completely to ignore those of social justice. In the former context, it is essential to encourage the free movements of the factors of production in order to allow the market to effect the best possible allocation of these factors and to allow the differences in productivity to be reflected in national and regional wage differentials. Considerations of social justice suggest, however, that this is not possible if intolerable burdens are imposed on backward regions and nations in the process. Both of these groups must be helped to achieve conditions for investment and the use of the factors of production comparable with those in the more developed countries.

In this process, a fundamental role must be assigned to mechanisms for productive transfers and for investment in the depressed areas, holding out hopes, thanks to an acceleration of development, of a reduction in outflows due to the deficit on current account in the regional balance of payments. These transfers ought, as far as possible, to be of an automatic nature in order to overcome the difficulties inherent in a process of multilateral bargaining which is all too frequent. The structural funds available to the Community, agreed on for the period of 1988-92 and amounting to 52 billion ECUs (at constant 1988 prices), constitute in a nutshell a mechanism of the kind, to which must be added the meritorious work of the

European Investment Bank as a body for the selection of projects and for the disbursement of medium- and long-term loans.

3. The Mezzogiorno and the post-Second World War

In the period after the Second World War, the South, like the rest of Italy, experienced a process of economic development and a structural transformation without precedent in its recent history. Nevertheless, the gap between per capita income in the South and in the Centre-North fell to a significant extent only in 1960-76 when the process of industrialization was particularly intense. The ratio of per capita income in the South to the figure for the whole of Italy, which was roughly 0.6 in the 'fifties, rose to about 0.7, and then fell off again (Del Monte 1988).

Intervention in the South pivoted on two instruments: a) direct investments, both in the infrastructural and industrial sectors by public operators whose place was taken by financial incentives in private investments, and b) transfers for the support of the incomes of Southern households. In the various phases of this intervention, the emphasis on each factor varied as a function of the development model being followed. This affected the characteristics and intensity of the industrialization process. As against this, the use of an instrument for the redistribution of income and saving flows through the public budget in favour of the South seemed, and still seems, necessary in accordance with a philosophy aiming at creating an optimum currency area, since private transfers are quite insufficient to offset the South's regional balance-of-payments deficit, which in 1987 amounted to about 50,000 billion lire (Svimez 1988).

Those who regard the independence-integration models of growth as the only acceptable ones for the development of the South (Graziani 1989) have always stressed the need to rely on a contribution of external resources, to be used for investment in order to make up for the structural lack of capital and entrepreneurship in the less developed regions. These authors stress the propulsive role of external capital in a context marked by a lack of saving and spirit of enterprise, while income-supporting transfers have a completely secondary role.

In addition, the flow of resources for investment leads to an increase in income in the region. The result is a net expansion of imports which produces a deficit on current account in the regional balance of payments. This negative balance, which expresses the macroeconomic dependence of the area, appears as a structural phenomenon, with, as its counterpart, the very flow of resources brought into play by the development policy (Graziani 1989).

If the development policy is successful, as a result of the replenishment of the region's stock of capital, its macroeconomic dependence tends to be attenuated, since the regional supply of products steadily increases. For this to happen, investments must naturally meet the criteria of efficiency (Del Monte 1983); they must also take place at initial costs in line with those borne by the rest of the country, which unfortunately is not always the case. For, if the capital endowment increases as result of investments which are not completely justified on economic grounds, in the sense that they do not permit an increase in the supply of products which can be sold at current prices on the market, the structural adjustment is comparatively slower and the macroeconomic dependence is prolonged.⁵

In the early 'fifties, agrarian reform, and the huge flows of public expenditure carried out with the aim of providing the South with an adequate infrastructural endowment and constituting the *first phase* of the development programme, had the combined effect of stimulating a greater integration of the domestic market by promoting an increased mobility of the factors of production and at the same time enabling the South to assume a more active role in Italy's development, both as a producer, essentially of agricultural commodities, and as a market for the industry of North and Central Italy (Giannola and Imbriani 1988). These developments also promoted industry in the North by providing manpower released from agriculture, especially in the South.

During this period, integration was pursued both by taking action to increase the mobility of the factors of production, in particular of labour, which took advantage of the greater flexibility of real wages, and by transfers; given the extent of the needs, these

⁵ The flow of capital from the outside, which usually takes the form of direct investment in the region, leads to a microeconomic dependence, that is a relation involving the subordination of a large part of the industrial sector of the less developed area to that of other more advanced regions, which may condition the development of industry in the less affluent area, leading it to adopt approaches foreign to its mentality or interests.

transfers were perhaps insufficient, but they led to the first significant replenishment of the South's capital stock. Another result of these policies, however, was that of exposing Southern firms to increasing competition from the more developed industry of the North and Centre, with net results which were not always positive for the South. In consequence, despite the huge flow of resources to the South and the increase of agricultural exports to the Centre and North during this period, there was no reversal of the long-term trend towards an increase in the per capita income gap between the two areas. For this reason, increasing weight was given to the arguments of the advocates of a decisive intervention of the State in the industrializing of the South by the implementation of measures constraining the Ministry of State Holdings to locate 40% of their investments in the South.

In this *second phase*, following the stage confined to infrastructure, from 1957, Italian regional policy began to avail itself of instruments of intervention such as ordinary and extraordinary contributions on capital and interest account. The intention of the legislators was to help to alleviate the endemic lack of capital and, in that connection, to lower the cost of money, thus encouraging recourse to borrowing from credit institutions. This action dovetailed with the policy of stimulating the growth of small- and medium-sized firms in accordance with the theories of self-propelling development. The results, however, soon turned out to be different. For what was stimulated was the massive flow of investments from North to South, often in concerns which could only be termed small in juridical phraseology. If they had the undoubted advantage of inverting the traditional trend towards increasing the regional gap as regards per capita income, they also increased the macrodependence of the South.

In this phase of development, which seems substantially to correspond to an integration-dependence model, it is possible to distinguish two periods depending on the type of investment carried out in the South.

