

# *The Economy in Italy and Southern Italy towards the End of the XXth Century*

## **1. International Relationships: The EMS and Maastricht**

The last decade of the twentieth century was not particularly easy for Italy. It began with a negative phase that lasted until 1993, followed by a recovery lasting no more than two years (1994-1995). In 1996 there was a brief slowing down, followed by some signs of recovery (1997-1998) and towards the end of the decade another slow phase (1999). Only the year 2000 seemed to have brought about a certain improvement.<sup>1</sup> Yet it cannot be said that the stagnation that characterised this long period has now come to an end. It is quite clear that over the past decade the economy has been increasingly influenced by the monetary unification process.

The situation Italy has been involved in derives from its adhesion to the Maastricht Treaty which was signed on 7 February 1992 and came into force on 1 November 1992.<sup>2</sup> This treaty, which not all EEC countries adhered to, imposed on the signatory states, namely, France, Germany, the Netherlands, United Kingdom, Portugal, Spain, Belgium, Luxemburg and Italy, and more recently Greece, the strict observance of certain points: 1) substantial stability in exchange relationships among the member states for a two-year period; 2) long-term interest rates to be no higher than 2% of the average interest rates of the member states with the lowest inflation values; 3) inflation rates not to exceed 1.5% of average rates 4) a deficit no higher than 3% of the gross domestic product (GDP); 5) a public debt not exceeding 60% of the GDP with just temporary exceptions for cases showing a downward trend.

These five conditions summarise the criteria that underpinned the Maastricht Treaty which all states intent on participating in the monetary union would be subject to.<sup>3</sup> Unfortunately, when the Treaty was ratified, Italy was not able to satisfy any of the above-mentioned criteria. OECD ascertained that Italy possessed the largest public debt among the first 25 of the world's most industrialised countries. Between 1989 and 1993 this debt increased at a rate of almost 15 million every hour, with an overall increase of 641,946 billion lira. In 1992 the debt ran at 103.8% of GDP,<sup>4</sup> that

<sup>1</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, Roma, 31 May 2001, pp. 74 ff.

<sup>2</sup> In Italy the law came into force on 3 November 1992 no. 454 and is reported in the *Gazzetta Ufficiale*, Supplement no. 277, 24 November 1992.

<sup>3</sup> The monetary unification had foreseen an initial phase in which the role and limits of the European Monetary Institution (E.M.I.) were to be defined, and technically implemented. The second phase consisted of the creation of the EMI and its enforcement starting from 1 January 1994. The third phase consisted of setting up the Central European Bank in the beginning of 1997.

<sup>4</sup> E. Longobardi-A. Pedone, "Le politiche di bilancio e il debito pubblico", in F. R. Pizzuti (ed.), *L'economia italiana dagli anni 70 agli anni 90*, (Milano: Mc Graw Hill. Libri Italia, 1994), p. 476.

is to say, a percentage far greater than the 60% specified by the above-mentioned "criteria". Furthermore, the sum of the related interest weighed so heavily on the GDP as to classify Italy in the penultimate place ahead of Greece. It is also to be pointed out, moreover, that the public sector weighed considerably on public expenditure, by complicating and hampering management of the government budget, immobilising human and social infrastructures and increasing unemployment.

None of the governments that followed has succeeded in solving the problem of the public debt, not to mention the inflation rate that proved to be higher than that of several other member states; while in Italy it ran at 6.5%, in Germany it was slightly higher than 2%, in Britain about 3% and in France approximately 1%.<sup>5</sup>

## **2. The Monetary Crisis in 1992**

In order to adapt its financial and monetary parameters to those fixed by the Maastricht Treaty, Italy was subject to considerable strain and tension that required complex economic, financial and taxation policy manoeuvres, more severely felt by the less fortunate economic and social classes. It must also be said that the treaty was signed in a period in which the economic and monetary situation was not very encouraging either in Italy or in Europe as a whole.

The negative phase had begun in 1989, after a period in which the gross domestic product had been increasing annually, starting from 1982 and reaching its maximum rate, that is to say 3.9% in 1988. As early as the second half of the year 1988 it had begun to give signs of reversal. Towards the end of 1989 the gross domestic product had slackened to 2.9%, and its decrease in the years that followed was even more conspicuous: that is to say 2.2% (1990), 1.1% (1991), 0.7% (1992) and a completely negative trend of -0.7% in 1993.

