



**PERSISTENT REGIONAL GAPS AND THE ROLE OF SOCIAL CAPITAL:  
HINTS FROM THE ITALIAN MEZZOGIORNO'S CASE**

**Francesco Pigliaru**

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CRENOS – CAGLIARI  
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TEL. +39-070-6756406; FAX +39-070- 6756402

CRENOS - SASSARI  
VIA TORRE TONDA 34, I-07100 SASSARI, ITALIA  
TEL. +39-079-2017301; FAX +39-079-2017312

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# Persistent regional gaps and the role of social capital: Hints from the Italian Mezzogiorno's case <sup>1</sup>

Francesco Pigliaru

*Università di Cagliari and CRENoS*

pigliaru@unica.it

## Abstract

In this article I maintain that until the mid Seventies the regions of the Italian Mezzogiorno have followed a well-known path of divergence and convergence – a pattern in common with many other similar cases. The main characteristic of the Mezzogiorno's case, however, is that the convergence phase has led the area to a remarkably unfavourable steady-state. Further, I suggest that the disappointing results obtained in the area by several and richly financed public policies – and the high persistence of the unfavourable steady-state – are partly due to the lower-quality institutions in the southern regions. In the second part of the article I discuss recent contributions that associate this failure of local institutions to the scarcity of social capital, and that explain the persistence of this scarcity assuming the existence of mechanisms of intergenerational transmission of values and norms that change very slowly in time. Finally, in the final part I discuss briefly the role of economic policy in the presence of mechanisms of this nature.

**Key Words:** Convergence, Institutions and Economic Growth, Social Capital

**JEL Classification:** O4, H7, R5, Z1

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<sup>1</sup> In writing this article I benefitted from from several discussions on the Mezzogiorno's case I had with Fabrizio Barca, Luigi Cannari, Maria Rosaria Carillo, Adriana Di Liberto, Raffaele Paci, Guido Pellegrini and Fabiano Schivardi. Special thanks to Anna Giunta for the frequent and for me very useful conversations about the causes of the Mezzogiorno gap and the policies adopted so far. Finally, I thank Massimo Carboni of CRENoS for excellent research assistance. The research leading to this article has received funding from the European Community's Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 216813.

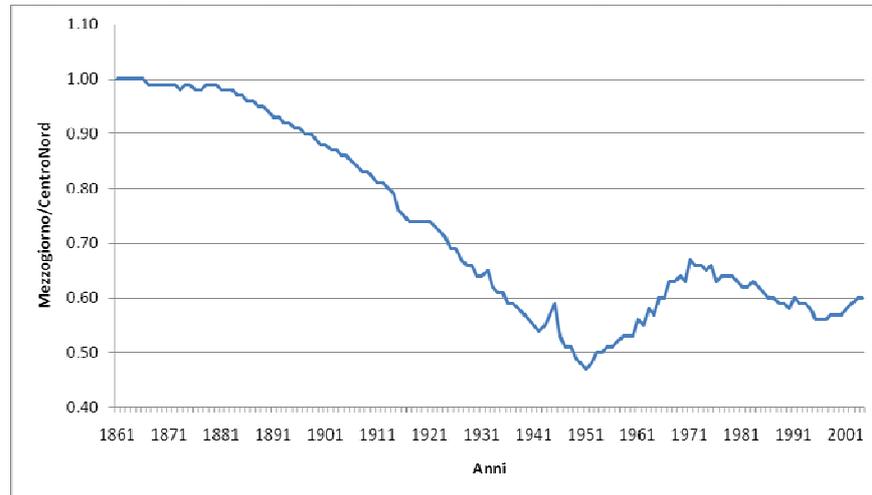
### **1. Theories, facts, questions**

To put the economic issue of the Mezzogiorno in a more general framework, it is convenient to start from the famous prediction of an economist who has done much to revive the theory of growth. Lucas argues, in an article about what will happen in the 21st century (Lucas, 2000), that before the Industrial Revolution, differences in per capita GDP between countries were very limited, everybody was equally poor. The industrial revolution upsets this scenario because it creates a technological opportunity that, for many, not always well understood reasons, some can take before than others. Thus a phase of divergence begins: some countries grow rapidly, others remain stationary. However, given the technological nature of this growth, and given the strong positive externalities associated with technology, divergence is not a long-term fate. Indeed, it is the prerequisite for convergence, with the latter being the state towards which the whole system moves. In the end the backward economies catch up with the early starters, and the measures of inequality goes back to zero after having formed a classic inverted U-curve.

A similar idea - the one that market forces are sufficient to generate absolute convergence - also appears in other articles at the center of the revival of the theory of growth of the 80s and 90s of the last century. For instance, after analyzing the period 1950-1985 Barro and Sala-i-Martin conclude that "there is nothing surprising in the relative performances of the regions of northern and southern Italy. The south of Italy has not yet caught up because it started far behind the north, and the rate of convergence is only about 2 percent a year (Barro and Sala-i-Martin, 1991, p. 151).

It is difficult not to think of these predictions while inspecting Figure 1, due to Daniele and Malanima, which describes the Mezzogiorno's gap in gross domestic product per capita between 1861 and 2004 (Daniele and Malanima, 2007, p. 289).

**Fig. 1.** Mezzogiorno's per capita GDP, 1860-2004 (center-north=1).



*Source:* Daniele and Malanima (2007)

The beginning of the long line represented in Figure 1 is perfectly consistent with the Lucas story: uniformity in the pre-industrial poverty. Even large parts of the subsequent path retrace the steps defined by Lucas: a long divergence phase, which enlarges the gap between those who were able to create the manufacturing and those who did not. This long period of divergence ends in 1951, when the GDP per capita in the south is only 47% of that of the rest of Italy.

