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# OECD Territorial Reviews

# Italy



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Italie

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## Foreword

The globalisation of trade and economic activity is increasingly testing the ability of regional economies to adapt and exploit or maintain their competitive edge. There is a tendency for performance gaps to widen between regions, and the cost of maintaining cohesion is increasing. On the other hand rapid technological change, extended markets and greater use of knowledge are offering new opportunities for local and regional development but demand further investment from enterprises, reorganisation of labour and production, skills upgrading and improvements in the local environment.

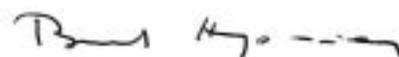
Amid this change and turbulence, regions continue to follow very different paths. Some regions are doing well in the current phase of the growth cycle and are driving growth. Others are less successful at capturing trade and additional economic activities. Many territories with poor links to the sources of prosperity, afflicted by migration, notably of young people, and lagging behind with respect to infrastructure and private investment are finding it difficult to keep up with the general trend. At the same time central governments are no longer the sole provider of territorial policy. The vertical distribution of power between the different tiers of government needs to be reassessed as well as the decentralisation of fiscal resources in order to better respond to the expectations of the public and improve policy efficiency. All these trends are leading public authorities to rethink their policies and strategies.

The Territorial Development Policy Committee (TDPC) was created at the beginning of 1999 to assist governments with a forum for discussing the above issues. Within this framework, the TDPC has adopted a programme of work that puts its main focus on reviewing Member countries' territorial policies and on evaluating their impact at regional level. The objectives of Territorial reviews are: *a)* identify the nature and scale of territorial challenges using a common analytical framework; *b)* assist governments in the assessment and improvement of their territorial policy, using comparative policy analysis; *c)* assess the distribution of competencies and resources among the different levels of governments; and *d)* identify and disseminate information on best practices regarding territorial policy.

The Committee produces two types of reviews:

*Territorial reviews at the national level.* Requested by national authorities, they analyse trends in regional performances and institutional settings, focus on policies to reduce territorial disparities and to assist regions in developing competitive advantages. They also concentrate on the governance framework, on the impact of national non-territorial policies on subnational entities and on specific aspects of fiscal federalism. The final report proposes territorial policy recommendations.

*Territorial Reviews at the regional level.* Requested by subnational authorities (local or regional) with the agreement of national ones, they concentrate on strategies for development of the respective entity. They in particular identify the role of key demographic, socio-economic, environmental, technological and institutional factors in explaining the performance of regions. Comparative analysis with regions of the same type is undertaken using the typology elaborated by the Secretariat. The final report proposes development policy recommendations.



Bernard Hugonnier,  
Director,  
Territorial Development Service

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## Assessment and recommendations

Italian economic development has been characterised by marked regional disparities, in particular between the Centre-North and the South. The post-war period first demonstrated territorial growth convergence; the gap in per capita income between southern regions and the fast-growing Centre-North narrowed until the mid-1960s, then stabilised and started widening again since the 1980s. Today, Italy features one of the widest geographical dualisms among OECD Member countries. In the southern regions, unemployment rate is four times higher than in the Centre-North and about twice the Italian average. In the Mezzogiorno (Southern Italy) the labour force participation rate is particularly low for women and young people (in the 25-34 age bracket it is 20 points lower than the European average). The underground economy stands out as a major policy issue: irregular workers (1.7 million labour units, net of second jobs) account for an estimated 26 per cent of total labour force in the South (which is almost twice the Italian average). Besides, the infrastructure endowment of the southern regions remains far below the national average, especially for railways and airports, and even when the gap is light – as it is the case for housing, education and health care facilities – service quality remains significantly uneven. Moreover, organised crime still constitutes a heavy deterrent both for investment and endogenous development. A coherent strategy to revitalise the South has to tackle these structural elements of disadvantage.

The present situation is the result of different territorial development paths. At the beginning of the 20<sup>th</sup> century, industrialisation set off in the *North-West*, in

***Territorial disparities persist in Italy...***

***...as the result of different territorial development paths***

the so-called “industrial triangle” (Milan, Turin and Genoa). Throughout the 1950s and 1960s, mass production expanded and these regions were the fastest growing area of the Country, thus harbouring the so-called Italian “economic miracle”. However, in the 1970s, large firms faced a severe crisis, which was triggered by a harsh wave of industrial conflict. Industrial decline was yet balanced by a concomitant growth in the services sector, especially in large urban and metropolitan areas. At the same time, the development of small firms and industrial districts accelerated mostly in the *Centre and the North-East*, where a network of small and medium-sized towns with strong cultural, social and political links spread out. These regions were labelled the “Third Italy” in order to distinguish them from both the industrialised North-West and the South. On the other hand, the *South* followed a different path of development: fast growth, more rapid than in the Centre-North, until the mid-1960s, and a relative slowing down in the ensuing period. These different phases have followed the evolution of the economic policy that was carried out in this area.

***Economic and social  
turnarounds in the  
South reflect the  
evolution of regional  
economic policies***

After the Second World War, the first significant effort to implement territorial development policies was made in 1950: in addition to ordinary government spending, the *Cassa per il Mezzogiorno* (Mezzogiorno Fund) was specially created to plan and execute a large programme of public investment in the South, initially over a ten-year period. This institution operated outside both central and peripheral administrations, and although it remained under political control, it enjoyed broad autonomy in decision planning and financial management, as well as large financial resources. The *Cassa* initially succeeded in raising local living standards, especially in the countryside, through modernising agriculture and strengthening basic infrastructures. In the late 1950s, the *Cassa* shifted its action towards industrialisation. In the 1960s and 1970s, the southern regions went through a process of top-down industrialisation, which was primarily driven by state-owned firms. However, the lack

of accountability, mismanagement and insufficient incentives for profitability resulted in over-investment. The *Cassa* lost its original efficiency and degenerated into political patronage. The enactment of a Constitutional provision to create regional governments in the mid-1970s did not produce significant changes, as their financial autonomy was modest. Economic disparities were not reduced and above all, while incentives and other public expenditures were steered towards the heavy industries in “industrial poles” (such as Taranto, Siracusa, Cagliari, Brindisi and others), development mostly occurred in other areas and sectors (mechanic, food and light consumer goods). In 1986, an attempt took place at reforming the *Cassa*. However, this reform was not able to produce significant changes.

When functional territorial units of analysis (Local Labour Market Areas – LLMAs – proxied by commuting patterns) are used, changes in the geographical distribution of fast-developing areas in Italy become visible. Since the 1970s to the beginning of the 1990s, specific LLMAs recorded particularly striking economic performances. They were mostly located in the Centre and the North-East, where the number of strong local systems doubled. In the same period, a few southern areas also showed clear signs of economic and social dynamism, especially along the Adriatic coast and in a few parts of Campania and Basilicata. In most cases, LLMAs’ performance in employment was associated with the presence of manufacturing activities, basically in small towns and non-metropolitan areas where small and medium-sized firms specialised in light industries and mechanics. At the beginning of the 1990s, 63 per cent of strong local systems were specialised in manufacturing sectors and 76 per cent of them were industrial districts. It should be emphasised that only few of them were predominantly specialised in tourism. In the northern areas, business, consumer and social services had a more significant place, while traditional services (such as public administration and retail activities) prevailed in the South. Such results suggest that an appropriate understanding of local

***Local dynamics and policy needs can be more easily identified by using functional units of analysis***

dynamics and policy needs may require a relevant unit of analysis and intervention. The analysis of employment performances between contiguous areas has highlighted the role of proximity in the diffusion of development. It is likely that its impact has been enhanced by the model of industrialisation based on light industry and clusters of firms, which implies strong external economies and relational factors. In other words, development has often been characterised by spillover, starting in richer areas and spreading to contiguous ones with similar characteristics in their productive structure and institutional context. For instance, the local institutional context and proximity may explain the differences in the development of the Tirreno and the Adriatic coast. In the former case, the traditional economic environment, based on heavy industries as well as large urban and agricultural structures, appears less favourable to the diffusion of light industrialisation than in the latter. However, the impact of proximity can be reduced by the presence of morphological and economic barriers that can make the access to some product and factor markets more difficult.

***In the 1980s, the combination of re-distributive central policies, aimed at compensating instead of removing the constraints on development, and poor public investments policies, resulted in wider regional disparities***

The expectations that development in “industrial poles” of Southern Italy would spread to surrounding areas proved to be excessively optimistic, and were progressively abandoned in the 1980s. The strategy for extraordinary intervention drifted towards welfare policies, relying basically on labour subsidies, and non-wage labour cost exemptions became the main source of support for companies. In the beginning of the 1990s, most of the areas with the worst economic performance were still located in the South. Such areas strongly relied on public transfers, they were not able to create or to attract industrial firms, and their natural and cultural resources were largely unexploited. Growth remained slow, and was mostly related to the development of traditional services. Organised crime controlled vast portions of the territory. This situation clearly resulted from the combination of re-distributive central policies, aimed at compensating instead of removing the constraints on development, and poor

public investment policies that failed to narrow the infrastructure gap. As the attempt to convert the Mezzogiorno as a whole into an industrial area failed and many local systems outside and within the Mezzogiorno gained success, without any national public support, the consensus for extraordinary intervention weakened. At the same time, the severe financial situation of Italy, growing political tensions in the North, and the capacity of Centre-North regions to innovate in policy-making, even forcing their formal field of competence, increased the political pressure for decentralisation and more effective spending criteria. Moreover, the 1988 Reform of Structural Funds encouraged local authorities to develop a real planning capacity and represented an additional stimulus to change and renew Italian regional policies.

A policy-making breakthrough took place in 1992. The shift first came from the move of Italian macro-economic policies towards tighter fiscal discipline, privatisation and liberalisation, due to the transformations affecting the European institutional framework. Under the pressure of investigations on several cases of bribery and private capture of public interest, Parliament suppressed extraordinary intervention in the South in 1992. Public investment in the Mezzogiorno dropped (from EURO21 billion in 1992 to EURO15 billion in 1997) and most areas suffered from a decline in income growth and employment. The severe contraction of public expenditure and the constraints on national macro-economic policies, due to the process of European integration, limited the possibilities of re-distribution from the centre and produced *unintended* territorial effects. Both households and firms located in the area suddenly faced a credible threat of a reduction in their permanent income. The significant decline in the flow of public funds was accompanied by two *intended* shifts in policy: the tightening of law enforcement and the decentralisation of government functions. The effective actions of a strong *anti-Mafia* pool of magistrates and the implementation of innovative measures (*e.g.*, laws fostering the use of collaborators, the creation of the

***A strong break took place in 1992...***

“*Procura Nazionale Antimafia*”) significantly weakened organised crime since 1992. In the meantime, the reduction of state subsidies to the South shrank the opportunities for organised crime to intervene as a mediator between the public administration and private business. In a context of social changes, economic recession and the crisis of the party system, links between organised crime and politicians were put under strain. The situation improved considerably, especially in the major cities of the Mezzogiorno.

**... followed by ten years of intensive transformation in territorial governance**

In the 1990s, Italy stepped into intensive transformation in territorial governance. Until the beginning of the 1990s, local finance had suffered from excessive conditionality on state transfers. Regional financial autonomy was modest and the central government held strong discretionary powers without effective procedures of *ex ante* and *ex post* evaluation. The allocation of funds was decided on a year-to-year basis, thus making the planning process uncertain and difficult. Negotiation between actors at central and local levels was mainly orientated towards re-distributive objectives. In the absence of direct responsibility to the electorate and appropriate allocation of powers, planning at the local level was forced to meander through a maze of negotiations with the central administration. The lack of clearly defined responsibilities weakened the commitment to implement policies, with a direct impact on the effectiveness and efficiency of project design and management. In the early 1990s, the political and economic conditions deteriorated sharply and a growing demand for local autonomy became explicit all over the country. With the first 1990 Reform, municipalities and provinces were enabled to adopt their own statutes and define their organisation. Metropolitan areas were designed around main cities. In 1993, the direct election of the mayor and president of the province was introduced. With the new electoral system, local administration became more stable and, very often, politically more powerful and accountable. However, it took seven more years for the direct election of regional presidents to be introduced.

Significant developments in the on-going local autonomy process of reform occurred in 1997-99. Thanks to the “Bassanini Reforms” in particular, the power and role of local authorities have been strengthened and the administrative decision-making process has been simplified and rationalised by decentralisation, modernisation of the budget process and streamlining of administrative procedures. The reforms of the institutional framework have introduced the principle of vertical subsidiarity: only matters of national interest remained within the sphere of the state (external affairs and trade; defence; public order and safety; justice; university and scientific research; large network infrastructure). With regard to the promotion of local development, functions related to industry were transferred to regions that were put in charge of the management of incentives, while the central administration kept functions related to the general orientation of industrial policy. However, a few important incentive instruments were maintained within the sphere of state powers, at least temporarily (for example, L. 488/92 for investment incentives, L. 46/82 related to technological innovation, etc.).

A significant share of fiscal autonomy has been granted to regions and local authorities with the introduction of specific, broad-based taxes (tax on productive activity, IRAP, for regions; tax on real estate, ICI, for municipalities; tax on registration, IPT, for provinces), backed up by a surcharge on national taxes and shared national tax revenues. Over the last four years, the share of local taxes in total public administration revenue has increased by 4 points. Greater regulatory power on tax management has been awarded to provinces and municipalities. The reform has also led to a reduction in state transfers and the introduction of equalisation based on local authorities’ revenue-raising capacity and needs. However, this part of the reform bill is still incomplete. Given the considerable fragmentation of Italian local institutions and their extreme diversity with regard to per capita resources and administrative capabilities, the pre-existing imbalance in resource distribution could

***The revenue raising capacity of local authorities was significantly improved***

be intensified by the progress in fiscal federalism. Transparency of financial flows will need to be reinforced and an interregional equalisation mechanism, the criteria of which have so far not been clearly defined and agreed, should be set-up in order to limit imbalances. Besides, it is feared that the rapid speed of the decentralisation process could increase territorial disparities with respect to the quality of the services supplied (*e.g.*, health system). Co-ordination and control mechanisms will thus play a crucial role in correcting major inefficiencies and balancing disparities in governance capabilities across regions, especially in the first years to come.

***After a phase of stagnation, dynamism has recently become visible in the Mezzogiorno...***

The structural adjustment and the precautionary saving induced by policy changes slowed down economic growth: the 1993-1995 average annual GDP growth rate in the South was only 0.3 per cent, while the growth rate of the Centre-North also stood at a modest 1.6 per cent. Labour market performance in the Mezzogiorno deteriorated, with a considerable reduction in employment: between January 1993 and 1995, around 380 000 jobs were lost and unemployment rate rose from 16.2 to 20.4 per cent. The restructuring and privatisation of large firms, which took place later than in the Centre-North, affected this outcome. Nevertheless, some positive signs of economic revival have become discernible since 1996. In 1996-1998, real GDP growth accelerated in the Mezzogiorno to an annual average rate of 1.7 per cent, as against 1.4 per cent of the Centre-North. Compared to the 1980s, growth was characterised by a rise in investments with an average increase of 4.3 per cent (0.8% in the period 1980-1992). The pace of gross and net firm creation in the South has also accelerated, rising above the national average. From 1996 to mid-2000, the number of non-agricultural enterprises increased by 9 per cent, compared to 6 per cent in the Centre-North, especially in the services sector. The total number of businesses expanded, due to the strengthening of local agglomerations of firms, and a significant rise in the number of exporting firms. Southern exports have shown greater dynamism: over

the last five years, the annual average growth was around 10 per cent, as against 5 per cent in the Centre-North, raising the share of southern exports in the national export total. Following years of steep decline, employment in the South has begun to improve, with around 370 000 new jobs created from July 1996 to January 2000.

It was only in 1998 that these changes coincided with a shift in regional development policies and a more general progress in structural reform towards an emphasis on markets and local initiative. A new territorial competitiveness policy was implemented along the lines of the administrative reform, making use of the planning exercise of about EURO45 billion of EU structural funds and national co-financing, for the years 2000-2006. The strong visibility and accountability of EU Funds allowed Italian authorities to devise a new and binding set of rules and procedures. This policy relied on new partnership-based and co-ordination instruments that had been experimented since the beginning of the 1990s, aimed at promoting horizontal and vertical co-operation between government bodies and between public and private actors in fields such as infrastructure, urban planning and local development. Among the different instruments of co-ordination, Territorial Pacts are public-private agreements at the local level, designed to promote relations of co-operation and trust as well as to stimulate and co-ordinate investment by private enterprises and local administrations. In the field of spatial policies, integrated urban projects (like PRUSST = programmes for urban renewal and spatial sustainable development) have been promoted in urban renovation (both environmental and social), transport (traffic, inter-modality between rail and road, city logistics), commerce, urban security, urban marketing. However, these new partnership-based instruments have not always produced the expected outcome. The high variance of results in recent experience has shown that the effectiveness of their implementation depends on the representativeness and commitment

***...and a more coherent territorial development strategy has recently emerged***

of the actors involved, the rigour of the evaluation and selection system, the transparency of the decision-making process, and the effective accountability of the partners involved. In some cases, partnerships were unable to guarantee the accumulation of knowledge required to upgrade a mere distributive negotiation into effective integration. Today, the “regionalisation” of Territorial Pacts requires the definition of more stringent selection rules, clear responsibilities of the actors involved in the territory, and an efficient monitoring system coupled with sanction/reward mechanisms.

***The new policy aims at enhancing territorial competitiveness...***

The ongoing reform of territorial policies is bringing about major changes. Ordinary administration is responsible for intervention in all depressed areas in Italy (73% of them are in the Mezzogiorno). There are no more ad hoc institutions, that work under “special” or extraordinary rules. A program of public investments and institution building is implemented, aimed at increasing the competitiveness of territories by enhancing their local potential: natural and cultural resources; productive agglomerations; settlement structure in urban and rural areas; networks and communications. The policy focus has shifted towards an attempt to improve the local context through law enforcement, efficient administration and appropriate use of resources. This is achieved through a clear distribution of responsibilities between the central government and local authorities, and strong incentive mechanisms to ensure the selection of priorities, the *ex-ante* evaluation of projects, their monitoring *in itinere* and the *ex-post* evaluation of the results achieved. This process is based on the awareness that knowledge, which is necessary to plan and implement local projects, is a widespread resource among the various levels of government, private enterprises, social and economic associations and citizens. Regional authorities are given responsibility for prioritising goals, selecting and promoting projects and monitoring on both financial and economic results. The lowest level of institutions, that are closest to the targeted territory, have primary responsibility for seeking and

identifying local opportunities, formulating project proposals and, often, managing interventions. On the other hand, the central government keeps its role in the determination of guidelines and rules, the diffusion of methods to support local administrations, and diagnostic monitoring of results. Its role is to ensure the overall coherence of territorial programmes and promote policies that cannot be implemented by lower levels of government (for example, in order to guarantee suitable levels of efficiency and/or to promote positive externalities). Enacting the new system of territorial governance is difficult, particularly for the regions that have a poor-quality administration. Given the prominent role of regions and local authorities in selecting priority goals and projects and managing interventions, it is urgent to modernise their administration by appointing specialised and high-skilled staff, particularly in the Mezzogiorno.

The new strategy aims at promoting a favourable context for medium-term planning through: the identification of the overall volume of available resources for 2000-2007 (budget funds, special domestic funds for depressed areas, European structural funds and national co-financing) and full disclosure of the criteria for the distribution of resources between regions; the promotion of a network of evaluation and monitoring technical units in central and regional administrations; the starting-up of a central project financing unit to provide legal and technical assistance to local administrations; the promotion of high quality standards in project design via the financing of feasibility studies. These framework conditions are fundamental. The ruling class may naturally be tempted to diverge from such rules, because the lack of a long-term perspective and the necessity to gain rapid consensus may increase the incentive to select interventions without any *ex-ante* evaluation and partnership-based agreement. It should be noted that a transparent *ex ante* allocation of funds based on binding rules heavily restricts political discretionary powers. The efficiency of the monitoring system and sanction/premium mechanisms to follow

***...and creating a favourable context for medium-term planning***

the progress of public investment initiatives are key elements. The implementation of an effective decentralised system of evaluation and monitoring, achieved through the recent creation of regional technical units, will provide support to the planning bodies.

***The territorial effect of  
“non-territorial”  
policies should be  
carefully assessed***

Italy is a country where traditional supply-side policies can have strong asymmetric effects. They can either support, be neutral to or implicitly hinder territorial policies. For example, recent deregulation and liberalisation of important markets (*e.g.*, air and railway transport, airport and port facilities, telecommunications, local public services, electricity) may have uneven territorial outcomes. In several cases (notably local public services and air transport), liberalisation is not complete yet and backward regions bear the cost of both past and present situations. The reform of the pension system may also have a considerable territorial impact in the future. State social transfers to the poorest part of the population are the lowest in Europe, while extreme poverty is almost totally concentrated in the southern regions, particularly in the main urban areas. Existing mechanisms of cross-sector co-ordination and assessment and monitoring of the territorial effects of such policies need to be improved. Similar considerations apply to incentive policies. Direct incentives to firms *per se* are not able to trigger long-lasting development dynamics: while providing a reduction in the cost of capital for areas where context conditions tend to lower firms' returns, they do not intervene on those conditions. The logic of sector incentives runs contrary to the reduction in competitive barriers and is bound to lead territories into a zero-sum rent-shifting war. The current territorial development strategy, which aims at enhancing the local context, promoting the territories' endogenous resources, fostering agglomerations and enhancing networks and communication, should be a national policy priority, in order to ensure the self-sustained development of backward regions and thus general growth. From services provided by research institutes, science and

technology parks, to those supplied by regional agencies for economic development, all such measures should be supported and co-ordinated with the general aim of enhancing territorial opportunities so as to create a permanent incentive for local entrepreneurs to set up and develop their businesses and to attract external private investments.

The current 2000-2006 Mezzogiorno Development Plan (MDP-CSF) is the main application of the new territorial development strategy so far. Drawing up the Plan took 18 months of technical and political negotiations between the central state, regions, municipalities and social partners. It was approved by the European Commission in August 2000. The Plan includes specific measures designed to boost the efficiency of institutional innovations. Under EU Structural Funds rules, *ex-ante* determination of resources available for each region implies automatic claw-back mechanisms, so that regions pay back any funding that would be unspent at established deadlines. Such measures are currently being experimented as are sanction/reward mechanisms so as to spur regional and central authorities to implement administrative reforms and pursue high quality projects, integration and concentration of resources. Around 10 per cent of all resources will be allocated this way through a performance reserve system, which grants more resources to the administrations that spend their funds better and not only faster. These tools represent significant progress. Since around 70 per cent of total resources are directly managed by regions, it will be important to build up locally the technical know-how necessary for the new tasks. Besides, the Plan sets guidelines to concentrate resources in the territories where larger accessibility to natural and cultural resources could attract significant private investment.

In most recent years, new economic dynamism is emerging in some of the weaker areas of the country. In the Mezzogiorno, growing entrepreneurship, the emergence of clusters of firms in traditional and

**The 2000-2006  
"Mezzogiorno  
Development Plan"  
represents a progress...**

**...but more action is  
required to tackle the  
problems of depressed  
areas...**

high-tech sectors, and significant increases in exports of goods and services are signs of new development. It is fundamental to accompany these changes with appropriate policies. There are still major issues to be handled, such as the modernisation of public administration, effective law-enforcement, the efficiency of education and training and the quality of cultural and natural resources management. Even though remarkable natural and cultural resources offer Italy an obvious opportunity for well-balanced and sustainable development, especially in the most lagging areas of the South and the islands, such an opportunity is still largely unexploited: in 1999, only 21 per cent of tourism expenses went towards the South (only 11% of foreign tourism expenses), although signs of dynamism become perceptible since the mid-1990s. An overall strategic vision for tourism policies seems to be lacking. Access to the natural and cultural resources should be made easier through the elaboration of strategic plans based on an optimal use of local knowledge, along with stronger and higher-skilled technical support at all tiers of government. Integrated public investments are needed to restore archaeological sites, to protect natural areas, to prevent coastal erosion. More efficient resource management is required, promoting the access of new enterprises and capital into the sector and introducing mechanisms of market competition. In order to enhance local systems' competitiveness and favour the development of fiduciary and contractual relations within clusters of firms, priority should be given to law enforcement and crime control, as well as to local institutions' capacity building and the definition of adequate incentives for networking. Stronger competition in markets, both in labour and products, is particularly needed in the Mezzogiorno: more transparent mechanisms of allocation of workers to jobs, wages differentials more responsive to productivity differentials, reduced market barriers in business services and local utilities.

External and internal digital divides are growing at the pace of the on-going technological change. Despite recent relevant signs of dynamism in the Italian ICTs Market, the country and especially the Mezzogiorno seem to be weak at what appear to be the key forces of the new digital economy, *i.e.*, IT infrastructures, R&D and human resources, venture capital availability. Nevertheless, the uptake of ICTs may represent a major opportunity to foster the development of the most lagging Italian territories and improve governance at all territorial tiers. The virtual mobility offered by extensive use of ICTs can play an important role in overcoming the most severe geographical barriers (*e.g.*, through distance education, tele-medicine, etc.) and in providing high paying jobs, if the appropriate supply of skilled workers is made available. Best practices emerging across Italian territories, including the Mezzogiorno, are giving encouraging signs in this direction. Digital networks can be particularly useful to build a knowledge-sharing environment and boost recent innovative experiences in governance. The advent of Internet-based electronics and the large efficiency gains reachable through ICTs provide a decisive opportunity for SMEs. However, such developments should be backed up by more decided public policies, both at local and national levels. Therefore, urgent action is required to foster a sound diffusion of IT skills and infrastructures across Italian territories. The government has recently presented Action Plans for both Information Society and e-government. These plans set ambitious goals whose attainment will depend largely on the amount of resources and the degree of co-ordination that all actors involved can accomplish. Conservatism and lack of skills in public administration may hinder the undertaking of a determined process of technological innovation.

Most depressed areas are still very distant from major national, European and international centres, both in terms of transport and communication. The need to foster local agglomerations of firms and support the growing tourism market calls for adequate

***...and to exploit the opportunities brought by emerging technologies***

***Transport infrastructures still represent a bottleneck for the new territorial policies***

transport infrastructures that are still lacking. Present reality offers a picture of congested urban areas and booming regions, in addition to the poor linkages of many southern areas. The current Mezzogiorno Development Plan promotes feasibility studies on alternative networks (*e.g.*, Sicily-continent communications) and gives priority to projects emerging from this process. Nonetheless, the definition of priorities for the improvement of communication networks is still uncertain, so that concern exists about the capability to devise timely major decisions, regarding both the vertical communication system between Sicily and Europe, and the horizontal system in the far South as well as in the far North, where the over-use of existing road connections might already be acting as a deterrent for growth. These features are particularly important with respect to the new opportunities and challenges that will arise from the EU enlargement to several East-European countries and the changing scenario in the Balkans.

***A medium-term  
scenario***

In the last ten years, the structure of territorial governance in Italy has undergone significant changes. Many of the powers and functions of the central government have been conferred on regional and local authorities, and this process has been coupled with a radical change in the electoral system and sizeable reforms in public administration. The new allocation of functions has entailed a re-distribution of resources and has strengthened the revenue-raising capacity of local governments. New instruments for governance have appeared on the political and institutional scene, due to the development of strong institutional partnerships, both horizontal and vertical, social partnerships, and the implementation of administrative models inspired by the principles of New Public Management. Yet, a series of conditions should be set in order to ensure that current reforms in territorial policy converge in a coherent and widely supported strategy that will be able to trigger a new regional convergence process. Some of the variables are:

- *Administrative decentralisation.* The conferment of functions on regions and local authorities should take place ensuring uniform standards of quality in the delivery of services across territories. Despite significant progress, more effort is required to improve the quality of administrative processes.
- *Fiscal decentralisation.* If increased fiscal autonomy may foster effectiveness of public spending, a major policy concern should be the establishment of adequate forms of inter-regional equalisation based on local authorities' revenue-raising capacity and needs. The existing imbalance in resource distribution might be emphasised by the process of fiscal decentralisation. Moreover, local governments' accountability needs to be strengthened and expenditure management instruments improved.
- *The level of skills and know-how within administrative structures.* The current process of decentralisation and the implementation of the new framework for territorial policies raise concern about the ability of all regions and local authorities to hold increased responsibilities both in evaluating and managing interventions. Local government capabilities in medium-term planning and project design should be strengthened. It is essential to introduce principles of New Public Management at all levels of government.
- *The organisation and reinforcement of evaluation and monitoring instruments is essential.* Structures have been set up to achieve this objective: for example, the creation of a network of central and regional technical bodies for evaluating and monitoring public investments is on hand. Policy efforts must be carried on in this field.
- *Within the framework of the process of decentralisation, the number of actors who can legitimately intervene on the territory is multiplied.* This situation calls for more flexible forms of institutional co-ordination.

Policy design, project management and monitoring should be increasingly carried out jointly by the different actors involved and submitted to continued appraisal by the social parties. Several forms of institutional partnerships have been developed in Italy and represent an important and ambitious test-bench to redesign centre-periphery relations.

***In conclusion: territorial policies have turned a corner, but the challenge remains one of enhancing the framework conditions that will induce development of embedded local economies in depressed areas***

Despite an overall convergence process in the last four decades, large territorial disparities persist in Italy. The analysis of growth patterns shows that one particular development model has successfully spread throughout the Centre-North of Italy and in some parts of the South. In accordance with such a model and the current process of decentralisation, the country should reinforce the emerging trends in territorial governance aimed at creating the framework conditions that could favour the development of embedded local economies in depressed areas. New policies for the Mezzogiorno should heed the lessons of the past and bet on a careful but determined process that involves all actors and all tiers of government, in the strategic phases of design, evaluation and implementation of territorial policies. The major challenge in this process will be to implement appropriate monitoring, benchmarking, technical assistance to reduce risk failures and speed up the diffusion of best practices. On this basis, the outstanding and still largely under-valued natural and cultural resources could be exploited, especially in the Mezzogiorno, and together with the new opportunities brought by the emerging Information Society, a new convergence process could be started up.

*Chapter 1*  
**Disparities**

## **1. Introduction**

The territorial review on Italy has three main goals: the assessment of territorial disparities over the last decades (Chapter 1); the analysis of the impact of territorial policies on economic and social disparities (Chapter 2); the evaluation of current changes in the governance structure and their consequences for territorial policies (Chapter 3). Before analysing more recent economic and social trends, and the role of public policies, the historical background of territorial disparities in Italy is to be briefly outlined.

Among industrialised countries today, Italy still demonstrates one of the most striking levels of regional disparity between a very prosperous Centre-North and a lagging South. A careful examination of the historical evolution of this disparity and of its present composition allows one to dispel the dualistic interpretations that have often influenced Italian policy-making.

Political unification occurred late (1861) in comparison to other European Countries and amalgamated regions with marked economic as well as socio-cultural differences. Immediately after the unification, different paths of development exacerbated the divide between North and South. The most efficient agricultural firms concentrated in the northern part of the country (Piemonte, Lombardia and along the Po Valley). So did industrialisation, which took place mainly in the North-West (Lombardia, Piemonte and Liguria). Later on, industrialisation entailed a strong involvement of the state in economic activities, including extended ownership of large industrial firms and banks. The process as a whole favoured large firms and heavy industries (such as steel, electrical and mechanical engineering, chemicals, etc.), and gave shape to a modernisation process similar to that of North-Europe. The South – far away from Central Europe, covered by mountains, with an important share of population living in Islands – lagged behind with respect to modernisation of agriculture, industrialisation and organisation of local societies. Old feudal structures persisted: aristocracy owned large estates that were cultivated by poor tenants. Some of these peasants also owned small pieces of land, too small to provide sufficient income. Instead of

industrialisation, manufacturing was for long an activity of small artisans. Modern agricultural activities had limited growth, especially along the coasts. Moreover, southern cities were isolated and communications with the North were difficult. Since the last decades of the 19<sup>th</sup> century the awareness of a growing cleavage between North and South became widespread among the intellectual and political elite. A “*questione meridionale*” (the problem of southern regions, or *Mezzogiorno*) appeared in the political agenda: since then the problem of territorial disparities in Italy has been mainly identified with the cleavage between North and South.

More recently this peculiar feature of Italy has been analysed pointing to some economic and social differences that characterised North-West and North East development. Thus, “Three Italies” have been distinguished. Their origins can be traced back to the agricultural and urban structures, which preceded the first wave of industrialisation at the turn of the past century, but were reinforced by the growth of manufacturing firms, especially in the post-war period. Large firms and heavy sectors were concentrated, as we mentioned above, in the North West, the so-called “industrial triangle” (which includes the cities of Turin, Milan and Genoa). After the Second World War, mass production expanded and these regions were the fastest growing areas of the Country, harbouring the so-called Italian “economic miracle”. However, in the 1970s, large firms faced a severe crisis, which was triggered by a harsh wave of industrial conflict. This phenomenon was largely due to the increasing inability of the institutional context to adjust to the challenges coming from the rapid growth of mass production. Fast expansion of the working class and huge waves of immigration, especially from the *Mezzogiorno*, would have required an institutionalisation of industrial relations and the development of welfare provisions. However national policies were not adequate to face these challenges and local governments lacked sufficient autonomy. The result was a long and harsh industrial conflict. In the ensuing decades, serious problems of industrial decline of old industries, and of economic and occupational readjustment, had to be addressed in the North West.

During this same time, the development of small firms and industrial districts accelerated in the Centre and North-Eastern regions. These regions were labelled the “Third Italy” to distinguish them from the areas of old industrialisation as well as from the regions of the South that were still lagging. Some local systems of small firms were also present in the North-West and in the South, but they had a more limited role in the 1970s and 1980s. The Centre and North-Eastern regions had not been shaped by mass production and took advantage of rich artisan traditions, as well as of cultural, social, and political integration, which characterised the thick network of small and medium sized towns. These were crucial resources for the development of local systems of small and medium-sized firms specialised in the

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flexible production of consumer goods (textiles, clothing, footwear, furniture, but also mechanical engineering and machinery).

On the other hand, the South followed a different path of development. At the end of WWII, the Southern regions' economy was still based on large rural estates. A process of per capita income convergence took place immediately after the war. This was the result of a bold policy decision taken in 1950 to set-up a "temporary" national public Agency – the *Cassa per il Mezzogiorno* – which was put in the hands of public servants with an international reputation and skilled technicians. Over the following 15 years, the *Cassa* set in place major infrastructure and incentives to industrial sectors. The *Cassa* initially succeeded in raising local living standards, especially in the countryside, through strengthening basic infrastructures and modernising agriculture. The results were significant and contributed to high growth rates. In the 1960s and 1970s, the southern regions experienced an increasing process of top-down industrialisation, primarily driven by state-owned firms and a few private groups. New industrial plants were created in some areas, called "industrial poles". The main sectors were steel and petrochemicals (only later, the car industry, in particular Fiat, would invest in the South). Thus, in the 1960s and 1970s, while large private firms were mainly located in the North-West "industrial triangle" and small firms and industrial districts predominated in the Centre and the North East, many large state firms were located in the South.

However, the growth of new initiatives in the South lacked a clear industrial plan. Accountability suffered while mismanagement and insufficient incentives for profitability resulted in over-production, especially in steel and petrochemicals. In the 1970s, serious problems of restructuring affected the steel and energy sectors. Most private firms closed down and state-owned firms were often forced to acquire them in response to political pressure from unions and political parties. Later, in the early 1990s, the situation was exacerbated, by the worsening public debt position, making it necessary to drastically reduce funding to public enterprises. Privatisation began as a response to this crisis.

The special intervention program for the South also failed to trigger local development. In fact, the large plants created in the "industrial poles" were not able to stimulate new local initiatives and spin-offs because of the features of the sectors involved. However, since the 1980s some areas in the South have shown clear signs of dynamism, especially along the Adriatic coast (in Abruzzi, Molise and Puglia) and in parts of Campania and Basilicata, where some forms of small-firm development in light industry occurred. It is worth noting that this occurred mostly in areas that were not involved in the previous strategy of industrialisation promoted by the State. Finally, it should be noted that the effort of the State to reduce territorial disparities involved not only regional economic policies through the "special intervention" (*Cassa per il Mezzogiorno* and state firms)

but also social policies. These were developed in the framework of the ordinary state expenditure and included transfers to local and regional governments, and welfare expenditures (pensions, health care, and other social benefits); i.e. all the transfers that result from national programs and entitlements as defined by national laws. They brought about a huge redistribution because they were largely independent from regional fiscal revenues.

A policy-making breakthrough took place in 1992. The shift first came from the move of Italian macro-economic policies towards tighter fiscal discipline, privatisation and liberalisation, due to the transformations affecting the European institutional framework. Parliament suppressed extraordinary intervention in the South in 1992. Public investment in the Mezzogiorno dropped (from EURO21 billion in 1992 to EURO15 billion in 1997) and most areas suffered from a decline in income growth and employment. The severe contraction of public expenditure and the constraints on national macro-economic policies, due to the process of European integration, limited the possibilities of re-distribution from the centre. Both households and firms located in the area suddenly faced a credible threat of a reduction in their permanent income. However the significant decline in the flow of public funds was accompanied by two shifts in policy: the tightening of law enforcement and the decentralisation of government functions. These changes were followed by a new territorial development strategy and a more general progress in structural reform towards an emphasis on markets and local initiative. It is too early to analyse the impacts owing to these changes. Nevertheless, some positive signs of economic revival have become discernible since 1997.

In the light of this historical background, this chapter analyses the evolution of economic and social disparities over the last several decades. In the next section, the evolution of per capita income at both the provincial and regional level, between the 1950s and the 1990s, will be examined. Data show different patterns over time: in terms of per capita income, the gap between southern regions and the fast-growing Centre-North fell until the mid-sixties; it then stabilised for twenty years to rise again since the mid-1980s. A break in 1992 and clear signs of catching up characterise the second half of the 1990s. This last trend is anticipated/confirmed by other indicators (export performance, pace of firm creation, tourism development, employment).

In order to examine the nature of the evolution in per capita income, Local Labour Market Areas (LLMAs) are used as units of analysis in the second part of the next section. These units (based on daily journeys to work) allow a detailed analysis of social and economic processes at a territorial level, because they identify homogeneous local economic systems. Three types of LLMAs are considered: those with high employment rates (above the national average), those with middle-low employment rate (the first quartile below the national

average) and those with low employment rates (the lowest quartile). Territorial disparities among these types of local areas are examined. Employment rates and other indicators of economic and social infrastructure are compared over time (between 1971 and 1996) using the available census data. In the last section of this chapter, the different patterns of local development are analysed, comparing dynamic areas with stable or declining ones in order to identify those economic and non-economic features that are associated with dynamism and robust development processes.

## 2. From convergence to divergence: 1952-1992

A process of successful convergence, in terms of per capita income, took place immediately after the Second World War. In spite of high growth rates in the Centre-North, the GDP per capita gap between backward regions and fast-growing areas, helped by relevant migrations, fell until the mid-1960s. Similarly, while after the war the distribution of provinces (Territorial level 3) by GDP per capita was clustered around two modal values, this pattern disappeared by half sixties. In the beginning of the 1970s, a bipolar situation emerged (Box 1). As Chapter 2 will show, the lack of policy co-ordination and planning, accompanied by insufficient project evaluation and monitoring, as well as a weak role of local authorities and an ineffective governance system, brought about major mistakes in resource allocation. The growth process started diverging again. The most dynamic provinces were located in the North-East,<sup>1</sup> the Centre and the North-West, while only few southern provinces displayed a particularly dynamic growth pattern with respect to the average.

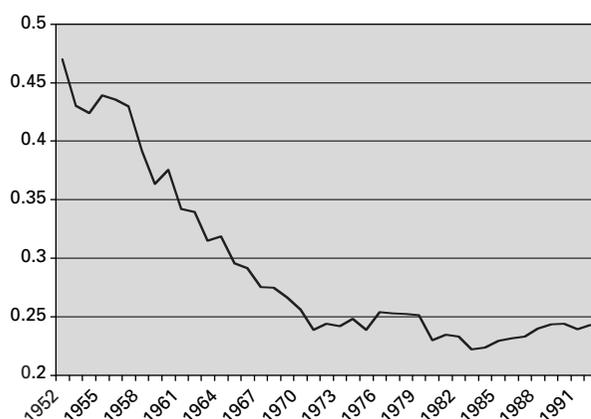
In the early 1990s, the political and economic conditions deteriorated sharply. The severe contraction of public expenditure and the constraints on national macro-economic policies, due to the process of European integration, modified the policy context for the Mezzogiorno (see Chapter 2 and 3). Three major events concurred to change the Mezzogiorno's economy and society: the end of a 40-year top-down economic policy; a strong tightening of law enforcement; the beginning of a radical devolution of political and administrative power. All these events took place in 1992-93.

After 1993 the turnover rate – birth rate net of death rate – of southern non-agricultural enterprises started rising; by 1997 it had become much higher than in the Centre-North. Such dynamic entrepreneurial climate led to the strengthening of many local agglomerations of firms. At the same time, the attitude towards risky jobs and mobility clearly changed. According to surveys, young Southerners are now much readier than their Northern counterparts to start self-employed activities. ISTAT (National Statistical Institute) surveys show that they are readier to find dependent jobs in provinces other than their own. An increase in the competitiveness of the Mezzogiorno's enterprises also took place,

### Box 1. Concentration and dispersion of provincial output (1952-1992)

The analysis of the concentration and dispersion of provincial output 1952-1992 reveals two facts (Figure 1): i) that the dispersion decreased by more than half since 1952, which confirms that there was high convergence; and ii) that such decrease concerned primarily the period 1952-1965.

Figure 1. Normalised standard deviation of per capita GDP of Italian provinces.

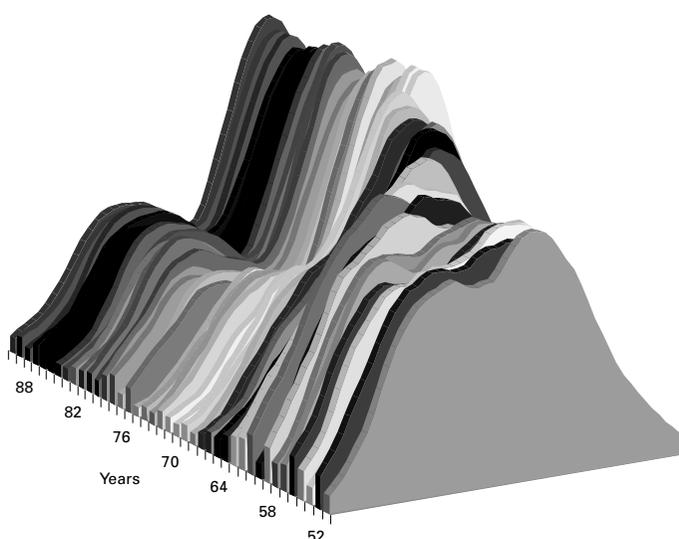


Moreover, considering the dynamics of the entire per capita GDP distribution, the bi-modality of the distribution tended to disappear between 1952 and 1965 and convergence became a single mode distribution (Figure 2). After the mid-1960s, per capita GDP distribution reveals the emergence of two clusters of provinces with a different level of average income and a clearly bimodal pattern, suggesting different development processes in the two periods. In the first, even though distribution of per capita provincial product was highly uneven, the growth pattern tended to be similar across all provinces and helped reduce the gap between rich and poor areas.

**Box 1. Concentration and dispersion of provincial output  
(1952-1992) (cont.)**

After 1965, the growth process diverged. Poor regions began to cluster together in a development pattern where per capita income was lower than the national average, although several poor provinces, often in the South, did participate in the general growth before 1965.

**Figure 2. Dynamics of the per capita GDP density distribution in Italian provinces, 1952-1992.**



Note: The density distribution is estimated non-parametrically using the Epanechnikov kernel with the "optimal" bandwidth.

as shown by the strong and continuous rise since 1993-94 both in exports and in the inward flows of foreign tourists, though levels are still low by Italian and European standards (see Box 2).

Since 1997, employment in the South started rising and the gap in per capita GDP with the rest of the country declined (Figures 3 and 4).

This analysis of trends and shifts, based on macro-territories, is only partly satisfactory. It does not allow us to trace properly the process of territorial development, to test whether disparities are arising inside the industrialised Centre North, and whether some kind of patchy development is taking place in

the South. In order to carry out this analysis, territorial disparities must be investigated by using a finer unit of analysis, possibly not too heavily constrained by administrative boundaries. Local Labour Market Areas (LLMAs) lend themselves to such use (Box 3).

### **Box 2. Italian Territorial Development: what happened during the 1990s?**

Territorial developments occurring in Italy during the 1990s warrant an in depth analysis.<sup>2</sup> The first half of the 1990s was characterized by a marked increase in territorial disparities (Annex 1: Table 1, Column 1). Northwestern regions (especially Liguria and Piedmont) recorded very poor growth; the decline of their historical industrial base was even more precipitous than in the 1980s. Southern regions fared even worse, with the exception of Basilicata. These results may be explained by several interlinked, factors: the sudden change in Italian fiscal policy in 1992, with a dramatic shrinking of both transfers and public investment towards poorer region; the end of special development policy in the South, with a long period of policy inaction; the crisis of State-owned firms, prior to privatization, deeply affecting areas such as Naples or Taranto where large factories were located.

Not all hope was lost in these regions: the strong devaluation of the lira *vis-a-vis* the other European currencies (happening, again, in 1992) produced a marked increase of exports originating from specific Southern provinces. This by itself, however, could not counteract shrinking GDP growth. In contrast, growth rates in the Northeast were substantially higher than the national average in large regions such as Veneto and Emilia-Romagna. The takeoff of those economies was reinforced by a boom in exports of consumer and investment goods, fuelled by the weak currency.

Employment data confirm this picture. In particular, in 1993-95,<sup>3</sup> the worst years, employment fell by 463 thousand in the whole country, concentrated in the South (285 000) and North-West (94 000). Non-agricultural employment, used in this Review as a structural performance indicator (Annex 1: Table 2), gives a clear picture. Non-agricultural employment declined, all over Italy, by 1.5 per cent between 1993-95, but the rate was 0 in the North East, with Veneto and Friuli (as well as Marches and Abruzzo on the Adriatic coast) increasing. On the contrary, the decline was exceptionally strong in the South (-3,4%), peaking in Campania (-6%) and Calabria (-3.8).

The story of the second part of the decade – at least as told by available data – is different in character. GDP data are available until 1998.<sup>4</sup> In 1995-98 Southern regions perform quite well: GDP growth rate is similar to the North-East and higher than the national average. All Southern regions demonstrated improved performance with respect to 1990-95, with the notable exception of Calabria. Growth appears particularly evident in the smaller regions (Molise and Basilicata), and in the islands (Annex 1: Table 3). Data on employment are available until 1999: if one takes total employment all Southern regions perform worse than the national average (except for Sardinia), though with a clear

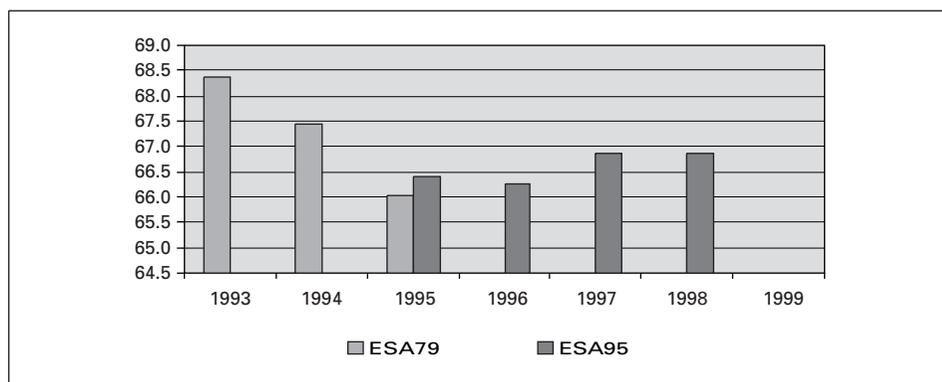
**Box 2. Italian Territorial Development:  
what happened during the 1990s? (cont.)**

improvement with respect to 1990-95: in those regions there is still a backlog of low-productivity agricultural employment, that is historically declining. If one takes non-agricultural employment, the picture changes. Southern performance is slightly better than average. Regional differences, nationwide, appear clearly: North Veneto and Emilia continue to perform better than Piedmont and Liguria, but Lombardy as well has good results; the performance of some of the Central regions are, conversely, relatively poor. In the South, Calabria confirms the very bad results of GDP data, as well as Basilicata, Sicily and Sardinia confirm their good GDP performance; even Campania improves employment more than national average. It is interesting to note that Abruzzo, the first European region to exit the group of the poorest areas (eligible for Objective 1 Regional Development Funds), does well in terms of GDP but poorly for employment.

Data for such a short period must be read with caution. Regional data for 1995-98 seems to confirm that manufacturing industry is still the driver of growth for strong Centre-North-East regions, such as Veneto, Emilia-Romagna and Marches, as well as for Lombardy. As far as Southern regions are concerned, with their change of performance *vis-a-vis* previous years, no clear pattern seems to emerge: growth is differentiated by sectors and areas. As far as sectors are concerned, tourism performs well in many Southern regions; in Sicily and Sardinia, tourism and service activities in general seem the engine for the growth in the period. In other cases specific manufacturing industries emerge as doing very well (such as clothing in Campania and furniture in Apulia and mechanical engineering in both regions); but their performance are still counteracted by poor results in other industries, such as chemicals in Campania and steel in Apulia.