The recession affected certain areas of the industrial system, mostly transportation and non-metal manufacturing, and to some extent the mechanical and chemical industries. This fall in production had major repercussions on medium and medium-large companies, which after the alignment of the lira in the EMS in January 1987 had gradually lost the advantages deriving from the weakening of the lira. The lack of convergence between Italian cost dynamics and those of the other major euro states had, in fact, "brought about a progressive deterioration in Italian price competition". The increase in exports was 15% less than that of world trade, while compared to the four major European competitors exports had dropped by 2%; and by 1.5% compared to the euro zone.<sup>6</sup>

Several authors ascribe the reduced competitiveness to the increases in wages that were higher than inflation rates, and generally speaking to the large nation-

<sup>5</sup> L. De Rosa, "Oltre Maastricht", in M. R. Saulle (ed.), *Il trattato di Maastricht*, (Napoli: E.S.I., 1995), pp. 255-257.

<sup>6</sup> Banca d'Italia (1999), p.147.

al debt. Industry responded to recession by increasing work-force redundancies. A. Graziani pointed out that "the first years of the EMS [1979 onwards] were characterised by a conspicuous productivity increase in manufacturing industry, while in the years that followed the entire process started slowing down".<sup>7</sup> Industry resigned itself to reducing profit margins in order to avoid losing markets altogether. Despite this, the trade balance, often in deficit in the 1970s and 1980s, with the exception of 1986, continued to present liabilities, with a deficit that reached its peak in 1991 with 16,000 billion lire, without taking the trade in energy sources into consideration.<sup>8</sup> This deficit had two causes: a reduction in exports and an increase in imports. It is true that the surplus of "invisibles" had, in the past, always absorbed the trade deficit, but, unfortunately, starting from the 1980s, this surplus began to diminish and gradually to disappear completely, giving way to a deficit that amounted to approximately 12,000 billion lire in 1989. In the two years that followed this deficit continued to increase rapidly, running at 18,000 billion lire in 1990 and 25,000 billion lire in 1991.<sup>9</sup>

The conspicuous and ever increasing deficit in foreign trade was accounted for by the drastic drop in the export of traditional "services",<sup>10</sup> especially those "in surplus",<sup>11</sup> and by the adopting of free trade in financial services that came into force in 1990. The first two years that saw the liberalisation of capital movements were definitely not favourable for the Italian economy. Between 1990 and 1992 investments abroad fell from about 7600 billion to 3200 billion lire, a fall that was ascribed to the "poor competition of services and infrastructures offered to investors". At the same time, direct private investments abroad continued: about 8700 billion lire in 1990 and 8300 billion lire in 1991. Considering Italian investments in foreign stock and Italian loans abroad, it emerged that not only did the movement of capital produce a negative balance, but it also continued. Between 1990 and 1991 the loss of capital rose from 17600 billion lire to 26200 billion lire, with effects on official reserves which in 1990 increased by 15,156 billion lire, while in 1991 they decreased by 8,511 billion lire. By the end of 1991 the Italian foreign debt had exceeded 120,400 billion lire, which was actually 149,700 billion lire excluding the gold possessed by the central bank, a sum corresponding to 8.4% of GDP.

Considering that, in the early 1980s, Italy possessed foreign credit worth 32,700 billion lire, it is very clear that the Italian finance and currency situation had de-

<sup>7</sup> A. Graziani, "L'esperienza italiana nel Sistema Monetario Europeo" in F. R. Pizzuti, *op. cit.*, pp. 9-10.

<sup>8</sup> Banca d'Italia, *Relazione sull'andamento generale dell'economia nel 1991 all'Assemblea generale dei partecipanti*, (Roma, 1992), p. 113.

<sup>9</sup> *Ibid.*, p. 112.

<sup>10</sup> That is the services related to tourism and transportation, insurance, finance and banking, government, transit commerce, copyrights and cinema and television rights. *Ibid.*, p. 119.

<sup>11</sup> That is the services related to technology interchange (patents, licences, know-how, registered brands), business services, management services, engineering services, computer and telecommunication services. *Ibid.*, p. 119.

teriorated, and by the end of the 1980s to an even greater extent. Hence the deficit, which continued to increase in the second half of the decade, actually brought about a reversal of the situation.<sup>12</sup> Nevertheless, from 1987 to May 1992 the EMS currencies, including the lira, did not undergo any particular fluctuation. However, in the summer of 1992 the EMS was struck by the first and most severe crisis. It must be borne in mind that between 1987 and 1992 the EEC economic and monetary unification process was not without a cost. Disparities and various difficulties had arisen among the member states on account of divergent objectives in economic and technical policies. Furthermore, the economic activities of most Community countries had undergone a slowing down and while inflation did, in fact, drop off, it continued to remain higher than in Germany. Despite the conspicuous financial operations in favour of the eastern region and salary increases for both public and private workers, Germany succeeded in defending its currency, partly by increasing interest rates.

The crisis exploded in June 1992 on account of these and other factors. Among these were the negative outcome of the Danish referendum on the ratification of the Maastricht Treaty and the "currency upsets" in some countries outside the Community caused by the devaluation of the dollar.

