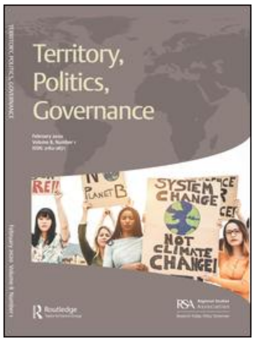

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New perspectives on old inequalities: Italy's north–south divide

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ABSTRACT

Italy's regional inequalities are more substantial and persistent than any other European country. They pertain to fundamental economic indicators (income, productivity, employment) and to many relevant features of the socio-institutional environment (the quality of institutions, education attainments, government and bureaucratic efficiency, etc.). The 2008–13 crisis further exacerbated divergences, with a collapse of capital accumulation and unwelcome demographic shocks (brain drains, migrations, etc.). This paper contributes to this rich literature with a specific focus on the increase of 'within-south inequalities' and investigates some socioeconomic determinants and processes that can explain them. Through several original surveys and case studies, emphasis falls on the importance of human capital and cooperative networks that support firms in their capacity to exploit comparative advantages and opportunities for local development.

KEYWORDS
regional inequalities; Italy; dualism; regions; institutions; networks

HISTORY Received 30 September 2019; in revised form 10 May 2020

INTRODUCTION

In today's Europe, the increasing relevance of regional economic inequalities is often viewed as a main threat to economic progress and social cohesion. Something, as *The Economist* (2016) put it, 'economically and politically too dangerous to ignore it'.

Empirical research based on historical series has shown how, considering the long-term trend of 173 regions, convergence in Europe as a whole ended in 1980, while the gap has widened ever since, following a very similar pattern to the dramatic rise in personal income inequalities. In particular, the slowdown in European growth rates since the beginning of the new century followed a very uneven trajectory, with few dynamic core regions and many declining industrial areas at the two extremes (Rosés & Wolf, 2018).

Other studies have geographically divided the European economy into four different 'clubs of regions', according to both the level and dynamics of per capita income (Iammarino et al., 2019). At the extremes, we have one small core of leading regions (the 'high club') and a numerous group of backward regions (the 'low club'). The former includes some of the major metropolitan areas and a few dynamic territories enjoying strong agglomeration effects of innovative, high-wage high-human capital-intensive activities. The latter contains peripheral regions, with long-standing problems of low productivity, premature de-industrialization and poor labour force participation.

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While the four clubs enjoy great stability in their composition, the gap between them is widening, also because of the pressures coming from the world economy, the rapid changes in the global division of labour and demographic trends. Future prospects are a matter of serious concern: low club members lose talents and youth to higher income areas and are unable to attract firms and talents from the outside world (Iammarino et al., 2019). What is worse, today the picture is more complex than in the past, when core–periphery relations were more clearly traceable and mutually productive: we now have 'islands of prosperity … surrounded by regions with below average GDP [gross domestic product] per capita: spatial correlation has systematically declined over the last century while the geographical concentration of economic activity has increased since the 1970' (Rosés & Wolf, 2018, p. 16). Such unequal outcomes have critically worsened during the great financial and economic crisis – with the high club alone enjoying a favourable countercyclical performance.[1]

Historically, regional divergences have never been uniform, static or inevitable: in the long term, interregional comparisons show variety and changes in ranking, structural features and fundamental indicators. However, within Europe, Italy stands out as the country where territorial inequalities have proven to be most substantial, persistent and with an extraordinary degree of geographical concentration. By all international standards and comparisons, the old-dated backwardness of Italy's southern regions seems to be unique: 'dualism' is a concept that has always permeated the country's economic and social history, ever since the first post-unification decade when it first became the object of extensive intellectual analysis, policy disputes and social conflict. In the new century and, even more so, after the unprecedented double-dip economic recession of 2008–13, Italy's 'Southern question' has maintained its prominence and acquired new, unwelcome records. In terms of ranking, of the 173 European regions that were the object of Rosés and Wolf's (2018) research, the five poorest are in southern Italy.[2]

Nowadays, no advanced economy is so unevenly developed as Italy: Lombardy alone produces more than one-fifth of Italian GDP, almost the whole GDP produced by the all eight southern regions.[3] While income convergence between the south and the other macro-areas never really resumed after the end of the 1970s, inequalities have increased and worsened. More than 30 years of regional development and cohesion policies produced little in terms of productivity changes, growth and employment, and much in terms of the increasing power of local elites, bureaucratic inefficiencies and short-termism (Accetturo et al., 2014; Ciani & De Blasio, 2015; for a general overview, see Accetturo & De Blasio, 2019). Nowadays, the north–south divide remains the most serious and unsolved problem in Italy's economic and social history.

Academic and political debates on the main determinants of the relative backwardness of southern regions date to the 19th century. At the same time, scientific research on Italy's regional divergences is still expanding, providing original insights and fresh empirical evidences. New series of statistical data on value added, productivity, activity rates, the welfare system and the quality of regional institutions have encouraged applied research in historical perspective. Wide-ranging surveys regarding firms and households have strengthened our understanding of the micro-foundations of fundamental aggregates and trends. Altogether, a widespread consensus exists that no single explanatory variable can explain the dramatic failure of regional convergence. Econometric tests confirm the relevance of several interrelated causal factors (for a general overview and basic references, see Felice, 2011, 2017, 2018a, 2018b).

What can new perspectives help us understand more about Italy's regional inequalities? A possible answer is to provide a new focus on southern heterogeneity and see what economic variables and social mechanisms can explain it. Recent research has highlighted the opportunity to challenge the conventional wisdom of a south characterized by uniform backwardness and static performance. As remarked in a paper prepared for the 150th anniversary of the country's unification, regional studies often failed to give due importance to *within* inequalities: 'nothing could be more mistaken than to imagine that the long resilience of the southern question simply means that, in the long history of Italian regional disparities, nothing has ever changed' (Iuzzolino et al., 2011, p. 5). In this light, collecting new evidences on the nature and causes of *within-south* inequalities can help to understand the nature and causes of local development. It can also provide useful evidence in order to enhance the value of hidden potentialities and unexploited opportunities.

The paper follows this line of research with three objectives. First, to summarize some features of the debates on the determinants of Italy's territorial inequalities also in the light of the recent economic crisis. Second, building up new social and economic indicators at a provincial level to provide some new descriptions of *within-region* disparities. Third, to discuss possible social and economic drivers that can explain within-south inequalities. This task will be accomplished by examining the results of several field studies on firms' strategies, performance and behaviour, which have been undertaken during the worst years of the recent economic depression (Asso & Pavolini, 2014; Asso & Trigilia, 2010, 2013). Firm-level data from three subsequent surveys provide useful insights on the causes of local development and inequalities.

THE HISTORICAL PERSPECTIVE: OLD VERSUS NEW DUALISM

Within the very rich literature on Italian north–south inequalities, it may be useful to distinguish between those lines of research pertaining to the 'old dualism', as we may call it, and those belonging to the 'new dualism', where 'old' and 'new' are not to be intended merely in chronological time, but as clusters of explanations focusing on different aspects or drivers of economic development and convergence.