In 1951 starts a major process of convergence – here too, in line with the model of Lucas. The positive phase continues until the first half of the 70s, when the indicator reaches 66-67%, with a gain of about one percentage point per year.

As is evident from the graph, here the Lucas's story stops and the dynamics of the economic relationship between the south and the rest of the country enters its peculiar path, one in which the gap does not decline constantly (as Lucas predicts) but instead stays roughly constant around 60% -- a rather uncomfortable level.

The chart in Figure 1 also explains the misplaced optimism of Barro and Sala-i-Martin. Their analysis focuses on 1950-1985, the only phase dominated by strong convergence. Projected into the future, that phase provided a positive scenario that was never realized.

What is the reason for this persistent break in the process of convergence? Is it an accident or is the signal of a persistent mechanism?

that makes it difficult for the Mezzogiorno to overcome a gap of 40 percentage points? Are there similar cases in other countries? And if the gap is persistent, what are the determinants of this persistence? To these questions are dedicated the pages that follow.

## **2. Steady state**

Anyone who has been exposed to the debate on the theory of economic growth of the past two decades, in the graph of Daniele and Malanima sees a familiar story: the story of conditional convergence. Convergence, therefore, but with a limit value in which a large gap can emerge.

The south is really in such a negative steady-state? A clear answer is not easy: what can be done is to use the data we have to assess this possibility.

In our case, the main hint comes from the observation of what has happened elsewhere. This piece of evidence is provided by Temple (2001), who identifies the period 1950-1973 as the "Golden Age" of Europe. Those are years in which Europe as a whole grew at rates never achieved in the following decades. For Temple, this was made possible by a deep structural change that has led, in those years, many workers of an often poor agriculture towards higher productivity sectors. Once the physiological dimension of the agricultural sector is reached, maintains Temple, "the TFP bonus of structural change" has effectively exhausted its potential and this has resulted in overall reduction of growth rates.

Convergence is clearly part of this story: the poorest economies are those where more labor is allocated in a sector characterized by low productivity and therefore have greater opportunities to exploit the "TFP bonus" and to grow faster in the transition to the steady state. In terms of countries, this is evident in the data of Temple: the European nations in which the size of the agricultural sector was larger in 1950 (primarily Italy) have increased particularly fast in the next two decades, converging in this way towards the European average in productivity. Temple does not explicitly analyze the regional dimension of this phenomenon, but the evidence that a similar mechanism has also worked within countries does exist and is a robust one (for Italy, Paci and Pigliaru, 1999; similar evidence also exists for US: Caselli and Coleman, 2001).

Therefore, the convergence of the Mezzogiorno between 1950 and 1975 coincides with the action of a mechanism which covered much of Europe and which benefits the poorest areas more than proportionally.

Exhausted this "agricultural bonus", there seems to emerge a steady-state such as the one suggested above. The characteristics of the latter are analysed in the next paragraph.

### **3. Size and the persistence of the gap**

To obtain a better description of the size and the persistence of the gap, it is useful to use the most updated data available and, above all, to compare the Italian situation with that of other countries with similar problems. Recent Istat data add three years (2005-2007) to those shown in Figure 1. The most recent years do not change the scenario: in 2006-2007 the area has a gap from the rest of the country of around 41 percentage points, an improvement of about 10 points on the minimum level reached in the early 50's, and a decline of about 10 points on the best result achieved in the second half of the 70s, at the end of the "golden age" of convergence.

Can we really speak of a significant and persistent gap? If important and persistent means something that is rarely observed in terms of size and duration, the answer is yes. This point is shown very effectively in a recent work Iuzzolino (2009). Analyzing the data of 147 regions in 14 countries between 1955 and 2005, Iuzzolino shows the uniqueness of the Italian case: in 1955 in six countries out of 14 a share of the population above 2% was living in regions with a per capita GDP equal or less than 65% of the national average. Among these six nations, Italy has the most negative value, 25.5%, followed by Spain with 11, 7%. Fifty years later, only one nation, Italy, has regions (and the corresponding population) below that threshold. Not only that: the proportion of the population included in the subset >65% increased compared to 1955: it now amounts to 28.8%.

By changing the threshold of reference, the scenario does not change. The Italian case is unique for the magnitude of the gap between the poorest areas and the rest of the country, for the size of the population living in regions with a large gap, for the persistence in time of the gap and of the high percentage of the population involved.

Further information can be obtained from a direct comparison between the pattern of regional differences in the two European countries most affected by the phenomenon, Italy and Spain. According to Eurostat (2009) data, while the Italian gap oscillates around 60% between 1995 and 2006, the Spanish one is within the 72-75% range: if the Spanish gap is also a steady-state, is a very different one.