The first period (stretching from the end of the 'fifties to the end of the 'sixties) saw the construction of large plants for the production of basic materials (chemicals, iron and steel etc.) which, since they were highly integrated, were less affected by external diseconomies. On the contrary, given the substantial investment involved, they derived benefit from the particular forms of incentive provided. The

reduction in capital costs, therefore, had the effect of locating capital-intensive industries in areas with a small capital endowment, and above all of "financing the gap between the productivity of the factors of production instead of furthering their adjustment" (Fazio 1989). This same logic led, several years later, to the shifting on to the State of the employers' contributions for social security benefits. These plants have therefore had a reduced effect on the productive structure of the South, precisely because they had a limited external spin off. These years, moreover, could still profit from the mobility of the factors of production and the flexibility of real wages, all of which operated in favour of integration.

In the second period, which corresponds roughly to the years 1969-75, there was a greater diversification in the flows of investment which, and this is a new development, went mainly to the manufacturing sector. In those years, there were large investments in the transport and engineering industries, including certain widely discussed problem cases (such as the Alfa plant at Pomigliano d'Arco, and also certain experiences, which were definitely positive and are much less frequently cited (the Fiat plant, Aeritalia etc.). In both these periods, a fundamental role was played by the State Holdings Ministry which was constantly involved in promoting the industrial development of the South and which must be credited with having introduced an industrial culture into areas where it had until then been completely unknown.

4. The model and alternative experiences of the NEC

In the 'seventies (Fuà and Zacchia 1983), there was another Italian "miracle" in the form of the largely spontaneous industrialization of the Northeast and Centre of Italy, known for short as the NEC. Whether this was a kind of spill-over from the areas with an older and stronger industrialization or the result of a process of geographical or organizational decentralization, there is no contesting the fact that a model, or several models, have taken root in largely rural environments with no particular programmes of incentives for the promotion of industrial development in those specific areas. The South has similar characteristics, but it has enjoyed special facilities. Its efforts have not, however, proved so fortunate.

The difference between the two types of models (self-propulsion and integration-dependence) lies mainly in the different emphasis on the flexibility of factor use and on the mobility of these factors, and is also affected by the difference in the type of plant built in the two areas. In the NEC, we find processes and phases of processing hived off and/or dropped by large-scale industry, and which called for a marked flexibility in the productive process and in the use of manpower, as well as, in many cases, a high level of technical knowhow. In the South, on the contrary, phases and processes of production are marked by greater technological maturity and larger units.

It must be pointed out that, in the South, too, these developments have not always pointed in the same direction. In particular, the Abruzzi and Apulia have followed different lines of development, which were often closer to those of the NEC model than that of the Mezzogiorno, with a slow and steady diffusion of the small firm, characterized by marked flexibility and often achieving substantial economic results. The experience of the two regions in question is, in my opinion, typical of the fact that the South is now a patchwork region. The indicators of development in both areas also confirm the interconnections between social phenomena in the broad sense and economic factors.

If both processes now, in certain ways, appear to be a function of the restructuring of most Italian industries, from the second half of the 'seventies they evolved in different ways. The oil crisis and the increase in the cost of raw materials led to a crisis in heavy industry. The social conflicts and the rigidity in the use and remuneration of the labour factor prompted industry to restructure rapidly. A group particularly affected by these developments was the State Holdings because of their involvement in heavy industry.

In this context, the NEC model, because of its emphasis on labour mobility and flexibility of the productive processes, was generally less badly hit by the crisis. The South, on the contrary, found itself saddled with the costs of restructuring, at least in the medium- and long-term, which were comparatively higher. The relative slowness with which public corporations were restructured, both because of the greater importance of social considerations in their management and the less stringent budget constraint has, on the one hand, meant that the costs paid by the South were less visible, but, on the other hand, has helped to weaken the capacity of industry

in the region to cope with the increasing threat of worldwide competition (Giannola 1987).

5. Latest developments in the policy for the Mezzogiorno

Up to the mid 'seventies, the conditions for integration remained favourable, and, thanks to the huge flow of investment to the South, the area witnessed a substantial increase in employment during the 'seventies (+ 25.76%), a rate of expansion equalled only by the NEC area (25.67%) (Giannola 1987). Unfortunately, other factors emerged which were to lead, in the early 'eighties, to an inversion of the trend towards the gradual increase in the integration of North and South, with fateful consequences for the development of the Mezzogiorno.

Contrary to what happened in the NEC area, where the development was due in particular to the growth of small- and medium-sized firms (34% of the rise in employment was in concerns with less than ten workers), the increase in employment in the South was mainly linked with the development of large enterprises (35% of the increase in employment was in plants with over 500 employees, almost all owned by non-locals), even if we must recognize the contribution to growth by local industry which was confined to units with less than 200 employees.

5.1 From investment policy to income support

A *third phase* began in 1976, which was characterized by a switch in emphasis in interventions from direct investment to income support transfers. For the concentration, in the choices between social justice and efficiency, on short-term aspects has led planners to give priority to the former, thus paying a non-visible cost for the latter. In the long run, the loss of potential income was offset by increasing redistributive flows. It is difficult to provide an exact picture of these movements (F. Padoa Schioppa 1988; Scandizzo

1988), since there are a thousand and one channels, not all of them known or attributable, by which the greater flow of transfers has been directed to the South (pensions, not infrequently for presumed disability; salaries in the public sector, often overstuffed; health insurance payments; unemployment relief bringing benefits up to the wage level, and so on).

The end result of these transfers is that, compared with a ratio to GDP of 1 to 3 of the Mezzogiorno to the Centre-North, the ratio for public consumption was 1 to 2, and that for households was 1 to 2.5 (Svimez 1988, with reference to 1987 data). This new policy found some theoretical justification too, in models of self-propelling development which set out, through demand-support measures, to stimulate local supply. However, policies devised in terms of models of this type create a macroeconomic dependence since, at least initially, they lead to an increase in imports in the area. At a later stage, it is argued, the demand ought to activate local supply through a greater use of indigenous resources so that the model ought also to tend to reduce the possibility of the emergence of microeconomic dependence.

In a commercially integrated area, it is, however, probable that the more developed regions will absorb the greater demand through increasing their supply, and will not therefore leave any scope for the mechanism triggering the expansion of local supply. In that case the income support to the weaker region may in fact become a form of industrial policy for the more developed one without reducing the macroeconomic dependence of the former on the latter (Giannola and Imbriani 1988).