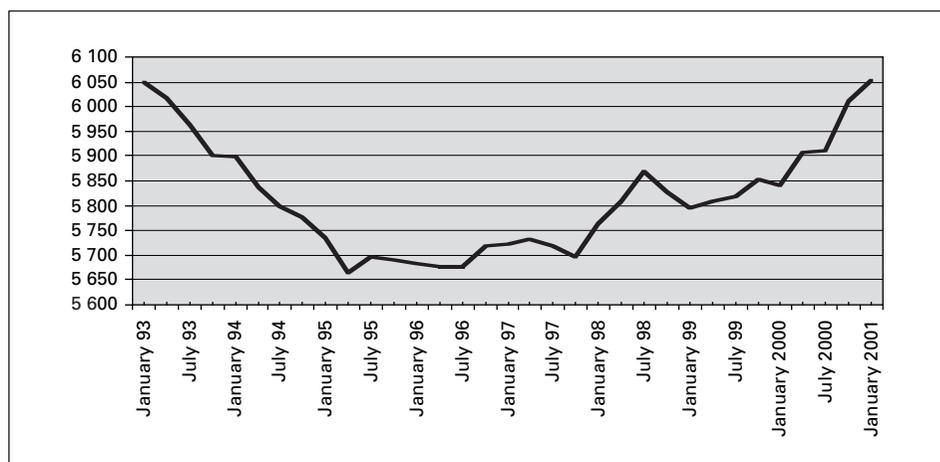
Territorial differences clearly emerge inside regions, as far as one can read them with partial indicators. Data on tourist presences,<sup>5</sup> for instance, appears concentrated in specific poles, such as Naples and Salerno, Northern Sicily and Sardinia; to a lesser extent Eastern Sicily, and some parts of Apulia and Calabria; export flows, on the contrary, mainly originate from the Southern Adriatic coast and the area around Naples, being of a smaller importance in the islands. It looks like different parts of relatively underdeveloped Italy are looking for their own recipe for growth.

Figure 3. **Per capita GDP of the Mezzogiorno as a ratio of Italian average**  
(At current prices; Index: Italy = 100)



Source: ISTAT, Territorial Accounts.

Figure 4. **Employment in the Mezzogiorno**  
(Seasonally adjusted; thousands of persons)



Source: ISTAT, Labour force survey.

### Box 3. LLMAs and the functional regions

One of the major difficulties in using census data for local analysis is that they usually refer to territorial units of an administrative nature, which are virtually without geographic or statistical significance and are therefore ill-suited to the study of socio-economic phenomena, or to formulating or managing policies intended to encourage or compare them. The solution is to adopt territorial entities representative of how the society organises itself by localising residential, productive and recreational units in relation to which economic activities and social relations develop.

The importance of the territorial unit in any analytical study has led the OECD to undertake experimental work on the relevance of establishing the boundaries of functional regions on the basis of travel time to work. These regions correspond to local labour market areas (LLMAs) and provide an exhaustive breakdown of national territories. On the whole, the unofficial and unstable nature of these boundaries makes data collection and monitoring over time relatively difficult. But in most OECD Member countries, certain objectives and territorial strategies are being defined increasingly at these levels. The objective of these analyses is therefore to assess the possibility of using functional regions as a territorial unit of analysis and intervention for territorial policies.

Most OECD Member countries have now established official or semi-official boundaries for LLMAs. Even though the thresholds selected for commuters differ across countries and, in many cases, the criterion of travel to work is combined with other criteria (such as the distance of daily travel, inter-city co-operation, etc.), the boundaries of these functional regions are based on the same principle, which opens up new perspectives for international comparisons at sub-national levels.

In Italy, Local Labour Market Areas are defined using 1991 census data on daily journeys to work. The key algorithm concerns the notion of labour self-containment. The demand side measures the ratio of employed local residents who travel to work inside the local system daily, and the ratio quote of the population employed in that local system. The supply side measures the ratio between the employed resident population travelling to work daily within the local system and that proportion that travels to work daily inside or outside the local system.

*Note:* For a detailed description of the definition of Italian LLMAs, see ISTAT, 1997.

The rest of the section provides an analysis of territorial disparities in the phase of growing divergence, by comparing territorial disparities at two different points in time: 1971 and 1996. Territorial economic trends and spatial and social conditions and infrastructures are compared to provide a picture of differences in growth performance.

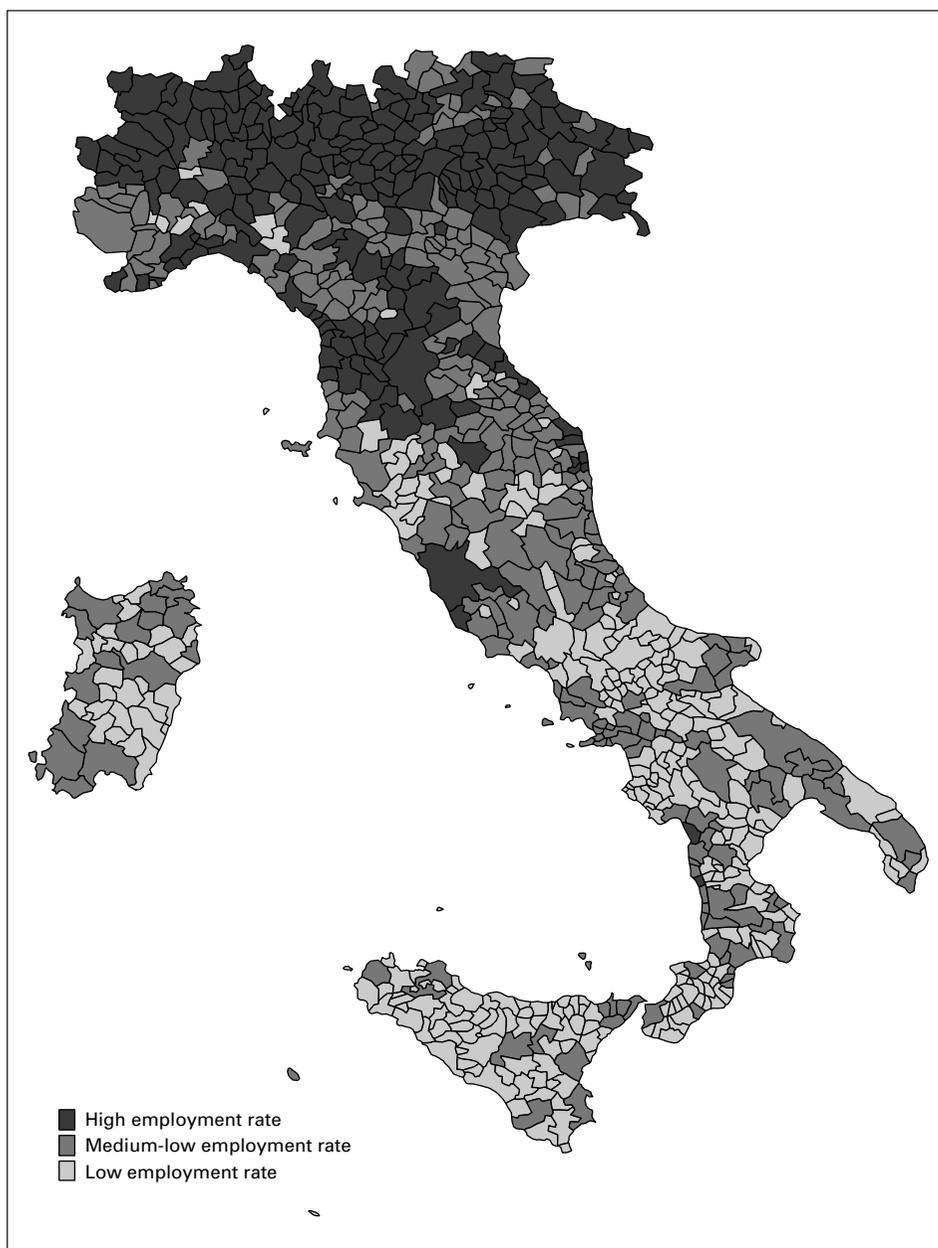
### **Employment rates and economic structure**

The analysis has been conducted grouping Local Labour Market Areas – LLMAs – accordingly with the fact that employment rates are high, medium or low relative to the national average. Low LLMAs can be further divided into medium-low (the first 50% below the national average) and low (the second half below the national average).

Overall, the gap in employment disparities has widened. Non-agricultural (including part of irregular labour units) employment rates have grown in many LLMAs, but the distribution has become polarised accordingly with a clear territorial divide<sup>6</sup> (Figures 5 and 6). The south has worsened as a whole, despite improved relative employment performance in many local systems (Annex 1: Table 4). In 1971, employment rates in approximately 30 per cent of all LLMAs were higher than the national average (Annex 1: Table 4). These LLMAs were located primarily in the northern regions along an axis running from Piemonte to Veneto, and in Toscana and Emilia-Romagna (Figures 5 and 6). In 1996, approximately 45 per cent of all LLMAs had employment rates higher than the national average, they grew overall, but the rate of growth was higher among the stronger local systems in the North and the Centre<sup>7</sup>. However, in these areas there were clear signs of stagnation or decline related to the crisis of old industrial structures (especially in Piemonte with Turin, in Liguria with Genoa and in Tuscany with Piombino). Weak local systems were mainly located in the *Mezzogiorno*, which worsened its overall position. Nevertheless some southern local systems moved from a weak to a medium status (Annex 1: Table 4).

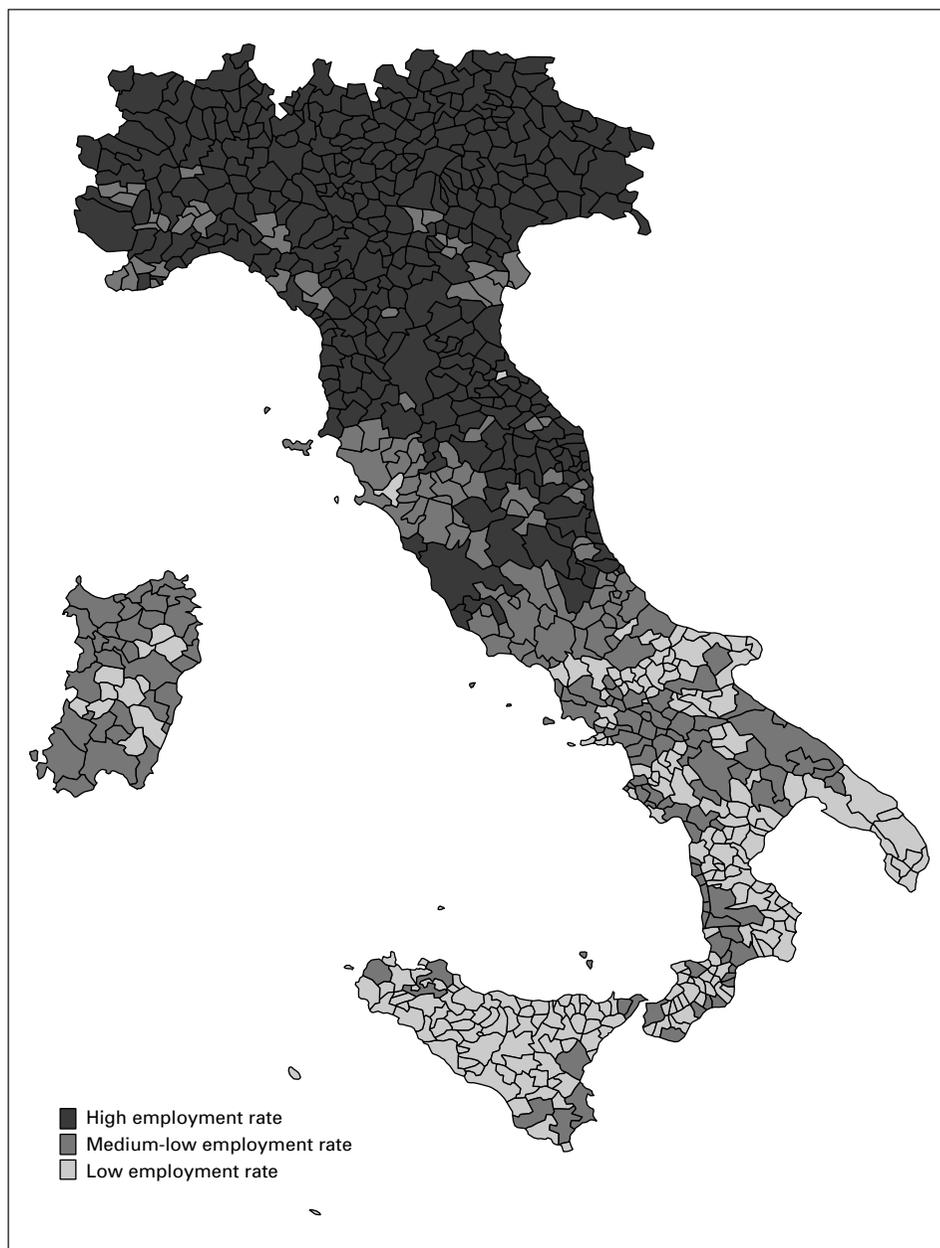
Between 1971 and 1996, the structure of employment changed, favouring independent jobs. The overall share of employees decreased by 2.7 per cent, the share of self-employed workers increased correspondingly and the share of entrepreneurs remained fairly stable (down 0.1%). This change affected mainly male workers, while the share of female self-employed decreased by 2.9 per cent. Still, there has been a higher female participation, probably associated with lower birth rates, female employment grew, especially in the strong local systems, and gender inequalities dropped overall (Annex 1: Table 7).<sup>8</sup> Strong areas have in general had a higher share of entrepreneurs and employees (Annex 1: Table 8), in particular white-collar and skilled blue-collar workers, as well as a lower percentage of self-employed workers (Annex 1: Table 9).<sup>9</sup> Industrial employment as a whole dropped (Annex 1: Table 7), the territorial concentration of manufacturing employment increased, and stronger local systems kept high employment rates in industrial activities. This shows a peculiar feature of Italian development: an important number of successful areas specialised in manufacturing, often in light and labour-intensive industries, with a large share of small and medium sized firms. In these areas, in the 1950s and the 1960s traditional artisans confronted with a rapid increase in cross-border trade

Figure 5. Local labour market areas by employment rate, 1971



Source: ISTAT.

Figure 6. Local labour market areas by employment rate, 1996



managed to transform their low-productivity and labour-intensive workshops into small, competitive industrial firms. Skilled workers laid off from factories previously involved in war production started up by themselves, assisted by the expansion of domestic and international demand. By the 1970s, foremen and maintenance workers with production management experience were encouraged to become subcontractors by large firms, facing decline because of international competition and searching for flexibility and lower costs. As a result of these processes, hundreds of small firms belonging to the same vertically integrated sectors, but specialised in different phases of the production chain, became concentrated in small regions. These locations are currently among the richest and most dynamic in the country – indeed in Europe. The striking point is that many of these areas specialise in manufactured goods such as textiles, clothing and footwear that are often considered to be vulnerable to cheap imports. Yet, the area of Castellgoffredo, for example, continues to produce more than 50 per cent of total European production of stockings. Sassuolo is the leading area in Europe for the production of ceramic tiles. Prato, a well-known textile district with 5 990 firms and 38 000 employees, produces 64 per cent of national exports of wool fabrics. And Carpi, with 2 068 knitting and clothing firms, having an average of 5 employees each, has total sales of US\$1.3 billion. These examples illustrate that it is possible to maintain robust economic and employment performance in so-called “sunset” industries, even in a more open competitive environment. Instead of being condemned by their specific specialisation, they are able to constantly up-grade products and technologies so to maintain and renew competitive advantages, *i.e.*, they have compensate disadvantages related with labour intensive products, with the advantages connected with conception intensive processes.

However, changes are currently underway. Manufacturing remains important, but in particular mechanical engineering and business services are at the origin of development, while traditional and consumer services rise in the weak local systems where heavy industry is also concentrated. If the productive specialisation remains stable and employment correlates positively with manufacturing (Annex 1: Table 10), the most important shift is the growth of mechanical engineering (Annex 1: Tables 11 and 12) and business services (Annex 1: Table 13) in strong local systems and the slight decrease of light industrialisation in the strong areas. Somehow, this phenomenon represents the up grading towards more sophisticated production phases, production of machine tools and business services within the same “*filière*”. As industrial employment decreases, the territorial concentration of industrial activities increases, sometimes associated with the growth of local business services that led in turn to greater employment growth. In 1996, local business services were situated almost exclusively in strong local systems where manufacturing employment was high (Annex 1: Table 10).<sup>10</sup> In other words, small firms and districts diversified and

specialised their production without vertical integration. In 1996, 68 per cent of local manufacturing systems were industrial districts whose presence in strong local systems makes their importance clear. Industrial districts are most highly concentrated in the North-East (32.7%), followed by the Centre (30.2%) and the North-West (29.6%); the south accounts for the balance of 7.5 per cent. The employment distribution shows that 41.5 per cent of industrial district jobs are in the North-West, 37.6 per cent are in the North-East, 18.3 per cent are in the centre, and 2.7 per cent are in the South. These figures reflect variations in business sizes. The northwestern districts usually have medium-sized businesses (a high proportion employs 50 to 249 people), those in the centre feature small businesses (up to 49 workers); business size in the northeastern districts is better balanced.

A relevant part of strong and local systems that have become industrial districts are located between the eastern part of Lombardy and the Veneto for the northern regions, between Emilia-Romagna and Toscana for the central regions and along the Adriatic coast towards Abruzzo (Figure 7) for the southern regions. Local manufacturing systems that have not become industrial districts are located in the North-West, especially in Piemonte, and in western Lombardia. Tourism has led to strong local systems not specialised in manufacturing activities all along the Alps and the West Coast.<sup>11</sup> Medium-low and low employment systems have a higher ratio of non-manufacturing local systems (Figures 8 and 9). Some specialise

#### Box 4. Industrial districts

Industrial districts are local manufacturing systems of small and medium-sized firms.\* For a LLMA to be an industrial district\*\*, there must be a geographical concentration of employment in small and medium-sized manufacturing firms based on a location quotient, a geographical concentration of a specialised industry which meets a specific firm size (firms with fewer than 250 employees exceeds the national average. In 1991, 199 LLMAs qualified as industrial districts. In 1996, industrial districts constituted 25.4 per cent of LLMAs and 71.3 per cent of manufacturing LLMAs. They account for a higher percentage of Italian employment (32.2%) than of population (24.2%), and an even higher percentage of manufacturing jobs (44.8%). In industrial districts, manufacturing comprises 48.9 per cent of total employment compared with 28.7 per cent in other LLMAs, and a national average of 35.2 per cent. Industrial districts claim 15.8 workers and 1.7 manufacturing businesses per 100 inhabitants compared with 6.2 workers and 0.8 businesses in the rest of Italy.

\* In a local manufacturing system, the percentage of employment in manufacturing activities is higher than the national average.

\*\* ISTAT (1996). See also Becattini (1990) and Sforzi (2000).

in tourism<sup>12</sup> and others in more traditional services such as public administration and commerce (especially in urban areas) or in agricultural activities.<sup>13</sup> Few industrial districts are located in the medium-low employment systems<sup>14</sup> (Figure 8).

### ***Socio-demographic trends and infrastructure***

The impact of transport infrastructure on development patterns in different LLMA can be measured indirectly by the impact of employment in the transport sector on the overall economy, and more directly, by physical infrastructure. Territorial differences in transport infrastructure<sup>15</sup> are persistent and relevant: the proportion of LLMA with highly endowed road and rail infrastructure was limited in 1986 and decreased further by 1996 (Annex 1: Table 14). High transport-sector employment was mainly concentrated in the strong and medium-weak LLMA (Annex 1: Table 15), up from about 72 per cent in 1971. Low employment ratios in the transport sector were concentrated in weak LLMA (47%) in 1971. By 1991, only 17 per cent of the high transport-related employment local systems were concentrated in the weak group. Weak local systems appear to be more severely penalised by this contraction, particularly for road infrastructure, as the proportion of weak highly endowed LLMA dropped from 10 per cent to 8 per cent in the ten-year period. The same seems to hold true for rail infrastructure (Annex 1: Tables 14, 15, 16 and 17).

Territorial differences in terms of health and educational infrastructure declined sharply between 1971 and 1996. As Annex 1: Table 20 shows, there is no longer a major cleavage in health infrastructure although strong local systems still have a higher ratio of hospital beds per 1 000 inhabitants in both 1971 and 1996. Similar levels of physical infrastructure do not imply that services are of the same quality. User-satisfaction levels show lower approval for southern health structures, regardless of the services offered (Annex 1: Table 23). Educational infrastructure, measured as the number of classrooms per 1 000 inhabitant's aged 5-19, reflects narrowing territorial differences between 1971 and 1996 (Annex 1: Table 21). Education rates have generally improved since 1971: illiteracy rates have declined. In Italy, as elsewhere, higher education levels correlate with higher employment rates (Annex 1: Table 23) and illiteracy correlates with lower economic development.<sup>16</sup> The three types of LLMA differed significantly in the early 1970s in terms of the quality of housing structure, measured by the availability of local services. The disparities have decreased at the end of the 1990s. In weak local systems, the percentage of houses with bathrooms and heating rose, and the average number of inhabitants per room declined, as did average family size. The ratio of house ownership – the number of owned houses per 100 let houses – increased over time. Household structures vary on a

Figure 7. High employment local labour market areas, 1996

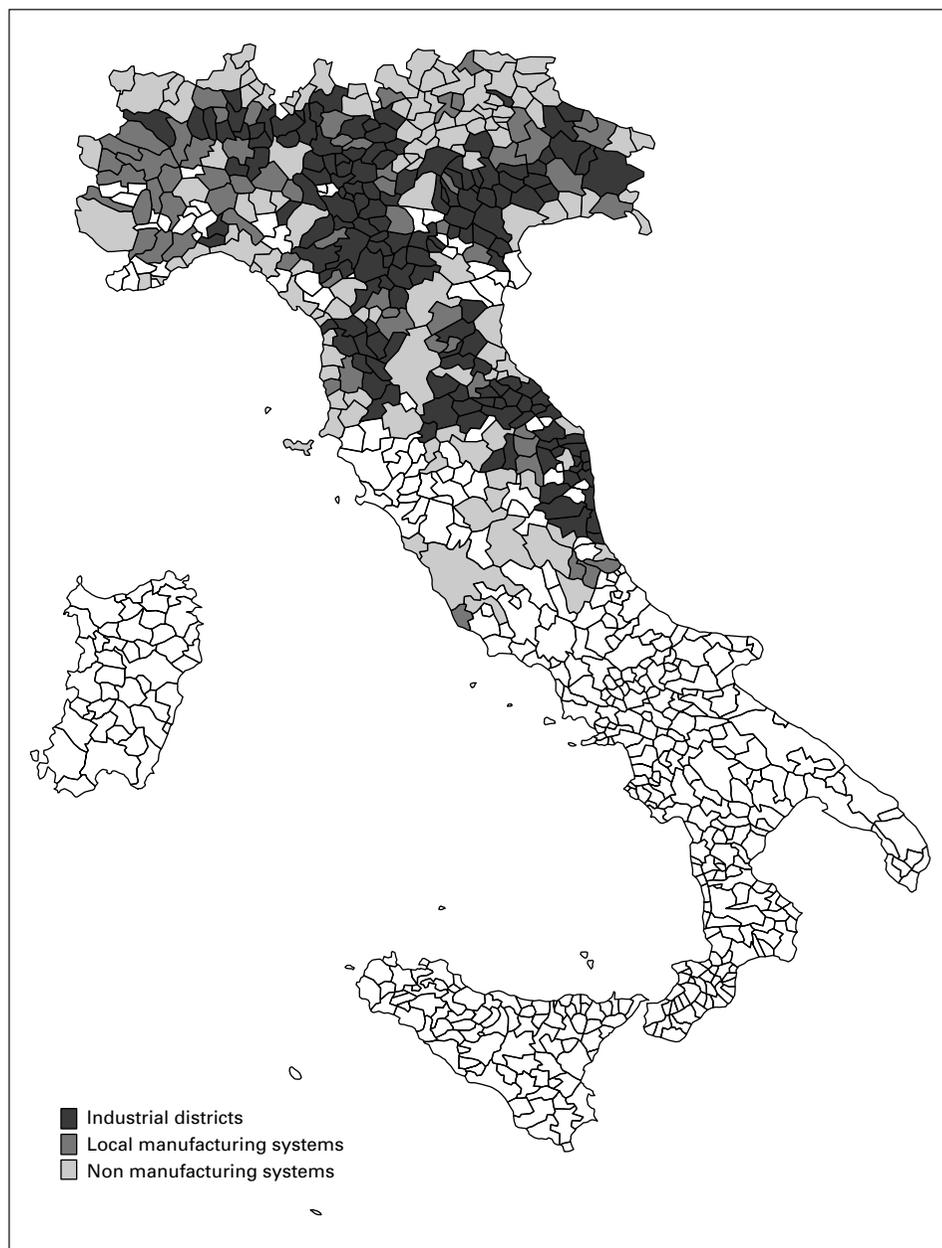
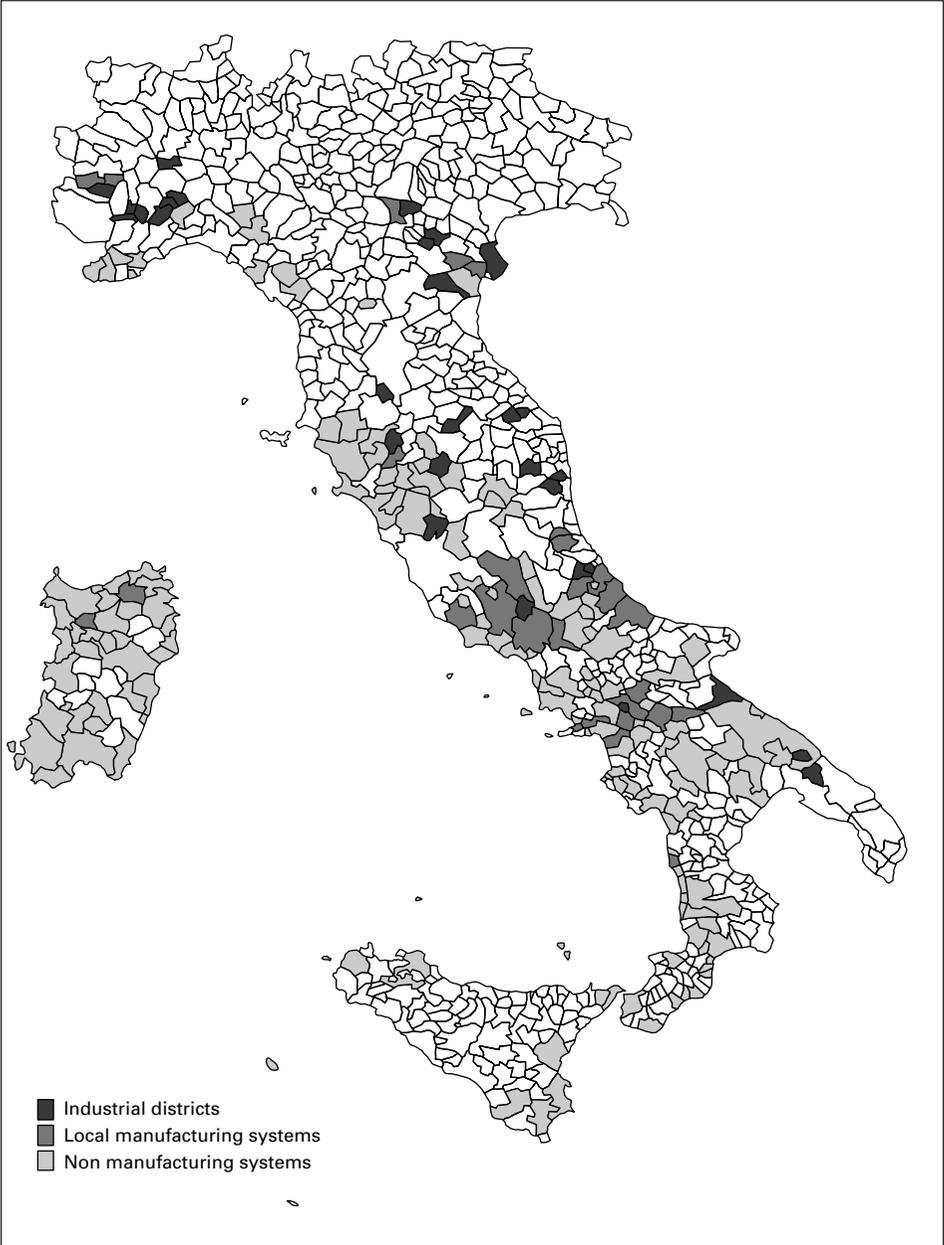


Figure 8. **Medium-low employment local labour market areas, 1996**



Source: ISTAT.

Figure 9. Low employment local labour market areas, 1996

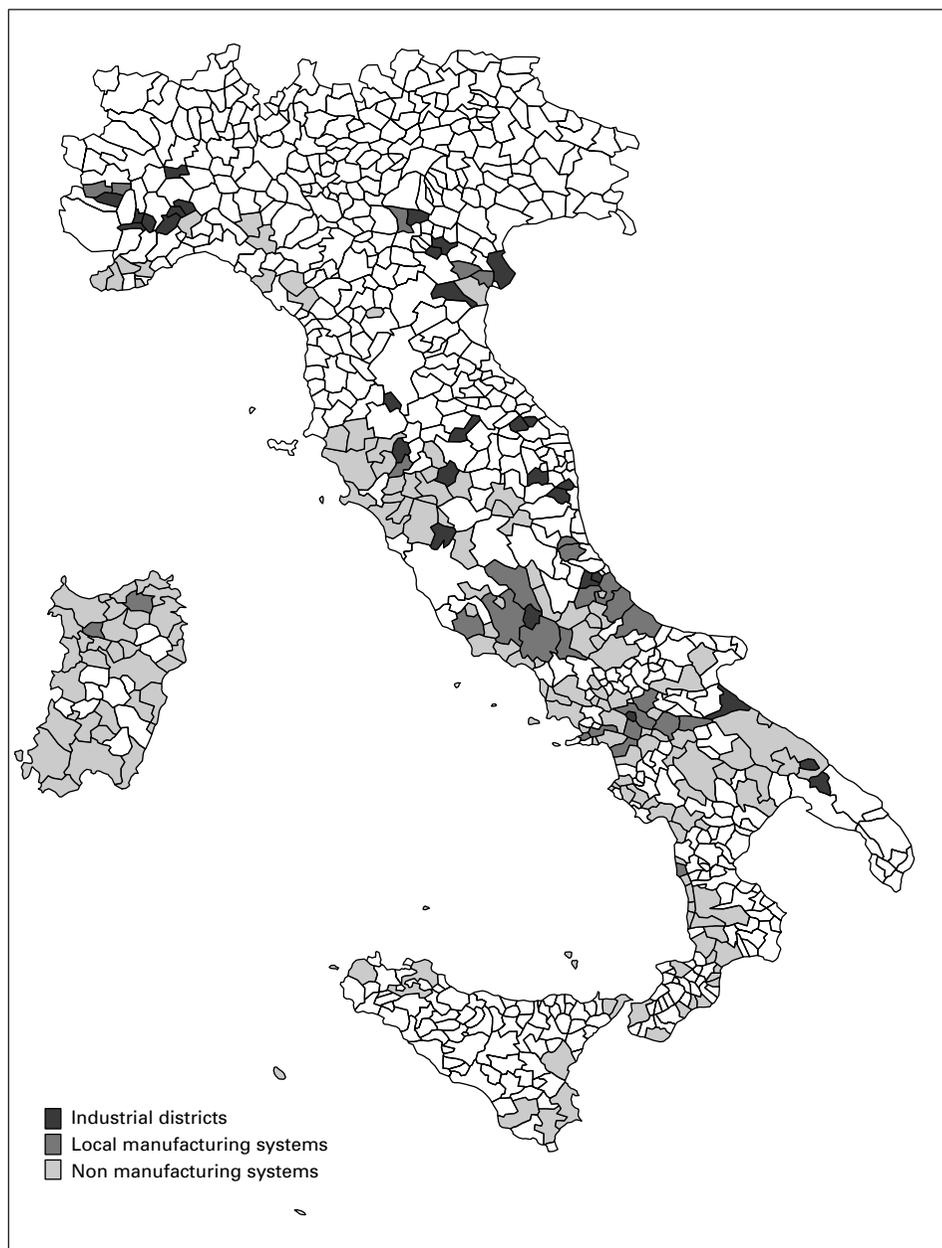
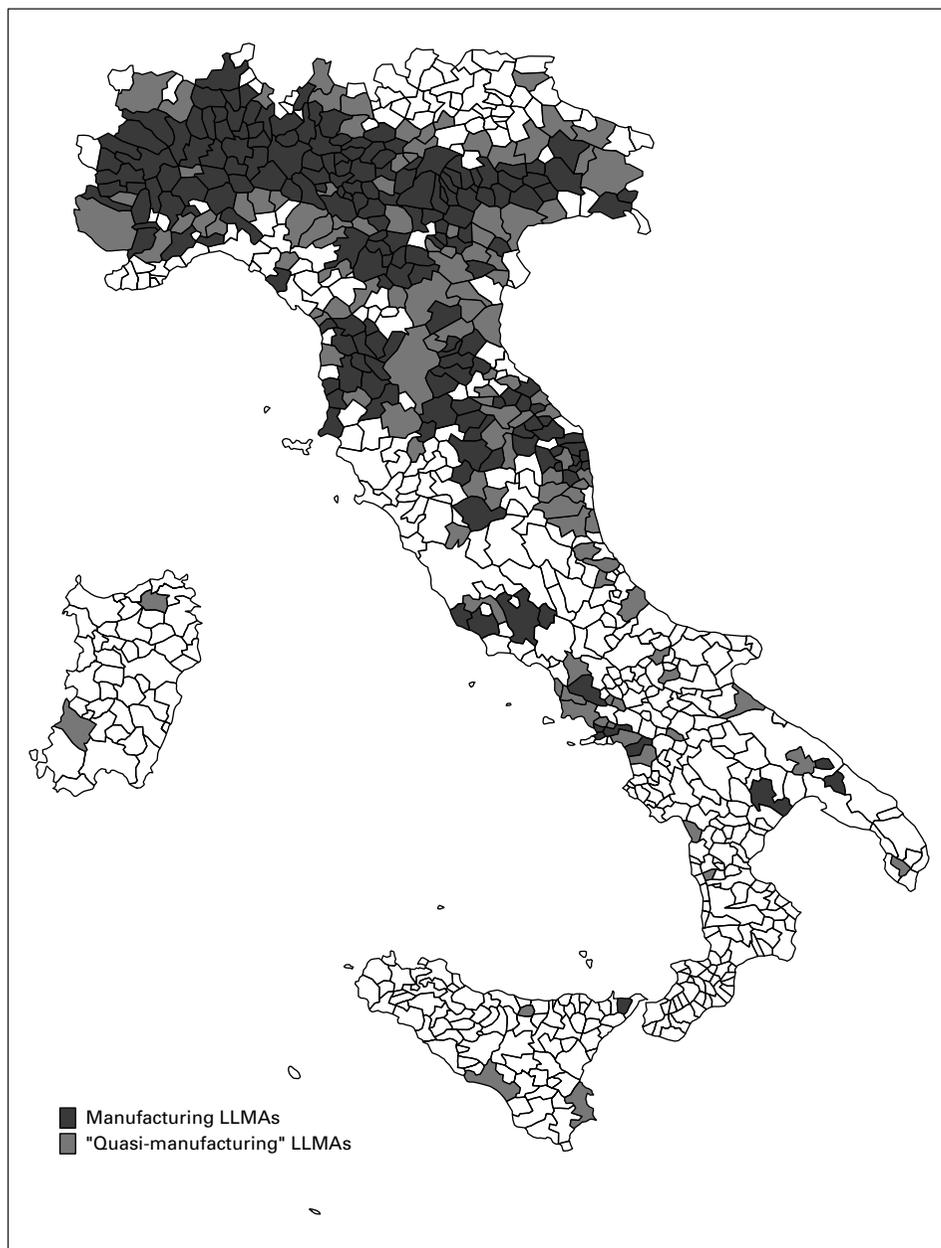
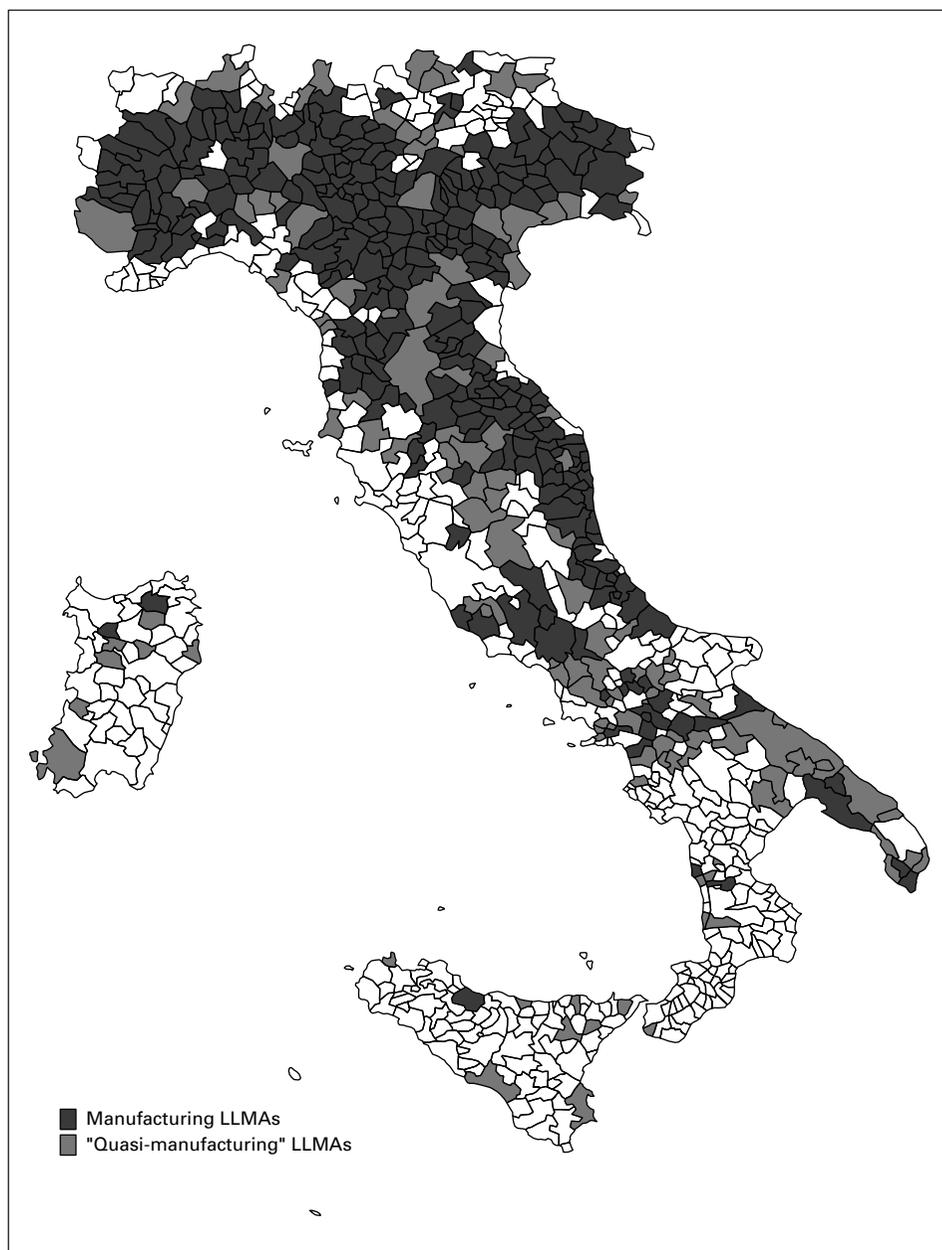


Figure 10. Manufacturing and “quasi-manufacturing” LLMA, 1971 and 1996



Source: ISTAT.

Figure 10. Manufacturing and “quasi-manufacturing” LLMA, 1971 and 1996 (cont.)  
1996



territorial level. The average household was larger in weak local systems than in strong systems, especially in 1996 (Annex 1: Table 24).

Demographic differences increased such that the gap between old and young areas was greater in 1996 than in 1971. The process of ageing is common to all places, although stronger for LLMA with high rates of employment (Annex 1: Table 25). This reflects extended life expectancy and declining birth rates<sup>17</sup>: the birth rate in Italy has dropped constantly from the mid-1980s, and is now one of the lowest among developed countries. In medium-terms, this could lead to labour shortages in strong LLMA. Intense out-migration, especially of people aged 15-69, occurred particularly during the 1970s, but since out-migrations of younger generations typically move from small to larger towns within less developed areas, they do not satisfy the labour demands of strong LLMA. These demographic trends, together with low workforce mobility, could threaten local economic development. Population density correlates with the strength of local areas. The strongest LLMA have the largest populations and are the most densely populated (Annex 1: Table 26 and 27). All metropolitan areas, with the exception of Naples, Bari, Palermo and Catania, are among the strong local systems. The weakest local systems tend to be rural (Annex 1: Tables 28 and 29)<sup>18</sup>.

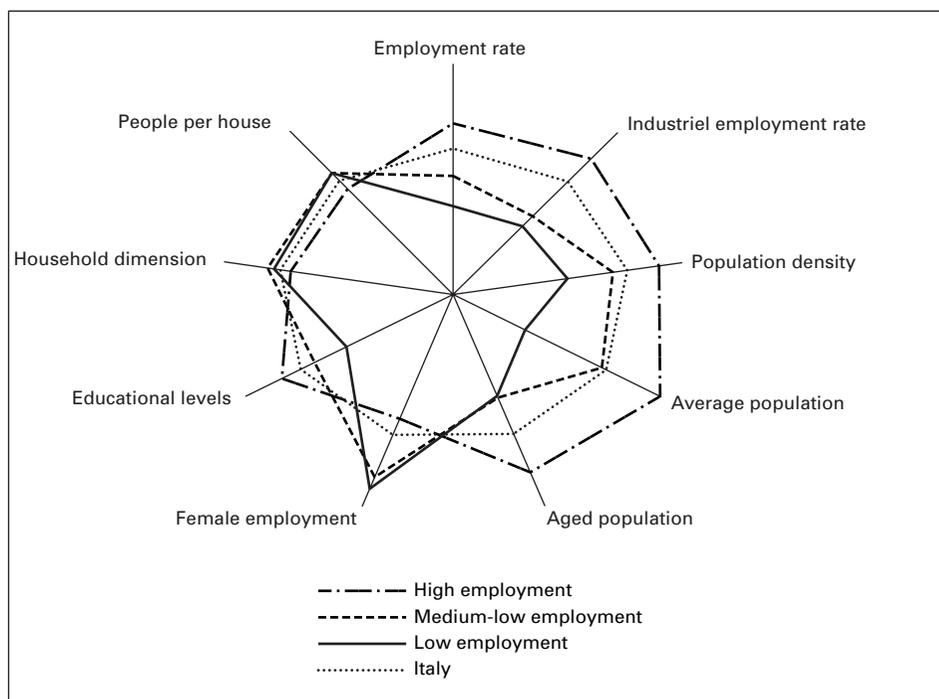
### **Conclusion**

As a form of summary, the central and northern regions have dynamic local systems where the employment rate increased between 1971 and 1996. Populations here are more highly educated and a larger percentage is ageing, housing conditions are better and birth rates are lower (Figure 11). There is a strong transport infrastructure, which generates considerable employment. The model of local development in these strong local systems with high rates of employment growth is based on manufacturing and business services (Figure 10).

Weak local systems, located largely in the Mezzogiorno, have lower rates of employment growth. Small, neither highly urbanised nor densely populated, they account for only a minor part of the overall population. Their low urbanisation reinforces their marginal structure.<sup>19</sup> Households are larger than the national average. There is a comparatively lower level of manufacturing employment, heavy industry and large firms dominate, despite the emergence of dynamic systems of small and medium firms (Figure 9). There are fewer business services and greater specialisation in more traditional services.<sup>20</sup> Transport infrastructure is poorer and generates less employment. What paths of development led to such a diversified regional picture?

The last section of the chapter analyses the different patterns of development, comparing dynamic systems with stagnant or declining ones in order to identify those economic and non-economic features that are associated with development processes.

Figure 11. **Main characteristics of local labour market areas, 1996**



### 3. Different patterns of development: 1971 and 1996<sup>21</sup>

The following discussion focuses on economic dynamism, assessed in terms of employment rate (without considering employment in agriculture). All LLMA (with high, middle-low and low employment rates in 1971) have been divided into dynamic, stable and non-dynamic local systems. Dynamic LLMA are those local systems that between 1971 and 1996 showed an increase in terms of employment rate, higher than the group average. *Stable* and *non-dynamic* LLMA experienced respectively an increase in the employment rate lower than the group average, or a decrease. Metropolitan LLMA are excluded.<sup>22</sup> The percentage of dynamic LLMA in the three groups differs significantly (Annex 1: Table 30). In 1971, dynamic areas constitute 57.3 per cent of LLMA with high employment rates; 65.4 per cent of LLMA with middle-low employment rates; and only 46.9 per cent of the weakest areas grew more than the group average (Figures 12, 13 and 14). As noted above, growth in employment occurred with manufacturing concentration (Annex 1: Tables 31 and 32) and industrial districts (Figure 15 and

<sup>21</sup>54

Annex 1: Tables 33 and 34). Between 1971 and 1996, the more dynamic LLMA were concentrated in the Centre and in the North-East, whereas in the North-West, the trend was towards industrial decline. Some areas in the south, especially along the Adriatic coast and inland in Campania, Molise and Basilicata were also dynamic.<sup>23</sup> In LLMA with high and middle-low rates of employment, development was especially associated with the growth of manufacturing activities. In 1996, approximately 77 per cent of the strong and dynamic manufacturing areas were industrial districts, 69.7 per cent of the dynamic areas with middle-low employment rates were industrial districts, and 52 per cent in the dynamic areas with low employment rates were industrial districts. However, the initial levels of industrialisation in the three groups differed. While 79 per cent of the districts in the strong and dynamic group in 1996 were already manufacturing systems in 1971, manufacturing activities were new to the other two groups (Annex 1: Tables 32, and 34 to 37). Business services were concentrated mainly in the manufacturing systems, especially in the strong areas, and were lacking in the weaker areas in the centre and in the south. The growth of tourism is associated with dynamism particularly along the Alps, among the strong LLMA and in some areas along the coasts, but less so in the south.

The growth of manufacturing was also important for the weakest LLMA in the south.<sup>24</sup> Manufacturing areas are mostly specialised in light industry and in the production of machine tools and mechanical engineering, the strength of the Italian economy and its exports. This pattern is associated with the role of entrepreneurship concentrated in small and medium-size towns, which is positively associated with contexts with strong local identities expressed as strong political cohesion and social integration.