Old dualism mainly focused on the search for the so-called 'proximate' determinants of relative backwardness and underdevelopment. Among them, great attention was given to economic variables, initial conditions and prerequisites. An emphasis was put on the importance of geographical and localization factors that hindered the potential accessibility of markets and limited the agglomeration of economic activities; but also on the shortage of private investments that affected entrepreneurship, employment, productivity and structural change. Following this perspective, by the end of the 19th century the southern economy slowed down while the north started a massive wave of new industries and capital accumulation. Trade and fiscal policy, foreign investments, migration and a new breed of local entrepreneurs drove the introduction of new technologies and the exploitation of localization economies in the northern industrial triangle. The south became a crucial market for northern firms, providing raw materials, agricultural commodities and the expenditure of migrants' remittances in consumption goods. All attempts to stimulate industrialization in the south failed to produce a lasting impact, while the war economy further increased disparities in industrial undertakings. By the 1930s, almost 90% of all capitals invested in industries was located in the centre–north. At a subregional scale, the average level of southern backwardness was quite uniform and none of the leading regional indicators reached the level of the less advanced regions located in the centre-north (Felice, 2018b; Felice et al., 2019).

Specific attention was attached to the long-term impact of economic policy, which, so it was argued, could also explain the weaknesses of a self-sustained endogenous growth in the south as well as episodes of resilience, modernization and change. Under this perspective, the main lasting episode of significant north–south convergence occurred in the post-war decades (1951–73), driven by a vigorous cycle of public and private investments in infrastructures, heavy industries, energy and public utilities under the skilled coordination of a new public agency, the Cassa per il Mezzogiorno (Casmez). During the years that include Italy's 'economic miracle', the average rate of capital accumulation remained systematically higher in the south, with a maximum differential of 16 percentage points in 1971 with positive effects for closing the productivity gap (Felice, 2017; Felice et al., 2019; Iuzzolino et al., 2011). Per capita income, the number of employees in the industrial sectors and participation rates also rose due to this unprecedented growth of aggregate demand. Convergence was also affected by a renewed wave of mass migration of unskilled labourers toward the northern industrialized regions.

Despite these remarkable results, convergence came to a halt. The Casmez top-down economic policy of southern industrialization turned out to be both a factor of distortions – since it did not take into much account the comparative advantages of the south and wiped out infant firms operating in 'light' sectors (Asso & Pipitone, 2010; Felice, 2018a) – and of institutional fragility – because it was an attempt to change the economy without changing society (Zamagni, 1978). Thus, economic development and rising living standards occurred despite a limited expansion of entrepreneurial capabilities and the productive base – two related problems that still differentiate today the peculiar economic structure and overall competitiveness of the southern economy. Already in 1960, the former President of the Italian Republic, the economist Luigi Einaudi, strongly deplored these features, writing words of disillusion about this first and apparently successful wave of 'extraordinary' interventions to close the gap between the north and the south of the country:

> We should not think that, thanks to the State or to private citizens, the number of business activities able to generate higher income level would increase quickly. The State can contribute … but the economic development will be mostly driven by the growth of single firms that will favor the creation and proliferation of similar enterprises …; but this is a slow process. (Einaudi, 1960; as quoted in Iuzzolino et al., 2011, p. 35)

At any rate, the average rate of net capital accumulation in the south declined sharply in the 1980s, collapsed in the 1990s and became negative after 2008 (Iuzzolino et al., 2011): throughout these decades significant convergence occurred between the north and the centre, while the south lagged behind and again the per capita GDP gap widened (Felice, 2011). The sharp contraction of aggregate demand, enhanced by fiscal austerity and market discipline, was just another factor explaining productivity stagnation and a declining growth performance (Cesaratto & Zezza, 2019).

The scientific literature contributing to identify new forms of dualism, by contrast, has explored the search and relevance of more 'remote' determinants, which may have influenced economic backwardness and underdevelopment. Among them, scholars have emphasized the importance of social and human capital in determining the capacity of a territory to exploit fully its growth potentialities. The basic idea is that local contexts and the different features of the institutional framework shape in a fundamental way the incentives to invest, the adoption of new technology and the breeding of ecosystems of innovative and internationalized firms (Felice, 2011, 2017, 2018b; Rosés & Wolf, 2018; for early contributions, see Trigilia, 1988, 1992).

Although measuring the quality of institutions is always a difficult and challenging task, recent surveys and analyses show that, throughout Europe, there is a strong correlation between the levels of public services, corruption, impartiality and the levels of regional development (Charron, 2016; Charron et al., 2015). Moreover, some European countries show significant and wide regional variations in their domestic levels of institutional quality and countries that, conversely, have more limited variations. Within Europe, again, Italy is quite a remarkable case study, both for its very low levels of the institutional quality index (just above Greece, Hungary and Romania) and for its high degree of regional variability.[4] Recent estimates of the European quality of government index (EQGI) provide strong confirmations – with Italy's eight southern regions all ranking below the first 200 regions (out of 236) (Charron & Lapuente, 2018).

Building on this socioeconomic approach, different lines of research have identified specific causes that may explain Italy's territorial imbalances. The emphasis fell on: the role of human capital (in terms of attainments, participation rates, quality of education and knowledge building); the levels of social capital (in terms of trust, relationship building and cooperation); the availability of a pro-growth culture and entrepreneurship; the drastic changes in demography, affecting ageing and productivity; and the functioning of political institutions (in terms of the pervasiveness of corruption, bureaucracy and the rule of law) (e.g., Felice, 2017; Charron et al., 2015; Charron, 2016; Asso & Pavolini, 2014; Asso et al., 2015; Sciarrone, 2017).

Recent studies on the history of Italian regional divergences confirm the existence of long-lasting socio-institutional differences that help explain economic dualism. An increasing number of indicators show that regional social disparities exist in education, justice, law enforcement and the efficiency of public services, and have been growing through time (Felice, 2011, 2017; Nifo & Vecchione, 2014; Vecchione, 2017). Taken together, all these factors have created in southern Italy an economic environment less favourable for the development of a market economy and the prospects of an endogenous growth based on the exploitation of local resources and comparative advantages. As Charron et al. (2015, p. 318) argued, 'in the historically slow growing regions of Southern Europe, poor quality government, historically pervasive corruption, collusion and lack of trust are more of a barrier for development than a shortage of assets'.

We shall return to these issues below, where we present and discuss some features of inequalities within the south. The next section briefly explains how the 2008–13 crisis affected the already large divide inherited by a long history of regionally unbalanced growth.

INCREASING DIVERGENCES IN TIMES OF CRISIS, 2008–17

What happened to Italian regional inequalities during the long crisis? Did the most backward regions show a greater resistance to the storm coming from financial markets, the mounting risks on sovereign debts and the global recession? Were they somehow more protected due to their lower degree of openness to trade and foreign investments flows or to the more limited share of their market economy?