In the third phase, the policy of intervention designed to support the South has been gradually modelled on this theoretical concept. For the policy-maker, whether deliberately or constrained by the exigencies of one of the more intense phases of the restructuring of Italian industry, has abandoned a policy of development support based on a model of integration-dependence, with its implications of direct intervention in support of investment in the less favoured areas.

In 1976, there was a clear slowing down in the growth of investment in the South, and a marked fall in its total, both in relation to the regional GDP and as a proportion of investment for the whole of Italy. Investments in industry formed just over 20% of the figure for Italy, compared with 35% in 1970-75 (Del Monte

1988; Giannola and Imbriani 1988). In roughly the same period, incentives by the State were scaled down drastically. Contributions on capital account fell, at 1970 prices, from a maximum of 114 billion lire in 1974 to a minimum of 47.6 billion in 1982. At the same time, contributions on interest account, which had registered an average of about 70 billion lire a year in 1973-78, declined in 1983-84 to about 20 billion, still in 1970 lire (Del Monte and Vittoria 1988).

As against this, there was an increase in transfers because of the exemption of employers from social security charges (which were taken over by the State), and the sum was estimated at over 3,300 billion lire in 1984 at current prices (Del Monte 1988); such an estimate is something of a shot in the dark (Giardina 1986). The need to maintain an adequate level of transfers in order to avoid a marked relative fall in incomes in the South and the objective of keeping social conflicts within acceptable limits in that region have meant that the South has received huge amounts by way of transfer, including those on capital account, which, however, have still proved inadequate to prevent the widening of the gap in per capita income between North and South.

To conclude, even if the characteristics of the policy of extraordinary intervention, which are responsible for its only partial success, were also the cause of the subsequent failures, the compatibility of this approach with the exigencies of the North's productive apparatus has made it possible to achieve a substantial flow of resources during these years and has helped to reduce the dependence of the South on the rest of Italy. Despite the limitations of this type of intervention, including its substantial waste and marked inefficiency, we must at the present time pass a positive judgment on it as a factor in the history of Southern development.

What is called the transfer phase, on the contrary, has stepped up dependence anew, since it has essentially been confined to financing current consumption, thus adding to the deficit in the regional balance of payments. The difference between the results obtained in the two periods must now, however, be ascribed solely to the characteristics assumed by State intervention. The slowing down of development in the South and of the integration of Italy in the third period is also due to other factors (which are not entirely independent of the model based on income transfers), including the reduced mobility of labour, and the rigidity of real wages.

5.2 *From extraordinary and centralized intervention to the development-bank model*

Since, from the middle of the 'seventies, the main macroeconomic instrument for the improvement of conditions in the South has been that of transfers on income account, not only has the model itself got into deep waters (which, from the start, has been pivoted on infrastructural investment), but so has the agency implementing it. To this must be added the institutional changes in the Italian system of government, which have led regions and local authorities to demand powers previously exercised by the State, as well as a comprehensible sense of dissatisfaction with the Cassa per il Mezzogiorno (the Fund for the South) for having had no lasting impact on the gap between South and North.

This demand for new initiatives was met by Law No. 64 (passed by Parliament in 1986), which set out to develop an instrument for effecting interventions of a type additional to ordinary ones, operating side by side with them, and complementing them. It is antithetical to the approach hitherto followed, which focuses on extraordinary interventions carried out directly by a central authority, whose models were the experiences of the USA Authorities. Law No. 64 provides for the elaboration of a series of plans (one of them for three years, renewable, and one for a single year), but does not specify a *single* agency to carry them out. Rather, it looks to a group of public and private entities, and structures as well, to filter projects elaborated on a decentralized basis. The spirit underlying it is closer to that of a *development bank*, which relies for its success on the selectivity, initiative and managerial capacity of public and private bodies with which it interacts at a local level (CER 1986).

However, criticisms and doubts have been advanced regarding these approaches, and in particular as regards the viability of Law No. 64 and of the innovative model set out in it (Lorenzoni and Zappella 1988). The first and most serious of the doubts is whether the State, and especially the public institutions in the South, are in a position to promote and administer projects calling for a high level of knowhow, when these levels of government often prove defective when it comes to meeting even the simplest needs of the public. For, if economic development also has a cultural aspect (Sylos Labini 1985 and 1988), being intimately linked with the quality of services

and social structures, it is difficult to realize the productive potential and plan for development by placing the selection and implementation of projects in the hands of political, institutional and administrative structures which are inherently defective and inefficient. A possible answer would be to have systematic recourse to the expertise in the evaluation of projects of European bodies such as the European Investment Bank and Italian ones such as IMI (the Istituto Mobiliare Italiano).

Recent episodes in the use of funds for the reconstruction and development of areas hit by natural disasters confirm the validity of these doubts. Some perplexity, therefore, may also arise as regards a policy which relies on the supply of "real" services of an innovative type to fuel industrial growth, exports and so on. If these were provided by public structures, they would automatically have built-in delays, inefficiency and waste, which would make them useless, insufficient and costly. In this context, the spread and deep roots planted by organized crime appear particularly disturbing, both as an indication of a profound social malaise and as, at one and the same time, cause and effect of the cultural backwardness of these areas. These phenomena, together with the alarming spread of petty crime may also have helped to limit the development of those local entrepreneurial capacities, the lack of which is, according to certain authors (F. Padoa Schioppa 1988), the real constraint on development in the South.

To conclude, since there is undeniably a link between the volume of the funds channelled towards the South by the State, the formation of a parasitic mentality, and the torrent of crime which aims, among other things, at controlling the market for public tenders, one must ask oneself whether the natural reaction may not one day be the diminution of State transfers, which would involve a further reduction in the development potential of the Southern regions.

6. The labour market at the end of the 'eighties

The Mezzogiorno question has a human, social and economic dimension, which cuts across the one so far considered — the income

differential with the North. This is the evolution of the Southern labour force and its two components, employment and unemployment, in relation to what has happened and is happening in the rest of the country.

In the Mezzogiorno as a whole, the number of persons employed in 1987 (6,320 thousand units) was just below the figure for 1951 (6,506 thousand units). However, the evolution was different in the 1950-73 and the post-1973 periods. In the first period, there was at one and the same time a reduction in the number of those employed in the South resulting from a marked fall in the labour force in agriculture and from emigration, and an even sharper drop in the labour supply owing, in addition to the effects of migration, to the diminution in the rate of labour participation (57.1% in 1951 and 42.6% in 1973 - Table 5) caused in particular by the higher average level of education. As a result of these movements, the rate of unemployment hovered around 9% between 1951 and 1973 (Table 2).