### ***Occupational structure, education, political cohesion, and social integration***

Some original socio-economic characteristics of the early 1970s are associated with development. In the strong dynamic LLMA, there is no positive relationship between agricultural self-employment and increased employment growth (Annex 1: Tables 38). In all likelihood, LLMA with high employment rates were already more industrialised. Agricultural self-employment did not play a decisive role in the 1970s because it had probably been eroded by urbanisation and industrialisation. However, most of the dynamic LLMA with middle-low employment rates in 1971 were highly associated with agricultural self-employment at the beginning of the period. Similar results can be found for the weakest areas (Annex 1: Table 38). The role of self-employment in industry, which was largely based on artisan activities, seems instead to be positively associated with dynamism in all three groups. On the contrary, a high degree of traditional services seems to identify stagnant development. Dynamism, as has

Figure 12. **High-employment rate LLMA: dynamic and non-dynamic areas, 1971-1996**

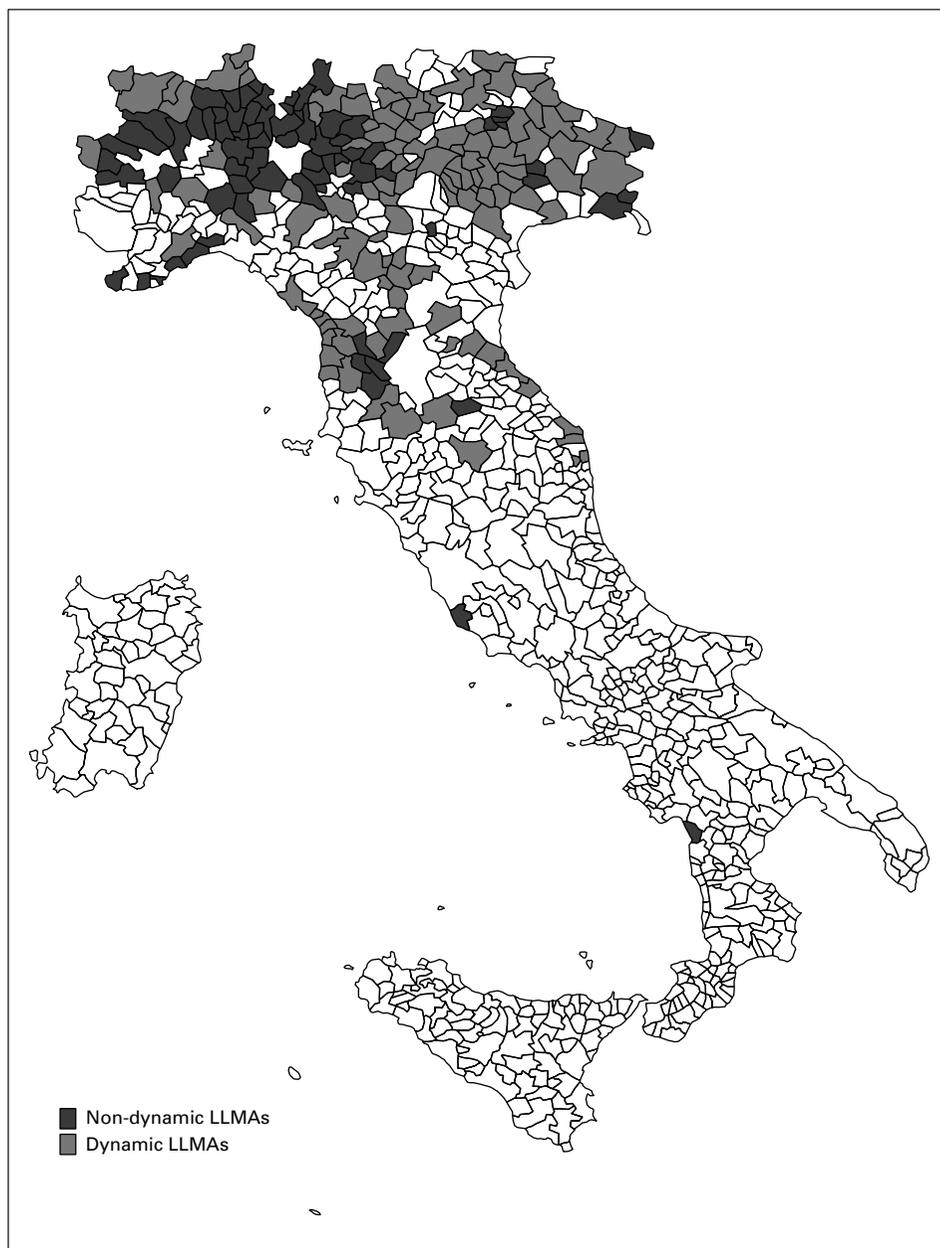
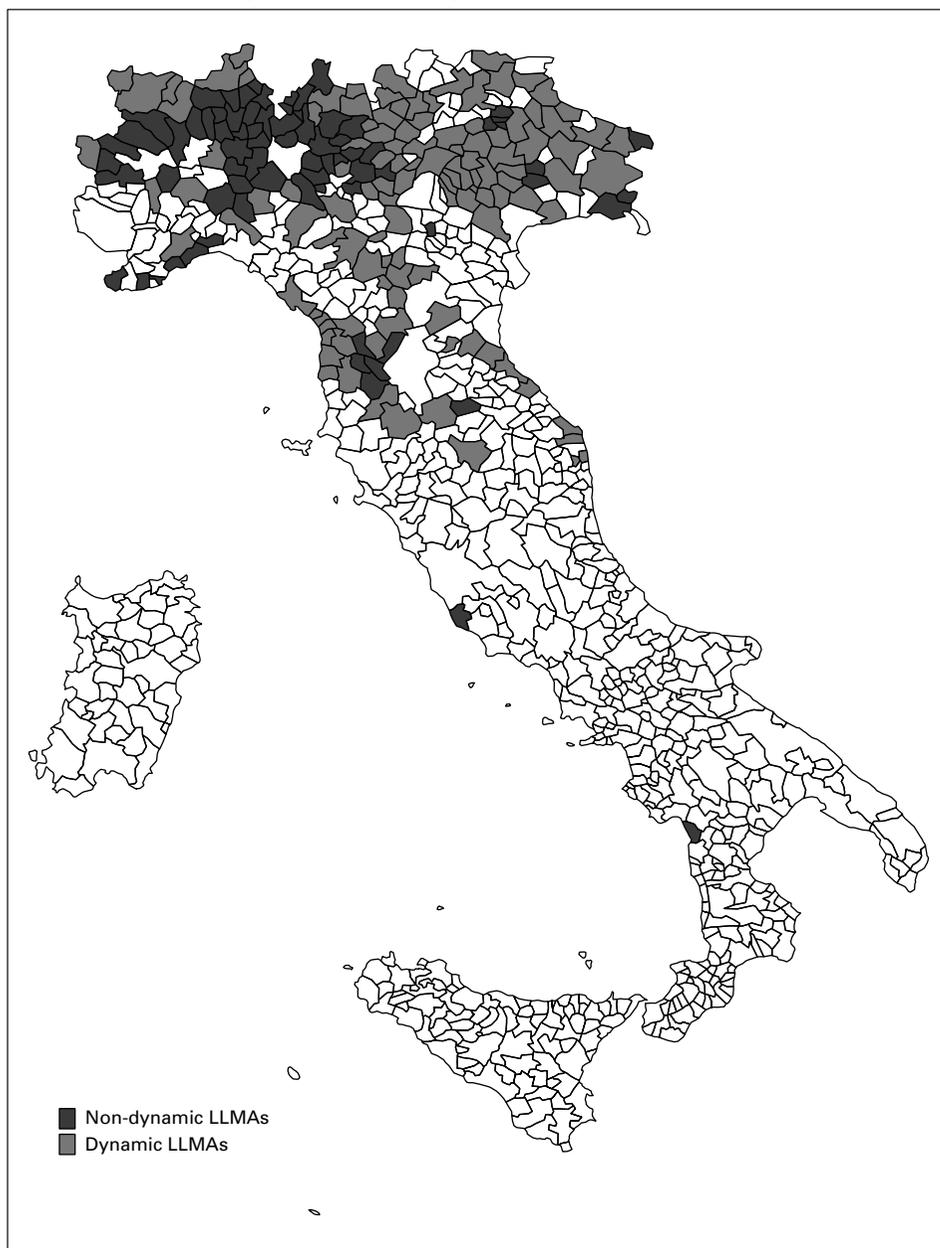


Figure 13. Middle-low employment rate LLMA:  
dynamic and non-dynamic areas, 1971-1996



Source: ISTAT.

Figure 14. Low-employment rate LLMA:  
dynamic and non-dynamic areas, 1971-1996

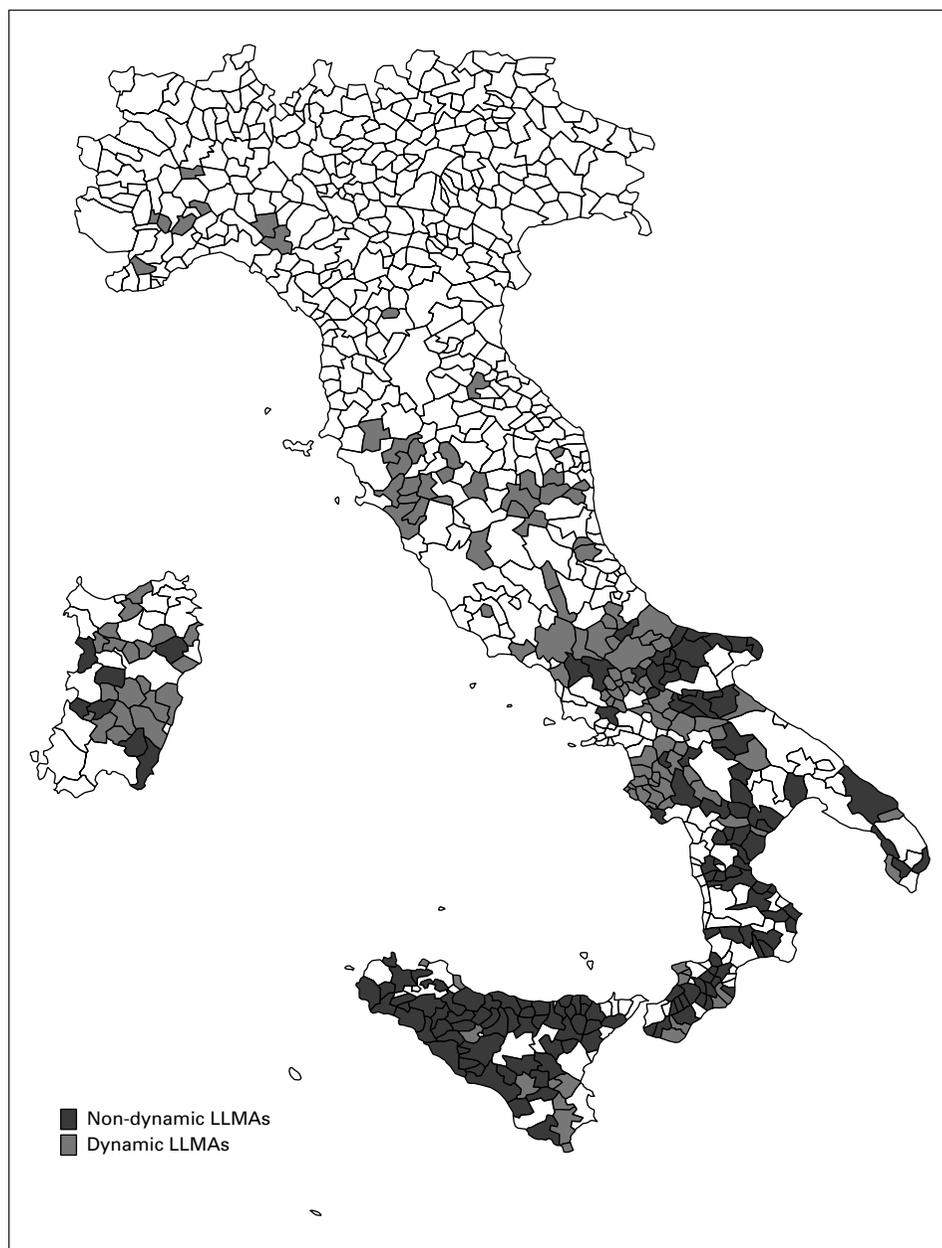
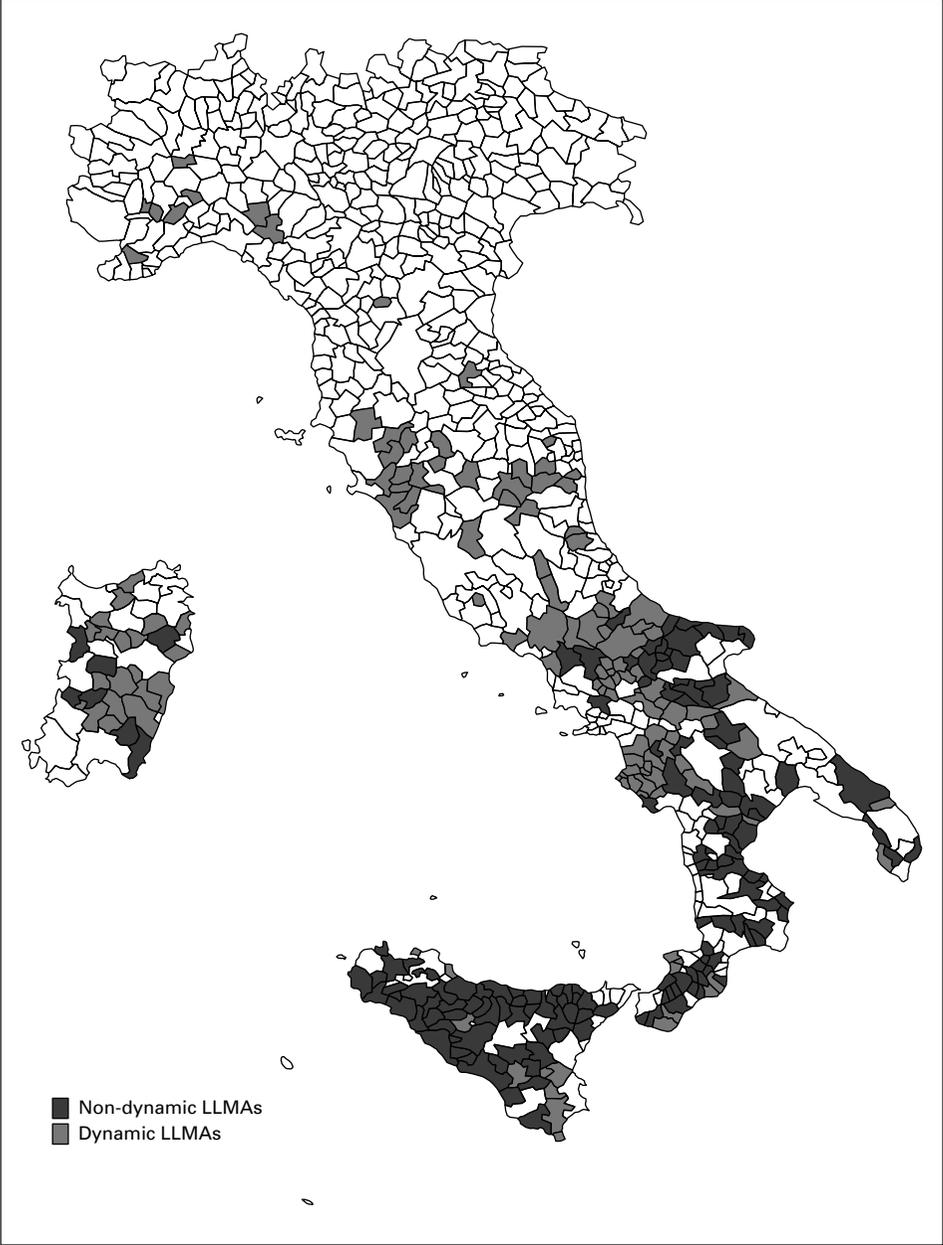


Figure 15. Low-employment LLMA: rising manufacturing and “quasi-manufacturing” areas, 1971-1996



Source: ISTAT.

been seen particularly in the strong areas and in systems with middle-low employment rates, was based on the territorial growth of manufacturing activities.

Let's come back to the historical roots. Past agricultural and artisan self-employment are important; agricultural production in the Third Italy in the 1950s was based on sharecropping and peasant farming where extended family played an important role. Unlike the large landed estates that are more widespread in the south, this kind of organisation was characterised by a high share of self-employment rather than by wage labour. Extended families represented units of accumulation of small capital and supplied a flexible workforce. Self-employed agricultural workers were inclined to resolve day-to-day problems manually and their consolidated skills have probably been contributed to the development of artisan and industrial production. Artisan self-employment as well is important. Small- and medium-sized towns, where social integration was stronger than in larger towns, provided contexts in which skills and artisan traditions could be preserved. Widespread artisan traditions that have survived mass production seem to have strongly contributed to the formation of entrepreneurship in small firms. Entrepreneurship was particularly stimulated in those sectors of production that did not require large investments in machinery and plants, at least initially, such as light industry – textiles, footwear and furniture – a large part of the “made in Italy”. The connection between dynamic LLMA and their degree of urbanisation was measured by the population size of the main town of the area (Annex 1: Tables 40 and 41).<sup>25</sup> Dynamism in all three groups relates positively with small town local systems. However, as discussed before, the populations of LLMA comprising mostly small towns have also dropped significantly in the period under consideration, which influenced employment rates. This decrease could have had a positive impact on employment rates.

Education levels are generally related to economic development. Small firm development is linked to basic rather than to a high level of education. The presence of technical and vocational schools is also important. As Annex 1: Tables 42 and 43 show, the more dynamic areas in the three groups do not have middle-high levels of education at the beginning of the seventies, and the level of compulsory school (junior high school) plays a major role. The dynamic areas with middle-low employment rates are more often located in contexts where there are large numbers of junior high school degrees. The relationship is even stronger in the weakest local systems, where 62.4 per cent of the more dynamic areas have high percentages of the population with this level degree, compared to 25.2 per cent of the non-dynamic areas of their group. Higher levels of education (high school and university degree) appear to be more important in the development of stronger areas. In the LLMA with low employment rates, basic education is more important. The process of development occurring in most of the dynamic

areas is based on small-and medium-sized firms and at least in its initial stage, relied more on practical know-how and tacit knowledge than on a high degree of formal education. Conditions may change in the medium term and the question is posed about the capacity to assure more appropriate level of education and research.

Political cohesion and social integration play a role in the success of LLMA.s.<sup>26</sup> Strong local political traditions favoured economic development, primarily by creating a co-operative, trustworthy environment. Local authorities also produced collective goods and helped solving industrial conflict. In the south, by contrast, political patronage was widespread. Were the areas of strong growth highly integrated socially at the beginning of the seventies? In addition to being an indicator of lack of social cohesion, criminality also provides an indicator of environmental stability, because it influences economic exchanges and increases transaction costs. Widespread, criminality is particularly serious in the southern regions. Human crimes (slaughters, murders, robbery and kidnapping) have been distinguished from economic crimes (fraud, bankruptcy, etc) and both indicators are standardised for the total resident population. In all three groups at the beginning of the period, there were far fewer crimes in more dynamic LLMA.s than in declining or stagnant LLMA.s.

### **Metropolitan LLMA.s**

In 1971 and 1996, approximately 30 per cent of Italy's population lived in metropolitan LLMA.s. They differed significantly on the basis of their employment rates: in 1996, there were 9 strong and 5 weak (with middle-low employment rates) metropolitan areas. The populations of strong metropolitan LLMA.s located in the centre-north (with the exception of Verona) decreased, whereas they increased markedly in southern LLMA.s (Annex 1: Table 46). Southern metropolitan LLMA.s also showed a much lower ageing process than the northern ones (Annex 1: Table 47). The national trend towards smaller average family sizes held true for the stronger metropolitan LLMA.s, where many families are smaller than the national average. In weaker metropolitan LLMA.s, average family size has grown (Annex 1: Table 47 and 48).

Higher education levels seem to be an urban phenomenon but less than in 1971. The share of resident population with higher education degrees is higher than the national average. In addition, the number of people with high degrees increased (Annex 1: Table 47). There is no specifically metropolitan employment trend. Milan and Torino are stagnant. Venezia and Verona in the North-East and Bologna and Florence in the centre are more dynamic. With the exception of Bari, the employment rate significantly decreased in all metropolitan systems of the south. Female employment reveals further differences between the stronger and weaker metropolitan LLMA.s. There are more female workers both in the

metropolitan LLMA of the centre-north and the south, though in southern metropolitan LLMA there are less female workers, sometimes with a 20 years delay in the South (Annex 1: Table 45).

The economic changes that occurred in Italy between 1971 and 1996 were driven by small and medium LLMA. Metropolitan LLMA played a complementary role both in terms of manufacturing change and services (Annex 1: Table 49). In 1971, employment in Torino, Milan, Trieste and Venezia was typically in heavy industry, exception Verona, which specialised in the food industry. Metropolitan LLMA located in central Italy were dominated by mechanical engineering (Bologna) and light industry (Florence). Heavy industry dominated in the southern metropolitan LLMA (Rome and Naples) and food industries (Bari, Palermo, Messina and Catania), but the level of industrial employment was much lower, except for Naples (Annex 1: Table 50). The change from 1971 to 1996 confirms the geographical and industrial pattern with the exceptions of Trieste, where most employment shifted from heavy industry to food industries, and Venice, which shifted from heavy to light industry (Annex 1: Table 50). This metropolitan change was consonant with the most general change among industrial LLMA of northeastern Italy where both light industry and small-and medium-sized firms grew. The process also affected old industrial areas.

Employment in services grew between 1971 and 1996. In 1996, Torino was the only manufacturing metropolitan area. In all others, services now characterise a major share of employment (Annex 1: Tables 51 and 52). In 1971, metropolitan areas had a percentage of business services higher than the national average. The share of business services rose between 1971 and 1996 (Annex 1: Table 51), in 1996, but decreased in the metropolitan systems (Annex 1: Table 52). Few metropolitan system are now specialised in business services and there are more metropolitan LLMA where the geographical concentration of business services is lower than the national average than there were in 1971. This change may be explained by a productive model based on small firms and industrial districts which seems to involve more decentralised, diffuse localisation, even for business services.

#### 4. Conclusion

In the post-war period (from the 1950s to 1992) there was convergence among Italian provinces in terms of per capita income. However, this outcome is the result of two different trends over time. In the period 1950-1965 convergence was strong. In the ensuing years, and in particular since the eighties, the growth process diverged. Some of the more backward provinces, mainly in the South, were not able to keep pace with the national growth rate. The most dynamic provinces were located in the Centre and especially in the North-East, and some southern provinces, particularly along the Adriatic coast, were also involved. At

the same time, there were clear signs of economic decline in the areas of old industrialisation and mass production, located in the North-West.

The 1992 economic and political crisis had disruptive effects on the old territorial policies. Public investment in the Mezzogiorno dropped. Both households and firms in the area suddenly faced a credible threat of a reduction in their permanent income. The structural adjustment and precautionary saving induced by policy changes slowed down economic growth: the 1992-1996 average annual GDP growth rate in the South was only 0.3 per cent, while the national growth rate stood at a modest 1.2 per cent.

Nevertheless, in the second half of the 1990s some positive signs of dynamism became discernible. There was a recovery in most of the backward areas of the South and an increase in both growth and employment rates, which were often higher than in the Centre-North. This process – as will be shown in the next chapters – was accompanied by an overall re-organisation of territorial development policies and new experiments in the field of policies to promote local development.

A detailed picture of territorial disparities and local development paths was offered in this chapter through the analysis of Local Labour Market Areas (LLMAs). From 1971 to 1996 employment rates increased in many LLMAs, but the location of strong local systems became more polarised. The dynamic systems that improved their position were mostly located in the North-East. In the North-West there were clear signs of stagnation or decline related to the crisis of old industrial structures (especially in Piemonte with Turin and in Liguria with Genoa). In the Mezzogiorno (especially along the Adriatic coast and in some parts of Campania and Basilicata) some local systems showed relative signs of dynamism. However, these trends were accompanied by an increase in the employment gap between the strongest and the weakest areas; the latter concentrated in the South (mainly in the southern part of the Mezzogiorno: Calabria and Sicilia). The improvement in the employment performance – or the persistence in the group with high employment rate – was clearly associated with an increase in the local concentration of manufacturing activities (above the national average). Only few local systems, mostly located along the Alps and along the coasts of northern regions, showed a specialisation in non-manufacturing activities related to tourism. Metropolitan local systems were also specialised in services, but with a marked cleavage. In northern areas, business, consumer and social services were more present, while in the South traditional services (including public administration and retail activities) prevailed. This feature was associated to a lower employment performance over time of southern metropolitan systems.

The role of manufacturing activities in triggering employment growth needs some qualification. In the last decades there was an overall decline of employment in industry, while services producing employment increased.

However, data show a strong association between the concentration of manufacturing activities and that of business services, especially in strong local systems. Therefore, the contribution of the manufacturing industry to the employment growth is not only direct, but also indirect through its impact on business services and other services (such as social and consumer services). It is likely that this feature has been also emphasised in the Italian case by the model of industrialisation based on light industry and clusters of small firms. In fact, this model seems to entail a more diffuse presence of business services, which are less internalised than in systems where larger industrial units prevail. On the other hand, where the association between manufacturing activities and services growth is not present, or is weak – as in many southern systems – not only the employment performance is worse, but it also appears more related to the diffusion of traditional services (public administration, retail distribution, etc.). The development of these services is also related to past political choices (both directly and indirectly through the power of issuing licenses). In situations of economic backwardness, in which political patronage is also particularly widespread, there is a strong tendency to create new jobs in these sectors. Therefore, the growth of employment is usually associated with low levels of productivity.

As a matter of fact, if manufacturing was the engine of employment dynamism, with its indirect impact on services, light industrialisation and industrial districts were the fuel of that dynamism. Data show a diffusion of the Italian model of clusters of small-firms out of the original boundaries of the Third Italy, towards the South and some areas of the North West. This outcome is consistent with the analysis of development paths (considering both mobility among groups and within them). The role of territorial proximity in explaining the diffusion of development is probably enhanced by the nature of light industrialisation and “districtualisation”, which implies strong external economies and relational factors and emphasises “organisational isomorphism”. Indeed, data show that the role of contiguity is conditioned by the basic features of the local institutional context. The development of most dynamic local systems is associated with a peculiar institutional context at the beginning of the process: location in small and medium-sized towns, diffusion of self-employment, political cohesion and social integration (including low rates of criminality), diffusion of basic education and the presence of technical and vocational schools. Local institutional factors, for instance, may explain certain differences in the development of the Tirreno and the Adriatic coast. In the former case, the traditional economic environment based on heavy industries and large firms, as well as large urban and agricultural structures, appears less favourable to the development of industrial districts. Similar factors explain different development paths within the South.

To sum up, the analysis of disparities showed general improvements in employment performance for most local system, but an increasing polarisation between the strongest and weakest areas. This gap has a strong territorial component, since the local systems with the worst performance are located in the Mezzogiorno, especially in its southern parts: Calabria and Sicilia. However, it is worthwhile stressing that numerous areas in the South show signs of dynamism and economic revival. Therefore, *the persistence of a marked territorial gap is accompanied by promising processes of local development that should be carefully considered, also for their implications on territorial policies* (see Chapter 2).

As concerns socio-demographic aspects, in the 1990s there are much more elderly as a percentage of resident population in strong local systems compared to the early 1970s; while the percentage of youth has increased in the middle and low-employment areas. This outcome is also related to the higher rate of female employment in strong local systems, and a lower birth rate in these areas. In the absence of appropriate policies, there is a risk that these trends could strengthen. The growth of strong areas could be endangered and become more dependent on immigration from other countries, while employment performance of weak local systems, concentrated in the South, could remain low (with high rates of youth and female unemployment). Indeed, while territorial disparities in terms of education have decreased, with a general growth of people with high school and university degrees (although territorial disparities in illiteracy rates remain strong), interregional migration remain small (see next chapter). The role of the family as a shock absorber continues to be important in weak local systems: the average size of households is high compared to the strong systems and the gap has increased over time.

As far as disparities in infrastructure are concerned, the analysis has shown mixed results. On the one hand, the gap in transport infrastructure between strong and weak local systems remains high. On the other hand, data reveal a process of convergence as concerns housing conditions, and some basic features of social infrastructure, such as education and health care. Housing conditions – measured in terms of availability of basic services and number of inhabitants per house – show a general improvement and marked reduction of disparities among local systems. As for education, the closing gap in education levels has been accompanied by lower differences among local systems in the availability of schools and classrooms. This trend is even more remarkable for physical infrastructure in the field of health care (*e.g.*, number of hospitals). In this respect, the gap between local systems is very low. Obviously, the availability of physical infrastructure is no guarantee for quality in the supply of services, where marked differences can be found between strong and weak local systems.

In conclusion, two major trends have emerged in the analysis of territorial disparities and development paths based on LLMAs. On the one hand, there is an

increase in employment disparities; though relevant signs of dynamism have recently become discernible in many originally weak local systems. A significant gap also persists in transport infrastructure. On the other hand, as far as social disparities are concerned, endowments in terms of physical infrastructure in the field of education and health care have improved and differences among areas have been reduced. Notwithstanding territorial disparities in the quality of services supplied, the analysis shows a process of convergence in the general level of education and health. Why were policies for regional development and transport infrastructure less effective than policies in the field of social infrastructure and social disparities? The following chapters will try to give an answer to these questions, assessing the role of economic, spatial and social policies.

## Notes

1. For the purposes of the discussion, the North East is defined as Friuli Venezia Giulia, Trentino Alto Adige and Veneto; the North-West as Piemonte, Liguria, Lombardia and Valle d'Aosta; the Centre as Emilia-Romagna, Toscana, Umbria and Marche. The South includes Lazio, Abruzzo, Molise, Campania, Basilicata, Puglia, Calabria, Sicily and Sardegna.
2. Unfortunately, the availability of territorially disaggregated data (such as provincial ones or the very detailed dataset on LLMA presented in the rest of this chapter), is linked to the Industrial Censuses. The last one is that of 1996. ISTAT (the National Statistic Institute) is improving data availability, but if one has to describe the last decade, still has mainly to refer to regional data as the most detailed framework.
3. The ISTAT Labor Force Survey data, on which these regional employment figures are based, has a structural break in October 1992 – due to a deep methodological change; precise comparison of 1993 with previous years is impossible.
4. Data from 1995 on are now calculated by ISTAT with a new methodology (Sec95).
5. See ISTAT data, 1998.
6. Economic and territorial polarisation: the disparities index, a standardised measure of the variance of a distribution given by the ratio between the standard deviating and the distribution average, is applied to the distribution of weak and strong local systems in the north-west, north-east, Centre and south. If there were little disparity, the index would indicate an equal distribution of strong and weak local systems in the different areas.
7. Employment in extra-agricultural activities grew by 18.4 per cent between 1971 and 1996, but was accompanied by a 15.3 per cent increase of the resident population aged 15-69. The national employment rate consequently rose by only 1 per cent.
8. Here, there is a positive association between the strength of local systems and a high rate of female employment. The correlation index between the percentage of female employment on total workforce and the employment rate in 1991 was  $r=0.476$ .
9. These categories aggregate the major groups in the International Standard Classification of Occupations (ISCO-88): high-skilled white collars include Group 1: legislators, senior officials and managers, Group 2: professionals, and Group 3: technicians and associated professionals. Low-skilled white collar workers include Groups 4: clerks and 5: service workers and shop and market sale workers; highly-skilled blue collar workers include Groups 6: skilled agricultural and fishery workers and 7: craft and related trade workers; low-skilled blue collar workers include Groups 8: plant and machinery operators and assemblers, and 9: elementary occupations.
10. Milan, Genoa, Verona, Venice, Bologna, Florence, Perugia, the most important urban centres among the strong local systems, specialise in service activities.

11. Liguria, Tuscany and Lazio.
12. Along the coast in Campania, Puglia, Sardinia and Sicily.
13. Some LLMA at the border among Molise, Puglia, Campania and Basilicata, but also the southern part of Tuscany.
14. Putignano, Martina Franca and Barletta in Puglia.
15. Indices for road and rail infrastructure are examined, but not air and maritime infrastructures because they are punctual characteristics and the indexes might not reflect the endowment of individual LLMA correctly.
16. The correlation index between illiteracy and employment is -0.800, the value for higher education and employment is 0.500.
17. The dependency ratio indicates the relative weight of the younger population (under 15) on the active population (15-64). There are 9 births per 1 000 people; since 1993, the difference between the number of births and deaths in the same year has been negative.
18. About 27 per cent of LLMA had a low employment rate in 1996 but represented only 13 per cent of total population.
19. Local systems where the largest municipality has fewer than 10 000 inhabitants are considered to have a low level of urbanisation. Where the largest municipalities have from 10 000 to 89 999 inhabitants, urbanisation is considered to be at a medium level; 90 000 to 249 999 inhabitants means a high level of urbanisation and a population of more than 250 000 inhabitants means that a local system is metropolitan.
20. Business services include: banking, finance, insurance, business services, R&D, wholesale distribution, commission agents, supporting services to transport. Consumer services include: hotels and catering, tourist offices, recreational services and other cultural services. Social services include: education, medical and other health services, sanitary services, compulsory social security. Traditional services include: public administration, production and distribution of electricity, gas and water, retail distribution, transport and communication.
21. ISTAT data are used throughout this discussion.
22. LLMA with more than 250 000 inhabitants in 1971, or metropolitan areas to avoid having their high population and specific socio-economic create distortions affecting the mean values of the variables used.
23. Geographically speaking, the more dynamic areas within the *strong regions* are concentrated primarily in the North-East in eastern Lombardy, in Valle d'Aosta and in parts of Emilia and Toscana (Figure 12). In the Piemonte, some parts of Lombardy and of Liguria – especially those areas where the traditional Fordist organisation of production declined – the employment rate was relatively stable or decreased relative to the group average. The more dynamic group of LLMA with *middle-low employment* rates (Figure 13) are located principally in Emilia-Romagna, Marche, Abruzzo and Lazio. Some areas in Piemonte, in the North-East and in the South, especially near Avellino, performed well. Figure 14 shows the more dynamic of the *weakest areas* of the country in 1971. All of those in the Centre and North-West proved to be dynamic but the performance in some agglomerations of LLMA between the regions of Molise and Campania and others in Puglia, as well as in the southeastern part of Sicily and in Sardinia was noteworthy. The employment rates in most of the areas in Calabria and Sicily remained stable or dropped, with some exceptions.

24. Most local areas remain non-manufacturing, however, and offer primarily traditional services, including public administration and retail distribution.
25. Metropolitan LLMA were left out.
26. Political cohesion is measured in terms of the percentage of votes for the first party of all valid votes in an area during the 1972 elections (*Concentration of the main party*: this index has been calculated as Location Quotient (LQ) of the main party based on the votes for the first party in each LLMA in the 1972 elections of. If LQ values (for each group of LLMA) are  $<1$ , concentration is considered *low*. If LQ values are  $\geq 1$ , concentration is considered *high*. The main party has obtained the most votes in each LLMA, independently of its type). A higher concentration of votes for the first party compared to the group average distinguishes the more successful areas and the non-dynamic ones (Tables 49 and 43).

## Chapter 2

# Policies

### Introduction

What is the relationship between public intervention and the transformations that have changed the economic geography of Italy? What is new in the territorial policies currently implemented in Italy?

Territorial policies include all the policies undertaken by public authorities with the aim of enhancing the output potential of specific geographical areas. This general goal may involve all the levels of government: the central state as well as regional and local governments. In the case of Italy, territorial governance is particularly complex because it is based on forms of co-operation and co-decision between different levels. The structure of inter-governmental relations is therefore of crucial importance.

First of all, it is to be taken into account that Italy enjoyed a centralised institutional tradition (see Chapter 3). The 1948 Constitution provided for the introduction of regional governments, but its implementation was delayed until 1975-77. Therefore, from the 1950s to the mid-1970s, territorial policies were mainly carried out at the central level. Economic policies for regional development were oriented towards southern regions through the “special intervention” based on the *Cassa per il Mezzogiorno* and state-owned companies’ investment policies. The *Cassa* sustained both the creation of infrastructure (for agriculture and transportation and for social purposes) and the process of industrialisation. Spatial and social policies (especially in the field of health and education) were pursued at the central level through the “ordinary intervention” and were administered by Ministries. These policies were usually based on re-distributive targets, which tended to favour the weakest territories. They also involved the participation of local governments (especially municipalities), which had to apply in order to have their plan approved and financed. Local governments enjoyed a very low degree of fiscal autonomy and were mostly dependent on the centre for their major initiatives (the degree of fiscal autonomy was further restricted at the beginning of the 1970s).

This model of “re-distributive centralism” was subject to high degrees of inefficiency because it assigned strong discretionary powers to the central government and did not require either effective forms of *ex ante* and *ex post* evaluations, or accountability on the part of local governments<sup>27</sup>. In most cases resources were allocated to local governments without any consideration of efficiency and actual feasibility of their plans. The problem of efficiency was further exacerbated by the strong differences in size among the Italian municipalities (6 000 municipalities out of 8 000 have no more than 5 000 inhabitants).

Since the mid sixties, spatial and social policies, as well as economic policies run by the *Cassa*, were often the object of political exchange between local and central political *élites*. The former tried to get more resources in exchange for electoral and political support to the central leaders. The weaknesses of the Italian bureaucracy facilitated this kind of inefficient inter-governmental relations. In some cases, this mechanism also favoured political corruption.

It is to be stressed that this general framework was only partially altered by the introduction of “ordinary” regions in the mid-1970s. While new regional governments were granted legislative powers in important fields, provided by the Constitution (agriculture, commerce, handicraft, health care and social services, urban planning and land use, environment, transport, technical training, etc.), regional financial autonomy was limited. The system of regional finance suffered from an excessive conditionality on state transfers, which were typically not allocated according to regions’ mandates and unrelated to their revenue-raising capacity. In addition, regional governments usually adopted the same kind of inefficient “re-distributive centralism” towards lower levels of government. In fields such as social services or transport and public works, resources were re-distributed without serious evaluation procedures.

However, despite these shortcomings, the introduction of the new regional governments, in 1975-77, brought about some changes in territorial policies. Centre and northern regions were usually more capable of using their powers to strengthen local economic development. While they could not rely on autonomous powers in the field of industry, they tried to by-pass this constraint working on a complex of measures in the field of training, business services, industrial zoning, handicraft production, energy and waste-disposals, etc. These initiatives – usually implemented with the co-operation of municipalities and provinces – had a relevant impact on local economic development, especially in areas based on small firms and industrial districts. Most of these measures were based on the provision of real services rather than on financial incentives to single firms. Since the mid-1980s new financial resources were provided by the EU regional funds, for areas affected by problem of industrial decline or economic

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backwardness. Usually the centre and northern regions were more capable of using these funds.

In this way the introduction of regional governments brought about a new cleavage between Centre-North and the South. Southern governments were more unstable and public policies more strongly influenced by political patronage. This made it more difficult to plan and implement public policies oriented towards the production of collective goods and services. Southern regions were also less capable of using the new financial resources provided by the European Union (the bulk of these resources in Italy was earmarked for the South). In addition, the operation of the *Cassa per il Mezzogiorno* and of state-owned enterprises, effectively until early 1990s, did not favour a more active role of regional governments in territorial policies for economic development.

This general framework influenced territorial policies until the early 1990s. However, after the serious economic and political crisis in 1992, important changes occurred. As described in Chapter 3, the Italian model of “re-distributive centralism”, with its low levels of efficiency and effectiveness, was being reshuffled by a complex process of institutional reforms. These reforms have increased the responsibility of both regions and local authorities and the participation of private actors (interest groups, associations) in the design, selection and implementation of territorial policies.

This chapter is divided in three parts.

**Section 1** describes the evolution of economic development policies. It starts considering the period 1943-1992, characterised by extraordinary intervention in Southern Italy, with the creation and dismantling of the *Cassa per il Mezzogiorno* (Mezzogiorno Development Fund), and by new regional policy actions starting in the 1970s. Four different sub-periods can be distinguished:

- Between 1950 and 1960, the State mainly intervened in the economy of the Mezzogiorno using the Cassa and extraordinary financial resources to promote a widespread programme of public works. Territorial policies were basically identified with policies aimed at promoting the development of Southern regions. In this period, economic and social policy clearly helped to modernise backward areas and to arrest the traditional scourges of underdevelopment – disease, malnutrition, illiteracy; modern roads, schools and hospitals were built. The disparities in the overall standards of living between the Mezzogiorno and the rest of Italy and Europe became less stark.
- From 1957 until the end of the 1970s, the goal was to industrialise the Mezzogiorno. Large Italian companies were given incentives and public enterprise industrial investment was channelled to the South. However, the Mezzogiorno did not industrialise as a whole and continued to depend on

public transfers from richer areas. Interventions were not able to stimulate the local context and spin-offs.

- Since the early 1960s, a progressive worsening in the standard of policy implemented by the *Cassa* in Southern regions occurred. At the same time in the Centre-North, new territorial policies were undertaken by the “ordinary” regions created in the 1970s. These new measures – although with differences among regions – contributed to strengthen the small-firm development and industrial districts in the Centre and North.
- In the 1990s, the overall framework of territorial governance was affected by significant changes. The end of extraordinary intervention in the South and the beginning of a process of privatisation were accompanied by a deep reform of the Italian public administration. By the end of the decade, many of the central government’s powers and functions were conferred on regions and local authorities, while their revenue-raising capacity was substantially strengthened (see Chapter 3). In the meantime, several tools for bottom-up planning and for setting complex integrated local projects in urban and rural areas were introduced and implemented. The traditional centralised planning procedures for public investment were overthrown by the introduction of a new system by which Regions and the central government co-decide and co-finance infrastructures and public investments: from a system that relied either on unilateral decisions, without evaluation, or on unaccountable bargaining with private agents, new contractual methods were adopted by which decisions involve transparent negotiations among different levels of government and associations of private agents, based on evaluation and monitoring procedures and new incentive schemes. An attempt to bring together these different strands into a comprehensive regional policy, named “Territorial Competitiveness Policy”, was begun in 1998 establishing guidelines and rules for the use of 48 billion EURO of European funds and national co-financing for capital spending in the Mezzogiorno for the years 2000-2006. The Mezzogiorno Development Plan, whose first measurable impacts are expected in 2003-2004, feature: a strong shift from monetary incentives to public investments policies designed to improve the local context, and from sectoral allocation to an allocation aimed at promoting territories’ endogenous resources; the introduction of strong incentive mechanisms to perform – even through feasibility analysis – high quality standards in project design; the implementation of a 10 percent performance reserve for regions and central administrations conceived as an incentive to implement the administrative reforms deemed necessary to put the Plan into practice.

**Section 2** focuses on the evolution of spatial and social policies. Whereas in social infrastructures (like housing, schools and hospitals) the gap between the

Centre-North and the Southern part of the country has been reduced, in the case of economic infrastructures it remains high. This is the result of an often-fragmented territorial policy-making and overlapping between planning instruments at different levels of government. However, particularly in the last few years, experiments of various forms of co-ordination, institution building and implementation of new inter-institutional practices are taking place. In this context, spatial policies are now increasingly focusing on integrated strategic interventions to foster local competitive advantages of different types of territories, but also to improve the quality of active assistance to individuals and social groups in risk of poverty and exclusion. The integration of a “competitive” and a “social” orientation of spatial policies represents a major emerging issue.

**Section 3** analyses those policies that are not territorial in nature but that have a strong territorial impact. Due to large regional disparities, Italy is a country where traditional supply-side policies may have strong asymmetric territorial impacts. From welfare and labour policies, to market regulation and liberalisation, and to policies for the information society, this section discusses such interventions explaining how they interact with territorial policies, supporting, being neutral or implicitly counteracting them.

## 1. Evolution of economic development policies

### *Extraordinary intervention in the South of Italy: The Cassa per il Mezzogiorno*

Immediately after the end of World War II, a strong effort was made to balance conditions in the North and the socially conflicted South. Italy benefited from the Marshall Plan and, once it ended, received significant financial resources from the World Bank. A fully fledged regional policy was implemented in 1950 when a national priority programme, involving all important Italian banks and business, was established to execute a large public investment plan in Southern Italy over a ten-year period: the *Cassa per il Mezzogiorno* (Development Fund for the South of Italy).

Together with international loans and reconstruction aid funds, the *Cassa per il Mezzogiorno* received funds from the Italian State that were to be additional to, and not a substitute for, ordinary government spending.<sup>28</sup> The *Cassa* was deemed to be the only way to quickly put together under independent, technocratic management, highly paid and skilled human resources. Allied authorities and Italian leaders shared the view that Italian public administration, due to its formalistic tradition and its strong link with the fascist regime, was not up to the job. For the same reason, a large role was later assigned to Italian state-owned corporations IRI and ENI. While subject to political control, the *Cassa* operated outside central and local ordinary administration and enjoyed considerable autonomy in planning decisions and financial management. It was to benefit from

technical competence and avoid bureaucratic slowness. Originally conceived to exist for one decade, the *Cassa* operated until 1986.

The investment plan for the first decade comprised a large programme of public works based on building roads and aqueducts, electrical and irrigation plants, and tourism and agricultural projects on drained and reclaimed land. The bulk of financial resources was allocated to basic infrastructure and the agriculture sector, while a less important share went to industry. The investment plan sought to create a favourable environment for industrialisation and raise local living standards, especially in the countryside. Infrastructure and living standards in the Mezzogiorno took a great leap forward. Interventions produced visible results as outstanding reclamation projects were completed. Large electric-irrigation projects, strengthened communications networks and the start of technologically prestigious industrial activity transformed the area. Centuries-long problems such as malaria and drought were overcome; agricultural productivity and per capita income rose sharply. Several basic industries (chemicals, steel and construction) were revitalised through demand linked to the infrastructure works.

The first phase of extraordinary intervention achieved much. However, the strong focus on infrastructure and agricultural investment, and the modes for reorganising land ownership carried out in the agrarian reform limited its impact. In the early years of the plan, agriculture absorbed up to 77 per cent of resources (this fell gradually to 55% in the early 1970s). By the end of the 1950s, it became increasingly clear that agriculture could not be the leading sector of the southern economy. The hope that increased basic infrastructure would be sufficient for attracting industry to the Mezzogiorno was rapidly dashed. The public works programme had changed the face of the Mezzogiorno, but had failed to make it a competitive site for national or international industries. In 1957 (Law 637), industrial companies were granted concessions on capital contributions for plants and new machinery, credit facilities and various tax concessions. Initially these incentives were for small and medium enterprises, but this condition was soon removed.

In the early-sixties, top-down industrial development started, with investments concentrated in specific areas or development poles. State-owned companies were to direct no less than 60 per cent of new investment and 40 per cent of overall investment to the Mezzogiorno. Many modern plants were created and the industrial base was diversified. Steel, chemical, mechanical engineering and vehicle manufacturing companies emerged, as did the organised nucleus of a working class. With the help of emigration, this drive contributed to reduce the gap between the Mezzogiorno and central-northern Italy in terms of per capita output. But several factors proved fatal for the long-term success of industrialisation in the Mezzogiorno.

The effects of attracting large companies were much weaker than expected. The production cycles that were transferred from the Centre and the North of the country to the Mezzogiorno tended to be highly integrated. Large private companies decentralised plants and production stages that required a minimum of local input and strategic functions. There was thus little stimulus for the growth or creation of local companies to supply the large ones. On the other hand, the local network of small and medium-sized enterprises producing consumer goods was too weak to capture the increased demand caused by new investments, which were satisfied by enterprises of the Centre and North attracted by a growing market and lower internal transport costs in the South. Paradoxically, the large industrial investments in the South accelerated the crisis of the traditional southern sector that could not compete with similar companies in the North. While big industry was creating tens of thousands of jobs in basic and mechanical sectors, local industry in traditional sectors almost balanced the gains with persistent job losses. The net effect was to leave the Mezzogiorno with a narrowed industrial base but a nucleus of highly productive large modern industries. Ultimately, small companies were crowded out of the labour market because larger companies paid higher salaries, which caused problems for the less productive local companies.

These allocative problems in the policy for the Mezzogiorno deteriorated with the 1973 international oil shock. The crisis hit large companies and particularly those in high-energy consumption basic sectors: an important part of new private and public southern industry was severely affected. Over-investment was, on the other hand, the result of the increasing interference of political parties on managerial decision-making. This interference was the result of the peculiar unbalance in the governance structure of both the *Cassa* and State-owned corporations. Lacking an accountable system of exit and voice, control turned into channels for collusion between controllers and managers.

From the mid-1970s to the early 1990s, policy interventions in the South of Italy increasingly included measures based on labour subsidies, and non-wage labour cost exemptions.<sup>29</sup> Subsidies played an important role in offsetting the lower productivity of southern companies, reducing labour costs by about 27 per cent, but did not help to reduce the gap. In addition, subsidies worked as a negative incentive for southern firms to choose profitable investments and for young professionals to invest their human resources in risky activities. Subsidies officially ended in 1994 when Italy, in accordance with European Union rules, abolished them.

In 1986 an attempt was made to reform the *Cassa* (Law 64), which also nominally assigned a relevant role to regional governments. However, this reform was not able to produce fundamental changes. In the early 1990s, public opinion viewed extraordinary intervention as a corrupt and inefficient bureaucratic

machine, a big money spender incapable of even opening up the Mezzogiorno to the prospect of autonomous development. The Mezzogiorno seemed structurally dependent on transfers of public money. The prolonged economic and political crisis of 1992, under the pressure of investigations on several cases of bribery and private capture of public interest, accelerated the change. Extraordinary intervention ended in 1992. Privatisation of State-owned enterprises started. EU pressure to reduce Italy's extremely high subsidies and the need to curb public expenditure to bring public debt under control, induced the Italian government to significantly reduce the flow of public funds to the Mezzogiorno. Public investment in the South dropped (by 20% in real terms between 1992 and 1997). Both households and firms located in the area suddenly faced a credible threat of reduction in their permanent income.

In order to understand the impact of these changes, account must be taken of the regional success stories that had in the meantime taken place in the Centre-North.

### ***Towards new regional policy***

#### *The experience of the Centre-North*

The establishment of regional authorities in the mid- 1970s had a strong impact on the Centre-North. Within a few years, regional actors began to shape a wide range of different policy approaches aiming mainly to increase regional competitiveness by acting on the stock of natural and cultural resources as well as on the endowment of local economies of agglomeration. Regional authorities have not always operated accordingly with a coherent and precisely defined strategy, nor they have always ensured appropriate co-ordination between local bottom-up initiatives and regional development programmes and planning. Still in many cases they have ensured a more rational distribution of production and consumer activities across the territories, which has had some positive effects on the overall productivity. Large shares of the regional policy-mix have continued to concern traditional financial incentives – no-security loans, low-interest credits for investments, easy-term credits for working capital – for all sort of industrial enterprises. Sometimes, incentives have been additional to and even coinciding with national ones, although regions have often announced efforts to fine-tune incentives to specific companies or narrower fields. However, in some cases, there has been a more innovative effort so not to provide direct financial support, but rather to ensure a larger share of services (Box 5) and infrastructure able to shape local environments more favourable to growth. In these cases, local institutions as well as autonomous quasi-public agencies have been created to formulate effective policy tailored to local needs. Although these experiments are

interesting in many respects, they do not constitute a strategy in themselves and requires appropriate assessment.

**Box 5. Policies implemented by the northern regions to shape environment conducive to growth**

*Supply of Real Services:* These measures aim at supplying small companies with a very wide range of services that would be too costly for them to produce internally or to purchase individually. Regional projects often include measures to increase product sales and company exports; to spread information on market trends, technology and financial opportunities; to provide advisory services for companies on taxation, organisation and management, and to promote consortia for the production of collective goods (joint purchase of raw materials, product quality control).