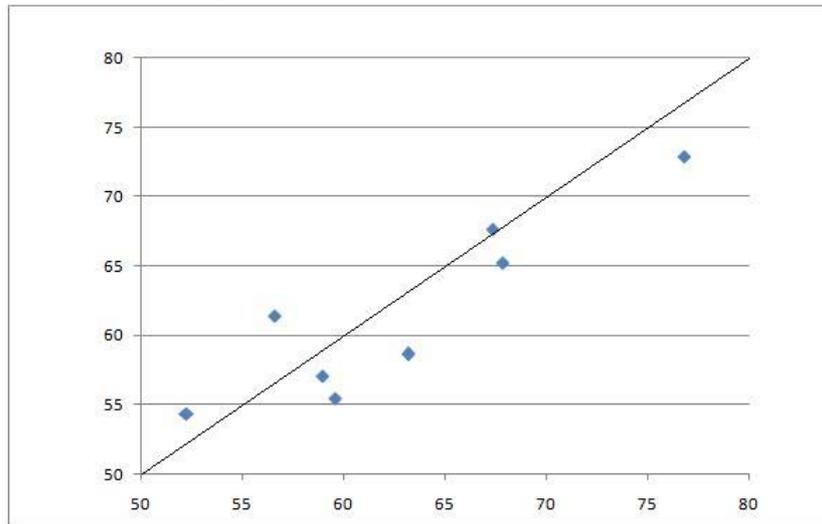
#### 4. Mezzogiorno?

There is a broad current of thought that challenges the very idea of “Mezzogiorno” and maintains that the analysis should focus instead on individual regions. The idea is that the differences across the southern regions dominate those between the south as a whole and the rest of the country. Is it really so? Figure 2 shows the position of each southern region relative to the rest of the country in two distinct periods, 1982-1994 and 1995-2007. The first period is measured on the horizontal axis. The bisector is the set of points along which the relative position does not change in passing from one subperiod to the other. The graph shows both the regional gaps and their dynamics. As for levels, excluding the Abruzzo, the average gap of which in the two periods is around 75%, the regions of the south barely reach 65-67% (Sardinia and Molise), with four of them below 60% (Calabria, Puglia and Campania in both subperiods, Sicily in the second, first in Basilicata). In summary, with the exception of Abruzzo, the maximum difference between the regions of the south is about 10%, while the minimum difference between them and the rest of the country’s average is over 30%. For sure, within the south there is an important divide: that between the regions with organized crime and the others. It a difference that seems to account for 10 percentage points, and that should not be underestimated. But even areas where organized crime is not an issue lag far behind the rest of Italy, and this strongly suggest that abandoning the idea of “Mezzogiorno” might be wrong.

Now the dynamics. Figure 2 makes clear that most regions (five out of eight) have grown less than the center-north, a feature that explains the lack of convergence of the south as a whole; that (Molise) kept its starting position over time; that two regions (Calabria and Basilicata) have gained ground against the rest of the country.

Most importantly for us is that the two best performing regions are the poorer ones. Thus, the dispersion in the south has *declined* over time: if it made sense to speak of the Mezzogiorno a few years ago, perhaps it makes even more sense now.

**Fig. 2.** Per capita GDP, southern rehions, 1982-1994 1995-2007 (center-north=100).



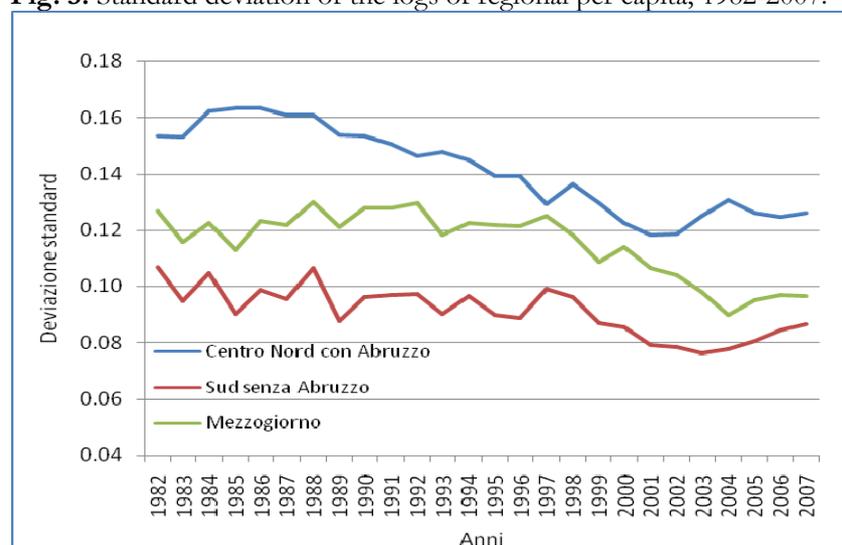
*Source:* our computation on Istat (2005, 2008) data.

The evolution of the regional dispersion in the south, and the comparison with a similar indicator for the Center-north, are shown in Figure 3. In particular, the figure shows the evolution of the standard deviation of the logarithm of per capita GDP for the following areas: Central North (plus Abruzzo), southern Italy (Abruzzo excluded), southern Italy.

Thus, the dispersion in the south is lower than in the center-north (more on this in a moment) and shows a decreasing trend, as it was easy to guess from Figure 2.

If we used the traditional definition of the south and reallocated the Abruzzo, the curve of the center-north would intersect that of the south in 1994; from then on, the absolute value of the index would be similar in the two areas.

**Fig. 3.** Standard deviation of the logs of regional per capita, 1982-2007.



*Source:* our computation on Istat (2005, 2008) data.

In all cases the south is now a more homogenous area than it was before, and its degree of heterogeneity is less than or similar to that which characterizes the regions of the Center-north, depending on where one prefers to place the case Abruzzo.

In closing this section, it is useful to look at the labor market. As argued recently by Daniele and Malanima and by Iuzzolino in their articles cited above, the southern gap in per capita GDP has more to do with the capacity to absorb labor force than with the productivity of those who do work. The differences in the activity rate calculated on the population of working age (15-64 years) are indeed very large: in 2008, on average, the activity rate was at 69% in the Center-north and 52% in the Mezzogiorno. As is inevitable, there exists heterogeneity across the southern regions: again, Abruzzo has an activity rate (63%) closer to the Center-north (67%) than to the southern average. Across the other southern regions there is a clear division, with Molise, Basilicata and Sardinia between 55 and 59 percent, and Campania, Puglia, Calabria and Sicily between 52 and 49 percent (Istat, 2009). Important internal differences that however keep all the southern regions - with the exception of Abruzzo - separated by at least ten percentage points from the average of the Center-north.