The answer is no. Indeed, in comparison with other previous episodes of major international recessions, this time southern regions were more seriously hit. So far, after almost five years since the end of the crisis and despite some weak, positive signs of reaction, southern regions are still far from having recovered their pre-crisis levels. The figures speak by themselves.[5]

Measured in terms of income per capita, in 2014 the distance between the southern regions and the rest of the country has reached its record high since the Second World War (55.6%). Between 2008 and 2014, the GDP of southern Italy lost 13.5 percentage points, almost three times as much as the two northern macro-areas, with Abruzzo being the only southern region whose performance during the crisis followed a trend almost in line with the most developed regions of the country. Indeed, the crisis reinforced an already existing trend: between 2000 and 2007, the cumulative growth of the south was about half that of the two northern macro-areas (4.5% versus 8.7% and 9.2%).

Unemployment remains the most critical issue. If we focus on employment rates, the southern regions are all below 50% on average (44.5% in 2018), that is, the lowest in Europe: almost 30 percentage points below the European Union average and 400,000 units below the pre-crisis level (SVIMEZ, 2017). The north–south gap in unemployment rates increased by 25 percentage points after the Great Recession (Antonin et al., 2019). This signals a crucial discontinuity in long-term trends: until the end of the 1970s, rates of employment were quite similar for the various macro-areas – at least so far as male employment was concerned (77% in the north, 75% in the centre and 73% in the south in 1978). Nowadays the gap is more than 17 percentage points (75% in the north and 56% in the south in 2018), while the gap between female employment rates is almost double: 59.7% in the north (that is almost 4 percentage points higher than southern males) and 32.8% in the south. As to non-participation rates among people aged between 14 and 70, the south is now around 40%, that is, approximately three times higher than the north, with the centre standing in between.

Fragility of economic and social conditions confirms a sharp territorial divide. In fact, poverty levels and other indicators of structural instability show that relative trends, conditions and potential risks are, on average, about three times higher in the south than in the rest of the country.[6] There are many signals that growing dualism went hand in hand with increasing income inequality. According to Italian National Institute of Statistics (ISTAT), the Gini coefficient in the islands (0.37) and in the south (0.34) is significantly higher than in the two northern macro-areas (0.29 in the east and 0.31 in the west). Moreover, almost two-thirds of southern households (61%) are located in the lowest two quintiles of income distribution.[7] By contrast, in the northern macro-areas, more than half of households (51%) belong to the two highest quintiles.[8] Finally, indicators of economic fragility (measured as the percentage of families unable to cope with unexpected expenses) confirm the same picture: well over 50% in the south (with peaks over 60% in the two islands) fall under this unpleasant condition compared with about one-third in the rest of the country (with troughs well below 30% in some north-eastern regions).

Searching for the causes of this increasing north–south divide, economic factors (the collapse of investment) and demographic factors (a decrease of population only in part compensated by foreign migration; ageing; the heavy loss of qualified human capital) come to the fore.

As for the fall of investment, between 2008 and 2016, the south fared much worse than the other areas (−35% versus −22.5%), thus widening the gap in competitiveness between strong and weak territories.[9] Fiscal austerity worsened the fall in aggregate demand and was another crucial factor that increased disparities: in fact, in the first two decades of the new century, the north recorded a net aggregate increase of 16% in public investments, while the south remained stagnant with a significant collapse of investments per worker (Antonin et al., 2019; Cesaratto & Zezza, 2019). Recent studies show how – austerity restrictions notwithstanding – public policies in crucial areas (transportation, education, infrastructures) contributed to widen regional disparities in the first two decades of the 21st century and created the conditions for further widening in the future (Viesti, 2016, 2019). The ensuing decline of productivity was most significant in the south and particularly in the industrial sector (SVIMEZ, 2017). According to the AIDA database on the Italian manufacturing sector, the average productivity of southern firms was about 75% of the productivity of northern firms before the crisis, it went down to 64% in 2014–16, only to recover to 67% in 2017. The greater prevalence of micro-firms is a key explanation of these recent trends (Asso & Pipitone, 2019).[10] Finally, transformation of Europe's economic geography since the new century has increased convergence between Northern and Eastern Europe, mainly due to the strong process of integration that affected the eastward enlargement of the European Union. Foreign direct investments and new value chains have ignited industrial development particularly in the Visegrád regions that benefitted from strong localization and fiscal advantages with respect to southern Mediterranean regions (Celi et al., 2018; Viesti, 2018).

The first two decades of the new century saw the emergence of new demographic pressures with the concomitant presence of three dangerous phenomena that negatively affected southern regions. First, a net loss of population, due to an unprecedented decline of natality rates and a minor incidence of migration inflows.[11] Second, a strong ageing of population together with a relative shortage of social fixed capital (SVIMEZ, 2017). Third, a rise of high-quality migration, with almost 1 million youngsters (from 15 to 34 years of age) leaving their home regions, 225,000 of whom hold a university degree. As a conjunction of all these trends, a recent simulation by SVIMEZ estimates in €30 billion the overall loss in human capital suffered by southern regions since the new century, expressing fears about the future prospects of 'desertification' of the south (SVIMEZ, 2017).[12]

INEQUALITIES WITHIN THE SOUTH (I): SOME EVIDENCE FROM AGGREGATE INDICATORS

The gap between the south and the other areas is so huge, persistent and increasing that risks drawing most of the attention in both scientific research and the public debate. This would be a mistake, for perhaps less visible but equally dangerous fractures are taking place at the infra-regional level, that is, within the south itself. In other words, if the south is getting behind the rest of the country, it is also becoming increasingly polarized between areas where obstacles and pitfalls are ruling out any prospects for development and areas where growth is underway – obstacles and pitfalls notwithstanding. The aim in this section is to show – and possibly explain – some elements of these infra-regional inequalities.

Quantitative elaborations on economic, social and institutional phenomena at a very local level (provinces) provide useful evidences in this respect.[13] As expected, all these elaborations reproduce the very same picture – albeit with minor changes. Compared with other macro-areas, the south reveals systematically lower levels of economic development, measured in terms of income performance, technical efficiency and physical productivity. Moreover, southern provinces lag behind in terms of those strategies that indicate signs of dynamism and change, such as the propensity to export, the propensity to innovate and the capacity to nourish forms of entrepreneurial density. Finally, all southern regions are characterized by lower levels of essential resources for the attraction of external investments – such as infrastructural endowments, the availability of market services and bureaucratic efficiency. However, quite interestingly, all these indicators show a significantly higher internal variability for the south if compared with the internal variability of other macro-areas. The southern provinces, in other words, do not appear as uniformly lagging behind the rest of the country but can be represented as a rather heterogeneous bloc. In particular, some local areas reach levels of performance and efficiency that are quite similar to the most advanced regions of the country despite the structural obstacles that similarly affect their growth potentialities.