*Support for Technical Innovation and Technology Transfer:* These policies seek first to encourage research and development and new technology locally by creating technology parks where public and private centres and laboratories are sited. The second objective is to encourage small companies to use technological innovation on both the supply and the demand sides. On the demand side, entrepreneurs are informed of existing technological opportunities and are made aware of the importance of innovation. On the supply side, the industrial application of technological innovation is encouraged.

*Easier Access of Small Companies to Credit:* Typically, via loan guarantee consortia whereby a joint fund allows small companies to give more secure guarantees to banks, and to reduce the cost of loan capital. Project financing and venture capital measures are still being piloted.

*Labour Market Policies:* seek to match supply and demand through employment services: provide information, career guidance and job training counselling, to promote the employment of disadvantaged groups, and to provide basic information on labour market trends. The second objective is to permit the full exploitation of human capital through a job training system for youth and the unemployed, management training for small companies and public office, and in-service training for higher qualifications in areas considered strategic. All policies include training.

*Policies for Equipped Areas:* aims to spread production and service activities over an area and to encourage their location in less developed and crowded areas. Public administrations identify, build infrastructure and supply low-cost land for small companies as well as reclaim land and clean up for reusing unused industrial sites.

*Environment:* One type of policy seeks to keep entrepreneurs informed on environmental issues and to provide more environmentally sound incentives to production processes. The other has a direct impact on natural resources and includes the management of water and waste, and the protection of particularly scenic or environmentally interesting sites.

*Tourism:* promoting specific projects to increase and improve supply, territorial marketing to increase tourism flows and the siting of new companies.

The policies developed in the Centre-North-East part of the country to support clusters of SMEs deserve particular attention. In these regions policy makers have been confronted with questions related to their specific economy, largely based on small firms. The stated problem, during the 1960s and 1970s, was the extent to which a de-verticalised structure of small specialised production units is capable of evolving new production techniques, new products, up-to-date marketing and sophisticated technical services. A large majority of opinion makers was inclined to think that small firms were bound to be replaced by more efficient forms of industrial organisation and consequently policies could at the most make the process of restructuring as painless as possible. By contrast, in the 70's and early 80's, a series of empirical studies revealed that, in Centre-North-East Italy, examples abounded of agglomerations of firms that within few decades had gradually upgraded their competitiveness and had survived competition from newly industrialised countries. In many areas, these small firms were actually capable to produce – by means of trial and error – those continuous improvements in product differentiation and the incremental innovations that were crucial in high-conception industries (Box 6). Moreover, they had flexible equipment that minimised downtime during changeovers and an organisation of labour with workers actively involved in problem solving so to allow to get nearer to the start of the retail season and reduce the degree of error in design and therefore risk. In other words, lead-time reductions permitted manufacturers to keep options open until the latest information was available. In conclusion, if needed, policies were required not to slow down the process of restructuring of sunset industries but rather to face some of the comparative disadvantages industrial districts have.

In fact, so far as technical breakthroughs and the rapid acquisition of completely new skills were concerned, local systems needed a long time to adapt their working practices, *i.e.* they were locked in their peculiar organisational and technological trajectory. Introducing electronics in mechanics or CAD and CAM systems in clothing, the adaptation of water leather-cutting machines for small batches of production, the diffusion of information about prevailing fashion trends, standards and quality requirements for export products in distant markets and, more generally, all the initiatives that usually imply huge expenses in applied research and marketing were not within easy reach for small firms. The specific disadvantages of local productive systems suggests at least two fronts for action: *a)* the appropriate diffusion of new skills among the whole economic actors of the local system as well as *b)* the provision of services that are not yet available (at least at the right quality and in time) at the local level.

If SMEs' ability to innovate depends on the collaboration of hundreds of people with different roles, qualified technical education is required. In the past, technical schools were actually located in many Third Italy towns and helped the

### Box 6. Are industrial districts able to innovate?

Three observations were clearly pointed out about industrial districts and their ability to innovate.

The first one had to do with competition. In the structure of local productive systems, researchers said, there are, in each phase of the process of production, many firms competing with each other and no seller or buyer squeezing power. From these competitions derives the stimulus to innovate: “lazy” subcontractors are rapidly excluded from the market. But from this competition comes a possibility to innovate, as well: buyers cannot impose prices on sellers and reduce their profits (and vice-versa), thus the latter are enabled to make the necessary investments.

The second observation concerned co-operation in the relationships between clients and subcontractors. Whilst in classical Fordist large firms research and development departments work out projects in detail and then transmit them to the production side through hierarchical channels, in small firms a single idea goes through all the phases of its development in a continuous confrontation, inside, among technicians and workers and, outside, with subcontractors and clients. Instead of separating someone who has an idea from the person who will have to implement it, these small firms reconnect conception and execution in a way that keeps production costs under control and enables a series of modifications and adjustments to be made to the product.

A final observation had to do with the mechanism that regulates such a delicate mix of competition and co-operation, that, of course, is permanently threatened by all sorts of conflicts between different groups within the local economy: buyers and manufacturers, employers and workers, skilled and unskilled workers, etc. At the very heart of these local productive systems of small firms there are two types of social institutions. On the one hand, there is the set of social relations that co-ordinate the actions of men and firms. A population that used to live in the same area, with weak migratory fluxes, and a low social polarisation develops a “sense of membership”, a sense of belonging to a socio-cultural entity: a “community”, that such populations estimate positively and to which it adheres with affection. Time has sedimented interests, purposes, beliefs, and common rules that have been translated into “conventions”, and these conventions encourage and regulate the particular relations of co-operation among firms and inside the firms. On the other hand, time has incubated institutional mechanisms for the local resolution of collective conflicts: local as well as regional “tables” around which a wide range of associations (trade associations of large or of small firms, unions, associations of co-operative, associations of municipalities) arbitrate disputes.

In short, conventions sustain the trust that is necessary to co-operate. Co-operation, in turn, is particularly useful in the production of highly specialised products and services in an environment of rapid technical change. A controlled competition – within as well as among firms – stimulates and makes possible innovation.

diffusion of basic mechanic knowledge, which appeared to be a crucial factor for future development. Now-a-day experiences with similar functions are visible in many OECD Member countries with a variety of titles. Their role is to feed a manufacturing base that requires employees with higher than compulsory education but not necessarily university credentials. However, the renewal and up-grading of similar initiatives faces some important obstacles that are common all along Italy. National action regarding secondary education has largely improved in recent years.<sup>30</sup> Still is extremely slow in reforming curricula and structures so more initiatives are required by local authorities. In order to compensate delays, local experimental courses and personal teachers' engagement have often produced valuable initiatives and even great enthusiasm, but they remain too limited in numbers so to reach the desirable sedimentation of new skills in all the local fabric. Finally, vocational courses, for which important amount of resources are invested every year, are often too short and too vague to provide the basic knowledge to produce and not only use new technology or new organisational principles. The point is that a serious debate on updating technical education and involving firms in post secondary training seems required and should assume the same public importance as that of new structure of university and physical infrastructures.<sup>31</sup>

The second front for action concerns producers services (including those services that help firms to improve their methods of management and logistics). Given their size, small firms are not able to internalise all expertise – as well as all phases of production – and so they buy them instead, but in some cases the appropriate market supply does not exist: no private firm is prepared to provide the necessary information. A solution largely practised in northern Italy has been to create consortia among firms so to internalise in a collective way the expertise that is missing. Large overheads require volume production and this is attained by several firms that join together in a common association, without losing their autonomy as well as their original production flexibility and design responsiveness. In Italy, consortia must be registered and have been sustained by means of tax reductions, subventions and low-interest credit.<sup>32</sup> National legislation, however, only partly explain their wide diffusion which is also due to the active participation of trade associations. These associations began by offering services such as book-keeping and the preparation of pay packets then broadened their field to include areas such as the calculation and payment of indirect taxes, income tax declarations, and insurance contributions. Recently, they have branched out still further establishing associations for the purchase of raw materials, help companies take part in trade fairs and exhibitions, co-ordinating the demand for credit with banks to secure low-interest loans. In short, they are directly involved in providing services. They may follow this line in order to swell their membership but, in any case, the result is that the entire local fabric is provided with skills that would otherwise not be available or which would

be much more costly. As one of the important actors of civic society, together with unions, they have a role to play in designing local development projects. Still, even in the most advanced areas of the North, they cannot pretend to cover the all needs for rare services.

**Box 7. The role of Trade associations:  
The case of CNA in the Province of Bologna**

The main trade associations representing small firms identify co-operation opportunities, suggest ways in which firms can link their complementary skills, create contacts among potential partner firms, and motivate the firms to co-operate and mediate critical phases in the process of establishing a network. This has happened for informal as well as formal networks.

Some figures may help to give an idea of the importance that these organisations have assumed in certain areas. The province of Bologna has a size and a number of inhabitants comparable to a county as well as approximately 27 000 small firms of less than 20 employees. In this province one organisation, the CNA (*Confederazione Nazionale Artigianato*), which is one of the three major trade associations, has about 17 000 member firms, 41 local offices, and 500 employees.

In Bologna, CNA prepares 22 000 pay packets each month for 5 000 firms. It keeps the books of 10 000 firms, prepares the income tax declaration for almost all its members, and organises 80 training courses a year on subjects ranging from management and business administration to computing and foreign languages.

This organisation in the 50's promoted in Bologna a large assessment and guarantee consortia, which today has 7 500 member firms and guarantees some \$12 million in loans. So far, it has promoted 41 other consortia dealing with production, common buying and selling that today have 8 000 member firms, and 42 industrial parks with a total surface area of 3.6 million in which 1 030 small firms are located.

In fact, cases remain in which there is insufficient solvent demand to sustain either a private supply of services or the creation of a network that attains the scale for an efficient provision of them. In these circumstances, providing information means assisting firms in transforming the vague perception of a need into solvent demand. In practice, some regions created strong, autonomous and specialised centres that diffuse information, for the prevailing industries of the area in which they are located, until the moment when the industrial community understands its importance. At that moment the need for public provision of services will be over and the market may be left to operate.<sup>33</sup> Apart from the most valuable practical insights, there are some key features in these experiences to be underlined. The first is the unit of intervention, which in this case is not as much

the individual firms or the specific network in which they are organised. The aim is to increase the level of knowledge and the introduction of new skills within the whole local fabric. The second feature has to do with the nature of the measures. This strategy gives a clear priority to direct provision of services instead of financial incentives to buy services. This is not a secondary policy trait, given the traditional political practice that relies on monetary incentives and subsidies. The point is that this view is unhelpful in circumstances where doubt can legitimately be cast on the ability of otherwise efficient firms to obtain information and make choices concerning the technology or services they might wish to buy. A third feature concerns the actors involved in the policy. Underlying this strategy is the conviction that success is linked to the direct participation not only of public but also of all relevant local actors who are expected to constitute a more or less formal policy network. Given that in local clusters, every structural change in organisation must be accepted and practised by many firms, new skills and services cannot be injected through commands, but must be diffused by means of consensus. Plans of action developed only by experts and the public sector and suggested without an actual participation of entrepreneurs and trade associations can face resistance in being utilised. For these reasons, centres have developed a specific institutional nature. They are quasi-public entities managed by a group of experts, knowledgeable people, officials from public organisations, but also representatives from local governments, trade associations, sometimes unions, and entrepreneurs who take an active part in the process.

Some dimensions are missing from the existing experiments, valuable though they certainly are. In particular, a clearly defined regional and even national strategy is required in order to generalise the present experiments, co-ordinate them and preserve their medium-term mandate from changing political interest, due to short term views. Specialised service activities have mainly been the results of bottom-up initiatives concentrated in particularly dynamic areas. The issue at hand is how one may expand these experiences in bordering as well as distant areas that are facing industrial re-conversion problems or are lagging behind? How tools designed to support growth may become functional to take-off or fighting industrial decline? A closer and permanently updated knowledge of them is required, enabling conclusions to be drawn from the various specific experiments. In fact, the reproduction of centres for services needs the lacking ability to stylise the main functions and standards, which in turn implies a national and regional competence and monitoring, at least in the early stages of activity. Moreover, increasing the number of experiences implies the need for increased co-ordination among centres in order to ensure that specialised providers acquire services from other providers, instead of duplicating them. Indeed a growing co-operation among providers seems to emerge in practice, often favoured by geographical proximity. Still international co-operative experiences that may widen substantially the scope of linkages and that are often sponsored by the

**Box 8. Supply of Services to SMEs:  
The ERVET Network in Emilia-Romagna**

ERVET is a public/private agency formed by the Emilia-Romagna region in 1974 as an instrument through which to implement its economic and industrial policies. ERVET translates regional planning choices into actions, designing and carrying out innovative projects together with the economic groups concerned.

The ERVET network consists of sectoral and theme-oriented centres, whose core objective is to disseminate information in the areas of market development, marketing and technology. The network plays a strong role in the creation of economic intelligence through the maintenance of databases and libraries. The Ervet network is composed by ERVET, the parent organisation, and specialised structures termed Business Service Centres. These are:

- CERMET is the centre for product and process quality certification.
- CESMA and DEMOCENTER serve the sectors of machinery manufacturing and factory automation.
- CERCAL and CITER serve the fashion industry, in particular CERCAL deals with footwear industry and CITER with textile information.
- CENTRO CERAMICO and QUASCO serve the ceramics and construction industries.
- FARM-TO-TABLE provides services to food processing companies in the areas of quality, innovation and safety.
- QUASAP promotes quality in the management of local-government contract tenders through study, training and information activities.
- ASTER operates in the fields of technical and scientific innovation, technological innovation and information technology.
- BIC promotes innovation by offering an integrated system of activities and services such as stimulating entrepreneurship, helping firms in technological and financial aspects, etc.

European Union are nowadays only partially exploited. Finally, the increasing international competitions, should incite institutions to arrange tables for co-ordination as well as negotiation to integrate not only existing services but the all range of measures such as training, diffusion of technologies, financing as well as hard infrastructures. This requires co-operation among the all range of providers such as banks, trade association, community colleges, universities, unions, foundations, as well as national and supra-national institutions.

*Further steps: automatic incentives and new partnership-based instruments for local integrated projects*

At the beginning of the 1990s, the end of extraordinary intervention in the Mezzogiorno made room for two changes: the introduction of an automatic system

of incentives to firms, which could avoid the risk of private capture and reduce the extent of subsidisation by creating competition among firms; and the diffusion of new partnership-based instruments encouraging local authorities to co-operate among themselves and with private agents and firms to design integrated territorial projects.

As for incentives, Law 488 of 1992 is an important instrument assigned to the Ministry of Industry (see Box 9; see also Box 10). A semi-automatic selection scheme was introduced in order to accelerate the process of bank processing and ministerial evaluation so that firms could obtain immediate financing for new investment in backward areas. This incentive scheme is targeted to firms, independent of their size, operating in the industry, services or tourism sectors. The Ministry of Industry operates an *ex-ante* distribution of financial resources among regions. This distribution is made by national announcements for specific economic sectors. Enterprises submit their plans to selected banks, evaluated by the Ministry of Industry, on the basis of different selection criteria. One of the main criteria assigns higher probability of getting public funds as a decreasing function of the amount of public money requested. The set of economic, social and environmental indicators is efficient for those enterprises that primarily use private resources rather than public incentives, and the mechanism is flexible enough to satisfy regional strategic, territorial and sectoral priorities. By 1996 the new system was operational and marked a turning point in administrative efficiency and management. This mechanism, however, while providing a reduction in the cost of capital for areas where context conditions tend to lower firms' returns, does not intervene on those conditions.

Since the beginning of the 1990s new partnership-based instruments have appeared on the institutional scene. The development of forms of partnership among administrations and between public authorities and private agents can be interpreted as the solution to the increasing complexity of public intervention and the need to extract knowledge from local, public and private, actors and reach a consensus on territorial objectives and policies (see Chapter 3).

These new instruments of co-ordination aim at identifying, evaluating and implementing integrated public investment projects and experiments of institutional innovation on the territory. In the field of local development, Territorial pacts (1995) are designed to strengthen the relational and entrepreneurial framework in specific areas, promoting and co-ordinating investments by private enterprises and local administrations and providing real services. In the field of spatial policies (see next section of the Chapter), Integrated programmes (1992), Programmes of urban renewal (1994), District contracts (1997), Programmes for urban renewal and spatial sustainable development (1998) involve local authorities, private agents, associations and citizens in the process of identifying needs and opportunities of the territory,

### **Box 9. Incentives for fixed investments in assisted areas (Law 488/92)**

#### ***Eligible investment***

Eligible investment projects concern new productive plants, or the expansion, modernisation, restructuring, re-conversion, re-activation and transfer of existing plants in mining, manufacturing, services and tourism sector.

#### ***Eligible territories and firms***

Eligible territories include eligible regions for EU Structural Fund interventions (Objectives 1 and 2) and eligible areas under Derogation 87.3.c. of the Treaty. Capital contributions vary according to the investment's location (it is highest in Objective 1 areas) and the size of the applicant company (small, medium and large-sized enterprises; maximum incentives for SMEs), in compliance with maximum intensities set by EU regulation on regional State Aids expressed in Net Grant Equivalent (NGE) and Gross Grant Equivalent (GGE).\*

#### ***Eligible expenditure***

Eligible expenditure includes land purchases (no more than 10% of the total investment), feasibility studies and environmental impact assessment and certification (no more than 5% of the total investment); building, acquisition of new machinery, plant and equipment; software purchases (only for SMEs) and the acquisition of patents (up to 5% of total investment for large-sized companies). Only projects starting after applications are eligible.

#### ***Application procedures and conditions***

Companies applying for incentives must submit their application and a business plan to selected banks, which are responsible for evaluation on behalf of the Ministry of Industry. A copy of the form must be sent to the regional authority in whose territory the initiative is to be launched. Banks complete their preliminary examination of applications within the second or third month after the closing date of the application's presentation. They will then submit their findings to the Ministry of Industry and notify concerned applicants and regional authorities. The preliminary examination certifies the coherence of company assets and its declared financial status. The examination also evaluates the project's technical, economic and financial validity and the congruity of its budget estimate. This preliminary report highlights the elements necessary to determine the project's indicators for placement on the shortlist. Projects are short-listed on the basis of: *i)* company's private resources invested in the project (at least 25% of total eligible investment) in relation to the eligible investment; *ii)* the number of jobs created in relation to the eligible investment; *iii)* the sum requested within the maximum incentive ceiling; *iv)* regional priorities; and *v)* project's environmental impact (except for tourism and commerce).

The Ministry of Industry sets shortlists within one or two months of the deadline for submitting the banks' preliminary reports:

**Box 9. Incentives for fixed investments in assisted areas  
(Law 488/92) (cont.)**

- Ordinary regional shortlists (one per region) for projects with a total investment up to ITL50 billion.
- Special regional shortlists for projects with a total investment up to ITL50 billion in priority industries or areas of local development defined by regional authorities (each region may reserve up to 50% of available funds for these special shortlists).
- Two special shortlists – one for Objective 2 and one for Objective 1 areas – for large investment projects (involving total investments over ITL50 billion or falling under the EU definition of “large investment projects”).

Upon publication of the shortlists, the Ministry of Industry grants financial incentives according to reserves (70% of funds are reserved for SMEs) and ceilings (no more than 5% of funds may be allocated to companies in the services sector) until funds are exhausted. Incentives may be disbursed in two or three annual instalments depending on the scheduled completion of the project. The first instalment, available within one month of the shortlist’s publication, may also be disbursed in advance on presentation of an adequate bank guaranty or insurance policy. Instalments are disbursed according to the state of progress of the project and at the request of the beneficiary company, which must submit documentation.

Incentives approved under Law 488/92 cannot be accumulated with other public incentives in relation to the same project. The initiative must be completed within either two or four years, according to the project. The Ministry of Industry and authorised banks monitor the project: they may carry out inspections at any time during and after completion of the investment program.

\* The GGE represents the present value of the aid before tax. The rate used for present value calculation is the reference/discount rate determined by the E.U. Commission for each Member State.

selecting priorities and medium-term strategies, integrating public and private resources, co-ordinating functions, and defining a sequence of interventions. EU initiatives with specific territorial objectives – LEADER (1991), URBAN (1994) programmes – have helped to promote this new culture of the project, aimed at increasing the competitiveness of an area, enhancing its local endogenous resources, via knowledge-based policies involving local, private and public agents in the design of integrated territorial projects and via institution building.

The new allocation of functions and responsibilities between levels of government in devising and implementing multi-sectoral public projects has

**Box 10. The fund for technological innovation (Law 46/82)*****Beneficiaries***

Firms with a permanent establishment in Italy. Large enterprises are eligible only if operating in the following sectors: the automotive industry, electronics, steel, aeronautics, chemical refineries, food industry, mechanical engineering (relating to industrial automation and control systems), motorcycles and spare parts, environment.

***Eligible initiatives***

Research programmes aimed at acquiring new knowledge and pre-competitive research programmes. Programmes are eligible if they concern planning, tests, development and pre-industrialisation as one activity, and are already under way at the date of application for incentives, providing that the part still to be implemented represents 60 per cent or more of the total eligible costs.

***Incentives***

Soft loans (repayable in 15 years or less, the first five years of which as utilisation and pre-amortisation period) may vary from between 35 per cent and 80 per cent of eligible costs. The incentive may never exceed 25 per cent in GGE. A quota of no more than 50 per cent of the financing may be disbursed in grant form. The concessionary rate is 15 per cent of the rate of reference for the five-year pre-amortisation period. The rate for the amortisation period varies between 25 per cent and 60 per cent of the rate of reference according to company size and the location of the plant.

***Eligible territories***

Nation-wide.

***Eligible costs***

Staff for programme implementation, general expenses (equal to 25% of staff costs), in-house commissions/orders, third-party services, purchase of equipment, tools and other materials for program implementation, travel; general installations are eligible costs. Furniture and fittings are excluded even if program-related.

***Application procedure***

Applications should be sent to the Ministry of Industry where a technical committee will evaluate eligibility. On approval, the Ministry will issue a decree of admission to the scheme and will stipulate the contract detailing incentive disbursement schedules according to the initiative's rates of progress. Incentives must be disbursed within a maximum of six instalments. The Ministry of Industry disburses eighty per cent of financing during program implementation and the remaining 20 per cent upon completion and following certification.

been accompanied by a new contractualisation of relations among them: a new method by which decisions of public interest, concerning public investments and the institutional design, are taken on the basis of visible negotiations and accountable agreements among administrations and/or between government bodies and private actors, involving a clear definition of mutual commitments.

### ***The advent of the new territorial policy***

The same law that ended extraordinary intervention in 1992 laid the basis for a new regional policy. Interventions targeted the Mezzogiorno and all depressed areas in the country. A share of resources was assigned to the Centre-North: this marked a break with an historical tradition identifying regional problems with the southern question and generated considerable disagreement among politicians and researchers. Ordinary administration became responsible for public investment interventions. The Ministry of the Treasury, Budget and Economic Planning was entrusted with orientation, co-ordination, promotion and diffusion of methods in territorial competitiveness policies for which an internal Department for Development and Cohesion Policy (DPS) was created. The DPS was active in European regional policy and capital spending in depressed areas, providing guidelines and rules, diagnostic monitoring and technical assistance. In recent years, it has become the driving force behind the new territorial competitiveness policy. The various bodies previously linked to extraordinary intervention were restructured and merged into the *Sviluppo Italia Agency*, with capital from the Treasury to promote entrepreneurship and attract foreign direct investment.

### ***Administrative reforms and a new territorial competitiveness policy for the Mezzogiorno***

A further and final institutional change took place in the second half of the nineties that, together with a local entrepreneurial revival, made it possible to devise and enact a new regional policy for the Mezzogiorno: the beginning of a radical devolution of political and administrative power, accompanied by reform of the public administration.

In these years the structure of territorial governance in Italy underwent significant changes (See Chapter 3). Many of the central government's tasks and functions were conferred on regional and local authorities. The principle of vertical subsidiarity was introduced: only matters of explicit national interest remained within the sphere of the State. The electoral system was modified, enhancing local governments' powers, visibility and accountability, and leading to greater policy effectiveness. The new allocation of responsibilities was accompanied by the strengthening of the local revenue-raising capacity, granting a significant share of fiscal autonomy to regions and municipalities.

Reorganisation of the central government was closely linked to the process of decentralisation, with a redefinition of Ministerial competencies more appropriate to the new tasks of co-ordination, rule-setting and monitoring. Public administration reform introduced new administrative models inspired by the principles of New Public Management: new personnel management systems were adopted involving a “privatisation” of civil service and the introduction of new performance evaluation systems.

In this institutional framework, the need to design a Plan for the implementation of EU structural funds for the years 2000-2006 (Box 11) provided the opportunity to devise a new territorial competitiveness policy.

### **Box 11. European Regional Policy for years 2000-2006**

Heads of Government or State reached a political agreement on Agenda 2000 at the European Council held in Berlin on 24 and 25 March 1999. The action programme is the reference framework for EU regional policies in the period 2000-2006. The Council estimated a budget of EUR195 billion (at 1999 prices). The Council of the European Union formally adopted the new structural funds general regulations on 21 June 1999.

European Regional Policy is very important for Italy because it promotes the adoption of new methods for effective territorial competitiveness policies.

#### ***Principles***

- *Subsidiarity*: Regional policies are decentralised;
- *Partnership*: A system of institutional and social partnership is established, including regional and local authorities, economic and social partners and other competent bodies. Partnerships cover the preparation, financing, evaluation and monitoring of programmes.
- *Additionality*: European structural funds supplement national structural expenditure.
- *Concentration of resources and integration of interventions*.

#### ***Financial Instruments***

The European Union has six major financial instruments to implement its structural policies. Structural Funds encompass the first four instruments and operate within an integrated programming framework according to a set of principles and rules. Italy will receive a total EUR29 656 million under the Community's regional policy for the 2000-2006 period.

1. European Regional Development Fund (ERDF);
2. European Social Fund (ESF);

**Box 11. European Regional Policy for years 2000-2006 (cont.)**

3. Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF);
4. Financial Instruments for Fisheries Guidance;
5. Cohesion Fund;
6. European Investment Bank (EIB) Loan.

**Objectives**

**Objective 1** (absorbed Objective 6 of the period 1994-1999): promoting the development and structural adjustment of regions whose development is lagging behind. Eligible regions are those whose per capita GDP is less than 75 per cent of the EU average (measured in PPP and calculated for the period 1994-96). The Italian Mezzogiorno regions are eligible for Objective 1 in the period 2000-2006.\* The Objective 1 budget amounts to EUR21 935 million. The Programme related to the Objective 1 Regions is called Community Support Framework (CSF).

**Objective 2** (covers Objectives 2 and 5b of the period 1994-99): supporting the economic and social conversion of areas facing structural difficulties. These include areas undergoing socio-economic change in the industrial and service sectors, declining rural areas, urban areas in difficulty and depressed areas dependent on fisheries. On 1 July 1999, the European Commission fixed a population ceiling for each Member State. For Italy, the ceiling is 7 402 000, or 13 per cent of the total population. Italy was allocated EUR2 145 million for areas eligible for Objective 2.

**Objective 3:** supporting the adaptation and modernisation of education, training and employment policies and systems. Objective 3 can provide assistance anywhere in the European Union, with the exception of Objective 1 regions. The Objective 3 allocation for Italy in 2000-06 is EUR3 744 million (1999 prices).

**Interventions in rural development and fisheries** (ex Objective 5a). The Financial Instrument for Fisheries Guidance (FIFG) finances measures supporting the common fisheries policy. In the Objective 1 regions, FIFG funding is included in regional development plans along with other funds. EUR96 million were allocated to Italy to fund this assistance in areas outside the Objective 1 regions in the 2000-2006 period.

\* Sicily, Calabria, Basilicata, Puglia, Campania and Sardegna. The Molise region was eligible for Objective 1 in the 1994-1999 period, but its per capita GDP has risen above 75 per cent of the Community average and on January 1 2000 it lost its eligibility. The region qualifies for transitional assistance until 2006 (EUR187 million).

At the core of the new Italian territorial competitiveness policy it lies the idea that both the State and European Union should restrain as much as possible from attempting to artificially divert, by means of financial incentives and subsidies, firms' investments towards less advanced areas. By so doing territorial policy does not help increasing general welfare: favouring "rent shifting wars" it creates the potential for social tensions between advanced and less advanced areas, while not directly removing the structural obstacles for development. Incentives can temporarily compensate return differentials between areas; but the Italian new territorial policy deems that they should be reduced to a minimum.

On the contrary, a program of public investments and institution building should be implemented, aimed at increasing the competitiveness of territories by enhancing their local potential opportunities. Rather than being directed at specific industrial or service sectors, public investment projects should aim at promoting territorial resources, agglomerations and networks. With specific reference to the Mezzogiorno, Italian new territorial policy targets the following "framework conditions": *institution building* (promoting an accountable decision-making process for devising local infrastructures; enhancing local planning through institutional and social partnerships; improving the efficiency of public administration, the simplification of administrative procedures, the enforcement of contracts, etc.) in order to increase market exchanges and co-operative behaviour of firms belonging to the same productive agglomerations; *accessibility*, both for consumers and producers, *of natural and cultural resources* (namely: protected natural areas, water, sea-coasts, archaeological sites, theatres, museums, etc.); *settlement structure in urban and rural areas, networks and communications*, starting with road, train, air and sea communications.

For such policy to be implemented, the Government introduced in spring 1999 a set of guidelines that were approved by the Parliament (Document of Economic and Financial Planning, DPEF 2000-2003). As well as endorsing the shift from sectoral to territorial integrated projects, the DPEF set the following objectives and rules:

- A target for the Mezzogiorno's GDP growth (higher than the European average), accompanied by a set of intermediate targets, all being instrumental to increase the employment rate;
- The allocation of resources according to six territorial targets. Regions were assigned responsibility of defining sub-targets, allocating resources among them, and selecting projects for about three-fourth of total resources;
- The definition of an incentive system of sanctions and rewards aimed at promoting the evaluation of projects;
- A primary role was given to existing and new partnership-based instruments for local integrated projects (PRUSST, Territorial Pacts,

territorial integrated projects, etc.): local authorities assumed a central role in devising projects;

- Central administrations and, among them, the Department for Development and Cohesion Policy (DPS) of the Ministry of the Treasury were assigned a role of co-ordination and supervision aimed at setting guidelines, promoting technical assistance to Regions, and exercising diagnostic monitoring;
- A set of deep administrative reforms would accompany the implementation of the Program to allow Regions and other public institutions to perform the tasks and responsibilities assigned by the new regional policy.

Finally, the DPEF 2000-2003 set a comprehensive medium-term financial plan for 2000-2007, covering the overall volume of available resources (budget funds, special domestic funds for depressed areas, European structural funds and national co-financing). According to this plan the share of capital expenditure for the South would increase from 37.5 per cent of the national total in 1998, to 46.8 per cent in 2002 and then stabilising to 44.6 per cent in 2007. Comparison with 1996-98 period can give an idea of the relevance of the policy effort for the Mezzogiorno (see Table 1).

Table 1. **Public investment and expenditure for development<sup>1</sup>**

	Public investments <sup>2</sup>		Public expenditure for development <sup>3</sup>		Total capital and current expenditure	
	1996	1998	1996	1998	1996	1998
<b>Italy</b>						
In trillion lire	69.7	66.3	96.4	96.3	1 214.8	1 213.1
Per cent of total spending	5.7	5.5	7.9	7.9	100.0	100.0
Per cent of GDP	3.7	3.2	5.1	4.7	63.9	58.7
<b>Mezzogiorno</b>						
In trillion lire	22.1	21.2	35.1	36.1	339.0	337.3
Per cent of total spending	6.5	6.3	10.3	10.7	100.0	100.0
Per cent of GDP	4.8	4.2	7.6	7.2	73.8	67.0
<b>Share Mezz./Italy</b>	<b>31.7</b>	<b>32.0</b>	<b>36.4</b>	<b>37.4</b>	<b>27.9</b>	<b>27.8</b>

1. Consolidated accounts. Data refer to the EU definition of "public area" which includes the general government; special enterprises; ENAV; ENEL (electricity company); ENI (energy company); IRI (the state holding company); Monopolies; FS (railways); Posts company. See sources and methods: Volpe (1999).

2. Public accounts definition. Refers to the direct expenditure of public administrations for non-mobile and mobile goods.

3. Includes direct expenditure for public investments (70% of total expenditure for development), indirect expenditure for capital transfers (to enterprises and households; around 27.5%), and regional current expenditure for professional training (2.5%).

Source: Ministry of the Treasury, DPS, Territorial Public Accounts Database.

On the basis of these guidelines the Mezzogiorno Development Plan was devised.

### *The Mezzogiorno Development Plan 2000-2006*

Drawing up the Mezzogiorno Development Plan (MDP) took 18 months of technical and political negotiations between the central state, regions, municipalities and social partners. Approved by the European Commission on the 1<sup>st</sup> of August 2000, the plan is called Community Support Framework (MDP-CSF) for Objective 1 areas. The MDP-CSF is financed through EU structural funds, national co-financing funds and private sector resources (see Table 2). The plan absorbs only some of the resources spent on territorial development and represents an attempt to translate a new concept of regional policy into an operational plan. It reflects a clear desire to experiment the new guidelines set in the DPEF and to subsequently extend them to all public investment in Italy.

The strong visibility and accountability of EU funds, the implementation of a new and binding set of rules, the strong decentralisation of responsibilities: these are the reasons why the MDP-CSF represents a turnaround in the economic policy for the Mezzogiorno.

### *MDP-CSF: a new institutional model and a more efficient public administration*

A policy can only work if the necessary institutional conditions exist to put it into operation. There must be minimum standards of efficiency and some co-ordination on what has to be done, who does it, and how it is done. Italy is a powerful case in point. The difficulty of managing territorial policy efficiently became clear when it was obliged to adopt the planning methodologies of the EU at the end of the 1980s. The first period of planning, 1989-1993, was extremely difficult. The projects in regional and national plans proved to be poor or impracticable for technical or regulatory reasons. Financing was slow to reach its destination and bureaucratic procedures were lengthy and inefficient. Resources were neither earmarked nor spent in a timely fashion. The experience of being classified as the least institutionally efficient European country proved to be an opportunity to reform policy management through a radical review of the working methods of the public administration. The advent of a single currency has been similarly useful for reforming budgetary policy. Progress was slow during the first few years of the second plan, 1994-1999, but spending capacity increased rapidly during the last two years, an indication of improvement. The third period, 2000-2006, was seen from the outset as a test case for introducing radical changes into the institutional model of public investment management. These changes had a twofold target: greater efficiency in public administration and changes in apportioning responsibilities.

**Table 2. The Mezzogiorno Development Plan: Financial resources distribution**  
(ITL billion)

Priority axes	Public funds <sup>1</sup>			Private funds
	Central responsibility	Regional responsibilities	Total	
Natural resources (water, land, energy, etc.)	0	14 527	14 527	4 327
Cultural resources	–	4 636	4 636	695
Human resources:				
– Training and active labour market policies	–	8 268	8 268	695
– Education	1 391	0	1 391	0
– R&D	3 245	–	3 245	628
Local development systems	7 881 <sup>2</sup>	17 540	25 422	–
Cities	–	3 400	3 400	–
Communications and networks:				
– Real and virtual networks	6 413	6 491 <sup>3</sup>	12 904	3 632
– Law enforcement	2 164	–	2 164	–
Technical assistance	1 004	309	1 314	–
Total	22 099	55 170	77 269	10 526
<i>(Percentage)</i>	<i>28.6</i>	<i>71.4</i>	<i>100</i>	–
Performance reserve (10%)	–	–	8 985	–
Total funds	22 099	55 170	86 254 <sup>4</sup>	10 526

1. Distribution approved in the CSF.

2. Data include resources managed by the Ministry of Industry on behalf of Regions allocated through regional ranking.

3. Includes some regional measures for law enforcement.

4. The figure is made up of EU resources (ITL46 000 billion) and national resources (ITL40 000 billion) according to the additionality principle.

Source: Ministry of the Treasury - Department of for Development and Cohesion Policy.

Public management of resources has become more accountable, and administrative procedures have been simplified. Several public sector functions have been externalised. The following organisational innovations were implemented by MDP-CSF:

1. Regions have been assigned, within national guidelines defined ex-ante in partnership, the responsibility for managing 71.4 per cent of overall Plan's resources, prioritising goals, selecting and promoting projects, implementing monitoring on both financial and economic results. No region of the Centre-North has the control on a similar share of resources for capital spending.

## Box 12. MDP-CSF 2000-2006 priorities

### **1. Natural resources**

Four levels of strategy for water resources, land, waste disposal, contaminated sites, energy and the environment.

- Make resource management more efficient by promoting the access of new enterprises and capital into the sector and introducing mechanisms of market competition. Improve the waste disposal system to reduce costs and to promote differentiated rubbish collection.
- Develop new activities and new types of environmental management enterprises. Promote the capacity of public administrations to preserve natural resources and improve their accessibility.
- Safety and protection from flooding, earthquakes, and pollution: make basin plans and territorial co-ordination plans operational. Strengthen measures for reclaiming contaminated areas.
- Strengthen information and monitoring systems.

### **2. Cultural resources**

Museums, archaeological sites, libraries, archives, theatre, music and art services to improve available cultural networks. The rich cultural heritage of the Mezzogiorno should play a key role in promoting local development and tourism. The MDP has three specific objectives, which emphasise the link between the care and management of the cultural heritage and the opportunities for local development:

- Enhance the conditions for entrepreneurial initiatives promoting the preservation and accessibility of existing cultural resources. Develop high-specialised structures to manage restoration. Promote training activities for the creation of competencies linked to the cultural heritage.
- Promote integrated projects to develop the archaeological, architectural, historic and artistic heritage.
- Improve the standards of cultural services.

### **3. Human resources and services**

The five policy fields and their specific objectives include:

- Develop and promote active labour market policies to fight and prevent unemployment, in particular for young people and women. Encourage the re-insertion into the job market of long-term unemployed people.
- Improve mechanisms of access to the job market for groups at the margin of the labour market.
- Adapt the training and education system, and enhance their integration. Promote an appropriate supply of upper-secondary education services.

**Box 12. MDP-CSF 2000-2006 priorities (cont.)**

Encourage life-long training. Adapt civil servants' training to their new tasks.

- Promote higher flexibility into the labour market in order to enhance local system's competitiveness. Support entrepreneurship and the emergence from the black labour market. Foster innovation and research. Encourage scientific communities in the Mezzogiorno and experiments of international co-operation.
- Encourage female labour market participation.

**4. Local development systems**

Interventions on the local context in order to enhance the externalities of existing entrepreneurs' agglomerations:

- Enhance local planning through institutional and social partnerships and promote an accountable decision-making process for selecting local infrastructures. Improve public administration efficiency, particularly regarding the simplification of administrative procedures.
- Make full use of new information technologies, offering innovative SMEs the opportunity to access international markets. Sustain firms' start-ups and SMEs development encouraging the diffusion of innovative instruments of financing. Promote research and development and technology transfer, matching training provision with company needs and raising the awareness of environmental issues among producers.
- Develop clusters and networks. Promote internal relations and co-operative behaviour of companies belonging to the same productive agglomeration and enhance favourable conditions for collective action. Promote integrated development projects and strengthen institutional collaboration, in order to attract external companies operating in advanced technology sectors.

These policy priorities refer to the territory and imply the concentration of resources in specific areas through: 1) integrated interventions (real and financial instruments; public and private actions); and 2) selective choices (concerning territories).

**5. Towns and cities**

Strengthen the urban system in the Mezzogiorno through the concentration and integration of interventions and the development of institutional and social partnerships:

- Enhance the functions of the city in its territorial context, in relation to its dimension and role in regional development.
- Improve the quality of urban life, in particular in large cities, in order to increase the competitiveness of the urban system, attract capital and consolidate social cohesion. Improve the planning and management of

**Box 12. MDP-CSF 2000-2006 priorities (*cont.*)**

interventions, by enhancing the integration of projects and initiatives that face different issues of urban development, and promote the participation of private capital.

- Increase social capital, by enhancing the quality of social services for disadvantaged groups, raising education levels, and fighting school absenteeism. Support the social economy, develop personal services for the weakest social categories at risk of exclusion.

**6. Networks and communications**

Ensure accessibility to territorial resources by encouraging real and virtual communications within and outside the Mezzogiorno.

- **Transports:** strengthen, modernise and integrate existing transport infrastructures. Concentrate interventions on major transport networks for the Mezzogiorno, promoting feasibility studies and giving priority to projects emerging from this process. Promote the creation of an integrated transport system, favouring interconnections between the major networks and local transports. Improve the quality of services, security standards and management techniques introducing mechanisms of competition. Encourage the adoption of technological innovations for information, control, management and logistic support. Reduce greenhouse gas emission according to the Kyoto Agreements.
- **Information society:** the emphasis shifts from infrastructure to the uses of new technologies. Accelerate the implementation of the information society, promoting interventions aimed at improving context conditions and enhancing the application of the new technologies and their diffusion. Support the demand from companies, citizens, associations and public operators. Enhance the modernisation of the public administration, in particular for regional and local administrations, with an emphasis on the quality of services provided to citizens and firms. Promote the use of information technology among SMEs, encouraging the provision of high-value added services for industry.
- **Law enforcement and public security:** improve context conditions for the Mezzogiorno development. Reinforce the security system, in particular for firms. Tighten law enforcement by using new technologies to provide better inspection procedures on communication networks and irregular access to the territory. Integrate traditional prevention activities with training and socio-economic interventions.

2. A set of quantifiable indicators has been identified that link the general objective of growth defined in the MDP with project's objectives at micro level (export and import capacity; impact on tourism; capital

accumulation; foreign direct investments; labour force participation rates; creation of regular jobs; development of social services; degree of specialisation in value-added goods; innovative capacity; development of business services; financing capacity; legality conditions and social cohesion).

3. The increased responsibilities assigned to regional governments and the need to guarantee the quality of public spending, has led to set up a significant performance reserve allocation (10% of all resources) so as to spur regional and central authorities to implement administrative reforms and pursue high quality projects, integration and concentration of resources (see Chapter 3, Box 24 and Annex 3).
4. A network of evaluation and monitoring technical units in central and regional administrations has been promoted. A competitive procedure has been set up to ensure the quality of the recruitment process.
5. In order to ensure high quality projects, in 1998 the government established a competitive procedure to select and finance 320 feasibility studies in the Mezzogiorno. The results of these studies will constitute the basis of the projects that will be financed within the MDP-CSF Plan.
6. A central project financing unit was created in June 2000 (an “*ad-hoc*” team of professionals coming from the private sector), to promote project finance techniques in the infrastructure sector, providing legal and technical assistance to local administrations and stimulating the participation of private resources to MDP-CSF projects.

Decentralisation does not resolve the problem of ‘who does what’ when several public administrations can legitimately intervene in an area whose physical configuration does not exactly coincide with an administrative area. Because it is integrated with local systems, the new regional policy implies a break with the strict areas of responsibility for sector and territory. More flexible forms of institutional co-operation are required. For this reason, drawing up, managing and monitoring policy is increasingly carried out jointly by institutions subject to continual appraisal by the social parts. New institutional instruments enhance these forms of collaboration and co-ordination in a framework of defined regulations (see Chapter 3).

### **Conclusion**

An assessment of the effectiveness of the new territorial competitiveness policy implemented by the Italian authorities is no yet possible. MDP-CSF itself claims that, due to the major institutional innovations that have been implemented in order to guarantee the sound management of the programme,

first results can only be expected in the years 2003-2004. However, the experience accumulated in the last years allows some considerations:

First, the strategy provides a coherent alternative framework to traditional sectoral policies implemented in the past in Italy and Europe that have failed to reduce regional disparities. Second, thanks to the strong binding nature of the new rules introduced by the programme, the credibility of the European Commission exerting autonomous diagnostic monitoring, the legitimacy that Governors of regions have acquired in April 2000 with their direct election, changes are indeed taking place in local administrations that comply with one of the crucial pre-requisite of the new territorial policy.

There are several risks, though, that must be tackled:

- First, as concerns the quality of local projects, in the past evaluation and monitoring procedures were often inadequate, leading to slack implementation. Much of the future results will depend on the definition of stringent selection rules and on the implementation of an efficient network of technical evaluation units in central and regional administrations. The output of the 320 feasibility studies in the Mezzogiorno will constitute a basis for high quality standard in project design.
- Second, the new policy requires time and political stability. There is a risk that either local or central policy makers in order to obtain short-term consensus conceive ways to renegotiate existing rules. While no re-negotiation is actually possible without EU consent, their attempt would obviously hamper the credibility of the new policy. Diagnostic monitoring should be carried out on first preliminary results to assess progress towards programme and project objectives and ensure the achievement of targets.
- Third, negotiations among the different levels of government may also be time consuming. There is a risk of diluting negotiations and postponing decisions. Considering how evenly powerful the three levels of government today are, any attempt of this kind would result in a stall. Negotiations should therefore increasingly be based on technical evaluation so as to provide the ground for clear-cut commitments.

## **2. Spatial and social policies**

### ***Overview***

Spatial policies include both public policies and public-private collaboration that produce rules and partnerships affecting local development and territorial socio-economic organisation. They encompass traditional physical planning policies that use narrow definitions of land-use regulation, but today, they have a broader scope, and affect socio-economic and environmental infrastructures by

comprising policies for: housing, schools, health and hospital, and local welfare, environmental and cultural goods, transport and infrastructure, etc. The process of decentralisation and devolution that began in the 1990s made Italian spatial policies more active, strategic and relevant. As of the mid-nineties, their framework became more regulatory, corrective of market failures and disparities, constitutive (to build institutions that foster local development) and concertative (devolving responsibility more actively to local actors and public-private agreements).

Over the last decade, fragmented territorial policy-making and institutional competition have not been coherently resolved. However, several experiments with various forms of co-ordination, institution building, and implementation of new inter-institutional, inter-governmental, and inter-organisational practices are ongoing. Within this context, spatial policies are being used to allocate competitive advantages at different levels (region, province, district, metropolitan area) each engaged in competitive/co-operative exercises, and to improve the quality of active assistance to individuals and social groups at risk of poverty and exclusion. An important future goal will be trade-offs between their competitive and social orientation.

### ***Territorial planning***

From the 1950s onward, spatial resources – land, the environment, urban assets – were used extensively in the process of economic development that fundamentally changed the distribution of industry, urbanisation, and created new growth poles. But the growth process was accompanied by largely inadequate regional and urban planning. Territorial policy-making was fragmented and each administration imposed a hierarchy of controls on lower levels. Different institutions and levels of government competed with each other, planning levels were not clearly delineated, discretionary choices and negotiations abounded, and central resources were distributed by local *élites* who exercised political pressure to broaden the distribution of central policies.

Because the Urban Planning Act of 1942 is still in force, the Italian spatial policy system is hierarchical, although regional, provincial and municipal innovations have occurred within this framework. As of the 1970s, regions were producing their own urban planning legislation. In many cases, regional legislation has been largely renewed and innovated, although in three southern regions, no regional legislation has been passed yet. In the 1970s and 1980s, planning policies were primarily distributive; resources were distributed to individuals and groups on the basis of their exchanges with public authorities and individuals or social actors. Regions that adopted new legislation in the 1990s used more co-operative and participatory forms of planning although problems of overlapping levels, weak integration, and lack of monitoring persisted. The centre-north has

Table 3. **Italian territorial planning system**

Level	Legislation	Competencies	Territorial distribution of Plans
National	Urban Planning Act of 1942	Hierarchical control – Regional Urban Planning Act – Regional Plan	
Regional	Regional Regional Reforms	– Regional Sector Plans of 1970s – Environment Plans – Basin Plans	Mostly in the North-Centre of Italy
Provincial	Act 142 of 1990	Territorial Co-ordination Plan	Mostly in the Centre
Municipal	1942	Urban Regulatory Plan	Mostly in the North-Centre

*Source:* OECD Secretariat.

considerable numbers of territorial plans whereas in the South the plans are either very poor or non-existent (see Table 4).

Territorial plans are regulatory, but they have been largely ineffective or simply oriented to allow extensive private construction. Illegal building has been tolerated, mainly in southern Italy<sup>34</sup>, and the industrial sprawl of the Northeast has also occurred in a vacuum of regulatory territorial planning policies. The urbanised countryside model in the north-east, developed through extensive land use in order to reproduce/disseminate small industrial and artisan firms, has been a spontaneous process of economic actors, mostly small entrepreneurs to whom territorial policies have given incentives.<sup>35</sup> These distributive policies contrast with regions like Emilia-Romagna, Toscana and Umbria where land use planning has been oriented to selectively distribute artisan and industrial spaces and local policies have been devoted to creating a public supply of below-market-price spaces for small firms in industrial zones, with good infrastructures.<sup>36</sup> The Third Italy includes regions where *laissez-faire* policies combined with individual financial incentives have prevailed and those where local administrations have tried to supply collective goods and infrastructures.

In the 1990s, new territorial tools like Provincial Plans were introduced to co-ordinate municipal plans, as were Basin Plans, Parks Plans, Wide Area Plans and Environmental Plans. These plans increased the amount of protected areas from 3 per cent in the 1980s to 10 per cent today, and attended to the quality of resources, to relational aspects, to subsidiarity and to principles of flexibility. Plans are becoming less technical, oriented to oftentimes-ineffective strict land use control and zoning and more strategic, as a result of the process of co-operative negotiation, concentration and structure. Regulatory plans continue to exist, and need to be renewed, but the new plans are strategic. This double

level of planning (structural/strategic and operative/regulative) is particularly visible at regional, sub-regional and city levels where “strategic” or “structural plans” begin to emerge. Their mission is to define of visions of change that have been jointly defined by public and private territorial actors. Some regions, particularly in the north, are better able to produce innovations than others.