Speaking of the labor market, it is useful to recall that the suspension of the process of convergence coincided with the political decision to eliminate the institutional arrangements that allowed wages to differ across regions, an event that led to a sharp deterioration in competitiveness for southern companies (Boltho et al., 1999; Iuzzolino, 2009). While it is possible that this factor contributed to cause the high level of the Mezzogiorno gap, its negative impact is likely to have been partially offset by the large amount of public money transferred to the southern regions to compensate local firms for the "negative externalities" of the area. On this more in the next section.

### **5. Insufficient public money?**

In the preceding pages I have argued that the south finds itself in a steady-state of a surprising size for an advanced country. By definition, a stationary state implies a form of invariance with respect to actions taken to improve it, provided that such measures are actually implemented. In this section I reviews some recent quantitative assessments of the financial effort undertaken by the Italian state to support the development of the lagging regions.

I start with analyses in which the Mezzogiorno's case is compared with data from other countries with important regional differences. A comparison of this kind is proposed in Iuzzolino (2009). The indicator used is the ratio of the net income available to families to their primary income, which provides a measure of the net public contribution to the disposable income of the area "(p. 17). When comparing the indicator of the lagging regions with that of the other regions, the ratio turns out to be equal to 112 for Italy against an average of 111 for all countries.<sup>2</sup> The conclusion is that "the net transfer of resources from advanced areas to lagging ones ... in Italy is not lower than in the average European country characterized by the presence of regional gaps" (p. 18).

It is now useful to ask whether that transfer of resources in favour of the south is sufficient or not to generate in the area a level of per capita public expenditure at least equal to that of other regions. The most recent answer to this question is in an article by Staderini and Vadalà (2009), who estimated the regional "fiscal residual" for 2004-2006. In their calculations, public spending per capita in the south is 90% of that in the rest of the country. However, the 10% gap is largely attributable to

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<sup>2</sup> The countries included in the study are: Belgium, Germany, Spain, France, Greece, Italy, Portugal, Great Britain.

factors that are not under the direct control of the policy-maker, because they reflect structural differences of the territories, for instance differences in the age composition of the population. Net of these factors, the primary expenditure in the south exceeded that of Nord and turns out to be close to the national average (96%).

To get an idea of the cash flows below this relative uniformity of primary expenditure across regions characterized by very different income levels, one can compare the data on regional expenditures with that on regional tax revenues. On average, over the period 2004-2006, the southern per capita revenues amounted to 53% of revenue of the Center-north. The amount of transfers from richer regions to the south was, in those years, around 16% of the GDP of the southern regions, and 5% of the GDP of the Center-north.<sup>3</sup>

Speaking of economic backwardness and its persistence, it is more interesting to focus on capital expenditure, whose main role is to fund investment to support economic development. Again, we start from a comparison with Spain. Comparing the Italian and Spanish capital expenditure for the regions lagging behind, Iuzzolino (2009) finds that the Italian expenditure is systematically higher.

Regarding the constancy over time of the financial effort for the development of the Mezzogiorno, Cannari, Magnani and Pellegrini (2009) analyze the additional expenditure for the area (Structural Funds and FAS) as a percentage of national GDP between 1999 and 2006. In their analysis, the public intervention in the regions around this time is in line with the expenditure that characterized the “*intervento straordinario*” of in previous decades. Indeed, their index is 0.77% on average between 1999 and 2006, and 0.72% between 1951 and 1989.

Finally, the dataset *Conti Pubblici Territoriali* (CPT) developed by the DPS (DPS, 2007) show that in 2000-2006 the average public expenditure for capital formation in the south was equal to 111% of that in the rest of the country.

This evidence describe a situation in which major resources have been steadily transferred to the southern regions, with orders of magnitude similar to those found in other countries with important regional problems. Indeed, the prevailing view today is that the disappointing results we still see in the south are due to the quality of the public intervention, more than to the quantity of the resources involved.

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<sup>3</sup> My computations based on Staderini and Vadalà (2009), Tavola 2.

## 6. Policies: poor quality?

So, many well-financed policies were actually implemented, but with no satisfactory results at a macroeconomic level.

To understand the origin of this invariance of the gap with respect to these policies, three explanations are possible. First, the possibility exists that the gap reflects structural characteristics of the southern regions that cannot be modified by policies; second, that the policies adopted were simply wrong and would have failed wherever implemented; and, third, that well-designed policies – i.e., policies that do work in other places – have failed in the Mezzogiorno because of some not well understood local factor.