This striking contrast between relative backwardness and extremely high variability is particularly evident if we look at those entrepreneurial strategies that are considered as factors that mark the difference in terms of growth prospects: namely, the development of agglomeration effects, the degree of internationalization and the propensity to generate innovations. In what follows we provide a deeper focus on these phenomena.

It is a well-known fact that the productive structure of the south is narrower than the rest of the country. In fact, the entrepreneurship index – calculated as the number of firms in activity per capita (pc) – is just 0.058 (i.e., one firm for every 17.3 inhabitants) against 0.072 in the north-west, 0.077 in the north-east and 0.078 in the centre (Figure 1(a)). However, once disaggregated at a provincial level, these figures reveal very different conditions. In fact, the average variability of the rate of entrepreneurship confirms the existence of deeper 'within-south' inequalities, showing a coefficient of variation that is 2.5 times higher than the north (Figure 1(b)).[14] Hence, there are several urban areas in Abruzzo and Sardegna that scale up the national ranking and belong to the top 30 group of provinces, ranging from 0.077 (Teramo) to 0.105 (Nuoro).

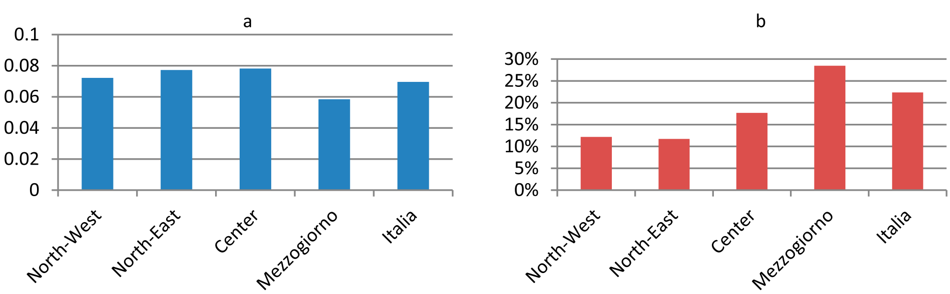

Figure 1. (a) Number of firms in activity per inhabitant per province, 2011: average; and (b) number of firms in activity per inhabitant per province, 2011: coefficients of variation.
Source: Author's elaborations from ISTAT, Firms Demography Database 2018.

Another interesting dimension of productive localization is the presence, in each province, of firms operating in the same sector, which may entail positive agglomeration externalities and spillover effects, improving productivity, resilience and competitiveness. The Jacob index (JI), estimated at the provincial level can capture this dimension.[15] Results clearly show deep-rooted territorial inequalities: values of the JI are significantly higher in the other macro-areas (31 in the north-east, 27 in the north-west, 25 in the centre), than in the south (19) (Figure 2(a)). These figures reveal one major weakness of the south, where firms are not only fewer but also more dispersed and isolated. However, industrial agglomerations are not entirely absent in the south, and this is shown by the internal variability of the JI that is much higher in the south (47%) than in the other macro-areas (below 30% in the north-east and 35% on average) (Figure 2(b)).

As to internationalization, the south is very distant from the rest of the country: on average, the current per capita exports at the provincial level are only 20–25% of those prevailing in the other macro-areas (Figure 3(a)). By contrast, the level of exports variability within each area – about 160% in the south, while in the north and the centre variability ranges between 40% and 60% – clearly indicates a higher degree of export heterogeneity affecting southern provinces (Figure 3(b)). If we look at the extremes, there are some provinces in Sicilia or Calabria (Enna and Cosenza) that show negligible per capita exports (€64 and €111, respectively), while there are other provinces in Campania or Abruzzo (Avellino and L'Aquila) whose exports are more than 20 times higher (€2242 and €1957). Among southern provinces, Siracusa and Potenza have the highest values (€15,747 and €4359), though these figures are mainly affected by the strong presence of external industries in the oil, chemicals and auto sectors.

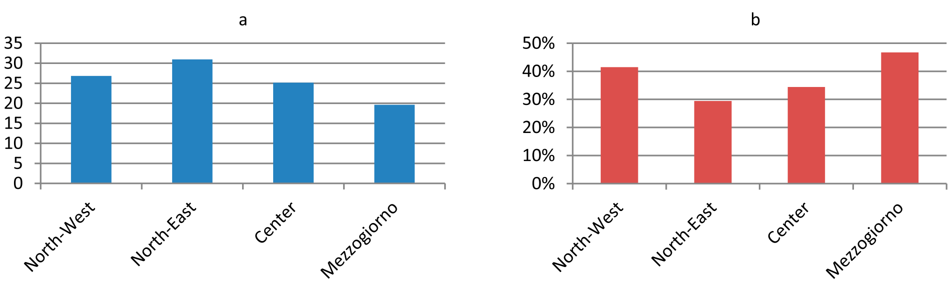

Figure 2. (a) Jacob index (JI) per province (two-digit), 2010: average; and (b) JI per province (two-digit), 2010: coefficient of variation.
Sources: Author's elaboration on Cebi-Cerved database 2011; and Nerozzi et al. (2014).

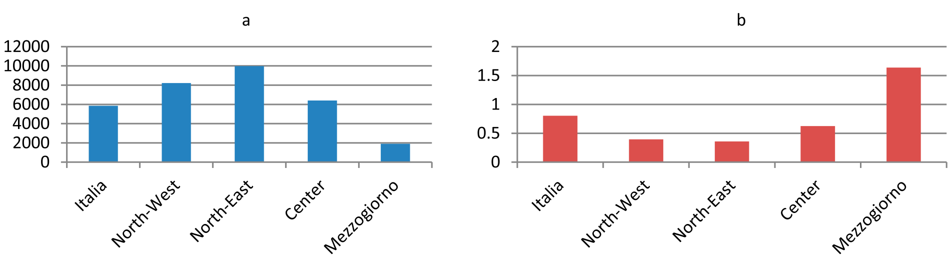

Figure 3. (a) Exports per capita: current values, average, 2009–16; and (b) exports per capita: coefficient of variation, 2009–16.
Source: Author's elaboration on ISTAT, Development Priorities Database 2018.

Finally, the same picture of relative backwardness and high variability emerges from the analysis of patents intensity across Italian provinces, measured as the number of patents per million inhabitants. Here data represent major differences between the macro-areas and a huge gap between the south and the rest of the country (Figure 4(a)). In the north-east, each province produces an average of 130 patents per year, with the highest figures attained by Pordenone and some cities located in Emilia-Romagna. The north-west follows at some distance, averaging 96 patents, with the highest values in Varese, Turin and Novara. The centre lags well behind: just 57 patents on average, with only Pisa, Ancona and Siena exceeding 100 patents per year. The astonishing north–south divide is summarized by the 12.7 patents per million inhabitants that on average are deposited in southern cities. Again, coefficients of variation are higher for the south, showing a greater heterogeneity (Figure 4(b)). The gap is particularly strong with the two northern macro-areas, while the centre, in this case, is more similar to the south than to the north. Moreover, once Abruzzo is excluded (with four provinces ranging between 30 and 50 patents), all southern provinces produce fewer than 10 patents, and occupy the last 40 positions (with the province of Viterbo in Lazio as the only exception).