TABLE 2

UNEMPLOYMENT			
	1951	1973	1987
	Absolute values (in thousands of units)		
Centre-North	1,265	688	1,328
South	650	617	1,505
Italy	1,915	1,305	2,833
	Rates (as a percentage)		
Centre-North	8.8	4.8	8.4
South	9.1	9.5	19.2
Italy	8.9	6.3	12.0

Source: ISTAT data.

From 1973 on, on the contrary, there was an increase both in the number of persons employed and, to a larger extent, in the labour supply in the context of a reduction in emigration, a rapid increase in the female labour force in the South too, and a slight rise in the overall rate of participation in the labour market (Tables 5 and 6). In this period, great importance attaches to unemployment among the young, which now affects some 40% of these age groups in the South

TABLE 3

RATES OF UNEMPLOYMENT BY SOUTHERN REGION
(1987)

Abruzzi	10.38
Apulia	16.48
Basilicata	19.53
Calabria	20.07
Campania	23.08
Molise	12.98
Sardinia	18.65
Sicily	18.10

Source: SVIMRZ and ISTAT data quoted by CAFIERO 1987.

and which has prompted some writers (Oneto 1987) to advance the theory of "groups at risk", that is, who are exposed to the danger of prolonged unemployment, such as young women and students.

It has been pointed out that the mass clandestine immigration into some areas in the South such as the provinces of Naples and Caserta and some parts of Sicily indicates an excess of demand for labour in the lower segments of the market, despite the existence of substantial pockets of unemployment. One explanation — advanced by Chiarini and Vinci, 1987 — is that there is a relatively high level of "reservation wage" in the South, that is, a minimum wage needed to set in motion the willingness to place one's labour supply on the market and/or in segments of it regarded as particularly lacking in status. This, it is asserted, might be another effect of the income-support policy in the South by the public sector. The average level of household income makes it possible to extend the spells of unemployment until it is possible to find a job regarded as satisfactory. A high reservation wage in the South is cause for particular concern; since it constitutes a factor making for rigidity, it destroys the incentive for labour to move and makes the cost of labour comparatively higher. Once again, it should be noted that this type of measure, though correct from the point of view of social justice, has a very high cost in terms of efficiency and of North-South integration.

In 1987, the rate of unemployment in the South was roughly 19% (or 20% if account is taken of workers on the Cassa Integrazione Guadagni — the Fund bringing unemployment payments up to wage level), while, in the North and Centre, it was 8.4% (or 9.5%

TABLE 4

PER CAPITA GDP AND UNEMPLOYMENT RATE IN SOME COUNTRIES

Country	per capita GDP ⁺			percentage rate of unemployment		
	1971	1981	1987	for young people		
				total	1982	1987
Canada	4,274	12,288	17,211	11.1	18.8	13.7
France	3,577	9,573	12,803	8.2	19.0	23.0
Germany, Federal Republic	3,618	9,673	13,323	6.7	9.5	7.9
Japan	3,002	8,871	13,182	2.3	4.4	5.2
Great Britain	3,454	8,488	12,340	10.4	23.1	17.4
Greece	1,726	4,905	6,363	5.8	—	—
Eire	1,965	5,594	7,541	11.4	—	—
Italy	3,214	8,806	12,254	8.5	28.0	35.5
Portugal	1,628	4,688	6,297	7.5	—	—
Spain	2,399	6,166	8,681	16.4	36.7	38.9
United States	5,275	13,077	18,338	9.7	17.0	11.7
OECD average	3,744	9,743	13,705	8.4	17.2*	15.0*

⁺ expressed in "Purchasing Power Parity".

* relates to member countries for which the datum is available.

Source: OECD data.

TABLE 5

LABOUR FORCES AND RATES OF PARTICIPATION IN LABOUR MARKET

	1951	1973	1987
	Labour forces (in thousands of units)		
Centre-North	14,379	14,357	15,843
South	7,156	6,475	7,825
Italy	21,535	20,832	23,669
	Rates of participation in labour market* (as a percentage)		
Centre-North	61.5	50.9	51.3
South	57.1	46.2	48.0
Italy	60.0	49.4	50.2

(*) calculated for the population of over 14 years of age.
Source: SVIMEZ data.

TABLE 6

RATES OF LABOUR PARTICIPATION BY SEX
(as a percentage)

	1951	1973	1987
	Males		
Centre-North	93.2	73.4	65.6
South	92.3	70.0	66.9
Italy	92.9	72.3	66.0
	Females		
Centre-North	31.9	30.2	37.2
South	24.5	23.9	30.7
Italy	29.3	28.1	35.0

Source: SVIMEZ data.

if workers on the CIG are included). Still in that year, persons in the South seeking employment were for the first time more numerous than those in the Centre-North, although the total labour force in the latter area is more than double the figure for the South (15,843 and 7,825 thousand units respectively), and the rate of labour participation is less in the South than in the Centre-North (51.3% in the latter area against 48.0% in the South because of a smaller participation in the labour market by women in the South than in the North (30.7% against 37.2% - Table 6). In addition, the rate of

unemployment among young people in the South (42.8%) is more than double the figure for the Centre-North (19.5%).

In the South, then, about a fifth of the labour force is at present unemployed. Although this is a very high proportion, some writers maintain that it underestimates the extent of the labour surplus, both because the lower rates of labour participation may in part be a consequence of the labour surplus, and because the lower productivity per employee in Southern industry might well be the result of labour hoarding, that is, the tendency to hold back labour in industry even beyond the point indicated by strictly economic criteria.

It has been calculated that the Southern labour force should grow in the near future at a rate of from 50,000 to 60,000 units a year (Amendola 1987). In the absence of a substantial increase in the local demand for labour, this could mean a rise in unemployment to over a million and a half units by 1990. There have been, in the past, and there still are interventions designed to increase employment, especially in the South, for example, by contracts for training labour and the "emergency plan for the employment of young people". The main object of the measures so far approved, however, is to increase the elasticity of employment in terms of GDP, by increasing the mobility of labour, the absorption of the younger age groups in the market etc. (Amendola 1987). It seems difficult, therefore, to imagine that there will be a growth of demand for labour in the South such as to lead to a substantial diminution in the rate of unemployment, at least in the near future.