The assumptions that I think are interesting are the second and third. We start from the policies that can be regarded as wrong in general. Policies of this type are not rare in the long history of the Mezzogiorno. As an example, consider the case of the industrial investment driven by the public sector. They have been quite popular in the past, and even today many think that the arrest of convergence is at least partly due to the end of that kind of investment, whose aim was "to overcome unfavorable agglomeration economies or inadequate social capability" (Boltho, and Scaramozzino Carlin, 1999, p. 331), and to their replacement with "a sharp shift towards income maintenance flows and the recruitment of civil servants" (p. 332). While it is plausible that the increase in government current spending at the expense of capital accumulation does not help to improve the local "agglomeration economies" and "social capability", is not in any way demonstrated that the industrial dirigisme of those years were able to determine *permanent* improvements in those factors. In fact, the opposite might be true. As we have seen, part of the positive phase of convergence, certainly helped by that kind of politically determined industrial investment, had already vanished in the years immediately after 1975; and part of that virtuous path is associated with a process of structural change that has created convergence in most of Europe, in the presence of altogether different regional policies. The analysis of operations such as the "forced industrialization" adopted in Italy is likely, therefore, to teach us much about the effects of myopic policies and much less on the problems that in the southern regions weaken the effectiveness of otherwise well-designed policies.<sup>4</sup>

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<sup>4</sup> A rigorous full assessment of the effects of the s.c. "forced industrialization" is not yet available in the empirical literature on the Mezzogiorno. For a more

More can be learned by this latter type of policies. Here the analysis of a political failure can help identify the main determinants of the gap of the Mezzogiorno and of its persistence. To illustrate this point, I choose an example from Viesti (2009). In this example too we identify a problem of "non optimal" composition of public spending. In particular, the composition problem here refers to capital spending: too much of it was devoted to transfers to firms (in the form of incentives) and too little to public investment (infrastructure). This point of view is very reasonable, especially in light of recent impact evaluations that have shown the limited effectiveness of the incentives to firms<sup>5</sup> and of the significant infrastructure gap that harms the competitiveness of the southern regions.

However, if the problem is well known, the cause is not. Numerous studies have certified that there is a significant wastage in infrastructure spending in the south. For example, talking about public investment in infrastructure Golden and Picci (2005) offer an estimate of the "extensive graft and fraud that are especially common to public sector contracting in the south of Italy" (p. 38). Using a hypothesis of "standard costs" (national average), and controlling for geographical differences of various kinds, the authors measure what has actually been achieved in every region in the face of what would have been achieved in case of perfect coincidence between actual and standard costs. The authors interpret this difference as an index of corruption, and find out that "the most corrupt region [Campania] spends four times more per unit of public capital than the best performing areas, suggesting massive amounts of fraud and inefficiency have historically characterized large portions of the Italian peninsula"(p. 53). Not surprisingly, the lower indices are the ones of the southern regions and, again not surprisingly, these indices are strongly associated to those of Putnam on social capital and civicness (on this more soon).

The inevitable suspicion is that the problem of southern Italy is not limited to an "exogenous" lack of infrastructure, which would be relatively easy to fill with adequate resources; indeed, the lack of infrastructure also seems to reflect a wider problem that, if not addressed, may continue to generate large waste of public money.

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positive view than the one I have proposed, see Graziani (1978) and articles cited by him.

<sup>5</sup> See Cannari et al. (2009), pp. 43-46, and Bronzini and de Blasio (2006).

Examples like this - reasonable public policies that fail in the south - also abound in other fields. Education is particularly interesting. As the *Quaderno Bianco sulla Scuola* maintains, "the differences in annual spending (public and private) per student are not reducible to the traditional North-south gap, with Liguria's expenditure similar to those of Campania and Puglia and Sardinia's expenditure equal to that of Friuli-Venezia Giulia "(Ministry of Economy, 2007, p. 92); in addition the number of teachers per student and per class in the south is quite similar to the national average.<sup>6</sup> In spite of this lack of north-south divide in terms of available resources, the results measured by the qualitative test OECD-Pisa reproduce the usual scenario, that of all regions of the south far away from the average quality of the rest of the country.<sup>7</sup>

A comparison with Spain is particularly interesting here. If one computes the percentage of students with low competence in mathematics, the index for the southern Italian regions is 2.3 times higher than the index for the rest of the country; if you make the same comparison using Spanish data, the relationship between the regions lagging behind and the others is significantly lower: 1.5.<sup>8</sup> Again, poor quality in the provision of a public good seems to be a characteristic of the Mezzogiorno.<sup>9</sup>

In summary, in the south were adopted wrong policies, which fail everywhere, and other policies that seem to work better elsewhere. The analysis of the failure of the latter is very valuable for those who study the Mezzogiorno. In particular, that kind of failure suggests the existence of a widespread and deeply rooted problem of institutional quality – a problem with a significant local component. Many other data on "institutional failures" in the south could be cited to support this conclusion.<sup>10</sup>

The problem of lower-quality institutions is therefore important to understand the persistence of the economic backwardness of the Mezzogiorno.

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<sup>6</sup> Ministero dell'Economia, 2007, Tavola A1.9, Appendice 1.

<sup>7</sup> See Bratti et al. (2007).

<sup>8</sup> My computations on Ocse-Pisa data (Ocse, 2006).

<sup>9</sup> Qualitative differences in education seem to matter more than quantitative ones in the Spain-Italy comparison. See Di Liberto (2007).

<sup>10</sup> For more data on the territorial institutional quality divide see Cannari, Magnani and Pellegrini (2009).

## 7. Institutions and culture

The research on the determinants of persistent differences in institutional quality is particularly lively in recent years, mainly thanks to the work of Acemoglu, Johnson and Robinson (2001), which provides an explanation of the origins of the broad diversity of formal institutions in the international scene.<sup>11</sup> However, their explanation does not give satisfactory answers for the case that most interests us, one in which differences of institutional quality emerge *within* nations that share the same formal institutions. As Tabellini (2007) points out,

The indicators of property right protection exploited in the literature measure broad outcomes, that might be due to a variety of formal and informal features of institutions. The fact that the same institutions function so differently in different environments suggests that informal institutions play an important role. The judicial system works very differently in southern and Northern Italy, for instance, with judges taking much longer to complete investigations and to rule on civil cases in the south than in the North. Yet, the legal system and the career path for judges have been the same for 150 years, and the human resources available are also not very different. Similar evidence applies to regional differences in the functioning of hospitals, schools, or public administrations, or to moral hazard inside large private corporations with branches in different regions ... These systematic differences in behaviour can be traced back to different regional histories. But *why do they persist for generations*, despite identical political and legal institutions? (p. 2, my italics).