As many studies suggest (Felice, 2011; Trigilia, 1992), human and social capital are crucial determinants of the north–south divide – and they have always been so since the country's unification when the income gaps were not so relevant. Concerning human capital, significant territorial differences exist in students' learning and proficiency – as shown by the INVALSI and PISA enquiries – as well as in early school dropouts (about double in the south than the rest of the country). Again, coefficients of variations are much higher in the south for the share of high school and university degrees on total population. As is well known, many social, economic and cultural factors are responsible for learning deficits. However, territorial gaps do not seem to depend much on family backgrounds or the differences in the external socioeconomic conditions (Asso et al., 2015). Moreover, no clear regional pattern is evident if we look at investments in education and the general scholastic environment (buildings, resources, services, etc.). Conversely, a clear discriminatory factor emerges if we look at the way students are distributed among schools. In the south a much greater percentage of students with negative attainments is concentrated in the so-called 'ghetto schools', namely, schools with a high concentration of students with a difficult family background. As is shown by Asso et al. (2015), the differences in outcomes between students in 'élite schools' and students in 'ghetto schools' are four times higher in the south than in the other macro-areas. Such a higher degree of students' segregation is likely to produce negative multiplying effects (so-called 'peer effects') on competence-building and social mobility. Thus, human capital inequalities regard not only outcomes but also opportunities and permeate themselves through agency factors.

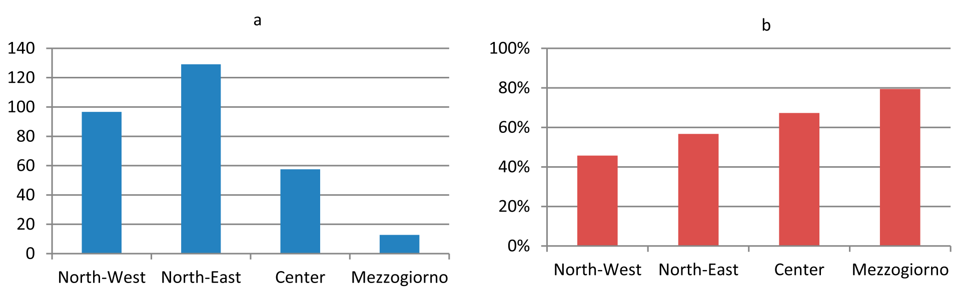

Figure 4. (a) Patents per million inhabitants: average, 2003–12; and (b) patents per million inhabitants, 2003–12: coefficient of variation.
Source: Author's elaboration on ISTAT, Development priorities database, 2018.

Institutional quality and social capital are other relevant dimensions explaining economic performance across regions. Local government efficiency, bureaucracy, corruption and the regulatory framework significantly impact on firms' technical efficiency and on the attractiveness of the environment for external investors. Several studies show that territorial divergence crucially depends on these factors (Giordano et al., 2015), while the relative scarcity of social capital tends to increase transaction costs, reduce credit availability and market integration. Empirical evidence estimating local levels and variability confirms the previous results. A composite index comprising five different dimensions of institutional quality (government efficiency, corruption, regulatory framework, social participation, rule of law) shows a huge gap between the south and the other three macro-areas and a much higher variability at the provincial level.[16] Moreover, provincial estimates of 'bridging social capital' (networks, social participation, civicness) show the usual distribution with the south suffering a clear disadvantage. The opposite is true in the case of 'bonding social capital', measured by the density of strong informal ties concerning people sharing the same identity (friends, fellows or relatives). In this case, 'strong ties' try to shape economic transactions, social connections and the working of public administration on behalf of insiders and at the expense of outsiders. This kind of social capital is usually associated with lower competitiveness, social immobility and higher risk-taking. The distribution of these different types of social capital in Italian provinces, reflecting the interplay between local culture, interpersonal relationships and institutional settings, provides interesting insights of the environment in which economic relations take place. Among the different social and economic indicators, this kind of social capital provides opposite results. In fact, if estimated at the provincial level, the presence of 'strong ties' is more important in the south. For the first time, this dimension of social capital shows a lower variability among southern provinces and seems to be a rather homogenous trait, which does not change much (Figure 5).

Thus, the general economic and entrepreneurial environment and the social context in which southern firms operate indicate the existence of clear territorial disadvantages that negatively affect the prospects of economic growth and the reduction of north–south inequalities. However, all indicators show that a high internal variability is also a persistent feature of the southern regions, and is replicated by most socioeconomic dimensions. This may be the consequence of some adaptive ability developed by southern firms. The next section will show how this variability can be the outcome of specific entrepreneurial strategies or qualities.

INEQUALITIES WITHIN THE SOUTH (II): SOME EVIDENCE FROM FIRMS' INDICATORS

The great degree of variability that arises from most southern socioeconomic indicators can be taken as a sign of backwardness but also as a symptom of local dynamism and entrepreneurial

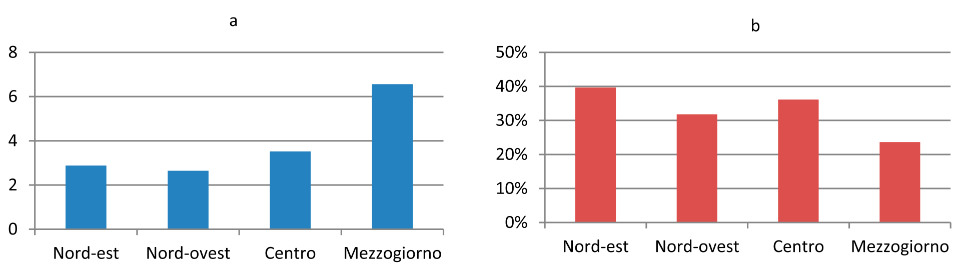

Figure 5. (a) Social capital due to 'strong informal ties': average, 2013; and (b) social capital due to 'strong informal ties': coefficient of variation, 2013.
Source: Author's elaboration of Foderà and Pavolini (2014).

success. Therefore, it could be useful to identify some social drivers that may explain variability in performance and stability, trigger convergence dynamics, and thus contribute to the reduction of north–south inequalities.

The double-dip recession provoked a significant shrinkage of the productive basis in most southern regions, with a greater reduction in the number of firms than in the rest of the country. The most dramatic figures come from the three largest regions (Campania, Puglia and Sicilia), where the number of firms in activity fell almost every year between 2007 and 2017, and where the 'rate of survival' of new firms five years after their foundation was systematically below 50%.