The present writer feels that a resumption of emigration from the South is inevitable. However, doubts have been expressed on this point. A new phase of South-North emigration, it is argued, is to be ruled out, because the labour-saving slant in the restructuring of industry in the Centre and North of Italy and in the North of Europe would tend to exclude the possibility of a new, marked and persistent excess of labour demand in these areas (Vinci 1987). In addition, in Italy there is now an accentuation of what is called emigration in reverse which, from 1987, equalled and then outstripped the flow of new emigration (Graziani 1989). This phenomenon, while for the moment affecting the Centre-North in particular (from 1970 to 1984, there were about 77,000 net repatriations in that area against about 22,500 net expatriations from the South), is now assuming some relevance in the South as well.

There is a problem of flexibility in the Italian labour market, which is specially acute in the South where, because of its substantial excess of supply, a correct functioning of the mechanisms is all the more necessary in order to avoid any discrimination between insiders and outsiders and not to stifle the demand for labour. The cure would be a revival, even if only a partial one, of the wage differentials between North and South, which would not necessarily be matched by equal inequalities in purchasing power (F. Padoa Schioppa 1988). At the same time, we support the abolition of the transfer on to the State of the employers' contributions to social security charges, which, it is admitted, has served substantially to offset existing differences in labour productivity, but has wiped out the incentive for labour to move and has weighed heavily on public finance.

It is not arguable that flows of emigration will again emerge on a scale comparable with past movements, which at the present time would imply an outflow of 250,000 people a year from the South (the average rate of emigration from the South was 10.8 per thousand of the population from 1953 to 1972 - Svimez 1988). While a new burst of emigration in grand style does not appear desirable, its resumption might appear advantageous in terms of the greater capacity to generate income for the whole Italian community and be the only solution making it possible to save a part of the young people in the South from a future in which they would rely on State handouts, seasoned with eschatological expectations of dubious realizability. Now that the restructuring of industry (designed to make the processes of production more flexible in order to win a competitive edge) is substantially completed, the long phase of the expansion of production, provided inflation does not come and upset the equilibria achieved between costs and prices, might go on and continue to call for an expansion of productive capacity with as a result an increase in employment.

Emigration in reverse, too, must not be overestimated. It has been happening in particular where opportunities for work and enterprise offer the "returnees" a chance of earning more than abroad.

If to all this we add the demographic trends in Community Europe which point to a drop in the working population and a general ageing as well as the completion of the single market, which includes persons as well as capital, goods and services, the prospects

for the emigration of labour should improve. It is to be hoped that these prospects will not be frustrated, or worse, the opportunities seized by others because of the high reservation wage in the Southern regions. As already observed, this makes unemployment more bearable from the social angle in the short term, but hampers the mobility of the factors of production, and works against the integration of North and South by means of one of the basic channels for the proper functioning of a currency area.

7. Are there unequivocal intervention priorities in the South for the 'nineties?

In order to avoid falling into the old vicious circle of Southern underdevelopment, where, through the emigration of the surplus manpower, the region regained a certain equilibrium at levels of income and capital invested necessary and sufficient to perpetuate a state of backwardness, we have to aim at an increase in the demand for labour in the South ensuring that the area will secure at least a part of the productive capacity of the younger age groups. Recent studies show that the situation in the Southern parts of Italy is comparable to that in Eire and Spain from the infrastructural point of view as well (Biehl 1982; EEC 1987; Bracalente, Di Palma and Mazziotta 1988). Analogous conclusions may also be drawn as regards the supply of services (Formez 1989), which, in its turn, is in part dependent on the network services (Fiore and Stellatelli 1987). Contrarywise, the Centre-North ranks halfway up the European table.

In this regard, there is no lack of hypotheses and suggestions; some writers (Savona and Zoppi 1987; F. Padoa Schioppa 1988) propose a new development model for the South focusing on bringing up the supply conditions to the levels of the Centre-North and on the reduction of the gaps in productivity between North and South. This is expected to take place through a development policy for the services and the advanced tertiary sector, both in the public sector and in private enterprise. Against this view, which revives a classical concept of action in the South, it may be objected that it is perhaps insufficient if, as early as the end of the 'fifties, it had to be

gradually buttressed by direct and indirect action by the State in the field of industrial investment and that the infrastructural endowment does not have a threshold beyond which a mechanism of self-supporting development is triggered off. Even if there were such a limit, it is a mobile one, for the roads and highways of the 'fifties have been replaced by modern telematic networks and we have no clear idea of what tomorrow will bring us. Thus, the risk of this approach is that we will continue to endow the area with infrastructures which will not be used for the purpose for which they are designed, that, in addition to the costs of constructing them, there will be maintenance expenses, and that this policy will give rise to excessive expectations in terms of the propulsion of development.

Another suggestion is to aim directly at a revival of industrial investment in the South in order to absorb a sizeable part of Southern unemployment (Giannola and Imbriani 1988; Graziani 1989). For it should be borne in mind that the economy of the area already shows a high degree of tertiarization thanks especially to the contribution of non-marketable services (Savona and Zoppi 1987). The results so far obtained, therefore, suggest the need for caution about adopting uncritically the one or other thesis, so that we ought to ask ourselves if there are not employment possibilities in other sectors (including the more traditional ones).

It is not only the dilemma emigration *versus* in loco employment which prompts one to reflect deeply on the right policy model for the South to be adopted in the coming decade. The renewed macroeconomic dependence of the South on the Centre-North raises new problems for the construction of Europe. For, within an incompletely integrated market, it is imaginable that the more advanced region may be ready to sustain the income of the less developed one, thus guaranteeing for its own firms a share of the additional demand, but it is difficult to conceive of the industrialized region being disposed to carry out this policy in the context of a much larger integrated economy, in which all the other competing industrialized regions will benefit from the increase in demand. There is a risk that the integration-dependence mechanism will founder at the national level, and that it will not be possible to reconstitute it in the wider Community framework.