Italian municipalities use very rigid, prescriptive, regulatory plans, such as for zoning, that also incorporate frequently adopted variations, often making them ineffective. Urban planning activities, according to DICOTER 2000 survey (the Territorial Co-ordination Division of the Ministry of Public Works), are very concentrated in the North-Centre and in medium-size municipalities.<sup>37</sup> Complex urban projects have been promoted since 1993 to make specific planning changes in urban areas, for example to renew derelict or de-industrialised areas, often through European co-financing.<sup>38</sup> After a first experimental phase these integrated programmes are now being implemented. The shift is towards urban quality and co-planning in fields like urban renewal (environmental and social), transport (traffic, intermodality between rail and road, city logistics), commerce, urban security, telematics, urban marketing. These new urban policies are contractual, and involve co-operation among different public and private actors on policy design and financing.

**Table 4. Urban regulatory plans diffusion**

State of Planning	Number of municipalities	Km <sup>2</sup>	Population
No. of plan	966	43 609	7 528 931
Activated process	1 789	57 734	12 427 961
Consolidated process	2 732	83 591	17 013 059
Plan in force	1 796	69 849	13 747 185
Unknown	819	46 556	6 846 218
<b>TOTAL</b>	<b>8 102</b>	<b>301 339</b>	<b>57 563 354</b>

*Source:* DICOTER.

Table 5 gives the territorial distribution of financed urban socio-technical programmes. The share of Southern Italy and the islands is higher, followed by Central and Northern Italy. We can assume that local actors in the south, and particularly municipalities, have been much more active than in the past in policy design, technical feasibility and implementation related to urban assets. This improved use of EU financial support and improved public management skills are probably related to a new generation of mayors promoted by the 1993 Direct Election Reform.

Table 5. **Financial resources of PRUSST by macro-areas**

Macro-areas	Billion ITL	%
North-west	11 800	17
North-east	7 380	11
South	17 960	26
Islands	8 130	12
Central	22 640	33

*Source:* DICOTER.

## ***Social infrastructure***

### *Housing policies*

Housing policies are both distributive/re-distributive and regulative. They have been successfully oriented towards favouring private property through State or regional subsidies and loans. Housing quality has improved in the north and in the south, due to new building activities rather than to renewal programs for existing dwellings, particularly during the 1970s and 1980s. Housing policies have been a regulatory failure, however. A fair-rent law introduced rent control in 1978 has never worked because it is too rigid. A trade-off exists between home ownership and welfare: costs are redistributed from elders to youth. In Italy both housing and social transfer policies have been detrimental to young people for whom welfare accounts only for 3.4 per cent of GNP compared to a 7.5 average in OECD countries. Intra-family compensation in housing and family employment is here the rule: in other words, the older generation invests in the houses of their children. Or young people simply stay home: according to the 1991 Census 70 per cent of young males between 18 and 29 continue to live at home even if they are employed. However numerous families in backward areas are in danger of poverty and exclusion.

### *Health and safety*

The 1978 Health and Safety Reform was largely successful in redistributing the health and safety infrastructure across Italian territories. The share of public hospital beds in the south has grown from 24.3 per cent in 1970 to 31.2 per cent in 1985 to 33 per cent in 1997.<sup>39</sup> However, considerable differences persist between the north and the south. Private health and safety structure in the south has remained high (about 35%). Italian expenditure on health and safety dropped between 1992 and 1995, then rose again. The private sector remains higher in the South, particularly in Campania and Calabria. There is less territorial assistance in the southern regions than in the north. The use of hospital structures outside the

**Box 13. Urban renewal and spatial sustainable development programs**  
(P.R.U.S.S.T. - *Programmi di Riqualificazione Urbana e Sviluppo Sostenibile del Territorio*)

PRUSST are tools used to redefine urban planning processes and spatial re-organisation through a bottom-up and sustainable approach involving institutional and private actors. The main strength of this approach is its capacity to coagulate financial resources, to stimulate co-operation among local authorities – municipalities in particular – and to increase administrative and institutional quality. The idea behind it, is to consider areas of intervention as spatial modules corresponding to functional districts (or to group districts characterised by homogeneous needs), overriding classic administrative borders, and fostering integrated planning activities. To do so, PRUSST makes use of the negotiated planning strategy introduced with the Annual Financial Law of 1997. In this integrated perspective, cities (or towns) become the centre (or junctions) where infrastructural, social and economic policies meet. Under this point of view PRUSST is an instrument to promote local development.

To give some numbers, 316 PRUSST have been so far presented at national level, 48 Programmes were selected and financed (one for each of the 21 Italian regions plus the 17 Programmes which gained the highest scores). Financing amount to ITL2 887 billion for each the project, including technical assistance. Reasons of its success include: *a)* a simplified approach respect to antecedent programmes such as Urban Renewal Programmes (PRU) and Quartier Contracts; *b)* a possibility to obtain substantial funds from the EU; *c)* a possibility to create associations in order to get funds for infrastructures; and *d)* the capacity to attract private investments.

PRUSST programmes are evaluated according to a score system that assigns, out of 100 points:

- Up to 60 points for the objective of the programme.
- Up to 20 points for the quality of the project, judged by the Evaluating Committee on criteria such as: *a)* programmatic goals concerning environmental, urbanistic and morphological quality of urban structures; *b)* actions oriented toward protection of the environment and landscape, spatial accessibility and security, services endowment, morphological continuity and complexity of urban structures; and *c)* deepening of projects concerning natural and anthropic emergencies, use of vegetation for landscape purposes, integration with external road system, localisation of parking lots, continuity of pedestrian and cycling paths, security and protection of outdoor areas, flexible and multifunctional services, land property and housing recovery.
- Up to 20 points attributed according to criteria set up by each Region that finances the programmes. They include: *a)* the capacity to integrate sectoral policies (i.e., infrastructure, natural and cultural amenities, social policies, etc); and *b)* the capacity to implement initiatives related to their budget covering (with public resources but also private investments, that play a very important role in many cases).

*Source:* DICOTER.

### Box 14. The Italian housing system

The Ministry of Public Works and its Residential Building Committee (CER); Regions, municipalities and IACP (the public sector housing developer).

The percentage of dwellings owned and occupied by households has risen from 50.8 per cent in 1971, to 74.7 per cent in 1991 and 80 per cent in 2000. The percentage of unoccupied houses has grown slightly from 20 per cent in 1981 to 21.1 per cent in 1991. Only 20 per cent of the Italian population rents, a very low figure compared to any other European country except Mediterranean countries.

Home ownership	Per cent
Private homes	71
Private companies	6
State	6
IACP	13
Social Security Institutions	2
Insurance Companies	1
Others	1

#### ***The territorial distribution of rented houses:***

Fifty-one per cent in northern Italy, 20 per cent in central and 29 per cent in the southern Italy. Forty-six per cent of rented houses are located in metropolitan cities and 79 per cent are in peripheral or semi-peripheral areas. State and IACP properties are located in popular or ultra-popular neighbourhoods. The average rent of public houses is 47 per cent below the average value, for families with an average income close to the average family income of Italian population. The public sector produces inequalities: families with 60 millions lire income pay 5 per cent of their income for public house rent whereas families below 15 millions income pay 25 per cent.

region of residence is particularly high in the south, suggesting difficult accessibility and low quality of services.

#### ***Local social assistance***

Local welfare systems in Italy, compared with Europe are generally less universal and collective in terms of solidarity, less generous, more limited in time, more selective and family-oriented, and have poorer follow-up. Welfare policies vary considerably across Italian territories (Table 6).

**Table 6. Municipalities of 20 000 inhabitants or more supplying welfare services, 1997**  
Italy and South

Kind of Service	Italy	South
Nursery	77.6	63.4
Recreation service	65.7	38.2
Economic assistance to illegitimate youth	63.7	51.9
School transport	81.8	74.8
Youth information	58.7	46.6
Residential assistance to handicapped	60.4	31.3
Vital Minimum	63.7	42.7
Assistance to social emergency	45.9	32.8
Assistance to immigrants	41.3	26.0
Assistance to prisoners/former prisoners	46.9	53.4
Sanitary ticket for poor	38.9	26.0
Refectory for poor	34.7	8.4

Source: ISTAT.

The main difference is between municipalities that produce both ordinary and extraordinary support measures and those with extraordinary contributions only.<sup>40</sup> Recently, more active policies have been implemented for minimal revenue of insertion, job grants, introductory apprenticeships, wage support for enterprises that engage young people in need, other forms of support to entrepreneurship, insertion in public utilities and special projects, sometimes in the framework of policies for urban areas at risk such as neighbourhood contracts (*cf.* Urban, Youthstart and European Social Fund programmes). In 1998, an experimental minimal revenue of insertion law was implemented at city level and co-financed by the State (80%) and municipalities (20%) in 39 Italian cities. There is an innovative pact between municipalities and applicants on mutual agreement on job insertion programmes “*oriented towards social integration and economic autonomy of recipients and their families through ad hoc programmes*” accompanying monetary subsidies.<sup>41</sup>

Public welfare responsibilities were transferred from the State to the regions and municipalities in 1977, without any national framework to unify the parameters for a threshold to social benefits. Regions and municipalities then defined legislation and standards without co-ordination, and some regions, particularly in the South have not yet passed legislation. Italian regions differ in term of services. The welfare system privileges elders and protected groups, is very fragmented, disconnected, and complex. Nearly half of social security expenditure (49.6% according to the Onofri Commission, 1997) goes to pensions, whereas Italy is (with Greece) the only European Union country without any national protection for the poor. The pension system reform began in the

mid-nineties and will be checked in 2001. Local social protection schemes for the poor and unemployed proliferate and are mostly managed by municipalities. There are no family unit welfare policies as yet. The main actor in social assistance policies at central level is INPS (the national social security agency) which is constrained by improper welfare burdens in fields like supplementary benefits, statutory minimum pensions and integration fund for temporary unemployment due to industrial crises.

### ***Economic infrastructures***

Whereas the gap in social infrastructure between the north and the south has been reduced, the economic infrastructures remain widely divergent, which hampers the economic development of less developed regions. The divergence between social and economic infrastructures could result from different decision-making arenas. For social infrastructures, local actors, like municipalities and regions play a role in distributive policies with access to central public expenditure centres. For economic infrastructures such as transport, in the past, and telecommunication today (see the section on non-territorial policies), the decision-making process is much more closed and concentrated. Public (or formerly public) monopolies and some major public and private companies control the field, local actors have far weaker access. The north and centre have a greater shares of investments in railways (30%) and airports (25%) have been privileged in the north and centre whereas investments in roads (60%) and ports (14%) investments have been privileged in the South.<sup>42</sup>

### ***Transport policies***

Transport policies in Italy have been distributive, private monopolies and distributive arenas have typically colluded. Considerable local pressures have reduced regulatory effectiveness and only few corrective policies have been implemented to reduce territorially disparate modes of transport – road, railway, sea and air. Italian transport and infrastructure policies are largely influenced by the productive structure of transport and construction (for public works). Both sectors are very fragmented: Italy has 250 000 construction firms. The public works sector is affected by this, by the weakness of the engineering industry and by a backward credit sector for project financing. Transport and logistics industries remain fragmented (150 000 firms in road freight transport), unintegrated, dominated by foreign logistics firms, and delay in adopting transport deregulation policies.

European Union pressure to liberalise communication networks is affecting infrastructures and transport. The new General Transport Plan presented by Italian government in July 2000 (the former one was held in 1986) will be considered in this context. The Plan is part of a process of change of institutional

design and the decision-making process. Liberalisation will be important in this context. Following air transport and airport services, some extra-urban transport, shipping services and railways medium-long distance services for goods and persons might be liberalised. Access to infrastructures and organised competition will be critical for interregional disparities. Regions are both potential owners of transport infrastructures and managers of local transport, including passenger railway traffic. Municipal transport agencies will be interested in applying for licenses in railway traffic, including the transport of goods. Ultimately, there will be many local actors in passenger and goods transport.

Logistic platforms and interports are critical for new external economies. Law 240/1990 limited the number of Italian interports to be financed to eight, only one in the South (Padua, Verona, Rivalta Scrivia, Turin Orbassano, Livorno, Parma, Bologna and Nola Marcianise). New programmes have been presented for 9 interports, most of which are in the South (Orte, Bari, Catania, Prato, Bergamo-Montello, Novara, Pescara, Vado Ligure and Gioia Tauro). New interports are being considered for financial aid for depressed areas (Pescara, Termoli, Tito, Frosinone, Venezia, Iesi, Ionian-Salentinian, Cervignano and Pontecagnano). The danger of proliferation is clear and other transport infrastructures should be defined, as logistic platforms, back-ports, and intermodal centres to better integrate transport modes and services. Localities should be selected along pluri-modal corridors, private finances should be mobilised and State support should be limited to 50 per cent of total financial investment. Logistics services should be developed particularly in the South and logistics projects should be designed especially for industrial districts, in order to reduce Italian commercial deficit.

### *Ports*

Ports and shipping are another critical field as the growth of sea transport has been accompanied by foreign acquisitions of Italian terminals (Like Gioia Tauro, La Spezia, Genova Voltri, Venezia, Trieste and Taranto). Law 84/1994 on new Port Authorities has been misinterpreted as it conceived financial autonomy of Ports whereas Port Authorities have reduced the concession fees to be paid by private terminal enterprises in order to keep ports competitive. Real competition has been denied since there are no incentives for efficiency and technical progress, rent keeping is welcomed and there is an over-supply of terminals. To keep Italian ports competitive, privatisation and diffusing tertiary port services are essential.<sup>43</sup>

### *Airports*

Airports are becoming a major territorial asset as liberalisation of air transport has increased air traffic more than any other transport mode. Regional disparities are relevant: in North and Central Italy airport investments have constituted

### Box 15. Co-operation on Spatial Planning in the Framework of INTERREG

In Italy the Ministry for Public Works is responsible for the Community Initiative Interreg, that started in the early nineties as a tool promoting regional development and facing up borders' difficulties. INTERREG is composed by three different levels of co-operation: *i)* crossborder, *ii)* transnational and *iii)* interregional. As to the first Italy is part of the following programmes: France-Italy, French-Italian Alps, Switzerland-Italy, Austria-Italy, Slovenia-Italy, Greece-Italy, Albania-Italy and, if this could be eligible, Malta-Italy. In the field of the transnational co-operation the Italian participation is concentrated on the following programmes:

- CADSES (Central European, Adriatic, Danubian, South-Eastern European Space) including also Germany, Austria, Greece as EU members; Poland, Czech Republic, Slovakia, Slovenia, Hungary, Bulgaria, Croatia, Bosnia-Herzegovina, Serbia, Albania, Macedonia FYROM, Moldavia and Ukraine;
- Western Mediterranean and Latin Alps with Spain, France, Algarve (Portugal), Gibraltar and Greece;
- Alpine Space includes also France, Austria, Germany, Switzerland and Slovenia;
- Archimed is based on the Greek-Italian co-operation with participation of Malta and Cyprus.

As to the interregional co-operation, it is scheduled to be set up in the first half of 2001 for the programming period 2000-2006.

25 per cent of total transport infrastructure investments, whereas in the South it accounted for only 7 per cent. More generally, investment policy by the Italian Flagship Company Alitalia has been detrimental to the south.<sup>44</sup>

#### *Railways*

The railways network is unchanged since 1981. Some technical progress has been introduced like electrification (from 54% to 65% in 1997) and double railway tracks (from 33% to 39%). In both cases, southern performance remains significantly lower as both electrification and double tracks constitute only 50 per cent of the national average.<sup>45</sup>

#### *Road infrastructures*

The road infrastructure in the south is 20 per cent lower than the national average. Growing pressures from strong northern regions in the last years led to

new road infrastructure investments to resolve traffic congestion in booming areas.<sup>46</sup>

### ***Environmental policies***

Environmental policies, which are “regulative” by nature, have been the most recent public policy in Italy. In the decades following the creation of ordinary Regions (1970s) local authorities have acquired greater power for environmental issues. Regions have increased their powers in air and water pollution, parks, sea and coast protection, waste disposal, landscape protection, impact assessment, traffic pollution, etc. The Environment Ministry (with portfolio) has been created only in 1986. The amount of resources allocated to environmental issues has reached 1 per cent of GDP only at the end of the 1980s (EU average is 1.2%). Low ability to spend funds has been demonstrated by the Environment Ministry (33% in 1987, 21% in 1990, and 33% in 1993). Only 60 per cent of environmental funds are in the Ministry budget, the rest are under the responsibility of other Ministries (Public Works, Agriculture and Industry). Moreover, 40 per cent of funds are spent directly by the central administration, 60 per cent are transferred to regional and local administrations and private firms.

Law 142/1990 has considerably increased the responsibilities of provinces on water and soil protection, waste management, natural resources protection, pollution monitoring. Municipalities have been made responsible for managing public services (waste collection, domestic water distribution, sewage, effluent water treatment, in some cities energy production). Today the basic responsibility for implementing environmental policies, monitoring, etc., rests on local government. The National Agency for the Environment (ANPA), created in 1994, recently promoted the establishment of Regional Agencies (ARPA). As a result there have been more sustainability policies, increasing expenditures by major Italian cities for water supply, sewers and water purification, waste collection and disposal, urban parklands, efforts for promoting Local Agenda XXI, inter-city associations promoting joint environmental initiatives. At the same time, environmental policies have been fragmented. During the 1990s a certain reduced relevance of environmental issues can be observed, possibly due to economic crisis and political system collapse.

In term of different regional performance, strong variations exist. Using the indicator of legislative production, Central and Northern regions like Emilia-Romagna, Umbria, Toscana, Veneto, rank first, and Southern regions rank lowest. The same result can be obtained if substantive environmental measures are evaluated, with the regions of Liguria, Abruzzo, and Trentino ranking also at the top. Table 7 is based on already approved regional environmental plans where the results are more mixed. Some southern regions perform well (Basilicata,

Abruzzo and Molise) and some northern region like Lombardia rank lowest along with Southern regions like Puglia, Calabria and Campania.

Italian environmental policies have been so far frequently influenced by interest groups and mainly distributive: distribution of environmental infrastructures (from water treatment plants to waste disposal facilities) from the State to local authorities. The distributive profile of environmental policies has been particularly strong during the Eighties through Act 650/1979 loans and contributions from the State to local authorities and productive enterprises, Financial Acts provisions, FIO (Employment and Investments Fund) and special laws for cities and basins. This has occasionally generated distributive local conflicts. However a shift is recently taking place from regulative policy to negotiation/discretionality by public agencies or, in other terms, “joint production” of regulative choices between public and private. Tools like compulsory consortia (for recycling) have supplemented the traditional regulatory approach. Economic instruments like charges, tariffs and possibly ecotaxes are also in the agenda.

Table 7. **Environmental regional planning**

	Landscape	Protected areas	Air	Water	Solid urban waste	Special waste	Energy
Abruzzo	X			X	X		
Basilicata		X		X	X		
Calabria					X		
Campania					X		
Emilia-Romagna	X			X			
Lazio							X
Liguria	X		X	X	X		X
Lombardia	X						
Marche	X		X		X		X
Molise	X		X		X		
Piemonte	X		X	X	X		
Puglia							
Sardegna				X	X		
Sicily		X		X			
Toscana		X		X			
Trentino			X	X	X	X	
Umbria		X					
Valle d'Aosta	X			X	X		X
Veneto	X			X	X		

Source: DICOTER.

### **Tourism Policies<sup>47</sup>**

Tourism in Italy represents an important economic sector: it creates a direct turnover of 134 thousand billion liras (6.5% of GDP) and employees about 2 million

people (1.6 millions of direct employees plus 0.4 million indirect). Hidden employment is estimated to be equal to 23 per cent or nearly 0.5 million employees. An indicator of the performance of the Italian territories in tourism is given by the distribution of the official annual overnights (Italian and foreign tourists spent 300 million nights). In 1999, this broke down as: southern regions 20 per cent, central regions 23 per cent, and northern regions 57 per cent. If, however, unregistered nights are added to this figure, the actual total number of overnights amounts to 800 million with a distribution as: southern regions 28 per cent, central regions 24 per cent; northern regions 48 per cent. The number of hidden nights is more significant in the south and in the central regions.

Tourism expenses – Italian and foreign tourists – are highly concentrated in the north (53.2% against 21% in southern regions, and 25.8% in central regions). Flows from and towards Italy reflect a decrease in the active balance of tourism (ITL21 011 billions in 1999). This is due mainly to the increase in the expenses of Italian tourists abroad and to a simultaneous decrease in the expenses of foreign tourists in Italy. In the first months of the year 2000, the sector is registering a positive recovery.

The most requested is cultural tourism, followed by ecotourism (in a wider sense and a mix of tourism products related to environment and culture). Cultural tourism represents an important option to revive the Italian territory because of the significance of the existing heritage and the possibility of completing a “composite” supply, forming competitive packages compared to other international destinations. Turnover related to cultural tourism in Italy amounts to about ITL27 900 billion (more than 21% of total tourism turnover). The daily average expense of the cultural tourist amounts to about ITL190 000, against an average of ITL130 000.

Disparities between the centre-north and the south of Italy are quite relevant also concerning the tourism sector:

- Only 20 per cent of total tourism expense go to the South (28% of Italian tourists’ expenses and only 11% of foreign tourists’ expenses).
- Only 15 per cent of the hotels in Italy are located in the south: the Emilia-Romagna region has more hotels than all southern Italy.
- The arrivals and departures in Palma de Majorca airport are 50 per cent higher than those registered in the airports of Southern Italy.
- The per capita average expense in the South of foreign tourists amounts to about ITL100 000 per day, while in the Central-Northern regions it amounts to about ITL164 000.
- The tourist flows and expenses in the South are mainly concentrated in the summer season.

The most recent data available from ISTAT show a relative higher growth of tourism in Southern Italy, compared to the national average. Nevertheless, important margin of improvement could be achieved. The Research Department of the Touring Club of Italy has recently elaborated a potential attractiveness index, on the basis of the three macro-categories of attractors which generally constitute the tourist demand: *i)* cultural, historical and artistic heritage; *ii)* nature and landscape; and *iii)* celebrations, traditions and social attractions. This index summarises the supply quantity and quality in each region and shows their theoretical capacity to attract tourists. Points were given to each region and the resulting percentage were re-grouped by macro-areas, obtaining the following picture: north-west 18 per cent; north-east 19 per cent; centre 27 per cent; south 36 per cent. The data clearly show the unexpressed potential of the South; despite this part of Italy having tourism resources of absolute value, these are not transformed into a factor of production for the local economy. According to an econometric model established by the Italian Exchange Office and the Touring Club of Italy, the full exploitation of the potential capacity of the south to attract foreign tourists would correspond to an additional foreign currency earnings of about ITL20 trillion.

Generally speaking, preconditions necessary to support a comprehensive and effective tourism policy are outlined below:

- Adequate infrastructures for local accessibility and mobility. The Regional Plans of Transports (still lacking in some regions) should be thought and co-ordinated at an interregional and intersectorial level as key elements of the tourism system.
- Quality education, basic and permanent, for all the professional profiles involved in the tourism system, from the operational to the managerial level. This kind of education is necessary to offer the markets quality products and services in a “labour intensive” sector in which the added value is often given by the human resources.
- Constant availability of information about the financial and support instruments for the entrepreneurial, community, national and local activities.
- Guarantees for a control of the territory that enables tourism to develop its activities in an environment that can be seen as “clean and safe” by the tourists.

These conditions should be considered only as the starting point. Once they will be fulfilled, a clear policy directed to the marketing of existing cultural and natural amenities will also be necessary in order to create development based on a sustainable valorisation of the numerous resources presented on the national territory. Steps towards this direction have recently been taken. Act 368/1998 has

created a new Ministry for Cultural Goods. Law 112/1998 has defined new economic management and promotion of cultural goods, and competencies have been partially transferred to regional commissions. Public-private agreements have been introduced to jointly manage the cultural heritage. Decentralisation and outsourcing to private associations and foundations are ongoing. Nevertheless more action is needed.

### **3. The territorial effects of non-territorial policies**

In previous chapters attention has been paid to policies with “intended” territorial effects *e.g.*, policies undertaken by public authorities (central, regional and local) with the explicit aim of enhancing the growth of specific geographic areas. Nonetheless, subnational dynamics are influenced, as well, by other policy measures, that may be seen as policies with “unintended” territorial effects. Decisions on fiscal, monetary and exchange policy, for example, clearly affect different territories in different ways. Regional differences determine how much non-territorial policies affect territorial outcomes. Given its strong disparities, Italy is a country where the impact of non-territorial policies may be strongly asymmetric.

The following discussion focuses on non-territorial policies whose territorial impact seems to be particularly relevant for the Italian case. From welfare and labour policies, to market regulation and liberalisation, and to the policies for the information society, all such interventions interact with territorial policies in a complex way, advancing, being neutral or implicitly contrasting them.<sup>48</sup>

The conclusion reached in this chapter are as follows. The impact of non-territorial policies in Italy is crucial. Welfare and labour policies produce very asymmetrical territorial effects, due to their present design (*e.g.*, very generous Italian seniority pensions favour richer regions in the North); their reform, currently underway, will have a strong territorial impact. Other regulatory reforms are influencing territories as well (*e.g.*, air transport regulation, still lacking a complete liberalisation, is crucial for Southern development); the territorial influence is very complex, being the process of liberalisation in some cases in favour of territorial cohesion, in part against.

The message of this section, however, is clear and simple: existing mechanism of co-ordination of these policies with territorial policies are very weak, and both sets of policies may act one against the other; monitoring and assessment of territorial effects of non-territorial policies is very weak as well and needs to be dramatically improved.

#### ***The territorial effects of welfare and labour policy***

The entire Italian welfare system is structured on actions for specific groups, often spread very unevenly throughout the territory. Any changes in it could

produce deep redistributive territorial outcomes that could enable or consistently weaken territorial development policies. Some of the current welfare measures in the public pension system and in public assistance have unwelcome economic effects of reducing the participation rate (particularly in more prosperous areas). In weaker areas, they may lead to permanent protection of target groups of economic-policy measures. Possible changes in social welfare, traditionally quite weak in Italy (poverty, families), are particularly relevant: most potential recipients live in the less developed areas, and up-to-date forms of welfare could help sustain territorial development policies. Any change of the public pension system will be wide-ranging and have more differentiated territorial effects.

The existence of a national labour costs regulation, given remarkable regional productivity differentials, significantly reduces the competitiveness of the weaker regions, and can also offset territorial development policies significantly. The spread between labour cost and productivity often underlies underground and irregular labour; this is central to any territorial development policy.

### *Pension systems*

Italian social welfare spending is somewhat lower than the European average as a ratio of GDP, although it remains above the OECD average. Pensions represent an unusually high two-thirds of all social welfare spending, which restricts the scope for spending on other segments of the social welfare system (such as those addressing the needs of working-age households and of the poor). In Italy, some social services are provided within the family.

The Italian system of old-age income support is largely based on a mandatory old-age insurance, which also provides insurance to survivors and disability benefits (*invalidità, vecchiaia e superstiti* (IVS)). It covers the majority of the working population and is managed by the State through the National Social Insurance Institute (INPS). The diversity of pension benefits and entitlement rules was reformed (as of 1992) depending on whether the individual belonged to a private- or public-employee or self-employed schemes (Box 16).

In general, pension benefits were based on the average of the last five years of earnings for private employees, with benefits reaching a maximum of around 80 per cent of wages for an individual with 40 years of contributions. The system was less generous for the self-employed (benefits were based on the last ten years of income) and generous with public employees, whose benefits were calculated using the last salary. Traditionally, a promotion was given a short time before retirement. A key characteristic of the Italian system is the right to obtain a seniority pension. This permits private sector employees to take retirement after only 35 years of contributions, irrespective of the age at which working life began. In 1998, these pensions averaged nearly 29 million lire, almost 30 per cent higher than old-age pensions; two-thirds of the recipients were less than sixty years old.

Disability pensions were also generous in their diffusion, even if their amount was much smaller.

Pensions are particularly important also because of weaker welfare provisions in other areas. Italian welfare does not target the reduction of extreme poverty. State transfers to the fifth poorest part of the population are the lowest among richer countries: in Italy, extreme poverty is deeper than in other OECD countries with comparable income and is almost totally concentrated in the southern regions, particularly on the main urban areas. Even direct supports to households in Italy are more limited and very unevenly allocated. Furthermore, other welfare policies are within local government's competence. Thanks both to a better administrative efficiency and a restricted number of recipients, these policies are more effective in the centre and north, where poverty is less widespread.

The territorial impact of the pension system has been very uneven. The allocation of old-age pensions seems basically related to demographic variables, but seniority and disability-pension distribution seems asymmetric (Table 8). Seniority pensions are particularly widespread in the northern areas: 61 per cent of the seniority-pension amount is supplied in North Italy, where there are 13.3 seniority pensioners per 100 employed people, compared to the national average of 11. This is the consequence of steadily higher regular employment rates in the northern regions allowing wide ranges of workers to reach the needed contribution seniority. Conversely, disability pensions are strikingly concentrated in the Mezzogiorno where they were used as a social shock absorber, especially to support underground-economy workers without pensions, particularly in the 1980s. Early retirement schemes were used in connection to industry or enterprise crisis, often regarding state-owned firms. Again this happened more in the North than in the South; more in some regions (Liguria and Campania) than in others.

Table 8. **Pensions, 1997**

In thousands

Region	Seniority	%	Old age	%	Disability	%
North	1 389	61	4 904	59	1 046	32
Centre	431	19	1 518	18	727	22
South	399	17	1 878	23	1 485	46
Not apportionable	59	3	0	0	0	0
ITALY	2 278	100	8 300	100	3 258	100

Source: ISTAT and INPS.

The considerable territorial effect of the pension system is complex and hard to evaluate. The uneven territorial distribution acts upon the cost and benefit

### Box 16. Income support for the elderly

The Italian public pension system (INPS and INDAP combined) covers all employed persons (including domestic employees). It is a combination of schemes rather than a unified system. Special systems exist for industrial managers, liberal professions, railway employees, public utilities, air transport workers, journalists, civil servants, self-employed artisans, merchants, and self-employed farmers. The main schemes, in terms of workers are:

- The private sector employees' fund (FPLD), under INPS, covers around 11 million active workers and 10.2 million pensions and represents 58 per cent of all pensions and 56 per cent of all people paying contributions.
- The public sector employees' schemes, under the umbrella on INPDAP, covers 17 per cent of all people contributing and 12.5 per cent of all pensions
- The self-employed schemes under the umbrella of INPS, covering 21 per cent of all people contributing and 23.4 per cent of all pensions.

Schemes not under the umbrella of INPS or INPDAP (e.g., liberal professions, doctors, railway and public utilities employees) represent 6 per cent of all people contributing and 4 per cent of all pensions. All schemes provide old age, survivor and disability benefits. Participation is compulsory and pensions are earnings-related with the system with only a small redistributive component through low minimum pensions.

At the beginning of the 1990s, pension benefits and the rules for pension entitlements were quite different, depending on whether an individual belonged to a private, public employee or self-employed scheme. Pension benefits were based on the last month's salary for public employees, but the average of the last five years for private employees. The statutory retirement age varied substantially for different groups, ranging from 65 for a public employee to 55 for female employees in the private sector. But public employees had access to early retirement after only 20 years of contributions, while seniority pension in the private sector required 35 years of service. In both cases there was no adjustment to allow for early retirees receiving a pension over a longer period than those retiring at the official retirement age. Although the system has not been fully integrated and harmonised, reforms in the 1990s have eliminated many key differences across the groups. The phase-in of the changes has sometimes been long, although the Prodi measures accelerated this process. While the earnings base (pensionable earnings) used to calculate benefits in the private sector differed among employees, civil servants and the self-employed, pensions were calculated on the basis of 2 per cent of pensionable earnings for each year of employment. Pensions were indexed on minimum wages. The pension system also provided both invalidity and survivors' pensions. In 1998, around 10 per cent of pensioners received an invalidity pension.

Source: OECD (2000): *Economic Survey, Italy*.

allocation of any possible pension-system reform and helps explaining the strong resistance of Trade Unions to abolishing seniority pensions. The territorial effects of pension system reforms are very likely to be remarkable and should be thoroughly evaluated.

### *Unemployment*

State intervention for the unemployed is very limited. This happens because, basically, the Italian social welfare system was designed to protect the heads of households: public employees and employees in large manufacturing firms were well protected against the risk of job loss. It includes a wide range of measures applicable to specific groups of workers (distributed in specific regions) rather than universal rights. Moreover unemployment subsidies provide very restricted coverage for a short time. The system caters to the unemployed, cutting out young people looking for their first job. The proportion of subsidy beneficiaries and unemployment stock is strikingly territorially uneven, favouring the regions with fewer unemployed people. Agricultural unemployment subsidies (of a very limited amount) in the southern regions partially sets off the situation (Table 9).

The complex Italian system of active and passive labour policies is centred on a wide range of measures acting on specific groups of workers, leading again to an uneven geographical distribution of recipients. Almost 130 000 workers, half of whom are located in two southern regions (Campania and Sicily) are enrolled in social serviceable labour lists (*Lavori Socialmente Utili*), and receive benefits that are actually subsidies.

The future dynamics of the welfare financial balance have an interesting territorial reading. There are more elderly people in the north, and a larger younger population in the south. If the employment rate of younger workers does not prove adequate, their pension contributions will not ensure the pensions of current northern workers.

### *Territorial effects of wage-bargaining institutions*

Since the agreement of July 1993, wage-bargaining institutions allow for some regional decentralisation of wage setting in the private sector (previously defined only on a national basis), with performance-related plant-level bargaining (affecting about 3% of remuneration). Local wage setting is also encouraged in the context of Territorial Pacts (*Patti Territoriali*) and Area Contracts (*Contratti d'Area*). Wage-bargaining institutions inspire common minimum wages for the whole country, despite strong productivity differentials. Minimum wages are based on centre-north labour-market conditions, which is unfavourable for employment in southern regions where unemployment is more widespread. Unit labour costs are unfavourable for the Mezzogiorno (Figure 16). This was traditionally compensated

Table 9. Unemployment beneficiaries, 1998

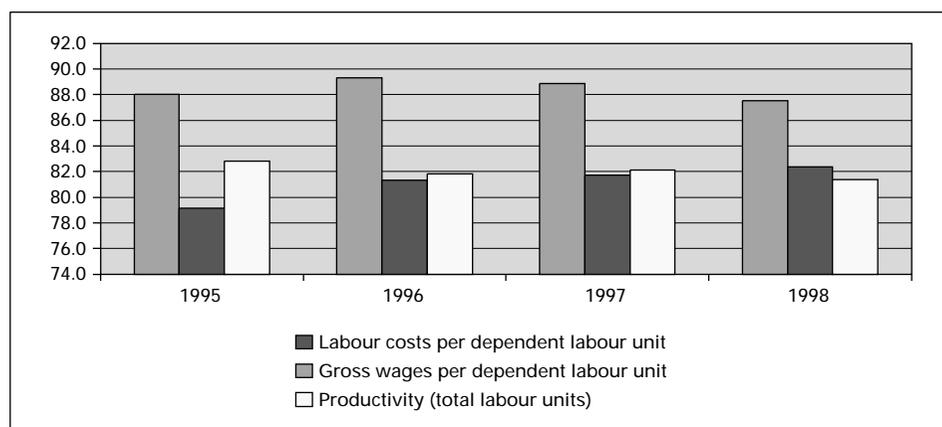
	Beneficiaries Not agrarian	Beneficiaries Agrarian	Unemployed		
	(a)	(b)	(c)	(a/c)	(b/c)
Valle d'Aosta	3	1	3	107	34
Piemonte	35	3	153	23	2
Lombardia	68	5	221	31	2
Liguria	19	2	67	29	2
Trentino-Alto Adige	24	6	13	186	43
Veneto	66	8	97	68	9
Friuli-Venezia Giulia	14	2	28	50	6
Emilia-Romagna	67	30	97	69	31
Toscana	49	8	116	42	7
Umbria	10	5	28	35	17
Marche	23	4	38	61	9
Lazio	47	15	249	19	6
Abruzzo	21	6	45	46	13
Molise	5	1	21	25	7
Campania	78	83	488	16	17
Puglia	52	129	295	18	44
Basilicata	11	16	39	29	40
Calabria	25	100	190	13	53
Sicily	66	135	425	16	32
Sardegna	31	12	132	24	9
<i>Centre-North</i>	<i>425</i>	<i>87</i>	<i>1 110</i>	<i>38</i>	<i>8</i>
<i>Mezzogiorno</i>	<i>289</i>	<i>483</i>	<i>1 634</i>	<i>18</i>	<i>30</i>
<b>ITALY</b>	<b>714</b>	<b>569</b>	<b>2 745</b>	<b>26</b>	<b>21</b>

Source: Based on Observatory on Labour Market (Ministry of Labour) and INPS data.

in the past by reduced social security contributions (*fiscalizzazione degli oneri sociali*) for firms operating in the south; but these contributions are being gradually phased out, following a 1995 agreement between the Italian Government and the EU Commission. This created upward pressure on labour costs in the Mezzogiorno.

More than 1 in 5 workers in the south are in the public sector, compared to 1 in 10 in the northern regions. Nonetheless the ratio of public employment/population is only slightly larger in the south (Table 10). Public sector entry wages are typically higher than private wages in the south, and the public sector does not allow for any interregional pay variation. Thus, posts in the public administration – which also offer the strongest employment security – traditionally attracted jobseekers in southern regions, increasing reservation

Figure 16. **Mezzogiorno: Productivity and labour costs in manufacturing**  
Centre North = 100



Source: ISTAT, National Accounts.

wages. In the 1990s, however, new public posts were created at a pace much smaller than in the past, so that this effect decreased. The only way to avoid applying contractual minima is to go underground. Thus, the other side of the coin of wage compression despite large productivity differentials is the spread of the informal sector, which accounts for as much as 30 per cent of employment in the south (Table 11). Workers in the informal sector have no social insurance.

Table 10. **Regional distribution of public employment, 1997**  
In per cent

	Relative to total employment	Relative to total population
Mezzogiorno	20.1	6.1
Centre-North <sup>1</sup>	11.6	5.1
ITALY	14.8	5.7

1. Excluding Lazio, the region where Rome is located.

Source: OECD, 1997.

**Table 11. Irregular labour units, 1999<sup>1</sup>**  
As a percentage of total labour units

	Mezzogiorno	Italy
Total	33.4	22.4
Industry, <i>of which:</i>	41.8	18.6
– Manufacturing	26.4	11.6
– Services	21.8	18.7
– Agriculture	84.7	73.5

1. Unregistered labour units, legal work not reported in surveys, second jobs.

Source: Svimez (2000).

### Box 17. Encouraging internal mobility and stemming the brain-drain

If economic development in lagging areas in Italy is to create conditions for clusters of small and medium-sized firms to emerge, mobility over short distances is a prerequisite. Yet existing barriers to migration act more heavily on short-distance migration. So do negative economic conditions. High regional unemployment in the south fosters long-distance migration but discourages short-distance migration. Internal migration flows in Italy declined steadily after the 1960s and, despite a slight increase in recent years, remain relatively small if compared to 1970s given the large interregional differences in social and economic conditions. Migration flows between southern and northern Italy are small, and migration flows across short distances are scarce.

One argument often offered against removing barriers to internal migration is the possibility of a “brain drain” in which more skilled people migrate out of poorer regions and reduce the development prospects for those left behind. However, five types of barriers limit migration in Italy and encourage this phenomenon.

Did migration decline because regional wages have progressively converged? Nominal wage equalisation in Italy was largely achieved at the end of the 1960s following a union agreement to abolish regional wage differentials whereas the decline in migration continued steadily after that. Even with similar wages, differences in the probability of finding a job still result in interregional differences in expected income. Further, the elasticity of internal migration in Italy with respect to interregional wage differentials is close to zero.

Do demographic factors explain low mobility levels? According to this view, the ageing of the population should be associated with a decline in the propensity to migrate given that mobility is typically higher among young cohorts. However, the ageing of northern Italy should encourage migration in this case. Other demographic considerations may have larger effects on mobility. For instance, a larger number of women in the labour force makes it more difficult for a household to move.

**Box 17. Encouraging internal mobility and stemming the brain-drain (cont.)**

Do family and government support explain the decline in the propensity to migrate: are elder people less willing to move because of government support through early retirement practices and other social security benefits? Are young people who typically constitute the bulk of migrants, less willing to move because rising family income has strengthened family support when unemployed? Other forces work in the opposite direction. Migration is costly and rising family income can help finance it more easily. The evidence shows that families where more people are employed tend to produce more migrants, apparently because higher income allows them to better support the costs.

Does the difficulty of locating housing in the area of destinations deter migration? Housing costs are high and rentals are relatively difficult to find. Finally, the low propensity to migrate may be attributed to inefficiencies that result in a much lower probability of being hired outside one's region. Italy's unemployed rely largely on the networks of family and friends to find a job and these are much less effective outside the home region. Those amongst the unemployed in the Mezzogiorno who rely more heavily on family and friends to find a job are also much less likely to migrate.

Few people would propose a strategy for regional convergence based mainly on migration. Yet without some degree of mobility, convergence is difficult to achieve. Furthermore, existing barriers seem to discourage short-distance more than long-distance migration and affect those with a lower socio-economic background more strongly. Both barriers in the housing market and weaker social connections are stronger deterrents for those who are initially poorer as is lack of family finances to fund the migration decision. At the same time these barriers also discourage migration more strongly in the south to an area that might start to take off than a large northern city where formal markets for seeking accommodation and employment are likely to be more developed. Reducing existing barriers to migration may both help development and reduce the bias in current migration towards those who are initially better off.

***Market regulation and liberalisation***

Market regulation and liberalisation constitute another area where non-territorial policies have considerable territorial impact. The liberalisation of key markets (air, railway, transport, airport and port facilities, telecommunications, public local services, and electric power) is having and will have very strikingly uneven territorial outcomes. The outcomes may be different in different sectors, and each sector requires specific attention. There is a legitimate fear of polarised effects – positive effects on costs, quality, or availability, but focused on the more developed areas. However, it does not seem advisable to slow down regulation and the liberalisation processes to redress the territorial balance, but rather to monitor them to assess their territorial impacts, counteracting negative territorial

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side-effects with appropriate actions. Considering the general aims of territorial development, possible unwelcome impacts should be countered by means of specific actions.

#### *Market regulation and liberalisation: air transport*

National air transport has been run until very recent by a State-owned monopolist. The negative effects of monopoly have been proportionally greater in the south, particularly the islands, both for geographical reasons and the poor alternative transport services. To date, liberalisation, although very incomplete, has lowered air transport prices (1996-97), increased vectors and flight supply. These outcomes have positively affected the more peripheral regions and the islands. Afterwards, however, the liberalisation had considerably slowed, and the costs of quasi-monopoly are still very high for the South. However, the intensity (and in some cases the course) of the effect of full liberalisation is complex. Higher competitive conditions may determine a supply increase (and a price reduction) either on routes once fixed or monopolist (north-south), or already developed areas, with higher incomes and demand, or on both.

#### *Market regulation and liberalisation: airports*

Regulation changes resulting from liberalisation may have unforeseen relevant territorial effects, as in the case of airports. The first traffic regulation of the Milan airport system ("*Decreto Burlando*", 1998) prescribed, other conditions being equal, flight displacement from Linate airport to Malpensa which worsened north-south direct connections, openly penalising both the Milan area (particularly the East of Lombardia) and South Italy. In other cases, however, air-transport liberalisation parallels, since the end of the 1990s, airport-facility liberalisation and the privatisation of the airport management companies. The first privatisation concerned the leading southern airport (Naples): following the privatisation, the number of airlines and vectors to Naples rose considerably.

#### *Market regulation and liberalisation: railways and ports*

Railway transport reform will create greater competition, with complex effects. Unlike air transport, the rise in competition will not lower the prices (now artificially low). Improvements will primarily concern the quality of service, whose territorial spread is hard to foresee. Regulation quality will play an important role in determining the territorial effects of the railway transport reform, including the national service agreement conditions set out for the railway transport company taking over the former monopoly, and the investment strategy of the company that will manage the rail network. Negative regional effects of polarisation supply in high-demand areas are possible and could be avoided or lowered by increasing

investments in low-demand areas. Because of Italy's geography, particularly in its more underdeveloped areas, port-system efficiency is a major issue. The early stage of liberalisation and privatisation is acting positively on prices and on the availability of goods and passenger shipping. Gioia Tauro port (located in a less developed Italian area) is a noteworthy example. After four years of management, it has become the leading Mediterranean trans-shipment container port.

*Market regulation and liberalisation: telecommunications<sup>49</sup>*

Telecommunication-service supply plays a major role in determining the relative competitiveness of different areas. The relevance but not the course of territorial effects of the telecommunication-system liberalisation can be assumed. The remarkable drop in transmission costs and the low-price Internet connection spread may benefit marginal areas in a relatively deeper way. However network communication investments are completely market-determined, which may imply

**Table 12. Municipalities in bankruptcy**  
(31.12.1997)

	Municipalities in bankruptcy (a)	Total Municipalities (b)	% (a/b)
Valle d'Aosta	0	74	0.0
Piemonte	5	1 209	0.4
Lombardia	14	1 546	0.9
Liguria	3	235	1.3
Trentino - Alto Adige	0	338	0.0
Veneto	7	584	1.2
Friuli - Venezia Giulia	0	219	0.0
Emilia-Romagna	8	341	2.3
Toscana	5	287	1.7
Umbria	5	92	5.4
Marche	5	246	2.0
Lazio	31	377	8.2
Abruzzo	17	305	5.6
Molise	14	136	10.3
Campania	102	551	18.5
Puglia	36	258	14.0
Basilicata	19	131	14.5
Calabria	123	409	30.1
Sicily	21	390	5.4
Sardegna	2	376	0.5
<i>Centre - North</i>	<i>83</i>	<i>5 548</i>	<i>1.5</i>
<i>Mezzogiorno</i>	<i>334</i>	<i>2 556</i>	<i>13.1</i>
<b>ITALY</b>	<b>417</b>	<b>8 104</b>	<b>5.1</b>

Source: Ministry of the Treasury.

sharp territorial disparities since cable investments could focus on the more developed and urban areas, where users agglomeration promotes investment profitability. The first available data about the Italian case apparently feed these fears.

*Market regulation and liberalisation: local public services*

Public local services (urban transport, waste) show, again, warning signs that liberalisation processes may heighten territorial disparities because of the effects of supply and demand. On the supply side, the management of firms previously run by municipalities will affect the future profitability of new operators. A proxy of this is the municipalities' general accounting situation: more than one-half of the bankrupt Italian municipalities are in Campania and Sicily (Table 12). On the demand side, the services and their quality seem to be directly related to disposable income. The reform has already begun, and once municipal-owned firms are becoming corporations. Available data point to a powerful polarisation of these cases in central and north Italy.

**Box 18. Market regulation and liberalisation: electric power**

The electric power sector is of great interest, because the liberalisation process is comparatively taking off. Its territorial effects have been expressly considered by the Regulatory Energy Authority (*Autorità per l'Energia Elettrica e il Gas*) who pointed out territorial disparities in the monopoly (ENEL) service supply (Table 13). Electricity costs are uniform nation-wide, but the quality of supply is not. Service in northern and southern Italy differs markedly. Blackout time in Sardegna Region is double the national average, and electric service quality in southern Italy is generally worse. The average level of continuity is 196 customer minutes lost (CML); the northern regions in 1998 lost 121 CML compared to 270 in the southern regions. Differences are marked even for the same geographical density. Northern cities experience 55 CML compared to 140, or nearly triple, in southern cities. Furthermore, the national average is far worse than in other EU countries (Italy, 1998: 196 CML; France, 1997: 63 CML; UK, 1997/98: 88 CML).

In December 1999, the Regulatory Energy Authority introduced a new regulation for the period 2000-2003 for continuity of electricity supply (Table 14). The regulation seeks to *i*) enhance the overall level of continuity in Italy; *ii*) reduce the gaps between the northern and southern regions; and *iii*) protect consumers. It imposes yearly improvement standards for each district. The required national average improvement is 10 per cent annually; the lower the starting level, the higher the yearly rate of improvement, with a maximum of 16 per cent yearly. Three hundred districts have been defined in which to survey average continuity levels as closely as possible to the users. Territorial density is the same in each district, in order to consider geographical differences in electricity supply between urban centres and rural zones.

**Box 18. Market regulation and liberalisation:  
electric power (cont.)**

To give companies a reference quality improvement target, nation-wide reference standards have been defined to indicate optimal quality levels that do not depend on the current district levels. For urban areas: 30 customer minutes lost; for suburban areas: 45 customer minutes lost; and for rural areas: 60 customer minutes lost. National reference standards are only indicative. Suppliers will have to pay penalties to users for mismatching national standards probably as of 2004. Penalties and incentives are proportional to the difference between the standard and actual levels for the relevant year in each district. Penalty revenues are used to fund incentives; the balance is assured through a levy obtained adjusting the price cap formula (RPI-X+Q). The utilities provide data on continuity levels. The Regulatory Energy Authority must therefore ensure that interruptions are recorded in a complete and satisfactory manner, according to the measurement rules. The Authority can prosecute for abuses in measuring supply and sanction utilities. These regulations aim to link liberalisation and a clearly stated territorial equalisation goal.