Therefore, further research is underway to identify what determines the difference in efficacy of the same formal institutions in different areas. A natural candidate for this role is the "culture" of the local community in which the formal institution acts, namely "those customary beliefs and values that ... social groups transmit fairly unchanged from generation to generation" (Guiso, Patience and Zingales, 2006, p. 23). Indeed, differences in local culture tend to be very persistent, as shown by a growing empirical literature on the role of history in economic development.

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<sup>11</sup> For "formal institutions" here we mean institutions that defend private property rights against the risk of expropriation by the public sector. See Acemoglu et al. (2001).

In particular, Tabellini (2009) and Guiso, Paziienza and Zingales (2008th) have thoroughly investigated the possibility that "the quality of government has its roots in history through cultural phenomena" (Tabellini, 2009, p. 263), and therefore that historical events have generated persistent cultural differences between European regions in general and between those of Italy in particular.<sup>12</sup>

As is well known, Guiso et al. (2008th) have directly addressed the problem of the Italian regional disparities by testing the main hypothesis advanced by Putnam (1993). According to this hypothesis, the formation of social capital was particularly strong and successful in the city-states formed between 1000 and 1300 in the center-north; city-states whose formation was made impossible in the south due to the presence of the Normans. Their empirical test provides further support to the idea that historically determined initial differences can have very persistent effects. In this context, the current lower-quality of southern institutions would originate in unfavorable historical events and in the existence of powerful mechanisms of intergenerational transmission of values and norms characterized by a low level of trust.<sup>13</sup>

Although suggestive, this reading of the origins of the Mezzogiorno's economic problem has so far found an encouraging but limited empirical support. There is evidence of widespread malfunctioning of public institutions in the provision of essential public goods such as education, health, safety; there is evidence that even today in some southern regions indicators of trust and social capital are systematically lower than those found elsewhere in the country; there is some empirical support to the hypothesis that the origin of the problem dates back to distant historical events.

Taken together, this fragmented, not conclusive evidence should anyway convince those studying the economic backwardness of the south to take seriously a hypothesis that in the past has often been overlooked, namely that the source of institutional (and economic) failure today can be due to a process of intergenerational transmission of a culture characterized

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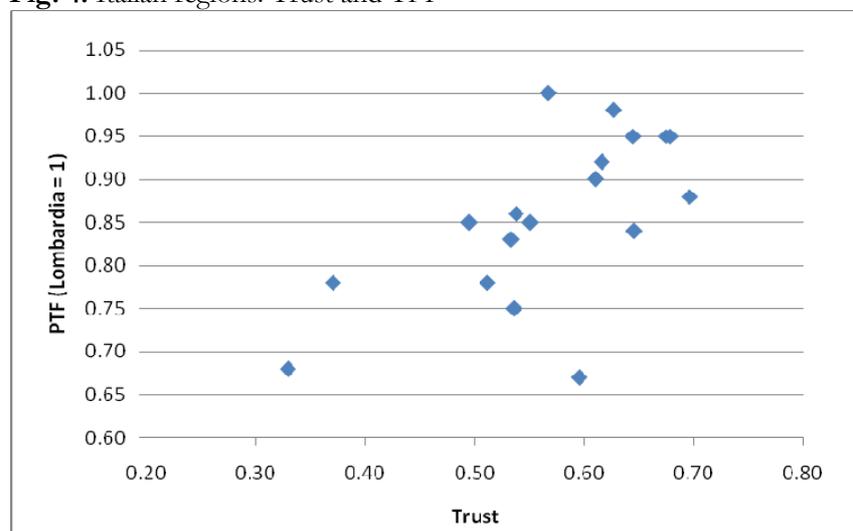
<sup>12</sup> Exemples of causal links from remote events to current economic performance abound in the more recent economic literature. See Nunn (2009) for a survey.

<sup>13</sup> For an excellent discussion of "social capital" and on how to define it, see Durlauf and Fafchamps (2004). For them, "At the heart of the concept of social capital is the idea that positive externalities cannot be achieved without some kind of coordination, i.e., there is coordination failure" (p. 7).

by a low level of trust – a process in which values and behavioral norms change very slowly.<sup>14</sup>

A quick look at some simple Italian regional data provides further confirmation of the need to evaluate more thoroughly this hypothesis: Figure 4 shows the good correlation (0.63) existing in the Italian regional data between trust and total factor productivity (TFP), with productivity and trust increasing together.<sup>15</sup>

**Fig. 4.** Italian regions: Trust and TFP



Source: *Trust*: our computation on ESS data (2002-2004-2006); *TFP*: Di Liberto et al. (2008)

A brief comparison with the Spanish regional situation yields additional support to the hypothesis summarized here. As we have seen, in Spain the economic gap between the five poorest regions and the rest of the

<sup>14</sup> For an in-depth analysis of how persistent a local culture characterized by “limited morality” can be, see a classical study of the Barbagia community in central Sardinia (Pigliaru A., 1959).