Firm-level data collected through several surveys during the recession years show that strong connections exist between firms' performance and specific entrepreneurial strategies: most particularly, the formation of ecosystems of innovative firms and the capacity to internationalize and penetrate foreign markets clearly demarcate the field.[17] In terms of performance indicators, innovative and internationalized firms enjoy a higher growth of turnover,[18] of jobs creation[19] and a higher capacity of market differentiation.[20] Exporting firms, in particular, show a constant rise of export trends, turnover growth and a higher propensity to introduce innovations. Although internationalized and innovative firms have the typical structure of most Italian firms with very small dimensions, they show some distinct peculiarities.[21] First, *the younger average age of the firm* (with a significant number of exporting firms of very recent constitution).[22] Second, *the younger average age of the top management* or of the founder with a comparatively higher quality of human capital.[23] This difference was particularly striking if we compare internationalized with non-internationalized firms: the percentage of top managers holding a university degree is three times higher for internationalized firms than non-internationalized firms.

Therefore, as far as southern firms are concerned, competitive strategies during the recession followed the same philosophy and guidelines implemented by northern firms – innovation and internationalization – and no discernible territorial peculiarity exists in this respect.

What are the main drivers behind the capacity of southern firms to generate innovations and exports? It does not seem that extraordinary ad hoc investments played much part in driving innovations and export trends. Our surveys showed that over 66% of internationalized firms started exporting without specific investments devoted to the entrance in new markets, while investment often became a key variable in order to increase competitiveness and strengthen growth prospects once the firm had entered international markets. One of the most crucial factors that seems to discriminate firms' behaviour and strategies rests on the role played by cooperation and the building up of networks to reduce the sense of isolation in which southern firms operate. Exporting firms showed a stronger bent for networking if compared with non-exporting firms and with potentially exporting firms – particularly so in the case of relationships with partners operating in other sectors or regions.[24] Moreover, southern firms made extensive use of network contracts opening up forms of cooperation with non-southern firms providing crucial services in trade logistics, marketing and finance.

Conceived as an instrument for more stable and strategic forms of cooperation, network contracts promoted new opportunities of integration and growth in scale and business relations without a radical alteration of the overall governance and ownership of the individual contracting firms (Azzolina, 2018; Azzolina & Foderà, 2014). In an economic environment dominated by the presence of small and medium-sized enterprises, network contracts soon became a technical and legal support allowing project financing and joint investments in specific business areas (e.g., research and development – R&D) where economies of scale are particularly important. The most recent data (July 2018) show that southern firms surpassed north-eastern firms in the number of signed contracts (about 7000 against 5807). Thus, in regions where existing forms of cooperation tend to be more fragile and based on personal acquaintances, network contracts were successful and achieved three results. First, they helped enlarge markets and enhance possibility of access to new markets for isolated firms; second, they helped produce and spread useful knowledge; and third, they increased the number of potential partners in new sectors and territories (Azzolina, 2018).

In general, if we limit our focus to sectors in which southern firms enjoy comparative advantages, the evidence shows that their propensity to cooperate is not significantly lower if compared with firms located in other macro-areas. However, north–south differences remain in the *quality* of cooperation. In the north, cooperative behaviour tends to be more efficient and productive, and also more frequent and proactive. In fact, networks involving northern firms have greater stability, longer extension and the implication of a wider set of functions (production, marketing, R&D). On the contrary, in the south, cooperative networks and relations are more short-lived and more bounded in a local dimension – about half of cooperative firms are engaged only in local networks compared with one-fifth in the rest of the country (Asso & Pavolini, 2014).

Despite these differences, the returns of cooperation in the recession years were quite similar throughout the four macro-areas: isolated firms performed worse, had a lower financial stability and a lower capacity to trigger pro-growth strategies (innovation, internationalization, R&D). Again, also from this perspective, no territorial discrimination is at work.

Interestingly, however, the relative returns of cooperation are higher in the south than in the other macro-areas (Figure 6). In fact, when we compare cooperative firms with isolated firms *within* each macro-area, we record much wider discrepancies in the south rather than in the rest of the country. Cooperative firms in the south have more dynamic budget indicators and show a stronger propensity to follow pro-growth strategies than non-cooperative firms show. Within the south, the most striking results come from comparing internationalized with non-internationalized firms: the former group records a propensity to promote forms of extra territorial cooperation six times higher than the latter group.[25] On the other hand, exporting firms are part of wider cooperative networks than non-exporting firms.[26]

How can we explain these relatively higher returns of cooperation in the south? In territories where, as we have noticed in the previous section, external resources for firms' growth are weaker (quality of institutions, infrastructures, supply of professional services, etc.) and where the sense of isolation is higher (lower entrepreneurial density) some strategic decisions (forms of cooperation

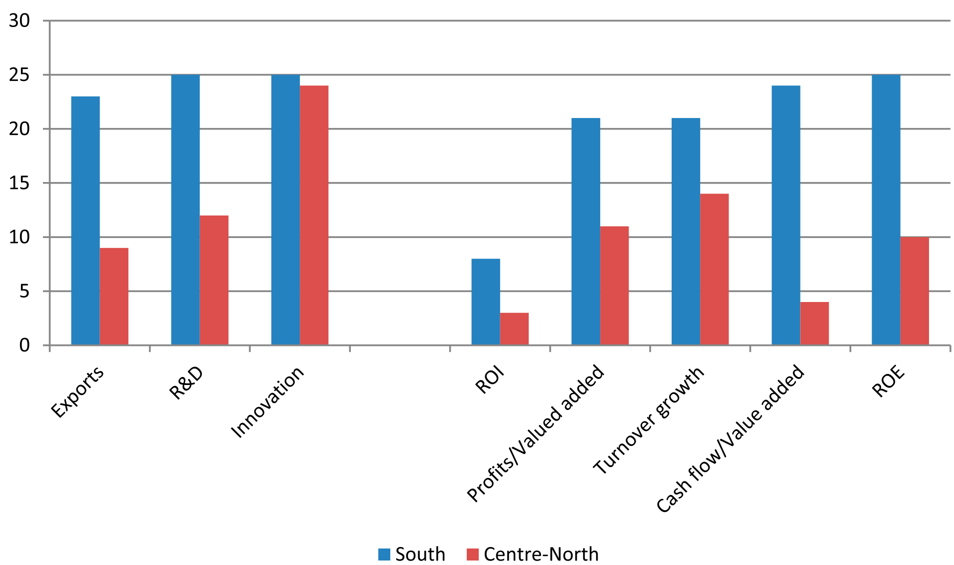

Figure 6. Returns of cooperation, north and south (differences between cooperative and non-cooperative firms).
Sources: Author's elaboration of Asso and Pavolini (2014).

that are spontaneously created by groups of firms) tend to have a greater impact with respect to those areas where these resources are stronger and more easily available. Thus, more solid business relations become an indirect way to overcome or reduce external obstacles, such as the shortage of capital or of collective goods and services.