This takes place in a framework of reference in which Parliament has fixed a maximum national tariff and the regulator has fixed a “stamp” tariff for electricity transmission. Costs shifted to the consumer do not depend on distance. Each provider must offer the same rate options to all consumers, regardless of their location. Geographical disparities in electric power costs can intervene because local providers can offer better conditions than the maximum national tariff; this is more probable in area with stronger demand.

Table 13. **Length of electricity long blackouts without previous notice, 1999**  
Minutes per year

Regions	Blackout by location of user			
	Whole region <sup>1</sup>	Rural area <sup>2</sup>	Semi-urban area <sup>3</sup>	Urban area <sup>4</sup>
Piemonte	161	233	75	56
Valle d'Aosta	79	91	-	22
Liguria	127	219	65	57
Lombardia	86	109	68	54
Veneto	125	161	101	46
Trentino-Alto Adige	183	207	58	50
Friuli-Venezia Giulia	140	174	74	73
Emilia-Romagna	128	183	96	59
Toscana	177	252	135	116
Umbria	216	259	213	140
Marche	251	361	173	122
Lazio	276	400	308	168
Campania	214	318	171	126
Abruzzo	283	375	175	109
Molise	256	304	128	131
Puglia	325	503	131	136
Basilicata	247	288	145	69
Calabria	291	363	142	131
Sardegna	373	504	205	168
Sicily	236	322	208	159
<b>ITALY</b>	196	269	145	107
North	121	167	79	55
Centre	230	319	231	141
South	270	383	172	140

1. Whole region: weighted average among urban; semi-urban and rural areas.

2. Rural areas: districts with less than 10 000 inhabitants.

3. Semi-urban areas: districts with population between 10 000 and 30 000 inhabitants.

4. Urban areas: districts with more than 30 000 inhabitants

Source: Authority for Energy, Annual Report, April 2000.

Table 14. **2000-2003 Regulation for continuity of electricity supply**

	Starting level (1998-99)	Standard 1999-2000	Standard 2000-2001	Standard 2001-2002	Standard 2002-2003
ITALY	150 CML	133 CML	120 CML	109 CML	99 CML
Average improvement	11%	20%	28%	34%	
Northern regions	96 CML	89 CML	83 CML	78 CML	73 CML
Average improvement	8%	15%	21%	26%	
Central regions	180 CML	157 CML	140 CML	125 CML	113 CML
Average improvement	13%	31%	22%	37%	
Southern regions	213 CML	186 CML	145 CML	163 CML	130 CML
Average improvement	13%	32%	24%	39%	

CML: customer minutes lost (2-year rolling average, net of accidental interruptions or to third party action)

The average improvement rate is always referred to the relevant starting level.

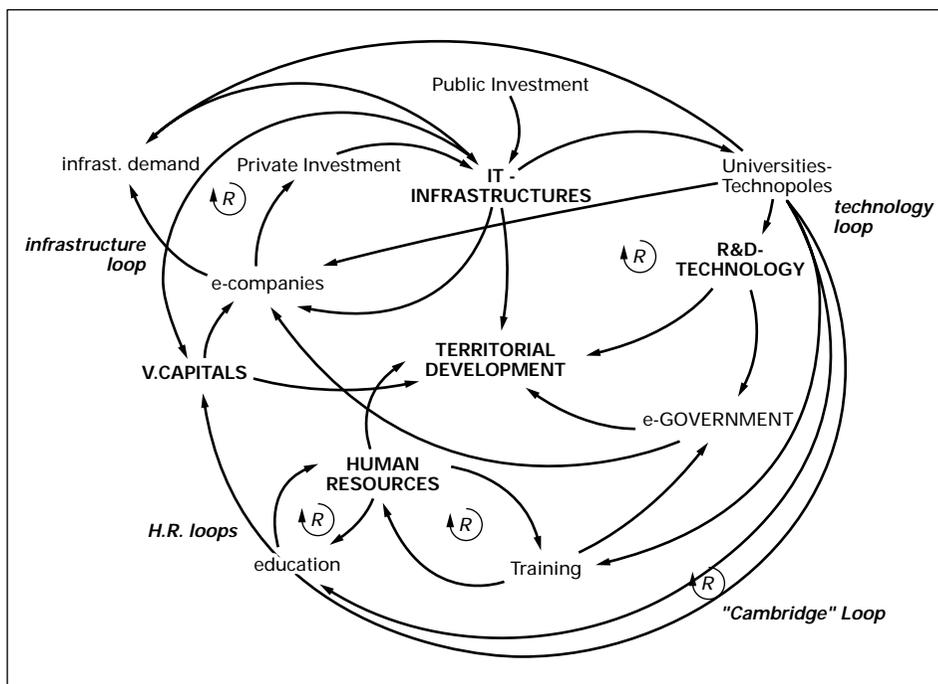
Source: Regulatory Energy Authority (*Autorità per l'energia elettrica e il gas*).

**Policies for the information society: bridging the digital divides**

External and internal digital divides are growing at the pace of the on-going technological change (Figure 18). Despite recent relevant signs of dynamism in the ICT market<sup>50</sup> and in the number of internet users<sup>51</sup>, Italy's situation is severe: the country seems to be weak in IT infrastructures, R&D and human resources, venture capital availability, or what appear to be the key drivers of the new digital economy.<sup>52</sup>

It's necessary to understand the new role and mutual interaction of such factors and to foster an even uptake of ICTs across Italian territories. Several cases in OECD countries give evidence of how areas that in a traditional economic approach are considered marginal can benefit from technological discontinuities created in the new digital economy. The analysis of the system dynamics underpinning the development of such areas reveals that development is often supported by those positive feedbacks that can be triggered by appropriate initiatives by both private and public actors (Figure 17).

Figure 17. Territorial development in the information society: a causal map



The virtual mobility offered by an extensive use of ICTs can help contain traditional migration from lagging to leading Italian regions and overcome the most severe geographical barriers. The least developed, most remote areas of southern Italy could be the big winners in the years to come. Best practices are emerging across Italian territories, including in the Mezzogiorno (Box 19), and some areas, thanks to a particular context, are exploiting the benefit coming from the rapid growth of both the computing and IT industry and e-commerce. The opportunity brings serious challenges with it, however. Regions without a sufficient supply of skilled workers will see high-skilled, high paying jobs migrate to places that can supply the needed talent. It should be noted at this regard that data on basic requirements of the workforce in the Information Society (computer literacy and foreign language capacity) reveal a severe situation of Italy as a whole and of many areas of the Mezzogiorno in particular.

The internet-based electronic commerce represents a major opportunity for SMEs to considerably increase their efficiency, particularly in the B2B (business to business) sector. Companies in virtually every sector of the economy are starting to use the Internet to reduce the costs of purchasing, to manage supplier relationships, streamline logistics and inventory, plan production and to reach new customers. The implications for Italian industry and, particularly for the industrial districts, can be relevant. Such developments need to be backed up by appropriate local and national policies. Such policies should tackle in particular the weak R&D capacity and the poor IT infrastructure that represent a worrying mix for territories aiming at reaching and maintaining competitiveness. The first available data in Italy show that new investment of private operators in cable infrastructures are concentrated almost exclusively in medium to large Northern and Central cities.

The potential of ICTs to improve governance at all territorial tiers should also be emphasised. Apart from their primary role establishing a stable, predictable legal framework capable of fostering the uptake of new technologies and creating a favourable environment for the new digital economy<sup>53</sup>, governments at all levels must drive innovation and lead by example. Especially at the local level, several cases (Table 15) demonstrate how effective e-governance structures can dramatically improve the performance of governments internally and externally, and foster a business-friendly environment. The scope for improvement is particularly relevant in three areas.

- Internal organisation: ICT represents a powerful tool for improving vertical and horizontal co-ordination and the flow of information among different tiers of government; e-procurement helps governments to better manage their relations with other actors, with relevant savings.
- Services to citizens: e-government allows all levels of the administration to supply better services in a more cost-efficient way. E-governance means

also using technologies to improve the general relations with the citizens and to foster transparency and participation.

- Partnerships: the net is a powerful tool to promote and manage effective private-public. Digital networks could be particularly useful for boosting the effectiveness of innovative experiences undertaken in territorial governance in Italy, opening new perspectives in the management, monitoring and evaluation of negotiated planning tools. Territorial marketing through ICTs is already been carried-out effectively by public-private partnerships in several Italian areas.<sup>54</sup>

ICT can clearly play a central role in the process of enhancement of the overall efficiency of the Italian governance system. Nevertheless, it should be noted that the question is not just related with the “practical” diffusion of such technologies. ICT can be used effectively or it can be misused. It represents a particularly powerful tool to help building a knowledge-sharing environment, but it is just a tool. The potential of such new technologies can be fully exploited only if supported by an overall policy strategy that understands the role that such technologies can play and sets the necessary conditions to make them operational.

As concerns digital administration, the Italian government has been promoting the following strategic ICT projects since 1996:

- The RUPA (*Rete Unitaria delle Pubbliche Amministrazioni* – Unitary Network of Public Administrations), conceived in 1996, was implemented in 1999 starting operations in the early 2000. The network provides central administrations with IP transport and basic services (e-mail, FTP, web access). To date, the RUPA network connects about 5 300 (more than 90%) among central public administrations’ sites.
- Leveraging the ramping diffusion of Internet in Italy during the last two years, a growing number of administrative services are now being provided on line. Tax returns in Italy are now filed electronically, through tax professionals or directly by citizens at home. Thanks to new laws on administrative simplification and public access to information, access to public registries and information is becoming easier. The Italian Business Register and Official Journal availability on the web are the last notable events in this respect.
- Capitalising on an advanced legislation on digital signature, Italy has just started distribution of the electronic identity card, which enables a citizen to request online services from central and local administration. Citizens and businesses alike can also acquire digital certificates from about a dozen-registered certification authorities, and digitally sign and exchange legally valid documents through the net.

Table 15. **Information society and local development: best practices**

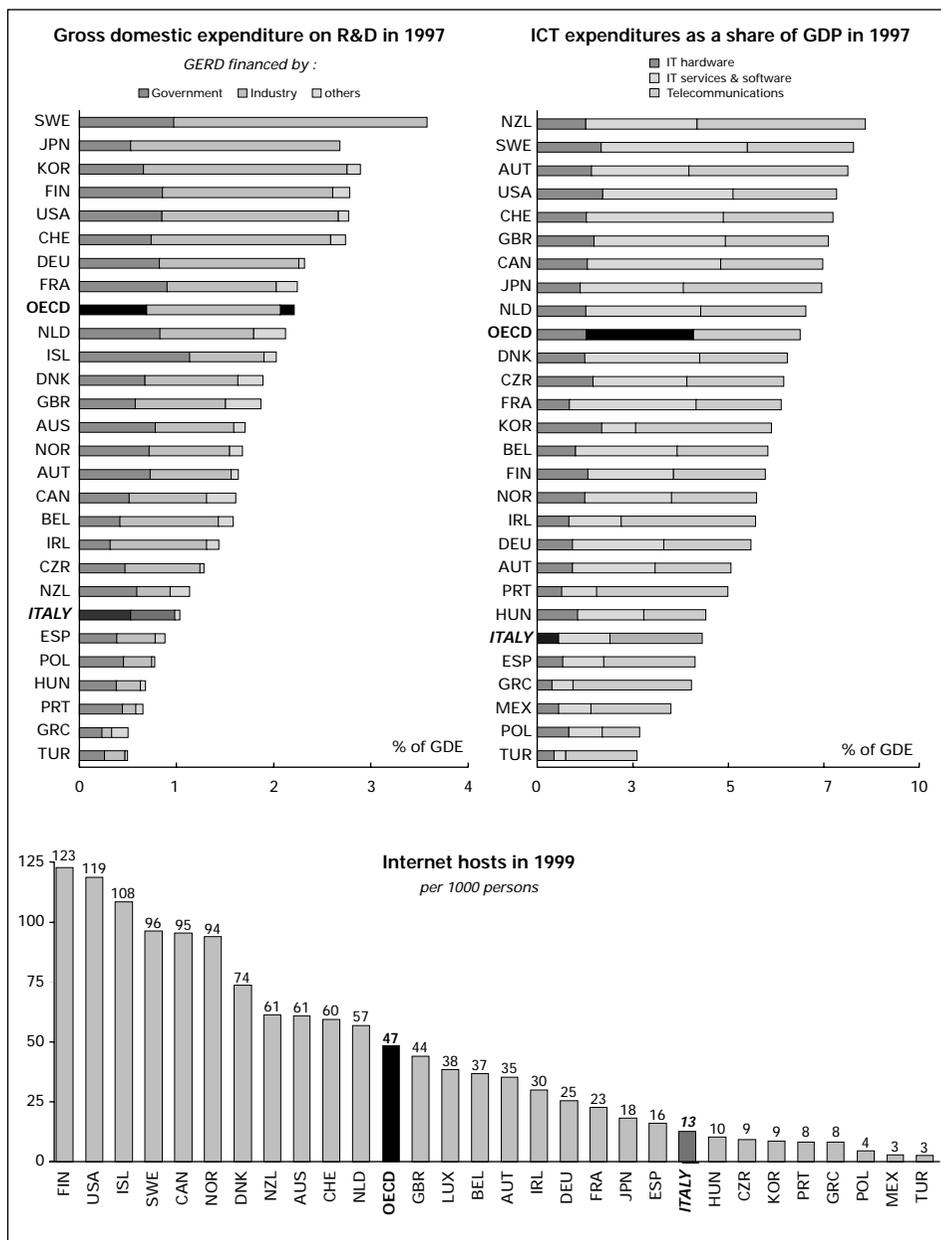
Best practices	Key drivers				
	Human Resources	R & D	IT Infrastructures	Venture capitals	E-government
Helsinki (Finland)			X	X	X
Malta	X				X
Hertzelya (Israel)		X		X	
Naestved (Denmark)			X		
Phoenix, AZ (USA)			X	X	X
Bangalore (India)	X	X			
Dublin (Ireland)			X	X	
Valencia (Spain)			X		X
Cambridge, MA (USA)	X	X			
Singapore			X		X
Victoria (Australia)				X	X
Campinas (Brazil)	X				X

Source: OECD/TDS.

As a result of international trends and of EU initiatives,<sup>55</sup> the awareness of the need to undertake urgent action to meet tight deadlines in all critical areas of the new digital economy is increasing its importance in the Italian political agenda. An ad hoc Information Society Forum (ISF) has been created by Ministerial decree in February 1999 to design a strategy. Its main tasks have been to co-ordinate the drafting of the National Action Plan and to contribute to the relevant chapter of the Budget Law. The ISF was conceived as a working forum open to public and territorial institutions, enterprises, trade unions, universities, research bodies, associations and private citizens. The Action Plan for the Development of the Information Society and the ad hoc strategy for e-government, presented in June 2000, define a series of specific objectives to be reached by 2001 in the fields of human resources development, e-government<sup>56</sup>, e-commerce, infrastructure, competition and access.

The ISF has devoted particular attention to territorial issues and especially to the definition of measures to foster the development of the information society in the Mezzogiorno. The Italian government has built a decentralised Centre for Territorial Activities and Local Administrations, based in Turin, with several forums for local discussion, which co-operate with the national Forum for the Information Society to insure the necessary territorial perspective to ISF initiatives and to monitor local activities. The territorial sensibility of the plan is therefore relevant: indeed, the entire national strategy is based on the assumption that development patterns in the information society are largely spontaneous and decentralised. Local authorities have concurred in its conception and are now called to take the lead in its implementation. A priority is given to the identification and

Figure 18. Italy and the information society: some basic figures



dissemination of local best practices, with particular reference to public-private partnerships. A program for diffusing local portals and technological incubators has also been introduced.

The Action Plan sets ambitious goals. Whether or not they are realised will depend largely on the amount of resources and the degree of co-ordination among the actors. A major effort will be required to overcome obstacles to innovation, both in the public and private sectors, and to reach an actual political commitment.

The national strategy has just been presented but best practices have already emerged on the Italian territories. We refer to extremely interesting *albeit* isolated experiences in the public and private sectors, underlining the impact that innovative initiatives can have on the development of territories (Box 19). They are examples of areas where traditional obstacles have been overcome and initiatives whose scope and quality are already widely recognised have been set-up. It should be noted that a key factor of success in these cases has been an effective partnership of public and private local actors. A major policy challenge will consist in designing those policies that, learning from such experiences, will be able to support them and to duplicate them across Italian territories.

**Box 19. Best practices in Italy*****Catania: A technological hub in the Mezzogiorno***

ST Microelectronics, one of the largest multinational corporations in the semi-conductor industry, established a competence centre for high tech manufacturing in Catania, building on as strong co-operation with the University of Catania and with local authorities. The complex structure of the microelectronics industry has had great effects on the business area. It has attracted several international suppliers to locate subsidiaries in Sicily to supply ST (Canon, Alcatel, and Tegal), some of which are directly implemented in the ST site. Moreover, ST has contributed to local suppliers' growth and has fostered local entrepreneurship and innovation. Finally, Catania now attracts other semi-conductor competitors and high technology companies (Nokia, Omnitel) and has developed into a technology hub and a centre of high quality research. The University of Catania provides the high skilled human resources. The Sicilian local municipalities have assisted in creating a favourable economic atmosphere. Regional incentives, marketing policies of local municipalities have attracted new investment. "InvestiaCatania" supplies advise on bureaucratic procedures to foster the emergence of new business activities in the area. Today more a large number of companies supply Catania's ST site, many of which are small local businesses.

***From steel to communication: the case of Sesto San Giovanni (Milan)***

Sesto San Giovanni is a city with 85 000 inhabitants located in the metropolitan area of Milan, Once the fifth centre of Italian industry, affected by the end of a long desindustrialisation, the city started up a new tool for helping the territory to overcome the crisis after an OECD audit in 1995: a local development agency (ASNM). ASNM work focused on several dimensions including territorial marketing, strategic planning, re-use of brownfields. More recently ASNM has started to support a new productive vocation for the city, focusing on the communication convergence (ITC, telephone, TV, etc.) and launched small but functional services for the territory. The first has been PROXIMA, a tele-work and tele-service centre currently operating as a training centre for both lay citizens, workers and private companies to spread computer skills and new technologies literacy in the territory. In fewer than three years, around 10 000 people have been trained. BICONLINE is an Extranet devoted for local SMEs supplying online services and information from BIC La Fucina (a European Business Innovation Service promoted by ASNM and the European Commission), and to help them improving in B2B. The final aim is to reinforce territorial links. In the first six months, more than 200 SMEs have been involved. In March 2000 a business incubator was opened with a specific focus on Internet and multimedia start-ups. OMC (*Officina Multimediale Concordia*) used to be a cafeteria for blue-collar workers in the city's largest steel production firm, Falck. Now it is a high tech building hosting 20 new companies and an MA program in multimedia. Sesto and is now increasingly attracting hi-tech companies and starting to earn a reputation as being the communication city.

## Notes

27. There is an extensive literature on these features. See, among others, Dente (1985), Cassese (1980) and Vesperini (1999).
28. The *Cassa per il Mezzogiorno* spending represented approximately 0.75 per cent of the Italian GDP in the period 1951-1955 and reached about 0.84 per cent in the period 1961-1965.
29. In real terms, the amount grew sevenfold between 1970 and 1992, to reach 2.2 per cent of the Mezzogiorno GDP.
30. community colleges (*e.g.*, Canada and United States), technical colleges (*e.g.*, Denmark), further education colleges (*e.g.*, United Kingdom), technical and further education institutions, or TAFE (*e.g.*, Australia), and polytechnics (*e.g.*, Austria, Belgium, and New Zealand). Yet they all have one feature in common, *i.e.*, educating to the level of technical education that succeeds compulsory education but precedes the four-year baccalaureate degree (*e.g.*, certificates, diplomas, and associate degrees). In Europe there is another set of institutions that are more advanced but also operate in the nexus between university and compulsory education—*fachhochschulen* in Germany, hogeschools in the Netherlands, and regional universities (formerly polytechnics) in the United Kingdom. These regional technical colleges teach more advanced levels of education than, for example, American community colleges or Danish technical colleges, but in a much more applied fashion than classical universities. A third set of technical colleges (*e.g.* Institutes of Technology in Ireland and Finland) span the full range from one, two, and three year degrees to full four-year and master's engineering degrees.
31. These are points that Sebastiano Brusco (1989 and 1990) has regularly underlined.
32. L. 675/1977; L. 83/1989; L. 317/1991, etc.
33. There are extreme cases where many local consumers can acquire the same information by means of a low-cost duplication, and no-one may derive profit from the sales, then no-one is prepared to commit the resources necessary for its production. In this case, local productive systems of small firms are if anything handicapped by their transparency. Firms share economic relationships and the entrepreneurs themselves social relationships, so that in such a homogeneous community it is not possible to hermetically cut off others from access to the information produced or bought by any one of them. Thus, public provision of services is imposed by the dense social links, which constitute the nature of the district.
34. A study by CRESME, one of the main Italian research institutes on construction industry, shows that 76.3 per cent of all buildings built in 1971-1981 in southern Italy, are illegal as compared to 14 per cent in the north and 9.7 per cent in Central Italy. This generalisation of abusive practices results from both private and public behaviours.

- Research in the areas of Naples, Bari and Palermo has shown the role played by public policies in allowing high rates of abusive urbanisation, or the generous *ex-post* legalisation of illegal land use (or *ex-ante* through concessions to build supermarkets or private hospitals in residential services areas or through land use changes practices).
35. In the Veneto, where industrial expansion has continued since the 1970s, two regional laws in the 1980s have been responsible for such a generalised model by permitting the enlargement of productive and commercial buildings (1/1982) and allowing the urbanisation of agricultural land (24/1985). The former has generalised the permission to enlarge existing artisan or industrial buildings, and is recognised in the urban planning regional law of 1985, which has allowed extensive production of single family dwellings wherever needed and the construction of new buildings in isolated agricultural spots, with obvious multiplier effects. Local popular banks and national incentive policies have been also important in order to keep the structures of northeastern enterprises small.
  36. In Modena, between 1955 and 1984, 71 per cent of all municipal urbanised areas were supplied to small firms this way. In Toscana, territorial planning has been oriented towards the supply of collective goods for the location of firms, environmental infrastructures and so on.
  37. In these regions, municipal plans are quite common and at least two generations have been produced. Metropolitan cities like Torino, Firenze, Roma, Venezia, Napoli, Palermo completed their new regulatory plans in the 1990s. Torino recently approved the first strategic plan in Italy. Southern cities lag behind, but recently at least in some southern contexts some changes have been taking place.
  38. PRU, or urban renewal programmes; PreU, or urban recuperation programmes; and PRUSST, or urban socio-technical programmes.
  39. These changes take place in a period of general reduction (beds/1000 inhabitants have declined in Italy from 10.5 in 1975 to 8.2 in 1985 AND to 4.6 in 1997).
  40. Comparative research in Turin, Milan (in Northern Italy) and Cosenza (Southern Italy) has shown such differences. Amounts and entitlements vary greatly among the cities and different groups receive different benefit levels. Support is low and depends on municipal budget constraints in Milan, not in Turin. Comparing discretionary support and bureaucratic regulations, there is a higher degree of discretion in Milan than in Turin. Support is for a limited time (more in Milan than in Turin) and in both cities family solidarity is given primacy vs. collective solidarity, which increases selectivity for admission to welfare. Cosenza is a case apart, although not for the South, as the level of support is much lower and limited in time, discretionary support much higher and increasing with emergency situations.
  41. First monitoring shows that:
    - Implementation is lagging in southern municipalities.
    - Support networks are weak (social co-operatives, job centres, training centres) in the South.
    - Applicants account for less than 1 per cent of the local population in the north and 4 per cent in the south.
    - The number of applicants is 140 per cent to 190 per cent higher than the ISTAT estimate of poor families.
    - Job insertion programmes accompanying subsidies are weaker in the South.
    - Perverse effects: regular job holders shift to the black market to ensure subsidies; families split up to be entitled to subsidies.

42. Southern Italy received 41 per cent of total expenditure for transport infrastructures between 1970 and 1995 which decreased as of 1993 to ITL9 million per Km<sup>2</sup>, compared to ITL17 million in northern and central Italy.
43. The “Highways of the sea” project is a promising effort to shift traffic flows from road to sea. In fact both Tirrenian (from Genova to Palermo ports) and the Adriatic (from Trieste to Taranto) seas could be a fully effective alternative to congested goods transport by road.
44. Planned investments in Catania, Bari, Cagliari and Napoli airports recently announced by Italian government are welcome, however the Milano Malpensa and Roma Fiumicino trade-off remains the main open question.
45. The new General Transport Plan priorities include:
  - Main axes North-South and West-East;
  - Alpine arc and Adriatic and Tirrenian ports;
  - By-passing main cities;
  - Eastern corridor Roma-Venezia;
  - Double track Bologna-Bari-Lecce;
  - Corridors for containers;
  - New alternative directions for goods.
46. The new General Transport Plan defines 13 priorities, more or less equally distributed between north and south:
  - Napoli-Milano;
  - Roma-Venezia;
  - Asti-Cuneo;
  - Lombardia subalpine;
  - Brescia-Milano;
  - Veneto subalpine;
  - Mestre by-pass;
  - Spezzano-Sibari-Taranto;
  - SS 16 Jonian;
  - Messina-Palermo;
  - Messina-Siracura-Gela;
  - Cagliari-Sassari;
  - Salerno-Reggio Calabria;
47. For additional data see the Touring Club of Italy (2000).
48. The single European currency is a relevant case of non-territorial policies having considerable territorial effects. It lowers transaction costs and trade costs among European regions and facilitates their trade integration, and openness level (percentage of import and export over gross domestic output). This may bring about more cases of regional product specialisation than in the past. The Euro makes competitive devaluation impossible, compelling the different European regions to labour-cost levels and dynamics compatible with their own productivity levels. Should this not happen, a drop in demand for labour could lead to increased unemployment or emigration. The chance for non-territorial policies to have strong territorial outcomes depends on regional differences. Considerable differences among European regions lead to territorial asymmetries as regards the effects of the Euro.
49. See also next section on Policies for the Information Society.
50. See data Assinform (2000).

51. See data Nielsen Net Rating (2000).
52. For more data on the ICT Infrastructures, human resources, R&D and venture capitals, comparing Italy with other OECD Countries see OECD (1999), OECD (2000a), OECD (2000b), OECD (2000e), OECD (2000f) and EITO (2000). For data on regional disparities in Italy in these areas, see I-LAB (2000a), I-LAB (2000b) and AIFI (2000).
53. These issues were raised at the Ottawa OECD Ministerial Conference on e-commerce (1998). For more details see [http://www.oecd.org/subject/e\\_commerce/](http://www.oecd.org/subject/e_commerce/).
54. See for an example the web site of the Province of Siena, <http://www.comune.siena.it/indice.html>.
55. See the e-Europe Action Plan, adopted in Feira on 20 June 2000. For information on the eEurope initiative, see [http://www.europa.eu.int/comm/information\\_society/eeurope](http://www.europa.eu.int/comm/information_society/eeurope).
56. For the complete version of the two Plans, see [www.palazzochigi.it/fsi](http://www.palazzochigi.it/fsi).

## Chapter 3

# Governance

### Introduction

The Italian model of development has undergone important transformations over recent years. Local production systems, based on networks of small and medium-sized enterprises, have assumed an increasingly important role. This has had far-reaching implications on the model within which public actors manage and intervene on the local context.

Historically, Italy had a centralised institutional organisation influenced by the French model. After the unification in 1861, the advocates of a centralised model prevailed reinforced by the fear of a reactionary backlash. Local governments (municipalities and provinces) had very little autonomy and were subjected to the severe control of prefects appointed in Rome. The most important public policies – agriculture, education, urban planning and public works – were administered through decentralised departments of government ministries. This centralist framework was further reinforced during the Fascist regime. The organisation of government represented a rigid hierarchy, with three levels of government (State, provinces, cities and local boroughs) and an overall supervision by central powers.

It was only after World War II that the new 1948 Constitution allowed for the creation of regional governments through legislation. Up until the early 1970s, however, only five “special regions” (*Regioni a Statuto Speciale*) were created (Sicilia, Sardegna, Valle d’Aosta, Trentino-Alto Adige and Friuli). The introduction of the remaining “ordinary” regions required specific legislation and was delayed until 1975-77. Nonetheless, numerous contradictions persisted and characterised the structure of powers, functions, competencies and resources at different levels of government operating in the territory. While new regional governments were granted legislative powers in important fields provided by the Constitution, the inconsistency between taxing authority and spending authority seriously limited regional autonomy and accountability.

As time passed, the decline of large industry and the progressively diminishing role of State industry allowed new economic actors into play. These

enterprises were characterised by a strong bond with the territory from which they emerged: their competitive fortitude was the result of a new ability to transform territorial resources and mandates. The entire productive system conveyed an increasing demand for better management and more finely tuned regulation of local territories. The need for improved and streamlined governance structures was expressed. The severe economic and political crisis in the beginning of the 1990s accelerated the change.

The structure of territorial governance in Italy has undergone profound transformations during the last 10 years. Many of the central government's powers and functions have been conferred on regional and local authorities, the electoral system has been changed radically, and significant reforms have recast the public administration. This new allocation of functions has implied a re-distribution of resources and strengthening of the revenue-raising capacity of local governments. New instruments for governance have appeared on the political and institutional scene, linked to the development of strong institutional partnerships, both horizontal and vertical, social partnerships, and the implementation of administrative models inspired by the principles of New Public Management.

This process has not yet been completed: at both the statutory and executive levels, administrative decentralisation remains incomplete. The level of technical know-how within administrative structures must be readapted and improved; evaluation and monitoring instruments should be enhanced, particularly at regional level, and the scope for local government to develop medium to long-term planning strengthened. Regions, provinces and municipalities must learn to cope with new opportunities.

Many questions remain. How will the current political debate on institutional reform resolve itself? Will the country move towards a more "competitive" or more "co-operative" form of federalism? Can increasing sub-national autonomy be made compatible with balanced development in a country as (geographically and socially) diverse as Italy? What will be the cornerstones of the equalisation systems among regions? And what specific criteria will be adopted for its implementation? Can incentives be developed to induce sub-national governments to supply high-quality public services while respecting fiscal discipline?

## **1. Levels of government and the structures of governance**

### ***The weaknesses and contradictions of the past***

Until the beginning of the 1990s, the structure of territorial governance that prevailed in Italy was a centre-periphery model characterised by the following elements:

- The system of ordinary regions, established in the mid-1970s<sup>57</sup>, was characterised by considerable vertical imbalance; the distribution of functions did not match that of own revenue sources. Financial autonomy was modest, indeed almost negligible: in 1993, the regional share in the national tax revenue was around 7 per cent (3%, on average, in the 1980s). The system of regional finance suffered from an excessive conditionality on state transfers, which were typically not allocated according to the regions' mandates and unrelated to their revenue-raising capacity. In the centralised tax system, resources were assigned to local governments on the basis of past expenditure and of an annual bargaining process. The allocation of funds to the regions was decided on a year to year basis, creating uncertainty and making medium-term planning difficult.
- In the absence of direct responsibility to the electorate and a proportional allocation of powers, planning at regional level was forced to meander through a maze of negotiations with the central administration. The negotiation process between actors at the central and local levels was oriented principally towards redistribution targets.
- This lack of clearly defined responsibilities weakened the incentive to select and implement policies. This had a direct impact on the efficiency of public administration and on the effectiveness of interventions. Evaluation and monitoring were deficient and there was no accountability for the quality of the services delivered.
- There was no information sharing on needs and opportunities with the actors of economic development at the local level. Information between governmental and non-governmental actors, including social partners and private enterprises, was asymmetric. The relationship between government bodies bore the stamp of principal (state) - agent (local authority) subordination dominated by opportunistic behaviour.

This generated a series of inefficiencies and contradictions:

- The distinction between the sources of revenue (state) and expenditure assignments (regions) caused financial irresponsibility. Regions had few incentives to lower the level and improve the allocation of expenditures. This helped to aggravate the fiscal crisis at the national level and to undermine the system's intended redistribution properties.
- The distribution of responsibilities and incentives between levels of government was unable to promote exchange of information, accumulation of knowledge and mechanisms of co-operation among administrations. This had a negative impact on the co-ordination of territorial planning and the transparency in the use of resources.

- The hierarchical monitoring structure was a procedural puzzle that could not guarantee effectiveness in the public decision-making process. There were incentives for the local élite to pursue forms of negotiation with the central government in order to introduce “special” working procedures that were outside ordinary administrative mechanisms.

### ***The new distribution of powers and functions***

A series of structural transformations have influenced the governance framework. These can be traced to:

- External factors linked to the process of European integration: imposed constraints on national macro-economic policies and assigned a greater role to public intervention on the real economy. New policies needed to be implemented in order to increase competition and flexibility in local markets, while at the same time creating a local context capable of producing externalities and endogenously spurring regional and, thus, national growth.<sup>58</sup>
- Domestic factors associated with changes in the structure of the country’s production system: the reduced weight of large companies over the years in favour of SMEs and, more important, the increased role of network-based production organisations, deeply-rooted in the territorial context. The productive system reinforced its competitiveness due to the phenomena of clusters and inter-firm networks, and the links between territorial systems, structure of governance and organisation of production.

In the early 1990s, the political and economic conditions deteriorated sharply. In 1992, Italy had a general government deficit of 9.6 per cent of GDP; public debt, at 109 per cent of GDP, was rapidly expanding and consumer-price inflation was around 6 per cent. In September, Italy left the EMS. A recession began that continued during the 1990s. In the regions of northern Italy protests against the central government increased and the crisis in the party system deepened.

The first reform of the system of territorial governance took place in this setting. The new distribution of powers and functions, in addition to enhancing the role of municipalities and provinces, placed the region at the centre of the new institutional framework. Local governments took on a key role in the process of institutional innovation: they were at the centre of tension originated from the new structure of demand.

Reform of the institutional framework began with Act 142 of 1990 dealing with the system of local autonomies. For the first time, municipalities and provinces were given powers to adopt their own statutes and to define their organisation (organisation of offices and public services; forms of public participation and public access to information and to administrative procedures). The act also

clarified the role and functions of mountain communities and instituted metropolitan areas connected to the principal national poles of urban aggregation – Turin, Milan, Venice, Genoa, Bologna, Florence, Rome, Bari and Naples. These centres were given territorial planning and network service functions and tasks related to economic development.

The local government system was strengthened in 1993, when the direct election of the mayor and president of the province were introduced. The change emanated from the local level, which stood at the forefront of institutional change. With the new electoral system, city administration became more stable. The power, visibility and accountability of the mayoral system were reinforced, leading to greater efficiency and effectiveness of this level of government, whereas the local influence of the party system was reduced. In 2000 – through constitutional modification – the direct election of regional presidents was introduced.

The reform of local autonomy was completed between 1997-1999 when the power and role of local authorities were strengthened. The Financial Law of 1996 and Act 59 of 1997 (“*Bassanini I*”) were two significant steps towards the conferment of functions and tasks on regions and local authorities, the reform of public administration and the simplification of administrative procedures (see Box 20).

The provisions for the conferment of functions and tasks,<sup>59</sup> and the decrees deriving from them (starting from Decree 112 of 1998), significantly affected the organisation, activity and role of local administrations. The principle of vertical subsidiarity was fundamental: public activities were to be carried out by higher levels of government only where they could not be carried out by lower levels (for example, due to managerial efficiency or the impact of externalities). The aim was to pursue maximum possible devolution without introducing constitutional changes, the approval of which could mean delays. The regions and local authorities were conferred with “*all administrative functions and tasks relating to the interests and promotion of development of their respective communities, and all the administrative functions and tasks located in their territories*”. Matters of explicit national interest remained within the sphere of the State (external affairs and trade, defence, public order and safety, justice, university and scientific research, large network infrastructure and heritage).

In relation to the distribution of functions among regions and local authorities, reference was made to the “*principle of differentiation, in which functions are allocated taking into account different characteristics – associative, demographic, territorial and structural – of the local authority*”. A series of decrees enabled conferment to be expeditious in matters relating to fishing and agriculture, local public transport, retail, the labour market, economic development, production, territory, environment and infrastructure activities, social services and local regional police.<sup>60</sup>

## Box 20. Public administration reform

### *Simplification of administrative procedures and legislation*

The Italian administrative decision-making process is over-regulated, slow and inefficient, placing a burden on both citizens and businesses. In 1997, a broad programme of “delegislation”, deregulation and simplification was launched. This includes:

- “Annual simplification laws”, which identify procedures (regulated by primary law) that Government is authorised to repeal or to streamline with “delegislation” decrees, downgrading the level of regulation.
- Consolidated texts (containing primary and secondary regulation) that substitute obsolete laws and simplify regulation in specific areas.

The main achievements of this process are:

- a) More than 207 administrative procedures have been “delegislated” since 1997.
- b) 8 consolidated texts have been drafted (also on Local Governments) and 4 or them are already in force.
- c) 91 procedures have already been simplified by Government. They include one-stop-shops for new productive plants, import-export trade.

Simplification tools include:

- “Self-declaration”, which replaces 95 per cent of certification documents. It obviates the need for obtaining several certificates from various departments.
- “One-stop shop” for businesses seeking administrative approvals. A single procedure to start-up a new initiative replaces 43 previously needed authorisations.
- Notification of new activities and silent consent replace authorisations and licenses.
- A “conference of services” replaces many administrative acts.
- A central “Regulatory Simplification Unit”, a task force of experts in the Prime Minister’s office, monitors the implementation of the reform. The “*Osservatorio per la semplificazione*” is a consultative body with representatives of Ministries, Regions, Local authorities and social parties.

### *Reorganisation of central government*

The reform of central government is closely linked to the process of decentralisation. This includes:

- Merging bodies with similar missions; eliminating duplication and segmentation.
- Introducing “Agencies”: non-ministerial bodies with technical and executive tasks.
- Merging several State local offices into a single “inter-ministerial” body.
- Reorganising Prime Minister’s office in the direction of a slimmer but more flexible structure, in order to enhance its policy making and co-ordinating functions.
- Reducing the number of Ministries from 22 (in 1995) to 18 (present) and to 12 (in May 2001):

### Box 20. Public administration reform (*cont.*)

1. Ministry of Foreign Affairs.
2. Ministry of the Interior.
3. Ministry of Justice.
4. Ministry of Defence.
5. Ministry of Economy and Finance, which includes:
  - Ministry of Treasury, Budget and Economic Planning;
  - Ministry of Finance.
6. Ministry for Productive Activities, which includes:
  - Ministry of Industry, Commerce and Handicraft;
  - Ministry of Foreign Trade;
  - Ministry of Communications;
  - Prime Minister's office Tourism Department;
7. Ministry of Agriculture.
8. Ministry of Environment and Protection of the Territory, which includes:
  - Ministry of Environment;
  - (part of) Ministry of Public Works;
  - Prime Minister's office "Technical Services" Dept.
9. Ministry of Infrastructure and Transport:
  - (part of) Ministry of Public Works;
  - Ministry of Transport;
  - Prime Minister's office Dept. for Urban Areas.
10. Ministry of Labour, Health and Social Policies, which includes:
  - Ministry of Labour and Social Security;
  - Ministry for Health;
  - Prime Minister's office Dept. for Social Affairs.
11. Ministry for Education, University and Research:
  - Ministry of Education;
  - Ministry for University and Scientific Research.
12. Ministry for Cultural Heritage and Activities:
  - Ministry for Cultural Heritage and Activities;
  - Prime Minister's office Dept. for Sport;
  - Prime Minister's office Dept for Entertainment;

#### ***New personnel management systems***

The reform process began in 1993 with the adoption of a new pay determination system, new collective bargaining rules, and the reform of civil servants' status of aimed at separating politicians' responsibilities from those of administrators. The "privatisation" of civil service has implied: *i)* civil law for civil servants; and *ii)* since 1998, the competence of Civil Courts over civil service disputes (previously under the jurisdiction of Administrative courts).

### Box 20. **Public administration reform (cont.)**

The reform has involved the “contractualisation” of civil service and the introduction of “New Public Management” techniques and principles:

Employment conditions are now governed by collective contracts (at national and local level). Integrative contracts reward efficiency and effectiveness. Legislation allowing for more flexible human resources management, term contracts, training contracts, temporary employment and part time work has been extended to the public sector. A special agency, A.R.A.N, conducts wage negotiations on behalf of the government.

A new performance evaluation system has been established whereby performance is assessed in terms of efficiency and effectiveness as opposed to the formal/judicial review process of the past. A substantial part of managers’ salaries will be performance-related and all management assignments will have fixed terms of 2-7 years. Access to management will be based on public competition at the national level.

Financial resources have been poured into reforming public administration management-training institutes.

A consumer-oriented approach has been established defining standards of quality of service delivered by all government agencies at central and local level (service charters).

#### ***Reform of the budget process***

Extensive reforms were completed in 1997-98, the objective being to improve Parliament ability to monitor and control changes in the size of the budget and ensure more efficient implementation of economic policy. Spending targets are now much more clearly related to allocated resources, making the budget process more transparent.\* Under the previous system, the incremental budget allocation criterion was related to the amount effectively spent in the previous budget year – a clear incentive to pursue high spending programmes. Future spending is now decided following a cost-benefit approach, making the allocation of resources more efficient and the monitoring of public spending more effective. Most importantly, the objectives outlined in the medium-term plan are now fully reflected in the commitments contained in the corresponding budget documents, making for overall better strategic control of spending. And following clearer separation within the public administration of policy-making and administrative functions, civil servants have been given greater autonomy in managing spending, hence greater responsibility for achievement of policy targets. In June 1999, another major reform was introduced: the Finance Law that accompanies the budget can no longer include so-called “structural” (delegatory, procedural, or organisational) measures, which are to be held over to the next session of Parliament, allowing it to focus on financial issues in the end-year budget debate.

***E-government*** (See Chapter 2, section on Policies for the Information Society)

\* The old segmented spending model covered 6 000 expenditure units. The new budget includes about 1 000 basic budget units, matching objectives and responsibilities.

Source: Bassanini (2000); *OECD Economic Surveys, Italy* (OECD, 2000b).

In particular, with regard to the promotion of local development, functions related to industry were transferred to the regions whereas until then they were within the exclusive sphere of the central government. Regions were to manage incentives, while the central administration retained functions relating to the general orientation of industrial policy. However, within the sphere of State powers, at least temporarily, was left a number of important incentive instruments (for example, Law 488/92 concerning production activities; Law 46/82 relating to technological innovation, etc.) in order to guarantee suitable levels of efficiency and to promote positive externalities.

Finally, the reform of 1999 (Act 265) reorganised all laws and regulations passed in the last ten years, while reinforcing statutory and regulatory autonomy of municipalities and provinces, citizen participation, and forms of association among local authorities. Reference was also made to the principle of horizontal subsidiarity in relations between local authorities, associations, communities and businesses.

More recently, with a constitutional bill presented by the Government and approved by the Parliament in March 2001, general legislative powers have been transferred to the Regions, strengthening sovereignty of local governments.

In the 1990s, the criteria for managing of local public services were modified by the introduction of market-oriented principles. New forms of production were provided for, with the constitution of special companies, third party concessions, and the institution of mixed private-public companies. Most local utilities are now incorporated and the entire sector is undergoing a process of privatisation. The reform of local public services currently before Parliament aims to introduce greater competitiveness and transparency in procedures relating to the choice of the service suppliers.

In this context, several important issues emerge:

- Conferring functions on regions and local authorities has countered organisational problems concerning the need to guarantee uniform standards of quality in the delivery of services across territories.
- Transferring personnel and financial resources to local authorities for carrying out new powers is a difficult task. Financial resources transferred to regions and local authorities in the last three years (upon implementation of the Bassanini reform) totalled 18.6 billion EURO, while personnel transferred totalled almost 23 000 units. The reorganisation process was completed on January 1st 2001. Regions and local authorities must now distribute and use these resources.
- Reorganising public administration and improving the quality of the administrative processes require time. The effects of public administration reforms are occurring at a slow pace. The one-stop shop, conceived as the

### Box 21. Relations between State, Regions and local authorities

The new distribution of powers and functions has been accompanied by the introduction of new instruments for governance to allow the participation of Regions and local authorities in a series of national legislative choices. These include:

- the "Conference State-Regions";
- the "Conference State-Municipalities" and other local authorities (provinces and mountain communities);
- the "Unified Conference State-Regions-Municipalities" and other local authorities.

The three Conferences are held in the Prime Minister's Office and constitute a fundamental instrument of co-operation among the different levels of government.

**The Conference State-Regions** was instituted in 1988. Its functions were enhanced by Act 59 of 1997 to allow regional governments to play a key role in the process of institutional innovation, especially relating to the transfer of functions from the centre to regions and local authorities. Its composition includes the Prime Minister (or the Minister of Regional Affairs) as president of the Conference, the Presidents of Regions, and other Ministers whenever matters related to areas of their competence are discussed. The central government consults the Conference on any legislative initiative related to areas of regional interest.

Activity of the Conference State-Regions:

	Meetings	Matters discussed	Acts approved
1995	12	110	104
1996	11	130	107
1997	19	211	167
1998	26	267	201
1999	31	349	254

(of which: Institutional affairs 48;  
Environment and territory 118;  
and Health 88)

**The Conference State-Municipalities and other local authorities** was instituted in 1997. Its composition includes the Prime Minister, as President of the Conference, the Minister of the Interior, the Minister of Regional Affairs, the Minister of Treasury, the Minister of Finance, the Minister of Public Works, the Minister for Health, the President of ANCI (Association of Italian Municipalities), the President of UPI (Association of Italian Provinces) and the President of UNCEM (Association of Italian Mountain Communities), 14 Mayors and 6 Presidents of provinces.

**Box 21. Relations between State, Regions  
and local authorities (cont.)**

The Conference carries out the following functions: *i)* co-ordination of the relations between State and local authorities; and *ii)* study, information and discussion on local authorities' issues.

***The Unified Conference State-Regions-Municipalities and other local authorities*** was instituted in 1997 (Decree 281 of 1997). It is the institutional place for relations among the central government, regions and local authorities. The Unified Conference includes all the members of the two Conferences (State-Regions and State-municipalities and local authorities). It shall be consulted on any act in fields of common competence. In particular, the Unified Conference is consulted by the central government on the financial law and on the decrees concerning the allocation of personnel and financial resources to regions and local authorities.

Activity of the Unified Conference:

	Meetings	Matters discussed	Acts approved
1997	6	37	13
1998	21	105	59
1999	22	207	131

*(of which: Institutional affairs 41;  
Environment and territory 41;  
and Health 49)*

only interface between business and public administration relating to authorisation procedures (location, environment and territory), has been realised in 48 per cent of municipalities (69% of residents). The introduction of information and communication technology (ICT) in the public administration is taking place slowly, especially as concerns the training of personnel, the development of forms of interactive communication with citizens, and the organisation of modern and efficient public offices. With the full implementation of the e-government Action Plan, public administration will be able to offer to citizens both information and integrated services. The Plan includes interventions on infrastructures, procedures and training of public employees. Around 12 000 billion lira are being invested in 2000-2002. On the other hand, improvement of administrative processes can will require reinforcing the market for technical consultancy services to public administration, by evaluating the quality of service and reducing existing barriers.

- The organisation and reinforcement of evaluation and monitoring instruments remain largely incomplete. Structures have been set up to

achieve this objective through, for example, the creation of regional bodies to evaluate and monitor public investments. Above all, there is a need to modify traditional control systems, substituting the praxis based on the admissibility of expenditure with a process of evaluating performance which considers expenditure efficiency and its capacity to satisfy needs.

- A general need to strengthen local government capabilities in medium-term planning and project design remains.

## **2. The distribution of resources among different levels of government**

The allocation of resources to regions and local authorities underwent substantial change in the 1990s, with the consolidation of areas of fiscal and tax autonomy that overturned the model of local derived finance imposed by the 1971 reform (Guerrieri, 1997 and 1999; Visco, 1997).

The objectives of the reforms between 1997 and 2000 can be summarised as follows:

- To grant local authorities a degree of autonomy in their budgetary policies to allow the implementation of policy decisions concerning the quality and quantity of services supplied.
- To make effective financial responsibility for expenditure decisions taken at every level of government.

Fiscal decentralisation was implemented under the present constitution. The model is that of solidarity federalism with significant degrees of tax autonomy (having power to vary tax rates at the local level). This is an intermediate model – leaving aside significant institutional differences – somewhere between the United States model (centred on strong local tax autonomy giving states the power to levy taxes) and the German model (based on shared national tax revenues allowing little local tax autonomy).

A significant share of fiscal autonomy has been granted to regions and local authorities with the introduction of a specific, broad-based tax (tax on productive activity, IRAP, for regions; tax on real estate, ICI, for municipalities; tax on registration, IPT, for provinces). This is backed up by a surcharge on national taxes (on the personal income tax for regions and municipalities; on state tax on methane consumption and water for regions; on electricity consumption for provinces and municipalities) and shared national tax revenues (VAT and fuel excise revenues for regions; motor insurance tax for provinces) to limit management difficulties for local governments and allow greater autonomy in specifying the extent of the levy (see Table 16). Moreover, minor local taxes are maintained while provinces and municipalities have a greater regulatory power on tax management (Decree 446/97).