For the increased macroeconomic dependence of the South can only make the balance-of-payments constraint more restrictive which, in a historical perspective, is one of the greatest limits on the

development of Italy's economy. The present functioning of the EMS and, in the offing, European monetary integration reduce the scope for modifying the competitiveness of Italian goods through variations in the rate of exchange. If these constraints operate for the Italian economy as a whole, they appear even more restrictive for industry in the South, since it would have to fill the gap in productivity, not only with the North of Italy but with the North European Community countries.

In this connection, various analyses (Savona and Zoppi 1987; Del Monte 1988; and Formez 1989) have recently brought out the existence of substantial gaps in productivity between the Centre-North and the South, even if, when the analysis is carried down to the sectoral level, the conclusions are not so firm. It should, at any rate, be pointed out that these studies reveal a constant fall since 1970 in productivity per employee in the South, compared to the rest of Italy. The ratio of productivity between the two areas was 91% in 1971 and about 81% ten years later. The cause of these discrepancies appears (Savona and Zoppi 1987) to be the difference in the endowment of services, including social ones, between the two areas.

It may simply be a statistical coincidence that there is a difference in the productivity per employee and in the endowment in services. And it is possible that these differences have a common cause, that is, the widespread existence of crime at various levels. The productivity per employee and the capacity to provide services, whether public or private, depend, in short, on the type and level of culture in the area.⁶

In addition, the South has a reduced degree of penetration in foreign markets as compared with the Italian market, so that it will derive relatively less advantage from the process of European integration. At the same time, it will be called upon to bear the costs of industrial restructuring which will follow this development, together with other areas and countries. To avoid this situation resulting in further harm to the South, it is essential to create a measure of integration in Italy, too, and help the South to regain

⁶ Numerous voices have been raised in alarm to point out the growth of infiltration by the mafia and the camorra at points insufficiently guarded by the State. The main task performed by it has been the distribution of the increasing flows of resources under programmes which are regarded by some as at the same time a factor unleashing, and the effect of, the criminal phenomenon (CENTORRINO 1984).

those degrees of flexibility which in the past have made it possible to narrow the gap for a time. If this is not done, the Mezzogiorno will find itself with a still smaller role to play in the European context.

In 1993, it is not only the Community countries which will be faced with all-out competition, but also the Government structures, both central and local. The constraints imposed by European integration and by EEC regulations to encourage free competition between the Community countries will lead to a gradual shift of emphasis from direct measures of intervention and the regulation of domestic markets to indirect measures providing incentives through, for example, a supply-side policy, the administration of which cannot be left mainly to local structures, which have often shown themselves incapable of providing the run-of-the-mill traditional services in the public tertiary sector.

Both the high rate and widespread diffusion of unemployment, and the secondary effects of an increased macroeconomic dependence of the South through transfer mechanisms on income account, call for a reexamination of policy for the South, and especially of the opportunities to increase local employment and to stimulate production in the area. We have already discussed a policy designed to bring the South up to the level of the North in terms of infrastructure and services, whether public or private, to production. It remains for us to examine a more eclectic approach covering all sectors, including the infrastructural one. It is perhaps superfluous to add that every effort would be in vain if law and order are not restored in areas where they have ceased to exist. No market can function unless supported by rules, and no policy can be effective when the authority of the State does not prevail.

7.1 Agriculture

A large part of Southern agriculture has lower rates of growth than the national average in this sector. If, in certain regions, agriculture has shown a considerable dynamism, in others, especially Sicily, Campania and Sardinia, production has risen only slightly (Cesaretti and Sodano 1985).

Vice versa, some of Italy's competitors in Mediterranean crops

have practised policies aimed at winning foreign markets by maintaining a high quality of product and by the rationalization and modernisation of the sectors of production, and thus succeeded in eroding Italy's share of the market to the point of virtually wiping out its exports in sectors in which they were traditionally entrenched. In 1987, exports of citrus fruit were only 6% of total national production (Fabiani 1988). At a time when the EEC is effecting profound changes in its procedures for intervention in this field in order to keep down the expansion of expenditure, there is a risk that Southern agriculture will remain mired in the backwardness and inefficiency which have limited development in the past.

Experts in the sector often stress the opportunities which would flow from the overhauling of production techniques, from the rationalization of its structures and from the stimulation of technical assistance and guidance in marketing, which would eliminate the unproductive middlemen who raise the cost of Italian commodities and limit their competitiveness. There is no need to restrict these interventions to the State. Great benefits would accrue from the involvement of the cooperative movement in the process and of the processing industry in the shaping up of a new agriculture.

The importance of a healthy and developed agricultural sector in the South can be summed up merely by citing the fact that, in the Southern regions, agriculture absorbs 20 to 30% of the working population. A failure to intervene in order to prevent the emergence of a crisis in Southern agriculture means aggravating the already difficult employment situation.

7.2 *Industry*

If we are to identify reliable types of intervention for the industrial development of the South, we must reconcile the conflicting conclusions to which our analysis has led. The situation with which the policy-maker is faced is, according to some authors, that of a region evolving in depth, in which are emerging vital propulsive forces, and these are decisive for its development (Pontarollo 1982; Lizzeri 1983), or that of a gradual stagnation and retreat in production, even in areas with a measure of industrialization (Del Monte

1985; Giannola 1987 and Amendola 1986). It would be possible to explain on these lines the fall in productivity per employee in the South and the trend towards a process of deindustrialization and tertiarization in some areas.

The relative uncertainty as regards the reference situation faces us with the dilemma: should one opt for a policy giving priority to supply, the flexibility of the factors of production and advanced technology for small- and medium-sized firms, mostly locally owned, and, hence, a policy linked to the concept of self-propelling development, or should one, again, link development, through models of integration-dependence, to the central role played in them by external investments, and incentives aimed at the accumulation of capital in, and transfer to, the area? In short, the choice is between reverting to the policy of extraordinary intervention which, although severely criticized at the time, appears to have borne fruit and, on the whole, deserves a positive evaluation, or pursuing a policy of income-support in the area, but one which is buttressed by structural reforms aimed at improving the conditions of supply and productivity in the South.