Other interesting insights come from the origin and nature of the cooperative relation. As noted above, one basic difference is the much stronger attitude in the south to use 'bad' social capital. In a context characterized by lower levels of trust and a higher perception of risks, networks based on personal and social proximity, that is, based on strong family or friendship ties, are more frequent than impersonal cooperative networks with unknown partners, despite their comparatively higher efficiency. Empirical evidence confirms that forms of cooperation based on strong 'family ties' have a lower impact on performance, budget indicators and growth strategies: firms that cooperate only on the grounds of strong family ties perform worse than firms that cooperate with newly established and long-distant partners and this difference is larger in southern regions (Figure 7).

Finally, the institutional quality and the different endowments of social and human capital also help explain the phenomenon of 'missing trade' and its relatively higher pervasiveness in the south. Missing trade (that is, the difference between potential and effective exports) tends to be higher for southern regions. Our field studies (Asso & Trigilia, 2013) confirm the existence of a large share of potential exporters – firms that are potentially ready to enter foreign markets (in terms of productivity, quality–price characteristics, performance indicators, etc.) – but decide not to do so and wait for better times. More specifically, missing trade seems to depend crucially on the lower skills of the entrepreneur and his employees; on the lower level of 'specific knowledge' in languages, contractual law, e-commerce and marketing techniques; on the lower capacity of establishing and maintaining business relations and cooperation. All these attitudes and qualities are much stronger in exporting firms compared with potentially exporting firms (Asso & Trigilia, 2013).

Therefore, while southern regions are permanently lagging behind the other macro-areas, our investigation shows their greater inner variability, due to the more polarized structure of the southern economy. Dynamic firms seem to follow the same growth trajectory of their northern counterparts. Particularly those who adopt strategies of innovation and internationalization have managed to achieve a better performance despite the more general environmental constraints.

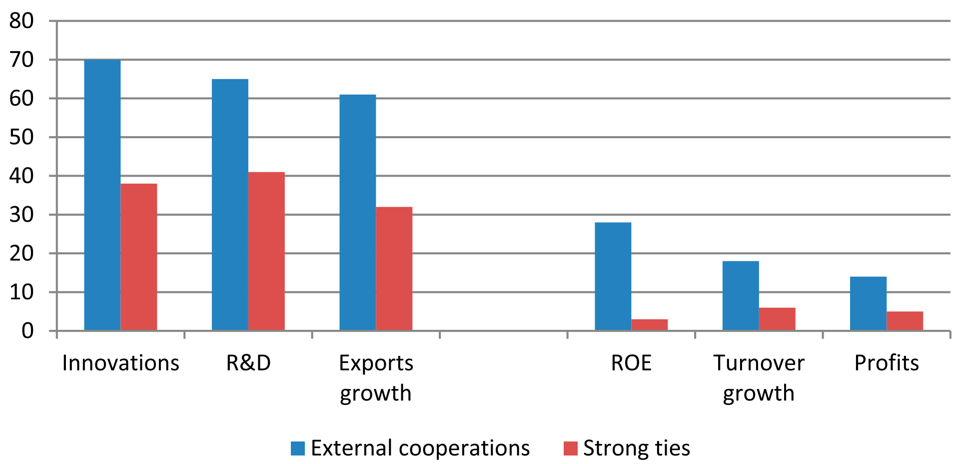

Figure 7. Cooperation with other partners or with 'strong ties': impact on the performance of southern firms.
Sources: Author's elaboration of Asso and Pavolini (2014).

True, the relevance of these firms in terms of value added or employment is still rather limited. Nevertheless, they represent a model of real endogenous growth in an area that has been long submitted to the regressive values of 'external industrialization', a perverse use of public resources or criminal capitalism. In the light of recent contributions (Felice, 2018b; Felice et al., 2019), what receives further confirmation is the clear presence of socio-institutional drivers behind the success of dynamic firms. In fact, albeit with no intention to adopt a strict deterministic perspective, cooperative networks (formal and informal), the quality of local institutions and the capacity to mobilize human capital in the right directions are among those factors that more distinctly discriminate the universe of firms in terms of growth.

CONCLUSIONS

The reduction of Italy's regional inequalities and, most of all, of its north–south divide has been a fundamental and particularly hard challenge in the history of this country – and today even more so. Many structural factors hinder the prospects of convergence and growth. Their roots can be found both in the recent and remote past though their incidence has somewhat increased in the 21st century as a consequence not only of the economic crisis but also of changes that have affected Italy's economic position in the international scenario.

The disappointing performance of the south has strongly contributed to the national trends of declining productivity and low participation rates. In the south, market-oriented economic activities still have a rather low incidence, thus thwarting innovation and growth. Unlike the rest of the country, southern regions show only modest export propensity and a very immature tertiary sector, particularly in market services. Institutional constraints are also relevant. Negative growth rates in the 21st-century Mezzogiorno were crucially linked to: (1) the low levels in education combined with a low capacity of innovation; and (2) the regressive configuration of urban systems with weak external connections (Viesti, 2018). In the past two decades, demography significantly reinforced these trends with low fertility rates, ageing and extraordinary migratory flows of qualified youngsters.

Therefore, economic and socio-institutional factors can explain the depressing growth prospects and increasing inequalities with the other macro-areas and most European territories at large. Southern regions seem to be locked in a typical 'intermediate development trap' (Celi et al., 2018; Celi & Guarascio, 2019; Viesti, 2018), characterized as they are by premature deindustrialization, demographic imbalances, the incapacity to develop an advanced tertiary sector and resist pressures from emerging markets. Rising inequalities and asymmetries brought about relevant political changes – as many recent studies have shown (Bloise et al., 2020; Rodrik, 2018) – with an unprecedented majority of political seats conquered by populist parties, including the old northern League.

This paper has tried to enrich this picture by showing that these general trends are the outcome of a very heterogeneous mix of conditions that must be analysed at a disaggregated level to be fully understood. Inequalities *within* the south are a very relevant, though somewhat neglected, part of the '*Questione meridionale*'. From this perspective, this paper has reached three conclusions.

- Divergences within the south do exist for a wide variety of indicators (e.g., productivity, exports, patents, infrastructures, human and social capital, the effects of agglomerations) and are extremely relevant under many perspectives. At the same time, variability between southern provinces is much higher than in the rest of the country.
- Groups of high-performing firms within the south do exist and follow similar pro-growth strategies of firms located in more advanced areas: throughout the long and deep recession, innovation and internationalization were strategic drivers of growth and change.

- The quality of institutions does matter, independently from traditions, past history and aggregate indicators of social capital. Although there is no easy way of providing a neat quantitative answer, growth seems to be strongly associated with institutional quality – most significantly with the efficiency of local government, education and the capacity to enhance cooperation.

Thus, social and economic disparities do not necessarily depend on the ability to remedy structural problems in certain areas or sectors: empirical research has brought to light many cases of firms capable to offset long-term institutional or 'cultural' obstacles. The main ingredients behind their performance are the capacity to: specialize in the right sector; attract an adequate stock of human capital; pursue typical pro-growth strategies (including the valorization of natural and historical resources); and develop cooperative behaviour, reduce isolation and become part of networks.