Table 16. **The impact of 1997-2000 Tax reforms on the local tax system\***

The system in 1996	The system in 2001 (full implementation of reforms)
<b>Ordinary regions</b>	<b>Ordinary regions</b>
<ul style="list-style-type: none"> <li>- Tax on vehicles</li> <li>- Regional surcharge on state tax on methane consumption</li> <li>- Regional surcharge on state concession for the use of public water</li> <li>- Regional taxes on concessions</li> <li>- Tax on waste</li> <li>- Regional share of the national excise on fuel</li> <li>- Regional tax for university studies</li> <li>- National Health Service contribution (CSSN)</li> </ul>	<ul style="list-style-type: none"> <li>- Regional tax on productive activity (IRAP)<sup>(a)</sup></li> <li>- Regional surcharge on the personal income tax (AddIRPEF)<sup>(b)</sup></li> <li>- Regional share of the national value added tax<sup>(c)</sup></li> <li>- Regional share of the national excise on fuel</li> <li>- Tax on vehicles</li> <li>- Regional surcharge on state tax on methane consumption</li> <li>- Regional surcharge on state concession for the use of public water</li> <li>- Regional taxes on concessions (not compulsory)</li> <li>- Tax on waste</li> <li>- Regional tax for university studies</li> <li>- Regional tax on aircraft sound emissions</li> </ul>
<b>Provinces</b>	<b>Provinces<sup>(d)</sup></b>
<ul style="list-style-type: none"> <li>- Surcharge on state tax on vehicle registration</li> <li>- Surcharge on state tax on electricity consumption</li> <li>- Provincial tax for environmental protection activities (1% surcharge on TARSU)</li> <li>- Tax on the use of public areas</li> <li>- Provincial share of the local tax on enterprise, arts and professions (ICIAP)</li> </ul>	<ul style="list-style-type: none"> <li>- Provincial tax on registration (IPT)</li> <li>- Motor insurance tax (RC-Auto)</li> <li>- Provincial surcharge on state tax on electricity consumption outside houses<sup>(e)</sup></li> <li>- Provincial surcharge on the personal income tax<sup>(f)</sup></li> <li>- Provincial tax for environmental protection activities (1% surcharge on TARSU)</li> <li>- Tax on the use of public areas</li> </ul>
<b>Municipalities</b>	<b>Municipalities</b>
<ul style="list-style-type: none"> <li>- Local tax on real estate (ICI)</li> <li>- Local tax on enterprise, arts and professions (ICIAP)</li> <li>- Local surcharge on state tax on electricity consumption</li> <li>- Tax on urban waste (TARSU)</li> <li>- Tax on the use of public areas (TOSAP)</li> <li>- Local taxes on concessions</li> <li>- Local tax on advertisement</li> </ul>	<ul style="list-style-type: none"> <li>- Local tax on real estate (ICI)</li> <li>- Local surcharge on the personal income tax<sup>(g)</sup></li> <li>- Local surcharge on electricity consumption for housing</li> <li>- Tariff on urban waste<sup>(h)</sup></li> <li>- Tax on the use of public areas (TOSAP)<sup>(i)</sup></li> <li>- Local tax on advertisement</li> </ul>

\* Decrees: 446/97; 22/97; 360/98; 448/98; 133/99; 56/2000; and Law 342/2000.

a) IRAP is a value-added tax net of amortisation. The standard tax rate is 4.25 per cent. Regions can vary this rate up to 1 percentage point (3.25%-5.25%) and diversify the rates for different categories of taxpayers and sectors. When IRAP was introduced in 1998, National Health Service contributions, ILOR (another regional tax collected by the central government), and various other minor regional taxes were abolished.

b) Regions may vary the standard tax rate up to 0.5 percentage points (Decree 56/2000 has increased the standard tax rate from 0.5% to 0.9%).

c) Decree 56/2000 abolishes all existing fiscal state transfers to ordinary regions, in particular, those covering current health expenditure. They are replaced with three new measures: the regional share of the national value added tax (with a tax rate of 25.7%); an increase in the standard tax rate of AddIRPEF; an increase in the regional share of the national excise on fuel. The National Equalisation Fund is also created, financed with part of the regional share of the national value added tax. Taking into account the difference between abolished state transfers and new local revenues, resources from this Fund are allocated to Regions as a function of their population, revenue raising capacity, need for health resources and their geographic dimension.

d) Decree 446/97 has given to local authorities (provinces and municipalities) the power to manage their own taxes with own regulations.

- e) Provinces can vary the surcharge up to 4 lire per kWh.  
 f) Earmarked for the process of decentralisation of government functions ("Bassanini measures"). The tax is still not operational.  
 g) The local surcharge on the personal income tax is as follows: a) a standard tax rate not less than 1 per cent (full implementation in 2003; earmarked for the transfer of functions in the context of the decentralisation process); a discretionary, maximum rate of 0.5 per cent, achieved with annual increases not greater than 0.2 per cent.  
 h) A transitory period (2003-2008) is foreseen.  
 i) With the strengthening of the regulatory power (Decree 446/97), municipalities may transform the TOSAP and the tax on advertisement in rents.

The reform also provides for reduced state transfers and the introduction of forms of territorial equalisation based on local authority's revenue-raising capacity and needs (Decree 56/2000 for Regions). This part of the reform bill is, however, still incomplete.

Table 17 presents the first impact of the 1997-99 reforms (Decree 56/2000, which completes the reform, will be effective as from 2001). In 2002, with the implementation of the municipal surcharge on the personal income tax, the share of local receipts, estimated at around 19 per cent of total national revenues, will be significantly higher than the current OECD average (13% in 1998).

Table 17. Tax receipts and contributions

	ITL billions		
	1996	1999	2002*
Supranational level	9 739	7 190	8 450
Central administration	446 653	530 913	545 726
Local administrations	64 960	112 159	206 232
<i>of which:</i>			
<i>Regions</i>	39 665	83 787	165 025
<i>Provinces and municipalities</i>	25 295	28 372	41 207
Contributions	286 166	270 819	301 775
<b>TOTAL</b>	<b>807 518</b>	<b>921 081</b>	<b>1 062 183</b>
	(as a percentage)		
	1996	1999	2002*
Supranational level	1.2	0.8	0.8
Central administration	55.3	57.6	51.4
Local administrations	8.0	12.2	19.4
<i>of which:</i>			
<i>Regions</i>	4.9	9.1	15.5
<i>Provinces and municipalities</i>	3.1	3.1	3.9
Contributions	35.4	29.4	28.4
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* projections

Source: Ministry of Finance, based on ISTAT data (ESA 95).

The reforms address some longstanding problems affecting local public finance. In particular, they improve the incentives for responsible budgetary management and raise the transparency of financial flows between levels of government. Different aspects could prove to be critical:

- Such progress would require leaving the regions more responsibility for policy design, while enhancing the monitoring of their respective expenditure units. Accordingly, improvements in accountability and expenditure management are a condition *sine qua non*. The effects of adapting to the domestic stability pact in the new European context will not be negligible: some European countries (Austria, Belgium and Germany) are approaching the problem of co-ordinating fiscal policy at different levels of government.<sup>61</sup>
- Given the considerable fragmentation of territorial institutions (over 8 000 municipalities and over 100 provinces) and their extreme diversity in terms of population and pro-capita resources, the pre-existing imbalance in resource distribution (state transfers originally depended to a large extent on past expenditure) risks being accentuated by the process of fiscal federalism if transparency of financial flows is not enhanced and an interregional equalisation mechanism is not clearly defined so as to reduce the impact.
- Institutional fragmentation could not be compatible with high levels of efficiency in the provision of services. Small and very small municipalities represent an important part of the Italian institutional framework (3.5% of Italian municipalities have a population exceeding 30 000 inhabitants; 58%, on the other hand, have fewer than 3 000 inhabitants and represent about 11% of Italian population). Greater regulatory power in managing their own taxes could lead to an increased cost for the citizen/tax-payer if a balance were not reached between local administration requisites for autonomy and the need to simplify procedures for the tax-payer (*e.g.*, organisation of a fiscal network; promotion of municipality associations or the syndicated operation of main public services).

### **3. New instruments for governance, institutional partnerships and administrative experimentation**

The trend towards decentralising government functions is associated with the emergence of new instruments for governance. These include the development of forms of horizontal and vertical co-operation (both formal and informal) between administrations and between public and private bodies that, referring to organisational models based on the principles of *New Public Management*, aim at guaranteeing accumulation of knowledge, co-ordination and a clear definition of responsibilities.

These phenomena are by no means disconnected. Increasing the level of administrative autonomy and institutional fragmentation also increases the need for governing structures to establish new forms of co-operation. At the same time local institutions become more aware that the production of goods and public services can benefit from economies of scale and scope and that many of the externalities produced have an impact beyond the local context.

This is not however the only cause of this phenomenon. Compared to the past, public action deals less and less with the production of elementary goods and services and more and more with complex operations involving disseminated knowledge at central and local level, specialised planning know-how, technologies and administrative capabilities. A single administration is rarely capable of managing all the resources necessary for developing a programme. It is also always less likely that the technical and legal competencies involved are under the control of one institution. In all of these cases, traditional administrative co-ordination implemented by means of sequential authorisations can give rise to sub-optimal solutions and create uncertainty about the speedy implementation of projects.<sup>62</sup>

The development of partnership-based instruments in recent years can therefore be interpreted as the administration's answer to the increasing complexity and uncertainty of public intervention and the need to find solutions:

- to promote the exchange of information and accumulation of knowledge;
- to reach a consensus on objectives and instruments;
- to generate mutual trust between actors.

A further drive towards spreading forms of institutional partnership has come from the tendency of public administrations to give an official status to the practices of negotiation and informal bargaining that characterise public decision-making processes at all levels of government.

As regards the areas of intervention, today there are disparate sectors where forms of institutional co-operation have taken on a decisive role. Infrastructure works, is a traditional sector where partnerships and co-ordination instruments (between different administrations and between administrations and the private sector) have become common practice in the implementation of highly complex public projects. In public law and order, agreements of mutual commitment between central and local governments have led to operations aimed at fighting crime in certain urban centres. In the implementation of spatial policies, new instruments of co-ordination have involved municipalities, private operators, environmental associations and citizens (*e.g.*, district contracts, PRUSST, Programmes of urban renewal; and some recent experiences of strategic planning in cities like Turin – the first city that has approved a strategic plan – Trento and La Spezia) : see Chapter 2, section on spatial policies).

Other forms of institutional co-ordination have been developed in many fields connected to local development:

- To promote large-scale investment projects in lagging areas (*e.g.*, program contract).
- To strengthen the relational and entrepreneurial framework in a particular territory (*e.g.*, territorial pact; area contract).
- To promote new forms of regulation in the environment sector.

### ***New instruments in institutional and social partnerships***

At the legislative level, the development of new partnership-based instruments is strengthened by two elements that overlap to some extent. The first is a succession of general laws that, from the second half of the 80s, have granted administrations the power to underwrite agreements on matters of public interest. These constitute, in part, the basis of Negotiated Planning<sup>63</sup> (*Programmazione Negoziata*, Act 662/96). The second is a series of sector laws which – in some contradiction to the optional character of these new forms of co-ordination – provide explicit obligations for institutional bodies to use particular forms of partnership during the policy implementation phase.

Viewed from top to bottom through the different levels of competence, and from general to particular in the range of implementation, the first instrument of co-ordination is the “*Institutional Agreement*” (*Intesa istituzionale di programma*). In the framework of the decentralisation of government functions, this is the institutional setting where the central administration and each region negotiate major public investments on a multi-year basis. With this instrument regions can direct national resources for public investment towards their priority projects. Within the framework of the Institutional Agreement, operating expenditures are effectively integrated with capital budgeting decisions relating both to special public funds for lagging areas – structural funds, national co-financing, domestic funds – and most importantly, to budget funds.

The implementation of the Institutional Agreement is carried out by several “*Framework Program Agreements*” (*Accordo di programma quadro*). This is the consensual document that the central administration and regions stipulate with local authorities and the private sector to define the intervention plan to be implemented. Among the elements necessary for stipulating the Framework Program Agreement are: the definition of initiatives and related financial resources; the identification of responsibilities and commitments; the definition of monitoring procedures and the actors to whom it is entrusted; the identification of the body with substitutive power in the case of delay or default; the definition of settlement procedures.

The “*Program Agreement*” (*Accordo di programma*) is an instrument of co-ordination and simplification of administrative procedures. It defines the mechanisms for co-operation among public administrations only, in the process of policy planning and implementation. Using this instrument the administration can rapidly conclude complex administrative procedures where the need to take into account different conflicting interests would otherwise lead to the implementation of several proceedings. The Program Agreement may also lead to variations in urban development instruments, though municipalities must ratify such decisions.

Among the instruments used in the execution phases of public intervention, particular emphasis ought to be given to the “*Conference of Services*” (*Conferenza di servizi*). Here the procedures for authorisation are accelerated, ensuring that the different competing public interests are represented by simultaneously stipulating agreements, obtaining approval and commitments from the institutional bodies involved. The decisions made with this instrument substitute for the provisions of standard procedures.

General objectives are also reached by bringing private operators to act in a manner other than that which would normally be the case. There is a strong relationship between general growth and the capacity of territories to create a responsible local context, based on the direct involvement of private entrepreneurs, associations, unions, local administrations, autonomous bodies and local interests. In this context the combination of appropriate institutional choices (municipal regulatory plans, provincial development plans, regional planning, infrastructure choices, etc.) and consistent behaviour on the part of private operators raises the potential for local development.

In Italian legislation, public-private partnerships are implemented by means of the instruments of “*Negotiated planning: territorial pacts*” (*Patti territoriali*), “*Area contracts*” (*Contratti d’area*), and “*Program contracts*” (*Contratti di programma*). These instruments aim at promoting the local context, modifying the relational system among actors (public and private), encouraging co-operation, collaboration and trust, and stimulating the joint production of public goods.

*Territorial pacts* are specifically designed to promote trust in the territory and to stimulate and co-ordinate investment by private enterprises and local administrations. This instrument aims at territorial development from the bottom-up, by means of infrastructure investments combined with incentives for companies that undertake integrated projects in the fields of industry, agro-industry, services and tourism. The maximum amount of resources that may be allocated to each Pact is 50 million EURO. No more than 30 per cent may be used on infrastructure.

The *Area contract* differs from the Pact by taking a top-down approach. This instrument is designed for circumscribed areas undergoing a phase of industrial

restructuring with significant decline in employment. A series of agreements characterise this instrument. These include: an agreement between social partners on labour flexibility and wage moderation that departs from national labour contracts; agreements among public institutions to simplify and speed-up procedures; agreements with the banking system for access to credit; legal protocols for improved public order conditions in the territory. The government guarantees financial incentives to companies in response to agreements made.

A further instrument based on public-private partnerships is the *Program contract*, by which the central administration promotes the implementation of large-scale industrial development projects in lagging areas. The instrument provides for an agreement between the central administration and private operators defining financial incentives and infrastructure intervention. Apart from large firms, consortia of SMEs (and the representatives of industrial districts) can also use this instrument. The initiatives are designed specifically for high technology sectors or sectors of growing demand.

These new partnership-based instruments have not always produced the intended result, however. Recent experience has shown how the effectiveness of their implementation is a function of the quality and commitment of the actors involved in the negotiating process, the transparency of decision-making, the effective representation and accountability of the partners involved.

In some cases partnerships cannot guarantee the accumulation of knowledge necessary to transform a simple distributive negotiation into an agreement capable of integrating interests to find new solutions. There is also the risk that partnerships give rise to collusion aimed at directing advantages to a subset of potential beneficiaries.

Recent experience demonstrates the need to define precise rules of implementation for the negotiating process which, notwithstanding some important innovations, has a close resemblance to the principles of New Public Management:

- The representativeness of partners and the transparency of negotiations.
- The clear definition of commitments, including time limits imposed for different activities.
- The implementation of a monitoring system and related sanction/premium mechanisms.
- The definition of procedures that, in the process of identifying goals, can guarantee the continuity (and recursion) necessary to ensure the assessment of performance, correction of assumptions and the clarification of targets.

***Administrative experimentation in new centre-periphery relations:  
public investment policies***

A major shift in public investment policies occurred in 1998. Innovations include the new, formal and informal, networks between government bodies and non-governmental actors involved in local development policies, coupled with the introduction of New Public Management methodologies.

The participation of local governments in public investment decisions, and their assumption of responsibility in the selection and implementation of programmes, characterise the New Planning (*Nuova Programmazione*) of capital expenditure in lagging areas (see Chapter 2). This process has its starting point in the understanding that knowledge of local needs and opportunities is a widespread resource among the various levels of government, private enterprises, citizens and social and economic associations. The New Planning of public investment is anchored in management rules, which guarantee representation and transparency in the decision-making process. This is achieved via a transparent distribution of responsibilities between the central government and local authorities, which:

- Entrusts the central government with, above all, orientation, co-ordination, promotion and diffusion of methods.
- Is characterised by a high level of subsidiarity in the action of prioritising goals, formulating and selecting projects and managing interventions. Wherever it is efficient, it strengthens the responsibility of decentralised levels of government and the scrutiny of markets.
- Strives to consolidate the network among institutions (European Commission, State, Regions and local authorities), businesses and civil society, in order to increase the exchange of information and promote accumulation of knowledge.

The definition of incentive mechanisms (sanctions and rewards) ensures the selection of priorities, the *ex-ante* evaluation of projects, their monitoring *in itinere*, and the *ex-post* evaluation of the results achieved (see Boxes 22 and 23).

The new institutional model of public investment management is strengthened by the creation of a favourable context for medium-term planning:

- The definition of a medium-term financial plan and the *ex-ante* determination of resources available to regions. This includes the identification of the overall volume of available resources for 2000-2006 (budget funds, special domestic funds for lagging areas, European structural funds and national co-financing) and full disclosure of the criteria for distributing resources between regions.

### Box 22. Experimenting with new premium-like devices in allocating public funds

In 1998, the Italian Government allocated about 1.5 billion EURO to complete public infrastructure projects in southern Italy. In order to assure the quality of public expenditure, competition among geographical areas, as well as among projects, was introduced both in the distribution of resources among regions and in project selection.

The Italian Government assigns yearly additional resources to finance infrastructure in lagging areas of southern Italy, to reduce the growth differential with the rest of the country. Resources have traditionally been allocated according to regional quotas and/or have been assigned to projects pin-pointed by the Central administration without much reference to ex-ante evaluation procedures. This inefficient process has often led to the misallocation of funds, major delays in spending or unaccomplished public works. The 1998 move represents both an attempt to select economically viable incomplete infrastructure, to complete projects and to implement a new premium-like method.

In 1998, resource allocation was based on two quotas: 70 per cent of the available funds to be pre-assigned to each region; 30 per cent to be set aside in order to finance the best projects, regardless of geographical location and applicant administration. Criteria were then established to rank projects. They were based largely on simple indicators in order to minimise controversies. Indicators favoured: mature projects, short fulfilment time, high technology, low environmental impact, assessed need for the structure services, consistency, low additional cost granting completion, priority according to the proposing administration.

Agreements among state and regional administrations were also required to finance infrastructure projects covered by the pre-assigned 70 per cent regional budget: this favoured the development of a new kind of vertical partnership among the two levels of government. This step was deemed particularly useful in setting the ground for negotiation, which soon thereafter took place on the allocation of 2000-2006 EU Structural Funds. The procedure consisted in three main steps:

1. **Census of incomplete infrastructure and pre-selection.** This first phase yielded three “intermediate” results: a) a census of incomplete infrastructure and written plans concerning them; b) a pre-selection process based on quality and priority involving regional and local administrations; which induced c) a debate within central administrations themselves concerning the priorities of intervention, in each region.
2. **Technical negotiation among central and regional administrations.** Both administrations prepared their proposal “lists”, and meetings involved a complex fine-tuning to narrow the list.
3. **Proposals, evaluation and ranking.** Proposals that passed the first screenings were summarised on fiches – of a previously agreed format – every administration presenting fiches was responsible for the information.

**Box 22. Experimenting with new premium-like devices  
in allocating public funds (cont.)**

*Evaluation*, ranking and selection were then based on previously set criteria (13 variables) and scores. In this phase, any contact between evaluators and the proposing administrations was scrupulously avoided. The selection phase took five months: from January to May 1999. By June 1999, 231 projects were selected and financed, out of 815 submitted proposals, for a total of Euro 1.3 billion. The competitive system allowed some regions to increase substantially their own pre-assigned regional budget: Sicily increased its budget by 90 per cent, while the other four regions (Abruzzo, Molise, Campania and Basilicata) increased their budget in a range from 46 to 56 per cent.

If timeliness is taken as proxy for quality, 80 per cent of all financed projects declared having executive plans ready. Similarly, 40 per cent of total financing went to projects whose expected completion was less than two years. Within three years nearly all projects will be completed. As concerns environmental objectives, 60 per cent of projects (and 40% of funding) is meant to increase the environment quality: such as filter and purification units, sewage systems and similar. The implementation process has not moved with the same speed however since final selection, partly due to delays in presenting the appropriate formal documents by the Administrations in charge of putting into effect the projects. Diagnostic monitoring was then initiated in order to track the implementation phase and identify possible correcting devices.

- The promotion of a decentralised system of evaluation and monitoring, achieved by creating regional technical evaluation units. Some regions are in the process of recruiting teams (job opportunities are advertised on main national and international newspapers and on Internet) and a competitive procedure is set up to ensure the quality of the recruitment process. For 2001, 20 millions EURO are assigned for the start-up of regional evaluation units.
- The implementation of a monitoring system for public investment, integrating projects financed with structural funds with investments funded with national resources.
- The definition of a set of quantifiable indicators to assess progress towards programme and project objectives. A supply-side econometric model for the evaluation of the impact of public investment on Southern regions' economy for the period 2000-2006.
- The starting-up in June 2000 of a central project financing unit (an “*ad hoc*” team of professionals coming from the private sector, entrusted with the mission of promoting project finance techniques in the infrastructure

**Box 23. The 2000-2006 Mezzogiorno performance reserve:  
Enhancing the quality of public spending**

The increased responsibilities allocated to regional governments with the 2000-2006 Mezzogiorno Development Plan (more than 70% of total EU structural funds are directly managed by southern Regions, see Chapter 2), highlighted the present inadequacies of both central and regional administrations and the need to guarantee the quality of projects to be financed. This led to the set up of a series of incentive devices to spur implementation of administrative reforms and pursue high quality projects, integration and concentration of resources by regional and central authorities. One of the distinguishing features of the 2000-2006 CSF for Mezzogiorno's Objective 1 areas is the provision of a significant performance reserve allocation (10% of all resources) according to two different competitive criteria. General provisions for EU Structural Funds provide for the implementation of a 4 per cent performance reserve to be allocated according to a list of indicators of effectiveness, management and financial criteria. Another 6 per cent national reserve was then added. The resulting 10 per cent reserve represents a strong incentive to upgrading the effectiveness of public administration and the quality of public spending.\* The two reserves are based on the same general principles and are complementary:

- The 4 per cent reserve targets effectiveness, management and financial planning criteria. The first criterion is captured by the capacity of administrations to achieve their final objective in terms of physical outputs. Management indicators measure the actual implementation of devices (control, monitoring and evaluation systems, capabilities of analysing the local labour market, etc.) deemed to be necessary to guarantee the sound management of the programme. As for financial indicators, they refer to the capacity of the administration to make an adequate yearly financial planning, to absorb planned financial resources and to foster the involvement of private partners in investment projects. A programme will be allocated the 4 per cent of its initial budget if, by the end of 2003, it satisfies at least 6 out of 8 indicators, the benchmark for indicators being fixed exogenously (see Annex 3).
- The 6 per cent reserve is conceived as an incentive to *a*) implement specific administrative reforms deemed to be essential to get final results and *b*) ensure quality of project in terms of integration (among several "sectoral" actions aimed at achieving a common territorial target) and concentration. As regards the first objective, indicators measure processes of modernisation in the Administration and the degree to which reforms are being implemented in some of the sectors crucial to the achievement of the Plan. The 6 per cent reserve is conceived as a more flexible device: *a*) for the criterion of institutional enhancement, each operational program has access to portions of the reserve for any single indicator satisfied by the end of 2002; as for the 4 per cent reserve, benchmarks are fixed exogenously; and *b*) for the criteria of integration and concentration, the benchmarks are fixed pegged on the average performance of all programmes; in this case, the standard is not exogenously fixed but depends upon the behaviour of all programmes. Weights are equally

**Box 23. The 2000-2006 Mezzogiorno performance reserve:  
Enhancing the quality of public spending (*cont.*)**

distributed among the three blocks of indicators (institutional enhancement, integration and concentration) and within the first block, this meaning that, for each institutional enhancement indicator whose benchmark is satisfied, a 0.2 per cent of the initial budget appropriation is allocated, while for both integration and concentration a 2 per cent can be allocated.

The incentive device governing the reserve is designed both to enhance competition among administrations\*\* in timely upgrading the P.A. and to provide equal opportunities of participation to all administrations, limiting the handicap of administrations that history, tradition and dimension make weaker than others. The latter goal is also pursued by providing diagnostic monitoring and technical assistance in the achievement of targets.\*\*\* Effective diagnostic monitoring is crucial in order to provide information (required) to readdress or modify actions undertaken in order to meet the reserve objectives. For this reason a technical group is to be appointed to monitor and assess every year the progress made by each administration against these benchmarks\*\*\*\* (see Annex 2 for more details and examples of the criteria and indicators used).

\* In taking this step the Italian authorities drew on the experience of a previous experiment (see Box 22).

\*\* Competition between programmes occurs directly only for the share of the 6 per cent reserve devoted to integration and concentration: programmes performing as or better than the average will qualify for their share of the reserve. Both for 4 per cent and 6 per cent reserve institutional enhancement criterion, competition occurs only in the second round: All programmes can be allocated their share if benchmarks are satisfied according to rules. Only if some programmes fall below the benchmarks, the redistribution of the unallocated reserve to other programmes takes place on the basis of a direct competition.

\*\*\* This guarantees the credibility of the system, where benchmarks are ambitious but affordable for any managing authority. It is therefore likely that managing authorities will concentrate their effort to satisfy as many criteria as possible and will put high pressure on their officials and on local governments to contribute to the attainment of the required benchmarks.

\*\*\*\* The assessment will be performed with the help of each administration involved. Every year, starting from 2001, each administration will provide the technical group with a report on the attainment of all indicators. The technical group will provide the National Monitoring Committee (NMC) with a technical report assessing progress and obstacles in the achievement of the reserve requirements and offer advice on how to overcome problems. The Monitoring Committee will then formulate specific recommendations to each administration. The sequence of properly collecting data, evaluating results and feeding back administrations with relevant recommendations is aimed at internalising evaluation results and allowing all administration to satisfy as many indicators as possible.

*Source:* Anselmo, I.M. & Raimondo, L. (2000).

sector) to provide legal, financial and technical assistance to local administrations.<sup>64</sup> A provision was introduced in the 2001 budget law to strengthen the role of the project-financing unit (PFU) as the “official” advisor to the Administration in connection with large PPP projects. The PFU is currently assisting local administrations in the South in the procedures for tendering 16 projects to the private sector in areas such as water and wastewater, national heritage and port infrastructure. The PFU is also trying to identify adequate contractual instruments to introduce elements of Public-Private Partnership in sectors such as education, healthcare, defence, social housing and in the construction and operation of courts and prisons.

- The promotion – even through feasibility analysis – of high quality standards in project design. In order to ensure high quality projects, in 1998 the government established a competitive procedure to select and finance 320 feasibility studies in the Mezzogiorno. The output of the studies will constitute the basis for the future projects that could be financed with the EU 2000-2006 structural funds.

The implementation of the new system of governance is difficult, particularly for those regions whose public administration is today in very bad shape. Since the economic effects of the shift cannot be immediate, credibility can be conveyed only by very strict adherence to the new methods.

## Notes

57. The first “regionalisation” (Act 281/70 implemented by Dpr. 8/1972) involved a first limited transfer of functions from the State to the Regions. The second (Act 382/75 and Dpr. 616/1977), implemented the legal framework for ordinary regions.
58. Region-specific economic shocks may become more important as European countries move closer to full integration, following the European Economic and Monetary Union (EMU). Regional specialisation in production could increase; as new pan-European markets emerge, economic disparities between regions could widen. Available evidence suggests that, unlike in the United States, in European countries migration does not play an important role in the adjustment of regions to economic shocks. As a result, pressure for more public intervention in lagging regions could rise.
59. Act 59 of 1997 (“*Bassanini one*”) and Act 127 of 1997 on the reduction of controls and restrictions on Statutes, regulations and budgets of municipalities and provinces (the so-called “*Bassanini bis*”), modified and integrated by Act 191 of 1998 (“*Bassanini ter*”) and Act 50 of 1999 (“*Bassanini quater*”).
60. Cf. Decree 143/97 on agriculture and fishing; Decree 422/97 on transport; Decree 469/97 on the employment market; Decree 114/98 on commerce; and Decree 112/98 on production, territory, environment, infrastructure and social service activities.
61. The domestic stability pact provides for the participation of regions and local authorities in reaching the objectives laid down for the general government deficit and debt as specified in the Stability and Growth Pact. See Balassone & Franco (1999).
62. See Bobbio (1999), which explains, among other things, how the drive towards institutional partnership in Italy is not only linked to the solution of co-ordination problems, but also derives from the necessity to simplify procedures.
63. Negotiated Planning is an institutional strategy to encourage and harmonise interventions of different public and private actors on the territory. Co-operation is considered a key in order to select the strategic priorities of each territory, identify the interventions and the necessary financial resources and timetables to realise them, co-ordinate the problems of various public and private actors, and monitor project implementation. As an institutional system moves towards decentralising competencies, the success or feasibility of many initiatives depends upon the commitments taken by each subject, the collaboration among public institutions and the involvement of private actors. Therefore, in many interventions, public administrations act like one party of the contract rather than the decision-maker.
64. The 2000–2003 Italian Economic and financial Planning Document affirms that “*the involvement of the private sector in financing, building and operating infrastructures and public utility services is a priority for the South of Italy and the rest of the country*”. To achieve this objective, the existing legislation enacting the EU Directives on public works was amended in 1994 and 1998 to deal specifically with project finance. Additional legislation enacted in 1999 identified three “champion” projects (two motorways: the Pedemontana-Veneta and the Salerno-Reggio Calabria; and the link between continental Italy and Sicily).

*Annex 1*  
**Tables**

Table 1. **Regional variation in GDP, 1990-95 and 1995-98**

Annual averages

Regions	1990-95 (sec79, lire 90)	1995-98 (sec95, lire 95)
Piemonte	0.79	0.91
Valle d'Aosta	1.04	-0.07
Lombardia	0.96	1.61
Trentino Alto Adige	2.09	1.76
Veneto	2.49	2.06
Friuli-Venezia Giulia	1.86	0.53
Liguria	0.38	1.37
Emilia Romagna	1.95	1.67
Toscana	1.06	1.40
Umbria	1.62	0.72
Marche	1.59	1.74
Lazio	0.90	0.76
Abruzzo	1.18	1.26
Molise	1.13	2.07
Campania	-0.08	1.36
Puglia	0.83	1.37
Basilicata	2.10	4.00
Calabria	1.43	1.22
Sicilia	0.47	2.25
Sardegna	0.87	1.95
<b>Italy</b>	<b>1.13</b>	<b>1.48</b>
<b>North-West</b>	<b>0.86</b>	<b>1.39</b>
<b>Nord-East</b>	<b>2.17</b>	<b>1.71</b>
<b>Centre</b>	<b>1.09</b>	<b>1.08</b>
<b>Mezzogiorno (South)</b>	<b>0.62</b>	<b>1.70</b>

*Source:* ISTAT.

Table 2. Non-agricultural employment, 1993-95 and 1995-99

Regions	1993	1995	1999	1993-95	1995-99
Piemonte	1 588	1 598	1 659	0.6	3.8
Valle d'Aosta	47	47	49	0.0	4.3
Lombardia	3 589	3 544	3 753	-1.3	5.9
Trentino Alto Adige	351	350	371	-0.3	6.0
Veneto	1 683	1 695	1 800	0.7	6.2
Friuli Venezia Giulia	431	438	455	1.6	3.9
Liguria	566	550	566	-2.8	2.9
Emilia Romagna	1 550	1 530	1 626	-1.3	6.3
Toscana	1 303	1 299	1 349	-0.3	3.8
Umbria	278	276	298	-0.7	8.0
Marche	509	517	554	1.6	7.2
Lazio	1 769	1 719	1 826	-2.8	6.2
Abruzzo	398	404	407	1.5	0.7
Molise	89	88	93	-1.1	5.7
Campania	1 419	1 334	1 428	-6.0	7.0
Puglia	1 018	986	1 040	-3.1	5.5
Basilicata	149	145	154	-2.7	6.2
Calabria	474	456	466	-3.8	2.2
Sicilia	1 150	1 119	1 197	-2.7	7.0
Sardegna	435	424	469	-2.5	10.6
<b>Italy</b>	<b>18 796</b>	<b>18 519</b>	<b>19 558</b>	<b>-1.5</b>	<b>5.6</b>
<b>North-West</b>	<b>5 790</b>	<b>5 739</b>	<b>6 027</b>	<b>-0.9</b>	<b>5.0</b>
<b>Nord-East</b>	<b>4 015</b>	<b>4 013</b>	<b>4 251</b>	<b>0.0</b>	<b>5.9</b>
<b>Centre</b>	<b>3 859</b>	<b>3 811</b>	<b>4 026</b>	<b>-1.2</b>	<b>5.6</b>
<b>Mezzogiorno (South)</b>	<b>5 132</b>	<b>4 956</b>	<b>5 254</b>	<b>-3.4</b>	<b>6.0</b>

Source: ISTAT.

Table 3. Annual deviation from national growth, 1990-95 and 1995-98

(%)

Regions	1990-95 deviation (%)	1995-98 deviation (%)	Difference
Sicilia	-59	52	111
Campania	-107	-8	99
Basilicata	86	170	85
Liguria	-66	-7	59
Sardegna	-23	32	55
Molise	0	40	40
Lombardia	-15	9	24
Puglia	-26	-7	19
Toscana	-6	-5	1
Piemonte	-30	-38	-9
Abruzzo	5	-15	-20
Marche	41	17	-24
Lazio	-20	-49	-28
Calabria	26	-17	-44
Emilia Romagna	73	13	-60
Trentino Alto Adige	85	19	-67
Veneto	120	39	-81
Umbria	44	-51	-95
Valle d'Aosta	-8	-105	-97
Friuli-Venezia Giulia	64	-64	-128
<b>Italy</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>North-West</b>	<b>-24</b>	<b>-6</b>	<b>18</b>
<b>North-East</b>	<b>92</b>	<b>16</b>	<b>-76</b>
<b>Centre</b>	<b>-4</b>	<b>-27</b>	<b>-23</b>
<b>Mezzogiorno (South)</b>	<b>-46</b>	<b>15</b>	<b>60</b>

Source: ISTAT.

Table 4. **Local labour market areas<sup>1</sup> (LLMAs) by employment rate, localisation and year, 1971-1996**

LLMAs	Northwest		Northeast		Centre		South	
	1971	1996	1971	1996	1971	1996	1971	1996
With high employment rate <sup>2</sup>	100	122	59	89	49	125	7	15
With medium-low employment rate	33	18	36	6	88	31	128	162
With low employment	7	0	0	0	20	1	257	215

1. Local labour market areas (LLMAs): they are defined adopting 1991 data Census on daily journeys to work. The key algorithm in this definition is relative to the notion of labour self-containment. On the one hand – the demand side – it measures the ratio of employed resident population which daily travel to work inside the local system and the quote of population employed in that local system. On the other side – the supply side – it measures the ratio between employed resident population which daily travel to work inside the local system and employed resident population which daily travel to work inside or outside that local system (for a detailed description of the definition of Italian LLMAs, see ISTAT, 1997).
2. Non-agricultural employment rate: this index is given by the ratio between total extra-agricultural employment and total population aged 15-69. For 1971, the activity rate (which includes unemployed people but not those who are seeking first jobs) was adopted. This was due to the lack of census data on employment for this year. However the unemployment ratio was very low at that time. Data on employment are based on national censuses, so that they also account for a significant ratio of irregular work. The data source of employment data is the Census for the 1971.

Source: ISTAT.

Table 5. **Indicators of territorial disparities<sup>1</sup> between LLMAs, by year and type**

	Economic disparities			Demographic disparities			
	Non agricultural employment rate	Industrial employment rate <sup>2</sup>	Territorial polarisation	Resident pop. for LLMAs	Population aged index	Education <sup>3</sup>	Members per households
1971	0.251	0.352	1.109	2.924	0.444	0.489	0.060
1996	0.291	0.434	1.142	2.848	0.471	0.409	0.098

	Housing structure disparities			Infrastructural disparities		
	Inhabitants per room	House with bathroom	House with heating	Beds in hospital per 1 000 inhabitants	Doctors per 1 000 inhabitants	Classrooms per 1 000 inhabitants aged 5-19
1971	0.199	0.372	0.854	0.411	0.342	0.193
1996	0.129	0.049	0.180	0.211	0.227	0.125

1. Disparities rate: this index is a standardised measure of the variance of a distribution and it is given by the ratio between the standard deviation and the average of a distribution.
2. Disparity is measured on the industrial employment rate: this index is given by the ration between total industrial employment and total population aged 15-69.
3. This index is a standardised measure of the variance of a distribution and it is given by the ratio between the standard deviation and the average of a distribution.

Source: ISTAT.

Table 6. **LLMAs by year and employment rate**

	High employment rate	Medium-low employment rate	Low employment rate	Total
1971	215	285	284	784
1996	351	217	216	784

Source: ISTAT.

Table 7. **Employment rates by type of LLMAs and year**

	Industrial employment rate <sup>1</sup>		Employment rate <sup>2</sup>		Female employment index <sup>3</sup>	
	1971	1996	1971	1996	1971	1996
High employment rate	27.0	21.5	49.0	50.2	252.1	161.4
Medium-low employment rate	18.5	12.4	36.7	34.6	308.0	238.1
Low employment rate	14.8	10.8	27.1	26.0	268.3	253.8
<b>ITALY</b>	<b>22.5</b>	<b>17.8</b>	<b>42.0</b>	<b>43.1</b>	<b>270.5</b>	<b>182.6</b>

1. These data includes agricultural employment.
2. Industrial employment rate: this index is given by the ration between total industrial employment and total population aged 15-69.
3. Female employment Index = males employed per 100 females employed.

Source: ISTAT.

Table 8. **Employees by sex, type of LLMAs, professional status, 1971**

Groups	Employees (%)	Self-employed Entrepreneurs (%)	Other (%)	Total (%)	Total employed persons (%)
<b>MALES: Non-agricultural groups (base 1971)</b>					
High employment rate	76.3	2.6	21.1	23.7	100.0
Medium-low employment rate	71.4	2.2	26.4	28.6	100.0
Low employment rate	67.9	1.8	30.4	32.1	100.0
Total	73.6	2.4	24.0	26.4	100.0
<b>FEMALES: Non-agricultural groups (base 1971)</b>					
High employment rate	79.9	0.7	19.4	20.1	100.0
Medium-low employment rate	68.0	0.6	31.3	32.0	100.0
Low employment rate	58.1	0.5	41.5	41.9	100.0
Total	73.7	0.6	25.6	26.3	100.0
<b>TOTAL: Non-agricultural groups (base 1971)</b>					
High employment rate	77.3	2.1	20.6	22.7	100.0
Medium-low employment rate	70.6	1.8	27.6	29.4	100.0
Low employment rate	65.2	1.4	33.4	34.8	100.0
Total	73.7	1.9	24.4	26.3	100.0

Source: ISTAT.

Table 9. Employees by sex, type of LLMA, professional status, 1996

Groups <sup>1</sup>	BCHS <sup>2</sup> (%)	BCLS <sup>3</sup> (%)	WCHS <sup>4</sup> (%)	WCLS <sup>5</sup> (%)	Total employed persons (%)
<b>MALES: Non-agricultural groups (base 1971)</b>					
High employment rate	30.9	19.5	27.8	21.8	100.0
Medium-low employment rate	29.9	21.5	23.8	24.8	100.0
Low employment rate	30.5	20.3	26.3	22.8	100.0
Total	30.5	20.3	26.3	22.8	100.0
<b>FEMALES: Non-agricultural groups (base 1971)</b>					
High employment rate	12.3	15.7	31.9	40.1	100.0
Medium-low employment rate	13.2	15.1	38.2	33.5	100.0
Low employment rate	11.9	19.4	40.1	28.6	100.0
Total	12.4	15.9	33.7	38.0	100.0
<b>TOTAL: Non-agricultural groups (base 1971)</b>					
High employment rate	23.7	18.0	29.4	28.9	100.0
Medium-low employment rate	24.9	19.6	28.1	27.4	100.0
Low employment rate	24.5	22.0	28.0	25.6	100.0
Total	24.1	18.7	29.0	28.2	100.0

1. The four items are obtained by aggregating the major groups in the International Standard Classification of Occupations (ISC0888):
2. BCHS, blue collars, high skill (Groups 6 and 7).
3. BCLS, blue collars, low skill (Groups 8 and 9).
4. WCHS, white collars, high skill (Groups 1 to 3).
5. WCLS, white collars, low skill (Groups 4 and 5).

Sources: ISTAT, estimation based on the elementary data from the *Labour force survey*; *Posas demographic survey*.

Table 10. LLMA by type, year and specialisation, 1971-1996

Employment rates	1971			1996		
	Manufacturing <sup>1</sup> (%)	Non- manufacturing <sup>2</sup> (%)	Total (%)	Manufacturing <sup>1</sup> (%)	Non- manufacturing <sup>2</sup> (%)	Total (%)
High employment	55.8	44.2	100.0	63.2	36.8	100.0
Medium-low employment	24.9	75.1	100.0	27.2	72.8	100.0
Low employment	0.4	99.6	100.0	6	94	100.0
TOTAL	24.5	75.5	100.0	37.5	62.5	100.0
Total in absolute values	192	592	784	294	490	784

1. Manufacturing LLMA: a LLMA with a LQ in manufacturing employment  $\geq 1$ .
2. Non-manufacturing LLMA: a LLMA with a LQ in manufacturing employment  $< 1$ .

Source: ISTAT.

Table 11. **LLMAs specialised in manufacturing, by type and productive specialisation<sup>1</sup>, 1971**

Employment rates	Food (%)	Light industry (%)	Mechanical industry (%)	Heavy industry (%)	Total (%)
High employment	20.8	47.5	17.5	14.2	100.0
Medium-low employment	29.6	50.7	8.5	11.3	100.0
Low employment	..	100.0	..	..	100.0
Total	24.0	49.0	14.1	13	100.0
<b>Total in absolute values</b>	<b>46</b>	<b>94</b>	<b>27</b>	<b>25</b>	<b>192</b>

1. Productive specialisation: *Food* includes: food, drink and tobacco. *Light industry* includes: textile, clothing, leather and leather goods, footwear, timber and wooden furniture, non-metallic mineral products, other manufacturing industries. *Mechanical industry* includes: mechanical engineering, office machinery and data processing equipment instrument engineering. *Heavy industry* includes: metal manufacturing, chemical, rubber and plastics, motor vehicles and transport equipment, paper and paper product, printing and publishing.

Source: ISTAT.

Table 12. **Local manufacturing systems and productive specialisation, 1996**

Employment rates	Food (%)	Light industry (%)	Mechanical industry (%)	Heavy industry (%)	Total (%)
High employment	21.2	42.8	23.4	12.6	100.0
Medium-low employment	32.2	49.2	5.1	13.6	100.0
Low employment	23.1	53.8	..	23.1	100.0
Total	23.5	44.6	18.7	13.3	100.0
<b>Total in absolute values</b>	<b>138</b>	<b>262</b>	<b>110</b>	<b>78</b>	<b>588</b>

Source: ISTAT.

Table 13. **LLMAs by services specialisation<sup>1</sup> and type**

Base 1971

	High employment (%)		Medium-low employment (%)		Low employment (%)		Total (%)	
	1971	1996	1971	1996	1971	1996	1971	1996
Business services	9.7	25.7	2.9	2.5	1.4	1.1	4.2	8.2
Consumer services	64.6	52.9	41.4	42.9	18.3	22.9	39.1	38.2
Social services	6.3	3.9	3.6	3.9	0.4	0.4	3.1	2.5
Traditional services	19.4	17.5	52.1	50.7	79.9	76.1	53.6	51.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total in absolute values	206	206	280	280	284	284	770	770

1. Services specialisation: Business services include: banking, finance, insurance, business services, research and development, wholesale distribution, commission agents, supporting services to transport. Consumer services include: hotels and catering, tourist offices, recreational services and other cultural services. Social services include: education, medical and other health services, sanitary services, compulsory social security. Traditional services include: public administration, production and distribution of electricity, gas and water, retail distribution, transport and communication.

Source: ISTAT.

Table 14. **LLMAs by transport infrastructure and level of endowment**

	High endowment (%)		Low endowment (%)	
	1986	1996	1986	1996
Roads	39.80	37.88	60.20	62.12
Rail	30.74	24.87	69.26	75.13

Source: ECOTER.

Table 15. **LLMAs by specialisation in the transport sector, type and year**

Base 1971-1997

Levels of employment in the transport sector	High employment		Medium-low employment		Low employment	
	1971	1991	1971	1991	1971	1991
Low levels	23.17	37.65	29.57	25.18	47.26	37.16
High levels	30.48	52.53	41.23	30.40	28.29	17.07

Source: ISTAT.

Table 16. Concentration of road and rail infrastructure per LLMA, type and year, 1986-1996

	High employment		Medium-low employment		Low employment	
	1986	1996	1986	1996	1986	1996
<b>ROADS</b>						
Low road infrastructure endowment	13.78	12.50	20.28	17.35	26.15	32.27
High road infrastructure endowment	13.65	19.52	16.07	10.33	10.08	8.04
<b>RAIL</b>						
Low rail infrastructure endowment	10.59	30.10	26.91	22.70	31.76	22.32
High rail infrastructure endowment	16.84	14.67	9.44	4.97	4.46	5.23

Source: ECOTER.

Table 17. LLMA's by road and rail infrastructure's endowment, type and year, 1986-1996

	High employment		Medium-low employment		Low employment	
	1986	1996	1986	1996	1986	1996
<b>ROADS</b>						
Low road infrastructure endowment	50.23	39.04	55.79	62.67	72.18	80.06
High road infrastructure endowment	49.77	60.96	44.21	37.33	27.82	19.94
<b>RAIL</b>						
Low rail infrastructure endowment	38.60	32.76	74.04	82.03	87.68	81.02
High rail infrastructure endowment	61.40	67.24	25.96	17.97	12.32	18.98

Source: ECOTER.

Table 18. LLMA's by year and employment rate in the transport sector, 1971-1991

	High (%)	Low (%)	Total (%)
1971	58.16	41.84	100.0
1991	47.83	52.17	100.0

Source: ISTAT.

Table 19. **LLMAs by employment level in the transport sector, type and year, 1971-1991**

	High employment		Medium-low employment		Low employment	
	1971	1991	1971	1991	1971	1991
Low levels of employment	9.69	19.64	12.37	13.14	19.77	19.39
High levels of employment	17.73	25.13	23.98	14.54	16.45	8.16

Source: ISTAT.

Table 20. **Indicators of health care infrastructures, by type of LLMAs and year, 1971-1996**

Employment rate	Beds in hospital per 1 000 inhabitants		Doctors per 1 000 inhabitants	
	1971	1996	1971	1996
High employment	123.8	104.3	97.0	94.2
Medium-low employment	99.0	100.3	88.7	93.0
Low employment	71.0	89.4	71.3	85.7

Source: ISTAT.

Table 21. **Indicators of educational infrastructures, by type of LLMAs and year, 1971-1996**

Employment rate	Classrooms per 1 000 inhabitants aged 5-19	
	1971	1996
High employment rate	28.5	46.9
Medium-low employment rate	30.5	47.0
Low employment rate	28.0	43.5

Source: ISTAT.

Table 22. **Users satisfaction for health care services in hospitals, by macro area, 1998**

Percentage of satisfied persons

	Medical assistance	Nurses' assistance	Food	Sanitary services
Northwest	90.0	91.0	72.3	80.2
Northeast	91.5	90.9	78.0	84.7
Centre	88.8	87.7	71.1	77.4
South	85.2	79.8	65.8	61.1
Islands	85.0	80.0	61.7	61.5
ITALY	88.4	86.5	70.5	74.0

1. Definition of territorial macro areas: The territorial classification adopted in this chapter is different from that of ISTAT (National Statistical Institute). The Northwest includes Piemonte, Liguria, Lombardia and Valle d'Aosta. The Northeast includes Friuli Venezia Giulia, Trentino Alto Adige and Veneto. The centre includes Emilia-Romagna, Toscana, Umbria and Marche. The south includes Lazio, Abruzzo, Molise, Campania, Basilicata, Puglia, Calabria, Sicily and Sardegna.

Source: ISTAT.

Table 23. **Indicators of education by type of LLMA and year, 1971-1996**

Employment rate	Ratio of graduated on resident population		Illiteracy rate	
	1971	1996	1971	1996
High employment	8.8	23.4	16.3	8.4
Medium-low employment	7.5	19.1	66.4	32.8
Low employment	5.1	14.7	114.5	49.4
ITALY	7.8	21.1	47	20.2

Source: ISTAT.

Table 24. **Indicators of housing and household structure by type of LLMA and year, 1971-1996**

Employment rate	Average dimension of households		House with bathroom (%)		House with heating (%)		Housing ownership <sup>1</sup> per 1 000 tenants		People per house	
	1971	1996	1971	1996	1971	1996	1971	1996	1971	1996
	High employment	3.0	2.7	75.7	97.4	54.7	97.2	87.2	252.6	3.3
Medium-low employment	3.1	3.1	57.6	94.2	23.7	77.2	130.0	254.4	3.8	3.1
Low employment	3.1	3.0	34.5	91.2	6.6	70.6	301.4	440.7	3.6	3.1
ITALY	3.1	2.9	64.5	95.9	38.5	89.1	114.7	268.4	3.5	2.9

1. Housing ownership: this index measures the ratio between tenants and owners. It is given by the number of owned houses every 100 houses let.