The comparison between the model of industrialization in the South and that for the NEC area raises doubts regarding the possibility of an approach of the second type, unless accompanied by other structural measures, ever proving successful. If there are areas in the South in which local entrepreneurs seem able to develop and prosper standing on their own feet (Abruzzi, Apulia, the Caserta industrial district, Avellino and Benevento, Catania and Teramo Provinces etc.), there is no doubt that these achievements still appear fragile and are on a modest scale. Above all, in their entirety, they do not amount to an organically inter-linked reality comparable with the NEC. If it can be asserted that the environment, in the sense of a totality of conditions of widespread industrialization and the provision of services on the spot for firms has been, and still is, an essential element in the economic "miracle" of the NEC, in the South the environment does act as a brake on development, which explains the fragility and isolation of the individual industrial areas, which depend on, and are more closely related with, the outside world than with the rest of the Mezzogiorno.

Certain indicators provide a picture which still gives cause for concern as regards the prospects of industry in the South. The most important of these is perhaps the one already mentioned — the

marked fall in relative productivity per employee since the middle of the 'seventies. It is difficult to deny the evidence which has been steadily accumulating on the propulsive role played by large-scale and medium-sized industry in the South, linked in the main to the creation and spread of down-stream activities which have provided the basis for subsequent developments. Another important factor is the spread of an industrial culture, in which to a large extent the South was lacking. For these reasons, there would appear to be an urgent need for the resumption of industrial investments from outside the region. In this perspective, the forms of intervention must be such as not to discourage the new local trends emerging and at the same time must make it possible to attract medium- and large-scale industry from the rest of Italy and from abroad.

There is no doubt that this would mean perpetuating the micro and macroeconomic dependence of the South, and that any private industry deciding to set up business in the South will do so in order to maximize profits for its firm or group, by decentralizing those types of production which are no longer economic in other areas and with a relatively low degree of innovation and profitability. In this context, the State Holdings Ministry should play an important part in restoring equilibrium by developing sectors with a higher technological content in the South, provided always that the criteria of efficiency and economic viability are met.

The emphasis placed on a model of the integration-dependence type must not, however, make us forget the importance for the development of the South of policies of structural reform regarding the development of supply, including those encouraging the efficient provision of traditional and innovative services to the public and to firms. The supply of these latter services, however, must be proportionate to prospective demand, and not to abstract standards. For it is by means of these policies that one can plan a type of industrial development not linked, owing to its needs to survive, to incentive mechanisms, and in which local entrepreneurial forces can bring to bear their propulsive capacity to further development.

7.3 Tourism

Another traditional sector in which the South is still lagging is tourism. While in 1987 the Centre-North registered a total of over about 300 million night stays by tourists, in the South the figure was only 62 million. If in the South the rate of increase is on an average higher (from 1984 through 1987 they rose at an average rate of 3.1% against 1.3% in the Centre-North - Table 7), these data still reflect factors of scale. Abruzzi, in particular, and Campania, the only Southern regions with a record comparable in numbers (18 and 16 million nights respectively) with the Centre-North, have registered average rates of increase which are relatively modest (2.8 and 2.1% respectively).

TABLE 7

TOURISM: OVERNIGHT STAYS
(annual percentage change, average for 1984-1987)

	Hotel		Non-hotel		Total		Total
	Italians	Foreigners	Italians	Foreigners	Italians	Foreigners	
North	2.1	3.7	-1.7	4.4	0.0	4.0	1.2
Centre	0.2	4.4	0.5	5.0	0.4	4.5	1.5
South	4.0	2.3	2.6	3.7	3.3	2.7	3.1
Italy	2.0	3.6	-0.4	4.2	0.7	3.8	1.6

Source: data of Ministry of Tourism and Performing Arts.

Certain figures give some indication of the maturity of the tourist industry and its characteristics. It will be noted, for example, that a large part of the regions with a high number of tourist-nights also have a high ratio of tourists in the non-hotel sector (Trentino-Alto Adige 123%, Liguria 140.7% and Latium 140.5%). Although reflecting particular situations, these figures seem to reveal a high degree of diversification in the structure of the tourist industry, which enables it to operate in various segments of the market on a competitive basis and to react more easily to market conditions (Fiori and Stellatelli 1987; Barucci and Becheri 1988). This ratio is about the same in the Centre-North and in the South (approximately 113% over the years 1984-87). However, such a result is due entirely

to the very high rate registered in Abruzzi (about 500% in the same period); by excluding this region, the ratio for the South drops considerably (which was around 72% in that period), and rises to comparatively high levels only in Campania (an average of 86% for that period), while in the other regions it usually lies between 50 and 80%, with the exception of Molise, in which it is particularly low (28%).

Another indicator which provides useful guidance is the ratio between foreign and Italian tourist nights. This is a good measure of the tourist industry's managerial capacity, even if it may be affected by, for example, the presence of tour operators (Barucci and Becheri 1988), or particular situations such as those in border areas. Excluding, for this reason, Trentino-Alto Adige and Friuli-Venezia Giulia from our analysis, Campania and Sicily turn out to have a high ratio of foreign to Italian tourism which is beaten only by Veneto in this respect. This may appear surprising, but does not necessarily prove that the accommodation and promotional structures are able to meet the needs of a flow of international visitors. The figures might also reflect the existence or the survival of tourist circuits which were of great importance in the past, but which do not now seem capable of substantial future development. The figures would therefore indicate maturity rather than growth.

World markets are not really aware of all that the South has to offer to tourists. It is formed at bottom of a few unconnected centres, is lacking in the necessary facilities and has considerable problems as regards its image because, in part, of the spread of petty and large-scale crime (Fiori and Stellatelli 1987; Mele 1988). There is a vast potential which could be opened up, especially in Campania and Sicily if it were possible to channel to that sector an adequate flow of investment. The total intervention needed, however, is substantial: new transport connections, the tidying up of the coastal areas, the restoration of the old quarters (the *centri storici* in Italian) and the preservation of the artistic patrimony, all of which have fallen into a state of partial or total abandonment. And these are only some of the problems (Fiori and Stellatelli 1987).

To conclude, it must be remembered that the official data used by us perhaps underestimate the extent of the Southern tourist industry because of a marked and widespread evasion of recording and taxes, and they may also conceal positive trends. On the basis of sample surveys (Barucci and Becheri 1988), it can be seen that

tourism is better organized and more dynamic in the South than the official data suggest. However, these surveys also agree about the relative backwardness of the Southern tourist industry and stress its problematic aspects, such as the spread of second houses. These represent investments with a low income-generating capacity for the area in which they are built because of the limited use made of them and of the strong probability of their grating on the marked sensitivity of tourists to any damage done by these constructions to the natural landscape.