<sup>15</sup> The *trust* index is based on answers to the following question included in the rounds of the European Social Survey (ESS, 2002-2004-2006): “Using this card, generally speaking, would you say that most people can be trusted, or that you can’t be too careful in dealing with people?”. Answers range from 0 to 10 (0 implies no trust). The index I use reflects the percentage of answers equal to or larger than 5. TFP data are from Di Liberto et al. (2008).

country is significantly smaller than in Italy. The causal chain discussed above suggests that this more favourable outcome must be based on minor inter-regional differences in trust. This is indeed what we find using the data of the Spanish regions involved in the ESS surveys: while in Spain 37% of individuals have little trust in other people both in the lagging regions and in the rest of the country, in Italy the people who show little trust amount to 52% in southern regions and to 39% in the rest of the country. A similar difference is also apparent when we consider other indicators of "social capital". As showed by Nannicini and Leonardi (2008), the per capita blood donations in the Mezzogiorno range between 50 and 60% of those collected in the rest of the country, while those collected in the poorest Spanish regions are about 90% of those collected elsewhere in Spain.

#### **8. Other hypotheses**

In summary, the hypothesis "history-culture-institutions-performance" deserves additional and more stringent testing. Until new evidence becomes available, a good exercise is to ask what other possibilities may be proposed to explain the existence of a gap so stable and large.

This is not the place neither to list in detail, nor to discuss in depth, other frequently debated hypotheses about the steady-state of the Mezzogiorno. In what remains of this section I will rather confine myself to point out that at least two of them seem to be more complements than alternatives to the hypothesis that hinges on a persistently inadequate endowment of "social capital".

The first case is that of a process of convergence driven by structural change (Paci and Pigliaru, 1999). As noted above, the structural change from agriculture to sectors with higher productivity has been for a long period an important mechanism working in favour of the poorest regions. However, in some areas this mechanism has led to stationary states characterized by little or no regional gaps, while in others the gap continues to be large. Caselli and Coleman (2001) provide an explanation based on the role played by the development of educational opportunities available to the initially not qualified agricultural workers: more (quantity and quality of) education, more skilled workers, greater development of non-agricultural sectors, more increases in aggregate productivity.

Again, therefore, few and poor opportunities for education reduce the potential for catch-up and determine the emergence of a steady-state in

which the gap remains large. In this setting, one wonders what can be the cause of an inadequate education. One possible answer was suggested in the previous pages: the quality of educational services depends (also) on the endowments of social capital. In this way is not difficult to imagine the role that the lack of social capital could play in the mechanism identified by Caselli and Coleman: less convergence associated with a given potential for structural change.

A second case concerns the idea that the persistence of historical conditioning is explained by the impact it can have on the formation of institutions, regardless of the cultural characteristics of the population (Acemoglu, 2009). As we mentioned above, the explanatory ability of this hypothesis tends to decrease when switching from a cross-country to a cross-region (i.e. between areas that share the same formal institutions) analysis. In the latter case, it is difficult to exclude that the local culture play a role in determining widespread, persistent and geographically concentrated institutional failures.<sup>16</sup>

In summary, a persistent gap requires an explanation based on determinants that are consistent with that feature. So far I have described the persistence of the gap; I have highlighted an important component (a widespread lack of institutional quality in the provision of essential public goods, and a tendency for policies to be intercepted by rent-seekers); I have sought explanations of the coexistence of these two phenomena; in doing so, I have favored the recent line of research that incorporates Putnam's idea that distant historical events lead to "path dependencies" in the accumulation of local social capital, and in which path dependence is explained primarily through the intergenerational transmission of values harmful to development.

I have also argued that the current deficit of a strong empirical basis in support of this hypothesis should not lead us to neglect it, but rather to speed up the empirical research needed to further assess its explanatory power.

Clarifying the role of the intergenerational transmission of culture in determining economic performances is essential in order to identify what kind of economic policy can support the development of the Mezzogiorno.

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<sup>16</sup> On this, see Acemoglu (2009), p. 123.

## 9. Economic policies for lagging behind regions

The experience of the Italian 'new regional policy '(NPR)<sup>17</sup> provides an ideal ground to show to what extent underestimating the difficulties of promoting social capital accumulation can make public intervention ineffective.

A widely shared opinion on NPR is that its results were well below expectations (Barca, 2008). More controversial is the reason for this disappointing outcome. On this, the points of view range from the hypothesis that errors of diagnosis were made (Rossi, 2005); to the hypothesis that the policy, while correct in its design, suffered from inadequate resources (Viesti, 2009), or was poorly implemented (Franzini and Giunta, 2009), or was inadequately supported by national policies (Cannara, Magnani and Pellegrini, 2009) and by the political will expressed by the central government (Barca, 2008).

In this article I suggest a point of view partially different from those cited here. To illustrate, I'll make a brief reference to the NPR's diagnosis of the relative backwardness of the south. In that diagnosis, there are many of the elements that I mentioned in the previous sections of this paper: in particular, the hypothesis that the persistence of such a large gap, and one so clearly characterized by a poor performance of local institutions, may originate from an inadequate endowment of social capital, which, in turn, "can be attributed to the history of the area, the weaknesses and shortcomings of the state, the presence of practices detrimental to development "(Cannari et al., 2009, p. 35).