Source: ISTAT.

Table 25. Indicators of demographic structure by type of LLMA and year, 1971-1996

Employment rate	Ageing index <sup>1</sup>		Dependency index <sup>2</sup>	
	1971	1996	1971	1996
High employment	51.9	147.3	33.7	18.3
Medium-low employment	40.2	84.6	42.3	26.4
Low employment	43.2	83.6	44.1	28.2
ITALY	46.1	116.6	38.0	21.7

1. Ageing index: this index shows the relative weight of aged population, and it is given by the percentage of population aged 65 or more on population under age 15.
2. Dependency index: this index indicates the relative weight of younger population on active population. It is given by the percentage of population under 15 on population aged 15-64.

Source: ISTAT.

Table 26. Resident population density<sup>1</sup> by type of LLMA and year, 1971-1996

	High employment		Medium-low employment		Low employment		Italy	
	1971	1996	1971	1996	1971	1996+	1971	1996
Population density per km <sup>2</sup>	279.5	225.5	159.2	174.0	88.4	125.5	179.6	190.7
Average population	129 620	98 612	66 664	70 943	25 595	34 504	69 052	73 292

1. Population density: it is the resident population divided by land area.

Source: ISTAT.

Table 27. Resident population (%) by type of LLMA and year, 1971-1996

	1971	1996
High employment (%)	51.5	60.2
Medium-low employment(%)	35.1	26.8
Low employment (%)	13.4	13.0
Total (%)	100.0	100.0

Source: ISTAT.

Table 28. **LLMAs by type and urbanisation, 1996**

Urban structure <sup>1</sup>	High employment (%)	Medium-low employment (%)	Low employment (%)
Low levels of urbanisation	39.0	48.8	59.3
Medium levels of urbanisation	52.4	45.6	39.8
High levels of urbanisation	6.3	3.7	0.9
Metropolitan local systems	2.3	1.8	0.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total in absolute values</b>	<b>351</b>	<b>217</b>	<b>216</b>

1. Urban structure: the resident population in the larger municipality of the local systems is here adopted to define different types of urban local systems. Local systems where the largest municipality has less than 10 000 inhabitants are considered at a low level of urbanisation. Local systems where the largest municipalities has from 10 000 up to 89 999 inhabitants is considered at a medium level of urbanisation, from 99 000 up to 249 999 are considered at high level of urbanisation. Local systems where the largest municipality has more than 250 000 inhabitants are considered as metropolitan local systems.

Source: ISTAT.

Table 29. **Residents by type of LLMAs and urbanisation, 1996**

Urban structure	High employment (%)	Medium-low employment (%)	Low employment (%)
Low levels of urbanisation	6.7	10.0	20.8
Medium levels of urbanisation	46.0	43.6	67.2
High levels of urbanisation	15.4	13.4	12.0
Metropolitan local systems	31.9	33.0	0.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: ISTAT.

Table 30. **LLMAs by type and employment growth rate, 1971-1996**

Dynamic, stable and non-dynamic LLMAs <sup>1</sup> (base 1971)	Number	Percentage	Average group increase (1971=100)
<b>LLMAs WITH HIGH EMPLOYMENT RATE</b>			
Stable and non-dynamic LLMAs <sup>2</sup>	88	42.7	
Dynamic LLMAs <sup>3</sup>	118	57.3	
<b>Total</b>	<b>206</b>	<b>100.0</b>	<b>107.1</b>
<b>LLMAs WITH MIDDLE-LOW EMPLOYMENT RATE</b>			
Stable and non-dynamic LLMAs <sup>2</sup>	97	34.6	
Dynamic LLMAs <sup>3</sup>	183	65.4	
<b>Total</b>	<b>280</b>	<b>100.0</b>	<b>106.6</b>
<b>LLMAs WITH LOW EMPLOYMENT RATE</b>			
Stable and non-dynamic LLMAs <sup>2</sup>	151	53.1	
Dynamic LLMAs <sup>3</sup>	133	46.9	
<b>Total</b>	<b>280</b>	<b>100.0</b>	<b>103.5</b>

1. Metropolitan LLMAs are excluded.
2. Stable and non-dynamic LLMAs have a decrease or an increase of the employment rate (1971-1996) lower than the group average.
3. Dynamic LLMAs have a percentage increase of employment rate (1971-1996) higher than the group average.

Source: ISTAT.

Table 31. **Rising LLMAs<sup>1</sup> by type and specialisation**

Rising LLMAs (base 1971)	Manufacturing (%)		Non-manufacturing (%)		Total (%)	
	1971	1996	1971	1996	1971	1996
Middle-low employment rate	32.6	69.5	67.4	30.5	100.0	100.0
Low employment rate	0.1	27.1	99.9	72.9	100.0	100.0

1. Rising LLMAs are the local systems that between 1971 and 1996 moved upwards from the group of LLMAs with middle-low and low employment rates to high employment rate, and from the group with low employment rates to middle-low employment rate.

Source: ISTAT.

Table 32. **Dynamic LLMAs by type and specialisation**

Dynamic LLMAs (base 1971)	Manufacturing (%)		Non-manufacturing (%)		Total (%)	
	1971	1996	1971	1996	1971	1996
High employment rate	46.6	56.8	53.4	43.2	100.0	100.0
Middle-low employment rate	31.1	65.0	68.9	35.0	100.0	100.0
Low employment rate	0.8	23.3	99.2	76.7	100.0	100.0

Source: ISTAT.

Table 33. **Rising LLMA and industrial districts<sup>1</sup> by type**

Rising LLMA (base 1971)	Industrial districts <sup>1</sup> 1996 (%)	Districts 1996 / Manufacturing LLMA 1971 (%)	Districts 1996 / Non-manufacturing LLMA 1971 (%)
Middle-low employment rate	69	31	38
Low employment rate	14	1	13

1. Industrial district: a local manufacturing system: 1) with a share of employment in a manufacturing specialisation higher than the national average; 2) with most of manufacturing employment (more than half) in its major productive specialisation and 3) with a concentration above the national average of firms with less than 250 employees.

Source: ISTAT.

Table 34. **Dynamic LLMA and industrial districts by type**

Dynamic LLMA (base 1971)	Districts 1996 / Manufacturing LLMA 1971 (%)		Districts 1996 / Non-manufacturing LLMA 1971 (%)		Industrial districts 1996	
					%	Absolute values
High employment rate	78.9		21.1		100.0	52
Middle-low employment rate	49.3		50.7		100.0	83
Low employment rate	1.0		93.8		100.0	16

Source: ISTAT.

Table 35. **Dynamic manufacturing LLMA by type and productive specialisation**

Dynamic LLMA (base 1971)	Food (%)		Light (%)		Mechanical (%)		Heavy (%)		Total (%)		Total in absolute value	
	1971	1996	1971	1996	1971	1996	1971	1996	1971	1996	1971	1996
	High employment rate	23.6	20.9	49.1	41.8	18.2	26.9	9.1	10.4	100.0	100.0	55
Middle-low employment rate	26.3	31.1	56.1	45.4	10.5	14.3	7.0	9.2	100.0	100.0	57	119
Low employment rate	0.0	25.8	100.0	51.6	0.0	3.2	0.0	19.4	100.0	100.0	1	31

Source: ISTAT.

Table 36. **Dynamic manufacturing LLMA by type and firm-size, 1996**

Dynamic LLMA (base 1971)	Small <sup>1</sup> (%)	Medium <sup>2</sup> (%)	Large <sup>3</sup> (%)	Total (%)	Total in absolute value
High employment rate	29.9	47.8	22.4	100.0	67
Middle-low employment rate	38.7	40.3	21.0	100.0	119
Low employment rate	35.5	35.5	29.0	100.0	31

1. Small-firm LLMA with LQ of small firms (0-49 employed)  $\geq 1$ .
2. Medium-sized-firm LLMA with LQ of medium-sized firms (50-249 employed)  $\geq 1$ .
3. Large-firm LLMA with LQ of large firms ( $\geq 250$  employed)  $\geq 1$ .

Source: ISTAT.

Table 37. **Dynamic manufacturing LLMA by type and firm-size, 1971-1996**

Groups	Employees (%)		Self-employed entrepreneurs (%)		Others (%)		TOTAL (%)		Total employees (%)	
	1971	1996	1971	1996	1971	1996	1971	1996	1971	1996
<b>MALES</b>										
Medium-low employment rate	62.4	64.5	2.0	2.1	35.6	33.4	37.6	35.5	100.0	100.0
Low employment rate	59.1	66.1	1.8	2.6	39.1	31.3	40.9	33.9	100.0	100.0
Total	73.6	67.9	2.4	2.3	24.0	29.7	26.4	32.1	100.0	100.0
<b>FEMALES</b>										
Medium-low employment rate	64.8	73.3	0.5	0.9	34.6	25.8	35.2	26.7	100.0	100.0
Low employment rate	46.0	67.2	0.5	1.2	53.5	31.6	54.0	32.8	100.0	100.0
Total	73.7	76.4	0.6	1.0	25.6	22.7	26.3	23.6	100.0	100.0
<b>TOTAL</b>										
Medium-low employment rate	63.0	67.8	1.6	1.7	35.4	30.5	37.0	32.2	100.0	100.0
Low employment rate	55.6	66.5	1.5	2.1	43.0	31.4	44.4	33.5	100.0	100.0
Total	73.7	70.9	1.9	1.9	24.4	27.2	26.3	29.1	100.0	100.0

Sources: ISTAT (1971), *Population census*, 1996; ISTAT, small area estimation based on the elementary data from the *Labour force survey*; Posas, *Demographic survey*.

Table 38. **Rising, stable and declining LLMA s by type of LLMA s, self-employment and sector, 1971**

Rising, stable and declining LLMA s <sup>1</sup> (base 1971)	Self-employment in agriculture	Self-employment in industry	Self-employment in other activities
	High % <sup>2</sup>	High % <sup>2</sup>	Low % <sup>2</sup>
<b>LLMA s WITH MIDDLE-LOW EMPLOYMENT RATE</b>			
Stable and declining LLMA s	50.7	48.6	55.6
Rising LLMA s	81.9	65.2	67.4
Total	66.1	56.8	61.4
Total in absolute value	185	159	172
<b>LLMA s WITH LOW EMPLOYMENT RATE</b>			
Stable and declining LLMA s	49.0	53.7	24.0
Rising LLMA s	85.9	51.1	46.7
Total	60.9	52.8	31.3
Total in absolute value	173	150	89

1. Definition of rising, stable and declining LLMA s: *Rising LLMA s* are the local systems that between 1971 and 1996 moved upwards from the group of LLMA s with middle-low and low employment rates to high employment rate, and from the group with low employment rates to middle-low employment rate. *Stable LLMA s* did not change group in the two years considered. *Declining LLMA s* moved downwards from the group with high employment rate to the group with middle-low employment rate, and from the group with middle-low employment rate to the group with low employment rate. Here, metropolitan LLMA s are excluded.
2. High % and Low % indicate the percentage of self-employed in each category respectively higher and lower than the group average.

Source: ISTAT

Table 39. **Dynamic, stable and non-dynamic LLMA s by type of LLMA s and sector, 1971**

Dynamic, stable and non dynamic LLMA s <sup>1</sup> (base 1971)	Self-employment in agriculture	Self-employment in industry	Self-employment in other activities
	High % <sup>2</sup>	High % <sup>2</sup>	Low % <sup>2</sup>
<b>LLMA s WITH HIGH EMPLOYMENT RATE</b>			
Stable and non-dynamic LLMA s	75.0	33.0	73.9
Dynamic LLMA s	64.4	60.2	55.9
Total	68.9	48.5	63.6
Total in absolute value	142	100	131
<b>LLMA s WITH MIDDLE-LOW EMPLOYMENT RATE</b>			
Stable and non-dynamic LLMA s	43.3	40.2	53.6
Dynamic LLMA s	78.1	65.6	30.6
Total	66.1	56.8	38.6
Total in absolute value	185	159	108
<b>LLMA s WITH LOW EMPLOYMENT RATE</b>			
Stable and non-dynamic LLMA s	45.7	47.0	77.5
Dynamic LLMA s	78.0	59.0	59.0
Total	60.9	52.8	68.7
Total in absolute value	173	150	195

1. Definition of dynamic, stable and non-dynamic LLMA s: *Dynamic LLMA s* are those local systems that between 1971 and 1996 showed an increase in terms of employment rate, higher than the group average, independently of their mobility among groups. *Stable and non-dynamic LLMA s* experienced respectively an increase in the employment rate lower than the group average, or a decrease independently of their mobility among groups. Here, metropolitan LLMA s are excluded.
2. High % and Low % indicate the percentage of self-employed in each category, respectively higher and lower than the group average.

Source: ISTAT.

Table 40. **Rising, stable and declining LLMA by type of LLMA and urbanisation, 1971**

Rising, stable and declining LLMA <sup>2</sup> (base 1971)	Urbanisation of the main municipality <sup>1</sup>				Total in absolute value
	Small town <sup>3</sup> (%)	Medium town <sup>4</sup> (%)	Large town <sup>5</sup> (%)	Total (%)	
<b>LLMAs WITH MIDDLE-LOW EMPLOYMENT RATE</b>					
Stable and declining LLMA	35.2	59.2	5.6	100.0	142
Rising LLMA	48.6	48.6	2.9	100.0	138
<b>Total</b>	<b>41.8</b>	<b>53.9</b>	<b>4.3</b>	<b>100.0</b>	<b>280</b>
<b>LLMAs WITH LOW EMPLOYMENT RATE</b>					
Stable and declining LLMA	64.1	35.9	0.0	100.0	192
Rising LLMA	79.3	20.7	0.0	100.0	92
<b>Total</b>	<b>69.0</b>	<b>31.0</b>	<b>0.0</b>	<b>100.0</b>	<b>284</b>

1. The main municipality is the most populated municipality of the LLMA in 1971.
2. LLMA with population  $\geq 250\ 000$  inhabitants were excluded.
3. Small town with population  $< 10\ 000$  inhabitants.
4. Medium town with population  $\geq 10\ 000 < 99\ 999$  inhabitants.
5. Large town with population  $\geq 100\ 000$  inhabitants.

Source: ISTAT.

Table 41. **Dynamic, stable and non-dynamic LLMA by type of LLMA and urbanisation, 1971**

Dynamic, stable and non-dynamic LLMA <sup>2</sup> (base 1971)	Urbanisation of the main municipality <sup>1</sup>				Total in absolute value
	Small town <sup>3</sup> (%)	Medium town <sup>4</sup> (%)	Large town <sup>5</sup> (%)	Total (%)	
<b>LLMAs WITH HIGH EMPLOYMENT RATE</b>					
Stable and non-dynamic LLMA	29.5	64.8	5.7	100.0	88
Dynamic LLMA	37.3	51.7	11.0	100.0	118
<b>Total</b>	<b>34.0</b>	<b>57.3</b>	<b>8.7</b>	<b>100.0</b>	<b>206</b>
<b>LLMAs WITH MIDDLE-LOW EMPLOYMENT RATE</b>					
Stable and non-dynamic LLMA	30.9	59.8	9.3	100.0	97
Dynamic LLMA	47.5	50.8	1.6	100.0	183
<b>Total</b>	<b>41.8</b>	<b>53.9</b>	<b>4.3</b>	<b>100.0</b>	<b>280</b>
<b>LLMAs WITH LOW EMPLOYMENT RATE</b>					
Stable and non-dynamic LLMA	62.3	37.7	0.0	100.0	151
Dynamic LLMA	76.7	23.3	0.0	100.0	133
<b>Total</b>	<b>69.0</b>	<b>31.0</b>	<b>0.0</b>	<b>100.0</b>	<b>284</b>

1. Here, metropolitan LLMA are excluded.
2. The main municipality is the most populated municipality of the LLMA in 1971.
3. LLMA with population  $\geq 250\ 000$  inhabitants were excluded.
4. Small town with population  $< 10\ 000$  inhabitants.
5. Medium town with population  $\geq 10\ 000 < 99\ 999$  inhabitants.
6. Large town with population  $\geq 100\ 000$  inhabitants.

Source: ISTAT.

Table 42. **Rising, stable and declining LLMAs by type and education, 1971**

Rising, stable and declining LLMAs <sup>1</sup> (base 1971)	High-school and university degree		Junior high-school degree	
	Low % <sup>2</sup>	High % <sup>2</sup>	Low % <sup>2</sup>	High % <sup>2</sup>
<b>LLMAs WITH MIDDLE-LOW EMPLOYMENT RATE</b>				
Stable and declining LLMAs	75.4	24.6	74.6	25.4
Rising LLMAs	80.4	19.6	56.5	43.5
Total	72.9	22.1	65.7	34.3
Total in absolute value	218	62	184	96
<b>LLMAs WITH LOW EMPLOYMENT RATE</b>				
Stable and declining LLMAs	72.9	27.1	70.3	29.7
Rising LLMAs	68.5	31.5	30.4	69.6
Total	71.5	28.5	57.4	42.6
Total in absolute value	203	81	163	121

- Here, metropolitan LLMAs are excluded.
- High % and Low % indicate the percentage of over-6 population with High school-university and Junior high-school degrees in 1971, respectively higher and lower than the group average.

Source: ISTAT.

Table 43. **Dynamic, stable and non-dynamic LLMAs by type and education, 1971**

Dynamic, stable and non-dynamic LLMAs <sup>1</sup> (base 1971)	High-school and university degree		Junior high-school degree	
	Low % <sup>2</sup>	High % <sup>2</sup>	Low % <sup>2</sup>	High % <sup>2</sup>
<b>LLMAs WITH HIGH EMPLOYMENT RATE</b>				
Stable and non-dynamic LLMAs	75.0	25.0	55.7	44.3
Dynamic LLMAs	68.6	31.4	67.8	32.2
Total	71.4	28.6	62.6	37.4
Total in absolute value	147	59	129	77
<b>LLMAs WITH MIDDLE-LOW EMPLOYMENT RATE</b>				
Stable and non-dynamic LLMAs	67.0	33.0	73.2	26.8
Dynamic LLMAs	83.6	16.4	61.7	38.3
Total	77.9	22.1	65.7	34.3
Total in absolute value	218	62	184	96
<b>LLMAs WITH LOW EMPLOYMENT RATE</b>				
Stable and non-dynamic LLMAs	72.8	27.2	74.8	25.2
Dynamic LLMAs	69.9	30.1	37.6	62.4
Total	71.5	28.5	57.4	42.6
Total in absolute value	203	81	163	121

- Here, metropolitan LLMAs were excluded.
- High % and Low % indicate the percentage of over-6 population with High school-university and Junior high-school degrees in 1971, respectively higher and lower than the group average.

Source: ISTAT.

Table 44. **Dynamic, stable and non-dynamic LLMA's by type and education, 1970-1972**

Dynamic, stable and non-dynamic LLMA's <sup>1</sup> (base 1971)	Main party concentration	Violent crimes <sup>2</sup>	Economic crimes <sup>3</sup>	Suicides
	High % <sup>4</sup>	Low % <sup>4</sup>	Low % <sup>4</sup>	High % <sup>4</sup>
<b>LLMA's WITH HIGH EMPLOYMENT RATE</b>				
Stable and non-dynamic LLMA's	42.0	42.0	48.9	29.5
Dynamic LLMA's	63.6	36.4	30.5	50.0
Total	54.4	38.8	38.3	41.3
Total in absolute value	112	80	79	85
<b>LLMA's WITH MIDDLE-LOW EMPLOYMENT RATE</b>				
Stable and non-dynamic LLMA's	50.5	50.5	42.3	11.3
Dynamic LLMA's	57.4	28.4	31.7	57.4
Total	55.0	36.1	35.4	41.4
Total in absolute value	154	101	99	116
<b>LLMA's WITH LOW EMPLOYMENT RATE</b>				
Stable and non-dynamic LLMA's	43.7	46.4	44.4	17.9
Dynamic LLMA's	68.4	32.3	39.8	47.4
Total	55.3	39.8	42.3	31.7
Total in absolute value	157	113	120	90

1. Here, metropolitan LLMA's are excluded.

2. Violent crimes/100 inhabitants: crimes against the individual and the individual freedom (murders, slaughters, kidnapping, robbery, etc.).

3. Economic crimes/100 inhabitants: fraud, bankruptcy, issue of dishonoured cheques, forgery, etc.

4. High % and Low % indicate the percentage of violent crimes, economic crimes and suicides, between 1970 and 1972, respectively higher and lower than the group average.

Source: ISTAT.

Table 45. **Metropolitan LLMA's: employment indicators, 1971-1996**

Metropolitan LLMA's	Type by employment rate 1971-1996	Employment rate		Employment rate change (1971-96) <sup>1</sup>	Index of female employment <sup>2</sup>	
		1971	1996		1971	1996
Torino	High	53.6	51.0	95.0	256.3	163.2
Genova	High	45.4	45.9	101.2	307.4	179.1
Milano	High	55.8	53.2	95.2	217.3	154.5
Verona	High	45.5	47.3	103.9	292.7	176.6
Venezia	High	45.6	50.7	111.2	335.1	194.2
Trieste	High	47.5	45.0	94.7	249.5	152.9
Bologna	High	51.2	53.7	104.9	210.7	137.2
Firenze	High	49.1	50.7	103.2	254.5	156.8
Roma	High	46.4	46.3	100.0	290.7	177.1
Napoli	Middle-low	37.7	30.5	81.0	454.4	286.6
Bari	Middle-low	33.9	34.6	101.9	325.3	260.5
Palermo	Middle-low	36.4	31.3	86.2	472.3	241.7
Messina	Middle-low	38.9	33.7	86.6	426.2	227.2
Catania	Middle-low	36.4	31.7	87.2	485.0	262.6

1. 1971=100.

2. Index of female employment: this index shows the degree of female employment and it is given by the number of employed male every 100 employed female.

Source: ISTAT.

Table 46. **Metropolitan LLMAAs: demographic indicators**

Metropolitan LLMAAs	Size (Km <sup>2</sup> )	Resident population 1996	% Change 1971-96
Torino	975.4	1 519 286	-7.3
Genova	1 002.1	771 250	-17.1
Milano	1 130.9	2 849 207	-4.2
Verona	1 070.9	482 759	11.1
Venezia	1 195.3	605 455	-0.9
Trieste	211.8	252 680	-15.9
Bologna	1 767.4	674 949	-5.5
Firenze	2 891.4	860 204	-2.3
Roma	3 538.8	3 294 484	5.0
Napoli	757	2 456 707	13.2
Bari	3 432.7	1 150 754	16.5
Palermo	945.6	822 577	12.2
Messina	227	266 738	4.5
Catania	768.3	642 724	16.8

Source: ISTAT.

Table 47. **Metropolitan LLMAAs and demographic structure, 1971 and 1996**

Metropolitan LLMAAs	Ageing index <sup>1</sup>		Dependency index <sup>2</sup>		Average number of family members		High-school and university degree	
	1971	1996	1971	1996	1971	1996	1971	1996
Torino	45.8	113.3	30.8	16.5	2.9	2.5	9.2	24.3
Genova	82.0	203.9	25.4	13.8	2.7	2.4	11.6	28.2
Milano	44.8	112.7	30.7	16.3	2.9	2.5	11.8	29.9
Verona	44.7	110.9	34.4	18.5	3.2	2.8	8.4	24.1
Venezia	41.8	124.8	35.7	15.8	3.2	2.8	7.0	22.4
Trieste	106.9	250.1	21.9	12.8	2.6	2.2	12.9	27.3
Bologna	70.1	218.5	25.2	12.4	2.9	2.5	10.8	28.2
Firenze	77.5	174.0	26.9	15.1	3.1	2.7	9.6	25.3
Roma	35.2	98.8	35.8	18.4	3.3	2.7	15.2	33.0
Napoli	24.5	42.8	50.3	30.8	3.0	3.7	8.6	19.4
Bari	30.9	57.9	47.6	28.1	3.1	3.3	7.6	18.9
Palermo	31.6	52.8	44.6	30.0	3.1	3.2	10.2	20.0
Messina	41.2	82.4	38.5	25.8	3.2	3.5	12.9	26.2
Catania	31.6	56.9	43.6	29.3	3.1	3.3	10.2	21.8
Metropolitan	41.6	93.1	0.4	20.4	3.0	2.8	11.0	26.0
Italian Average	46.1	116.6	38.0	21.7	3.1	2.9	7.8	21.1

1. Ageing index: this index shows the relative weight of aged population, and it is given by the percentage of population aged 65 or more on population under age 15.

2. Dependency index: this index indicates the relative weight of younger population on active population. It is given by the percentage of population under 15 on population aged 15-64.

Source: ISTAT.

Table 48. **Metropolitan LLMA's and demographic structure, 1971-1996**

Metropolitan LLMA's	Change in average number of family members (1971-1996) <sup>1</sup>	Population Change 1971-1996 <sup>2</sup>
Torino	86.8	92.7
Genova	87.4	82.9
Milano	87.7	95.8
Verona	89.9	111.1
Venezia	88.1	99.1
Trieste	84.2	84.1
Bologna	84.8	94.5
Firenze	86.4	97.7
Roma	83.0	105.0
Napoli	123.4	113.2
Bari	106.6	116.5
Palermo	101.6	112.2
Messina	109.3	104.5
Catania	104.1	116.8

1. 1971=100.

Source: ISTAT.

Table 49. **Metropolitan LLMA's: location quotient by sector and year, 1971-1996**

Location quotient: Italy=1 000

Metropolitan LLMA's	1971		1996	
	Manufacturing	Services	Manufacturing	Services
Torino	1.367	0.728	1.098	1.001
Genova	0.765	1.361	0.642	1.291
Milano	1.173	0.914	0.868	1.171
Verona	1.010	1.033	0.972	1.046
Venezia	0.873	1.153	0.833	1.147
Trieste	0.659	1.430	0.586	1.361
Bologna	0.983	1.064	0.929	1.110
Firenze	0.985	1.060	0.929	1.084
Roma	0.523	1.616	0.451	1.416
Napoli	0.830	1.310	0.751	1.207
Bari	0.770	1.263	0.817	1.118
Palermo	0.586	1.552	0.504	1.401
Messina	0.448	1.651	0.470	1.360
Catania	0.616	1.433	0.606	1.255

Source: ISTAT.

Table 50. Metropolitan LLMA: location quotient by productive specialisation, 1971-1996

Location quotient: Italy=1 000

Metropolitan LLMA	Food		Light industry		Mechanical		Heavy industry	
	1971	1996	1971	1996	1971	1996	1971	1996
Torino	..	..	..	..	..	..	2 313	2 223
Genova	..	1 212	..	..	1 229	..	1 646	1 383
Milano	..	..	..	..	1 394	1 219	1 496	1 648
Verona	1 486	1 884	1 051	..	..	..	1 035	1 111
Venezia	..	..	..	1 155	..	..	1 728	1 115
Trieste	1 512	1 806	..	..	..	1 080	1 569	1 440
Bologna	1 019	..	..	..	1 439	1 495	..	..
Firenze	..	..	1 263	1 371	1 007	..	..	..
Roma	..	..	..	..	1 181	1 044	1 217	1 777
Napoli	..	..	..	..	..	..	1 202	1 495
Bari	1 789	1 504	1 137	1 312	..	..	..	..
Palermo	1 280	1 560	..	..	1 051	1 097	..	1 117
Messina	2 302	2 424	..	..	..	1 201	1 074	..
Catania	1 502	1 516	..	..	1 276	1 219	..	..

Source: ISTAT.

Table 51. Metropolitan LLMA: location quotient by services specialisation, 1971-1996

Location quotient: Italy=1 000

Metropolitan LLMA	Business		Consumer		Social		Traditional	
	1971	1996	1971	1996	1971	1996	1971	1996
Torino	1 347	..	1 912	1 018	1 253	..	1 653	..
Genova	1 515	..	1 142	..	1 113	..	1 591	1 068
Milano	1 772	..	2 156	..	1 413	..	1 641	..
Verona	1 203	..	1 233	1 006	1 171	..	1 285	..
Venezia	..	1 281	2 199	1 011	..	1 313	1 071	1 140
Trieste	1 242	1 111	2 171	..	..	..	5 231	1 095
Bologna	1 358	..	1 096	..	1 213	..	1 259	..
Firenze	1 170	1 034	1 249	..	1 097	1 119	1 234	..
Roma	1 212	1 211	1 537	1 048	1 092	1 038	1 464	1 012
Napoli	1 110	..	..	1 221	1 026	..	..	1 204
Bari	1 111	..	..	1 097	1 030	..	..	1 108
Palermo	1.167	..	..	1 207	..	..	..	1 302
Messina	..	..	..	1 236	..	..	..	1 397
Catania	1 085	..	..	1 140	..	..	..	1 161

Source: ISTAT.

Table 52. **Metropolitan LLMA's: employment in services and manufacturing, 1971-1996**

(%)

Metropolitan LLMA's	Services Business		Consumer		Social		Traditional		Total		Manufacturing		Total employment <sup>1</sup>	
	1971	1996	1971	1996	1971	1996	1971	1996	1971	1996	1971	1996	1971	1996
Torino	10.5	29.6	2.5	3.7	1.0	1.5	16.2	17.3	30.2	52.1	65.5	41.5	100.0	100.0
Genova	21.6	34.1	4.8	5.2	1.1	1.9	28.9	26.2	56.4	67.4	36.7	24.2	100.0	100.0
Milano	17.4	38.4	3.0	5.2	1.4	1.7	16.1	15.8	37.9	61.1	56.2	32.8	100.0	100.0
Verona	14.0	29.9	4.0	4.7	0.9	1.3	23.9	18.7	42.8	54.6	48.4	36.7	100.0	100.0
Venezia	11.7	24.9	7.0	8.5	1.9	1.2	27.1	25.3	47.7	59.9	41.8	31.5	100.0	100.0
Trieste	19.1	30.3	7.2	6.7	2.2	6.5	30.7	27.6	59.2	71.1	31.6	22.1	100.0	100.0
Bologna	16.2	31.8	4.2	5.7	0.9	1.3	22.9	19.1	44.2	57.9	47.1	35.1	100.0	100.0
Firenze	13.9	28.8	5.2	6.9	1.0	1.3	23.9	19.6	44.0	56.6	47.2	35.1	100.0	100.0
Roma	20.4	36.6	8.6	8.2	1.7	1.9	36.2	27.2	66.9	73.9	25.1	17.0	100.0	100.0
Napoli	15.0	29.7	4.7	4.5	0.6	0.9	33.9	27.9	54.2	63.0	39.8	28.4	100.0	100.0
Bari	15.8	28.8	4.0	4.0	0.6	0.8	31.9	24.8	52.3	58.4	36.9	30.9	100.0	100.0
Palermo	18.9	32.7	4.7	5.3	0.7	1.1	40.0	34.1	64.3	73.2	28.1	19.0	100.0	100.0
Messina	14.1	28.4	5.5	4.4	0.8	1.1	48.0	37.1	68.4	71.0	21.4	17.8	100.0	100.0
Catania	17.2	31.3	4.4	4.2	0.7	1.0	37.0	29.0	59.3	65.5	29.5	22.9	100.0	100.0

1. Total employment includes services, manufacturing, agriculture, forestry and fishing, extraction of minerals, and construction.

Source: ISTAT.

Table 53. **Per capita income by structure of families<sup>1</sup> and geographical areas**

Index: individual average income=1

Household situation	North-Centre	South	Italy
Single	1.124	0.829	1.053
One parent with under-18 children	0.734	0.449	0.629
One parent with children of age over 18	1.006	0.677	0.880
Couple without children	1.285	0.872	1.176
Couple with under-18 children	1.128	0.686	0.946
Couple with children of age over 18	1.241	0.771	1.093
Other household types with under-18	0.920	0.607	0.755
Other household types without under-18	1.257	0.781	1.122
Total	1.161	0.715	1.000

1. Correspondence scales of the UK Department of Social Security.

Source: Elaborations on the *Survey data* of Banca d'Italia, 1995.

Table 54. Employment rate by region of residence and age, 1998

Regions	Age Groups						Total
	15-19	20-24	25-29	30-39	40-49	50 and over	
Piemonte	12.0	48.5	70.7	80.6	77.1	18.4	45.2
Valle d'Aosta	20.0	57.1	70.0	85.0	82.4	20.5	50.5
Lombardia	16.3	53.0	74.8	82.7	75.9	20.1	48.7
Trentino-Alto Adige	25.5	65.6	77.3	83.9	76.2	21.9	52.3
Bolzano-Bozen	33.3	70.0	78.9	84.1	80.4	26.3	56.8
Trento	16.7	59.4	75.7	82.2	74.2	18.8	48.4
Veneto	20.1	59.4	77.8	79.0	73.2	19.9	48.6
Friuli-Venezia Giulia	13.5	50.7	71.9	80.9	76.5	18.1	45.1
Liguria	6.3	33.7	61.2	76.1	72.9	19.0	40.2
Emilia-Romagna	17.9	56.6	74.2	85.6	82.3	21.3	49.0
Toscana	12.3	46.8	64.1	77.3	77.9	20.2	44.1
Umbria	7.3	37.7	62.7	74.8	76.6	19.4	41.8
Marche	15.8	46.8	67.0	79.8	78.2	20.4	45.3
Lazio	5.5	24.2	47.5	68.3	71.0	25.7	41.8
Abruzzo	6.7	33.0	52.6	70.7	72.6	22.0	41.1
Molise	10.0	26.1	45.8	64.6	69.8	22.7	38.1
Campania	5.8	17.8	33.7	52.9	61.2	23.5	33.8
Puglia	10.3	25.4	40.2	55.5	59.2	21.0	34.7
Basilicata	4.9	21.7	39.6	57.1	63.6	21.8	35.2
Calabria	4.7	15.6	30.0	51.9	60.2	22.3	32.2
Sicily	6.4	19.3	35.6	52.9	58.0	20.0	32.2
Sardegna	6.1	23.7	40.7	60.0	62.2	22.1	36.6
North-West	14.2	50.0	72.3	81.5	75.9	19.5	46.7
North-East	19.4	58.0	75.9	82.0	77.3	20.4	48.7
Centre	9.0	34.9	56.3	73.0	74.6	22.6	43.0
South	6.9	21.0	37.1	55.2	61.0	21.7	34.2
ITALY	10.8	36.7	57.0	70.8	70.7	21.0	42.0

Source: ISTAT.

Table 55. Unemployment rate by geographical area of residence and sex, 1999

ULM <sup>1</sup>	Males				Females				Males + Females				
	15-24	25-64	15-64	Total	15-24	25-64	15-64	Total	15-24	25-64	15-64	Total	
Centre North	0-6	5.7	0.8	1.4	1.3	8.3	1.8	2.8	2.7	6.9	1.2	1.9	1.9
	6-12	2.6	0.4	0.6	0.6	4.5	1.3	1.8	1.8	3.5	0.7	1.1	1.1
	>12	6.1	1.5	2.1	2.1	9.5	3.7	4.8	4.7	7.7	2.4	3.2	3.1
	Total	15.3	2.9	4.4	4.3	23.2	7.2	9.8	9.7	19.0	4.6	6.6	6.5
Mezzogiorno	0-6	9.4	2.5	3.3	3.3	10.3	4.1	5.2	5.1	9.8	3.0	3.9	3.9
	6-12	8.2	1.4	2.2	2.2	10.8	2.8	4.1	4.1	9.2	1.9	2.9	2.8
	>12	32.5	8.8	11.6	11.4	42.9	17.5	21.6	21.5	36.7	11.6	14.9	14.8
	Total	51.0	13.0	17.5	17.3	64.5	25.0	31.5	31.3	56.6	16.9	22.2	22.0
Italy	0-6	7.2	1.4	2.0	2.0	9.0	2.6	3.4	3.4	8.0	1.9	2.6	2.5
	6-12	4.7	0.8	1.2	1.2	6.7	1.8	2.4	2.4	5.6	1.1	1.7	1.6
	>12	16.4	4.1	5.4	5.3	20.9	7.7	9.5	9.4	18.4	5.5	7.0	6.9
	Total	29.2	6.5	8.9	8.8	37.4	12.5	15.8	15.7	32.9	8.8	11.6	11.4

1. ULM: Unemployment Length in Months

Source: ISTAT.

Table 56. **LLMAs with a decrease of population aged 15-69, by urbanisation, between 1971 and 1996**

	Local system with population decrease	Local systems	%
Low levels of urbanisation	200	371	53.9
Medium levels of urbanisation	47	369	12.7
High levels of urbanisation	4	32	12.5
Metropolitan local systems	2	12	16.6
<b>Total</b>	<b>253</b>	<b>784</b>	<b>32.4</b>

Source: ISTAT.

Table 57. **LLMAs by size of firms, 1996**

	Percentages
LLMAs of small firms	36.1
LLMAs of medium-small firms	39.8
LLMAs of large firms	24.1
Total	100.0
<b>Total in absolute values</b>	<b>294.0</b>

Source: ISTAT.

Table 58. **Rise and decline of territorial disparities in transport infrastructure, 1986-1996**

Years	Road infrastructure	Rail infrastructure	Aeroportual infrastructure	Portual infrastructure
1986	0.349	0.749	1.411	2.008
1996	0.424	0.695	1.150	1.963

Source: ISTAT.

Table 59. **Dropout in primary school by macro areas, 1996-1997**

	North	Centre	South	Islands	ITALY
Percentage of drop-outs	0.13	0.17	0.27	0.28	0.2
Percentage of students who never attended lessons	0.12	0.13	0.66	0.94	0.39

Source: ISTAT.

## Annex 2

### Description of the indicators adopted

*Ageing index:* this index shows the relative weight of aged population, and it is given by the percentage of population aged 65 or more on population under age 15.

*Concentration of the main party:* this index has been calculated as Location Quotient (LQ) of the main party based on the votes for the first party in each LLMA in the political elections of 1972. If LQ values (for each group for LLMA) are  $<1$  concentration is considered *low*. If LQ values are  $\geq 1$  concentration is considered *high*. The main party is the party that has obtained most votes in each LLMA, independently of its type.

*Dependency index:* this index indicates the relative weight of younger population on active population. It is given by the percentage of population under 15 on population aged 15-64.

*Dynamic, stable and non-dynamic LLMA:* *Dynamic LLMA* are those local systems that between 1971 and 1996 showed an increase in terms of employment rate, higher than the group average, independently of their mobility among groups. *Stable and non-dynamic LLMA* experienced respectively an increase in the employment rate lower than the group average, or a decrease independently of their mobility among groups.

*Economic and territorial polarisation:* in this case the disparities index is applied to the distribution of strong and weak local systems among different territorial macro areas (Northwest, Northeast, Centre and South). Thus, in the case of a low level of disparities this index would indicate an equal distribution of strong and weak local systems among different macro areas.

*Housing ownership:* this index measures the ratio between tenants and owners. It is given by the number of owned houses every 100 houses let.

*Industrial district:* a local manufacturing system: 1) with a share of employment in a manufacturing specialisation higher than the national average; 2) with most of manufacturing employment (more than half) in its major productive specialisation and 3) with a concentration above the national average of firms with less than 250 employees.

*Local labour market areas (LLMAs):* they are defined adopting 1991 data Census on daily journeys to work. The key algorithm in this definition is relative to the notion of labour self-containment. On the one hand – the demand side – it measures the ratio of employed resident population which daily travel to work inside the local system and the quote of population employed in that local system. On the other side – the supply side – it measures the ratio between employed resident population which daily travel to work inside the local system and employed resident population which daily travel to work inside or outside that local system (for a detailed description of the definition of Italian LLMA, see ISTAT, 1997).

*Location quotient (LQ)*: this is a simple coefficient for comparing a LLMA's percentage share of a particular activity (e.g., manufacturing) with its percentage share of some basic aggregate (e.g., Italy). It therefore shows the extent to which that LLMA departs from the norm. LQ are used to provide a measure of the concentration of a particular economic activity in a particular LLMA. The higher the value of the LQ the greater the degree of concentration of the activity in question. A value of 1 000 means that the activity is represented in the LLMA in exactly the same proportion as for the nation (base area); less than 1 000 shows the activity to be under-represented in the LLMA against the norm; and over 1 000 that LLMA has more than its fair share.

*Manufacturing LLMA*: a LLMA with a LQ in manufacturing employment  $\geq 1$ .

*Non-agricultural employment rate*: this index is given by the ratio between total extra-agricultural employment and total population aged 15-69. For 1971, the activity rate (which includes unemployed people but not those who are seeking first jobs) was adopted. This was due to the lack of census data on employment for this year. However the unemployment ratio was very low at that time. Data on employment are based on national censuses, so that they also account for a significant ratio of irregular work. The data source of employment data is the Census for the 1971.

*Non-manufacturing LLMA*: a LLMA with a LQ in manufacturing employment  $< 1$ .

*Population density*: it is the resident population divided by land area.

*Productive specialisation*: *Food* includes: food, drink and tobacco. *Light industry* includes: textile, clothing, leather and leather goods, footwear, timber and wooden furniture, non-metallic mineral products, other manufacturing industries. *Mechanical industry* includes: mechanical engineering, office machinery and data processing equipment instrument engineering. *Heavy industry* includes: metal manufacturing, chemical, rubber and plastics, motor vehicles and transport equipment, paper and paper product, printing and publishing.

*Rising, stable and declining LLMA*s: *Rising LLMA*s are the local systems that between 1971 and 1996 moved upwards from the group of LLMA with middle-low and low employment rates to high employment rate, and from the group with low employment rates to middle-low employment rate. *Stable LLMA*s did not change group in the two years considered. *Declining LLMA*s moved downwards from the group with high employment rate to the group with middle-low employment rate, and from the group with middle-low employment rate to the group with low employment rate.

*Services specialisation*: Business services include: banking, finance, insurance, business services, research and development, wholesale distribution, commission agents, supporting services to transport. Consumer services include: hotels and catering, tourist offices, recreational services and other cultural services. Social services include: education, medical and other health services, sanitary services, compulsory social security. Traditional services include: public administration, production and distribution of electricity, gas and water, retail distribution, transport and communication.

*Territorial macro areas*: The territorial classification adopted in chapter 1 is different from that of ISTAT (National Statistical Institute). The Northwest includes Piemonte, Liguria, Lombardia and Valle d'Aosta. The Northeast includes Friuli Venezia Giulia, Trentino Alto Adige and Veneto. The centre includes Emilia-Romagna, Toscana, Umbria and Marche. The south includes Lazio, Abruzzo, Molise, Campania, Basilicata, Puglia, Calabria, Sicily and Sardegna.

*Polarisation* (Economic and territorial): In this case the disparities index is applied to the distribution of strong and weak local systems among different territorial macro areas. Thus, in this case a low level of the disparities index would represent an equal distribution of strong and weak local systems among different macro areas, whilst in the case of a high disparities rate the opposite would occur.

*Urban structure*: the resident population in the larger municipality of the local systems is here adopted to define different types of urban local systems. Local systems where the largest municipality has less than 10 000 inhabitants are considered at a low level of urbanisation. Local systems where the largest municipalities has from 10 000 up to 89 999 inhabitants is considered at a medium level of urbanisation, from 99 000 up to 249 999 are considered at high level of urbanisation. Local systems where the largest municipality has more than 250 000 inhabitants are considered as metropolitan local systems.

*Annex 3*

**The 2000-2006 performance reserve**

**A few examples of criteria and indicators\***

Among the indicators of the 4 per cent reserve, three can be looked at in more detail: project selection, public-private partnership and the analysis of labour market.

- The quality of project selection is enhanced by targeting whether projects were selected on the basis of adequate feasibility studies and on criteria favouring environmental sustainability and equal opportunities in a selected number of sectors. In order to recognise the programme with a target achievement, feasibility studies must include all the features pinpointed by a Government decree (30/06/1999, Delibera Cipe No. 106), the first regulatory measure attributing a relevant role to the quality of this phase in the project cycle. All feasibility studies are to be scrutinised to verify compliance. As for environmental and gender requirements, benchmarks are set sufficiently high to call for thorough project preparation and to favour the selection of projects on the basis of these requirements.
- Design and implementation of public-private partnership schemes to finance infrastructure, including pure project finance, are also targeted. Italian laws and regulations provide a verifiable list of requirements of public-private partnership; a minimum level of private contribution is also set, taking into account the associated risk structure. In this case, the improvement of public investment quality is expected to be generated by attracting and positively exploiting the knowledge and experience matured in the private sector working in infrastructure construction and management. Public-private partnership schemes are seen as a way to capture such knowledge of private sector contribution in addition to the capability of properly screening financially viable projects.
- The performance system also rewards those administrations that establish the capabilities (both in terms of human resources and analytical functions) to analyse and understand the local and regional labour markets. Managing authorities are required to set up a system for assessing the most significant aspects of the labour market and the employment effects of investments financed under structural funds. The indicator will be satisfied if the assessment is carried out according to agreed guidelines that pinpoint specific aspects of the local labour market such as informal employment, gender participation, types of contracts. Moreover, the indicator requires a proper system of information diffusion to be established.

The 6 per cent performance reserve mechanism rewards a selected number of administrative steps that will ensure the transition from the former normative-hierarchical approach to a performance-oriented one where officials have greater responsibilities and perform well-defined targets to which their contracts are linked. One example is the reward for implementing an internal management control system for which each administration (both central and regional) is requested to have *a)* designed and approved a project to set up the internal management control system (according to the principles stated by a recent normative source, dgl's 286/99) where procedures for objective definition, budgeting, reporting and management responsibilities are defined; *b)* appointed managers and started-up a unit within each centre of first-degree administrative responsibility; *c)* provided training to officials and managers and *d)* the system has produced at least its first quarterly report. Each administration will have to provide evidence of the implementation of each requirement taking the responsibility of the accuracy of the information provided. Control checks and interviews will accompany the monitoring and evaluation process.

Improving the quality of public investment is not the only requisite for increasing the competitiveness of southern regions. Increasing the competitiveness of public services and enhancing market competition are among those policies. In this context, the performance reserve rewards the implementation of reforms that set the conditions to increase efficiency and spur competitiveness in public service provision such as in water and solid waste services. These are services on which a large share of structural funds is concentrated. The indicators measure one particular step in the reform process: the award of the concession. Each region, after having redefined the optimal territorial size for service delivery, must choose a provider either through a bidding process or by selecting the most qualified provider among the existing ones in the area. Since both sectors are characterised by fragmented service supply performed at sub-optimal levels and often directly managed by municipalities, the degree of implementation of the reform (*i.e.*, having defined local market boundaries to maximise efficiency returns) and the capacity of local public administration to outsource some of its previous functions or privatise them is expected to ensure a better service.

The integration indicator is based on the assumption that when resources are limited, only a restricted number of objectives can be achieved and that, for each objective to be reached, all pertinent interventions must be implemented according to a logical and temporal integration path. Economies of scope can then be enhanced by providing for a higher return from those interventions. The logical and temporal integration of such public and private actions must respect a set of minimum requirements concerning the appropriateness of the proposal *vis-à-vis* its developmental objective, its internal coherence, the reliability and cost-effectiveness of its organisational and managerial patterns (different administrative competencies are involved, funds come from different sources and may have different eligibility rules, single funds are administered by different offices for which a co-ordination rule need to be established), its capacity to produce higher benefits as compared to the sum of the benefits produced by each single action. Each regional authority will check the satisfaction of such requirements, which have been fine-tuned through a participatory process among administrations. For the purposes of the reserve allocation, a national evaluation will be carried out on the internal coherence and cost-effectiveness of the organisational and management aspects of the proposals to allow for project comparisons. Each regional authority has the choice to submit for evaluation as many proposal as deemed necessary. The benchmarks will be pegged to the average of the actual implementation of integrated projects measured across programs.

*How to ensure the quality of the intermediate targets*

These few examples show the extent to which the satisfaction of a single reserve indicator contributes to the improved quality of public spending. In this respect, reserve indicators represent intermediate objectives, conditions considered necessary for attaining the final objective of upgrading the effectiveness of public administration action and the quality of public spending. To be effective, the reward system has been focused on indicators that could be affected by the administration managing the programme, either directly or by stimulating local government through reverse mechanisms.

Indicators and benchmarks were fixed by reference to measurable entities. Indicators related to effectiveness and financial criteria in the 4 per cent reserve and to integration and concentration in the 6 per cent reserve are calculated on data obtained from the general monitoring system. For indicators related to institutional enhancement in 6 per cent and management in 4 per cent, benchmarks were fixed with reference to the accomplishment of some requirements. For some of them, it was decided to set guidelines to give stricter qualitative requisites to the requirements to be satisfied. For other indicators, it was decided to be less specific in defining requirements (services provided by the internal management unit or the quality and specificity of its training program) since they have to adapt to the specific needs of each region. They will differ and the knowledge necessary to shape them can only arise locally during implementation. This explains why, in some cases, targets are expressed in a rather general form. On the other hand generality presents the risk that intermediate targets do not necessarily lead to final results, *i.e.*, the procedural requirement (awarding the concession) could be satisfied without truly enhancing administrative effectiveness (services deemed very relevant by the local business community or by would-be investors are not provided, etc.). To avoid this risk, for those intermediate targets expressed in terms of procedural requirements, technical assistance and diagnostic monitoring to regional and central administrations are set or are being set to carry on their specific administrative reforms.

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