Compared with other tourist areas, the Mezzogiorno can offer beauty spots largely unaffected by ecological and environmental problems. The South thus has the possibility of developing segments of the tourist market which do not exist in other regions, but call for the capacity to carry out a type of development compatible with the respect for the historical, cultural and environmental heritage. For the moment, this ability is present only to a very limited extent, since even buildings of enormous value such as the royal palace at Caserta offer, alas, a spectacle of visible decay.

With the creation of an integrated market, other possibilities may emerge linking up with the one just mentioned. In the same way as is happening in America, it may be foreseen that the gradual ageing of the population will lead to migratory flows similar to those being witnessed towards the Sun Belt. In this way, new needs would be created, and new opportunities for investment in the South. In the United States, these trends have linked up with the demand for recreation and with social facilities (especially as regards health), specifically aimed at satisfying the demands of the older population. This has led to a substantial specialization of the supply, which combines recreational facilities with specialist services of a particularly high quality. All this is still absent in the Mezzogiorno. It is to be hoped that, in the not too distant future, some attention will be paid to the question, and especially that the openings will be exploited before competing countries take the lead.

The tourist industry is one of those most exposed to international competition. The tourist flows to the South can in many cases be diverted to other parts of the Mediterranean — Spain, Greece, Portugal and Yugoslavia, which are increasingly formidable competitors. These countries are attracting increasing numbers of Italians, thanks in part to price policies which are hard to imitate (Mele 1988). Between 1980 and 1986, they led to increases in foreign

tourism from a minimum of 19% in Greece to a maximum of 55% in Spain. As against this, the flow in the same period from other countries increased by only 3% in Italy and by 4% in the South. The loss of market shares is the most disturbing aspect of Italy's inability to grasp the new opportunities now being offered in a strongly expanding market.

To anyone remembering the debates on the tourist vocation of the South, it will seem surprising that, in 1987, it registered only 20% of total tourist nights in Italy. There is a great deal to be done by the State among others if, in this field, too, the South is to take advantage of the additional opportunities for growth. It could, however, be counterproductive to attract new flows of tourists if public services are not brought up to the proper level, with, as a first priority, security, hygiene and transport.

8. Conclusions

In the light of present prospects, the problem of the development of the Mezzogiorno does not hold out hopes of a rapid solution, and may well become more serious by 1992. It is necessary, in any case, to break out of the present stagnation in the matter of new departures and to resume reflection on the most suitable instruments to be used in the new Community environment. The problem to be faced in 1992 will be a familiar one. The pursuit of the integrated market and the substantial stability of exchange parities may well mean that, at the European level, the problems will have to be faced which were encountered by Italy as a nation from its unification last century on, with the aggravating factor that the less prosperous regions will include not only the Mezzogiorno, but also Greece, Portugal, Eire and parts of the United Kingdom, and that the Community's relatively weak powers will not be able to ensure the large transfers needed for the development of these areas.

The rendez-vous in 1992 will prove very difficult for the Italian economy if the policy for the recovery of the Mezzogiorno has not been adequately rethought and reexamined. At the time (in the 'fifties) when there was the biblical exodus to the North of Italy and to Europe, and real wages were fairly flexible, public transfers were

probably insufficient and private capital flows perhaps non-existent. Later on, the mobility of labour dried up, and real wages became more rigid. An attempt was made to react to these developments by means of a volume of transfers, including those of private capital, which were on a vast scale but insufficient, and of the transfer on to the Government of employers' social security charges, which reduced the relative cost of labour, but blocked geographical mobility.

Hence, we must get the process of national integration started again, after the pause in the 'eighties, in order to avoid the Centre-North becoming the only area likely to benefit from European integration, while the costs will in many cases be spread over the whole of Italy. The emphasis will have to be placed on the joint operation of all mechanisms furthering Italian integration: the flexibility of real wages, the mobility of the factors of production including labour, in both the sectoral and geographical sense, and adequate public transfers, especially those increasing endowment capital.

Some authors (Savona and Zoppi 1987) maintain that the main policy for the development of the South in the 'eighties is action on a national scale, action, that is, to promote greater efficiency in private services and in the Government apparatus, the spin-offs from which are of particular importance to the South. That is certainly true, but constitutes a necessary condition, but hardly a sufficient one for the development of the South.

As the inward-looking view of the North-South relation is replaced by the outward-looking one of the relation of Italy to the rest of Europe, it will no longer be possible for the macroeconomic dependence of the South to persist at its present levels. In the integrated market, the South would lose its role as the provider of support for the production system in North Italy which, in the past, justified the burden imposed on that region to ensure the redistribution of income. Moreover, the transfer of resources through budget allocations must of necessity be scaled down if concrete steps are to be taken to bring public finances back into balance.

Whether the integrated market, and, later on, the monetary union, will conflict with the aim of reviving the Mezzogiorno, and, more generally, of the other less prosperous areas of the EEC, or whether both aims can be pursued with the same instruments because of their intrinsic complementarity, is a question to which it is not possible to give a clear answer. Since Europe ranks high in the

determination of political priorities and in those of economic policy, it is obvious that the reduction of the disequilibria between different areas can only come from actions which do not clash with the overriding objective and whose effectiveness will depend on changes in the economic environment. Hence, the pursuit of an economic policy in the South will gradually prove to be constrained in its choice of instruments, but not as regards its objective, which was clearly formulated in the mind of the men who drew up the Treaty of Rome just as it was clear to those involved in the recent negotiation for the doubling of the structural funds. The complementarity, on the contrary, emerges when the emphasis is placed on the mobility of the factors of production and on the flexibility of real wages, since these conditions are necessary both for the correct functioning of an integrated market with substantial stability of exchange parities within the area and to push the income of a less prosperous area up to the national and Community average.

In any case, there is a date, 1993, which, for the solution of the structural problems of the Mezzogiorno is too near for our comfort. Our hope is that this European goal will not allow us to forget the other Italian priorities, but, on the contrary, serve to stimulate reflection and prompt us to undertake those significant changes of direction which we have not yet been able to determine.

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