The point therefore is to accelerate the accumulation of social capital. Is this possible? And if so, how? In the opinion of Cannari et al. (2009), the NPR's point of view on the first question is clearly stated: in contrast with theories that emphasize the long-term persistence of initial conditions, "the NPR believes that 'history can be changed by the current history '... "(p. 35-36). This cautious optimism originates in a precise statement about what determines the scarcity of social capital. As Barca (2008) maintains, in southern societies "the lack of trustful relationships [is] not the result of a deficient 'civil endowment', of an innate shortage of civiness ... but of the way in which the state has acted in this area. The deficit was exacerbated after the war precisely because of the wrong economic policy"(Barca, 2008, p. 4). The proposed solution is consistent with these premises: the emphasis is on encouraging the

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<sup>17</sup> See Cannari, Magnani and Pellegrini (2009) for a comprehensive description of the set of policies behind the "NPR" label.

development of trustful relationships, especially between the public and private agents, through "forms of institutional support to boost planning capacity in the area and the creation of groups of local actors [that] can actually stimulate the formation of externalities and ... local development "(Cannari et al., 2009, p. 64).

Let us compare this implicit idea of "accumulation function" of social capital to the one mentioned in the previous section, which emphasizes the existence of mechanisms that generate long-term persistence of historically determined "initial" conditions. The difference is noteworthy: the latter explanation is crucially based on the existence of long-standing inadequate endowments of civicness, and on the hypothesis that the persistence of this unfortunate state of affairs is due to the working of an intergenerational transmission of values that occurs within the family, or anyway within in restricted environments – values that are not easy to modify in the absence of targeted policies, based on a clear understanding of the mechanisms in action.<sup>18</sup>

The analysis of the main lines of action adopted by NPR confirms this difference in vision. At least two pieces of evidence may be cited to justify this assertion. The first concerns the limited role that NPR assigned to improving both the quantity and the quality of education in the south, at least in the first phase of its intervention.<sup>19</sup> This is an important clue, because education is one of the few policies able to exert some influence on the mechanisms of intergenerational transmission of cultural values (among others, Helliwell and Putnam, 2007, discuss at length the relationship between education and trust).<sup>20</sup>

Instead, the NPR has focused on trying to generate trust by encouraging the development of public contexts characterized "by the practice of sharing services, learning from errors, technological contamination, becoming suppliers for each other" (Cannari et al., 2009, p. 35).

At the root of this choice there is, presumably, the idea that "clubs and networks can facilitate search and provide an imperfect substitute to generalized trust: in the absence of generalized trust, it may be necessary to rely on clubs and networks" (Durlauf and Fafchamps, 2004, pp. 14-15). Indeed, the construction of the partnerships envisaged by NPR can

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<sup>18</sup> Tabellini (2008) and Guiso, Sapienza and Zingales (2008b) are models of educational choices characterized by high persistence of intergenerational values.

<sup>19</sup> See Cannari et al. (2009), p. 65-66.

<sup>20</sup> See also Barca (2008).

be interpreted as a solution to the problem of “dispersed knowledge” analyzed by Hayek (1945) – partnerships were meant to ensure information exchange and to promote cooperation between different subjects, expanding “the range and speed of social exchange beyond the confines of inter-personal trust ”(still Durlauf and Fafchamps, 2004, p. 12).

For this to succeed, and for social capital of this limited nature to be actually generated, the public sector needs to write rules able to persuade the agents that the process will work out the inevitable conflicts between competing interests and will reduce the scope for free-riding (ib., p. 11).

However, many studies document that the NPR was often unable to select and fund the projects of better quality. As Cannari et al. (2009) point out, in reporting the results of an investigation involving a number of “privileged witnesses”, “the problem is that the political side always searches for consensus and does not manage to select priorities ... ‘We said yes to all’, says one of the interlocutors ”(p. 78). When a policy fails to provide adequate mechanisms for (self-) selection of virtuous projects, contexts with low initial trust are likely to develop a kind of cooperation very different from the one capable of creating positive externalities, social capital and local development.<sup>21</sup>

The underestimation of this danger is the second indication that the NPR’s view on what determines the endowments of local social capital differs significantly from the “long term persistence” one. In other words, NPR seems to have seriously underestimated the difficulty of “changing the history” in the absence of specific interventions to ensure the provision of quality education and the systematic exclusion of “rent-seekers” from the allocation of government funds for private projects.

With all its mistakes, the NPR’s experience is valuable for those who want to design new policies for the regions who are lagging behind: it has clearly identified the area where the action should be and – through its trials and errors – has provided valuable information on how to intervene more effectively to accelerate the formation of social capital.

The idea that the Mezzogiorno’s gap might have to do with aspects of today’s culture inherited from previous generations, does not mean surrendering to an improbable historical determinism; instead, it means that we have a much needed new field of research to improve our knowledge of the mechanisms of local accumulation of social capital and of what public actions are capable of accelerating the process.

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<sup>21</sup> For an in-depth analysis of this mechanism, see Giunta and Franzini (2009).

Improving this knowledge seems even more important and urgent than in the past. The model of fiscal federalism recently adopted by the Italian state does not seem to have taken in proper account the problem of the high heterogeneity of cross-region institutional quality. If it did, the approach taken was based on the conventional argument that the transfer of responsibility from the center to the periphery, in the presence of hard budget constraints, improves *per se* the efficiency of a more strictly controlled (by the territorial community) local public sector. The problem is that the probability that mechanisms of this type work decreases as regional gaps increase, especially if their origin is the viscous cultural components to which I referred in the preceding pages. The experience of the two southern regions with special constitutional status, Sardinia and Sicily, confirms the doubts just expressed: namely, that the mechanism provided by the classic fiscal federalism does not facilitate the convergence in institutional quality across very different regions. From what one can guess, if there will not be rapid progress in our understanding of the factors causing the persistence of the Mezzogiorno's economic gap, the unfavourable steady-state that I have described will continue to exist for a long time yet. And if it moves, the risk is that it does so in the wrong direction.

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