At the same time, our evidence on firms' behaviour and performance shows that a neo-institutionalist framework is useful to explain the divide between innovative and non-innovative firms, or between internationalized and non-internationalized firms. Where institutions are weak, the number of firms that try to emancipate is limited and the weight of the market economy remains too low – if compared with the weight of the assisted economy. Moreover, collective goods and services enhancing productivity and competitiveness are under-produced – in particular, if compared with the amount of resources distributed as current expenditures or windfall incentives. Local institutional settings may be substantially improved: cooperative networks between firms, export enhancing initiatives, such as fairs and Business-to-Business transactions (B2Bs), professional associations and government efficiency may help support competitiveness, growth and open a space to social and entrepreneurial innovation.

What are the possible policy implications? The wider implications of this paper lie in showing that traditional policy instruments (widespread fiscal incentives or windfall financial compensations) do not work, nor do they provide a solution to self-sustained economic growth. They failed to strengthen entrepreneurial capacities and integration and tended to distort incentives and generate undue market protection. By contrast, processes of market innovation and internationalization could be encouraged through the production of public goods and services at the disposal of competitive firms rather than through perverse policies (subsidies, fiscal incentives, etc.) that reduce production costs at the expense of efficiency. As former Bank of Italy Governor Mario Draghi observed:

> subsidies to firms have generally been ineffective: they often encourage investments that would have been made anyway; distortions of various kinds are introduced, frequently castigating the most capable entrepreneurs. It is therefore not from subsidies that there can be a sustainable development of productive activities in the south. (Draghi, 2010, p. IX)

Thus, policy efforts directed at inverting the sense of isolation and overcome the dimension constraints could be useful in this respect.

As the paper has shown, institutional processes produce positive outcomes. By fostering firms' efficiency and cooperation, entrepreneurship and innovation may well be developed with a more diffused and long-lasting impact upon the local economic system. The vicious circle of low-quality institutions, low social capital and low efficiency can be gradually overcome, and, in turn, it can help transform huge underexploited opportunities for growth.

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DISCLOSURE STATEMENT

No potential conflict of interest was reported by the author.

NOTES

1. In 2016, the share of 'H-club capital regions' of the total GDP was 22% higher than in 2009 (Iammarino et al., 2019).
2. Comparison is at the level of NUTS-2, for 16 States (Rosés & Wolf, 2018).
3. The Covid-19 pandemic hit Lombardy and its economy particularly heavily, but this is not going to change the economic divergence between Italian regions.
4. According to Charron et al.'s (2015) estimates, Italy's regional variation in the index of quality of institutions (IQI) is by far the highest at the European level, followed by Turkey and Bulgaria, and about four times higher than that France or Spain.
5. See SVIMEZ (2017) for a general overview. Adopting a 'core–periphery' perspective, Celi et al. (2018) explain how European regional asymmetries increased broadly with the crisis also due to the strengthening of the Central European manufacturing core (see also Celi & Guarascio, 2019).
6. The number of Italian families living below the poverty line for the country as a whole is 10.2%, but when looking at each region, the figures vary greatly, from 4.4% for the two northern areas to an average of 20.6% for the south.
7. With more than one-third (36%) in the poorest quintile.
8. With more than one-fourth in the highest quintile.
9. According to SVIMEZ (2017), while public per capita investments in the south were €675 in 1970 (compared with €450 in the centre–north), they have collapsed in 2016 in both absolute (€105 in the south in 2016) and relative (€296 in the centre–north in 2016) terms.
10. According to Antonin et al. (2019, pp. 13 and ff), in the last 20 years 'the value added per worker in manufacturing fell by almost 20% in the South and only by 11% in the North' (see also Daniele, 2019).
11. In 2016, with 166,000 new-born infants, the south established its record low since the country's unification (1861), with a total fertility rate that is now permanently and significantly lower than in the three other macro-areas.
12. ISTAT estimates for the south a reduction of 5.2 million inhabitants between 2016 and 2065, and of more than 7 percentage points in the number of residents living in the south (from 34.4% to 27.2% in 2065 (SVIMEZ, 2017, p. 30).
13. Provincial indicators regarding value added per employee, infrastructures, exports and patents are produced by ISTAT. These have been integrated by estimates on the quality of institutions (Nifo & Vecchione, 2014), social capital (Foderà & Pavolini, 2014) and the technical efficiency of a vast number of firms in different sectors – including agriculture (Nerozzi et al., 2014; Asso & Pipitone, 2019). We refer to this literature for all the theoretical and methodological details regarding the constructions of these indicators.
14. More specifically, the coefficient of variation is 28% for the south against 12% in the north and 18% in the centre.
15. The JI, calculated as per Neffke et al. (2012), considers positive externalities stemming from diversification by detecting in each province the number of sectors that contain more than 10 firms.
16. As to the first phenomenon, the Nifo and Vecchione (2014) index shows a relative homogeneity between the three macro-areas (all around 0.70), while the south is very distant at 0.35. As to the second, coefficients of variation for the centre–north range between 10% and 18%, while for the south it is close to 50%.

17. This paragraph uses data collected in three extensive surveys, conducted between 2009 and 2013 under the auspices of Fondazione Res. These surveys regarded firms operating in sectors where the south traditionally enjoyed – and maintained – comparative advantages: agriculture; agro-industry; chemicals; tourism; and some electrical engineering products. For a more comprehensive analysis and methodological specifications, see Asso and Trigilia (2010, 2013) and Asso and Pavolini (2014).
18. Innovative firms showed a three times' increase of turnover than non-innovative firms, with an average 20% increase in the years of the crisis. Such a difference was higher in agro-industry, with an average growth of 42% for exporting firms compared with –2% for non-exporting firms.
19. Innovative firms recorded a positive variation of occupation that was twice as much as non-innovative firms.
20. Propensity to innovate was about twice higher for internationalized firms than for non-internationalized firms under all the different typologies of innovation. Moreover, exporting firms showed a higher capacity to generate a sequence of innovations that allowed most of them to increase exports almost every year and increase the number of foreign markets.
21. In our survey, 47% of internationalized firms have fewer than 10 employees and 43% have between 10 and 50 employees.
22. More than 60% of exporting firms in our survey were founded in the new century.
23. More than 50% of exporting firms in our survey have a top manager below 40 years of age.
24. Potentially exporting firms are non-exporting firms that, however, have declared a strong interest and commitment in exporting and believe to have all the potential requisites to do so.
25. This difference is somewhat reduced if we look at the propensity to cooperate with local partners, with internationalized firms that have a double propensity to cooperate than non-internationalized firms.
26. Specifically, 50% of exporting firms are involved in local and/or sectoral cooperation, against 30% of non-exporting firms. These percentages fall to approximately 33% and 8%, respectively, for long-distance and extra-sectoral cooperation.

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