The states affected by the crisis did not all adopt the same strategy. After Germany increased its discount rates from 8 to 8.75%, Italy defended the lira's parity with the mark, increasing interest rates from 13 to 13.5%, then to 13.75% and further to 15% within a brief time interval. Furthermore, for the same purposes, Italy did not hesitate to use its reserves until September when the European Monetary Commission brought about the first monetary alignment since the EMS was founded. As far as the lira was concerned, this caused a 7% devaluation compared to the mark. The exchange markets then closed and on 21 September the Bank of Italy stopped supporting the new parity with the mark. From that time onwards a phase of progressive devaluation of the lira began. The following December it reached 11.6%,<sup>13</sup> then 30%, a few months later 30%, and at the end settled around 24-25%. Hence Italy lost most of its reserves. A. Graziani writes that from June to September 1992 approximately 53,000 billion lire of reserves were drained by world speculation, 30,000 of which took place in the first two weeks of September alone<sup>14</sup>. Devaluation did not, however, give way to inflation on account of the considerable fall in the cost of goods. In fact, the monetary crisis coincided with the lowering of the cost of raw materials in dollars and consumer prices. The cost of labour also decreased. The reorganisation and rationalisation of industry reduced the number of employees, some of whom were re-deployed in medium or small companies, while others turned to "underground" employment, so salaries proved to be relatively low. Salary reductions also de-

<sup>12</sup> *Ibid.*, pp. 123-129

<sup>13</sup> Banca d'Italia, *Relazione sull'andamento generale dell'economia nel 1992 all'Assemblea generale dei partecipanti* (from here onwards *Assemblea Generale dei partecipanti*), (Roma, 1992), p. 38.

<sup>14</sup> A. Graziani, *op. cit.*, p.55 ff.

pendent on the abolition of the sliding scale in July 1992, the block on two-year company contracts in 1993<sup>15</sup> and the introduction of income policies. Another condition that limited the effects of lira devaluation was brought about by foreign producers who exported goods into Italy with prices that increased much less compared to the devaluation in progress. Hence, everyone, both in Italy and abroad, contributed to reducing consumer prices without favouring economic growth. The standstill in inflation and the intransigency of exchange greatly influenced the competitiveness of Italian companies. In 1993, GDP proved to be much lower compared to that of the previous year. At constant prices, instead of the slight increase recorded in 1992 (+0.7%), in 1993 it recorded a noticeable reduction (-0.7%). This state of recession was reflected in employment that decreased annually by 2.8%,<sup>16</sup> that is, "with an intensity and rapidity that had not been recorded since the post-war period". Proof of this is the fact that between July 1992 and January 1994 over one million jobs had been lost.<sup>17</sup>

Recession in industry had been going on for more than four years and had widely affected profit margins, which were also reduced by exceedingly high interest rates<sup>18</sup>. The result of this situation had been a further postponement of investment programmes.

### **3. After the Crisis**

Towards the end of 1993, spurred on by the increase in foreign demand and the gradual lowering of interest rates, the export companies began to invest once more; this trend continued throughout 1994 and GDP reflected this new state of affairs. In fact, GDP increased from -0.7% in 1993 to +1.5%, while interest rates that in the last trimester of 1993 had fallen to 4.1%, continued to decrease, reaching 3.6% in August 1994. This was still higher than the 1.5% required by the Maastricht Treaty but the government claimed that it would be possible to increase GDP by 2.5% by 1995. Clearly, however, the anomaly of the Italian system would become more and more evident considering the disproportion between the low inflation rates and devaluation which, since 1992, had ranged between 24 and 25%.

The persistent positive trend in exports continued to encourage companies producing exportable goods and services to increase, at least in part, their in-

<sup>15</sup>*Ibid.*, pp. 13-15.

<sup>16</sup>Banca d'Italia, *Assemblea generale ordinaria partecipanti*, held in Roma 31 May 1994, (Roma, 1994), p. 55 ff.

<sup>17</sup>The Banca d'Italia – that, from 4 April 1992, independently fixed discount rates – after bringing the rate to 15% in September, reduced it to 12% in December; to 11.5% in the following February; to 11% in April; to 10.50% in May; to 10% in June; to 9% in July; to 8.5% in September, to 7% in February 1994. Interest rates were also reduced. Cf. Graziani, *op. cit.*, p. 16.

<sup>18</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, Roma 31 May 1995, (Roma, 1995), pp. 60 ff.

vestment in machinery, equipment, transport and also in raw materials. Hence after four years of continuous reduction an increase in employment followed. In 1994 overtime work increased and, compared to 1993, recourse to the *Cassa Integrazione Guadagni* (Unemployment Benefit Office) had been reduced by a third. All this came about while home demand remained low on account of the monetary policies adopted by the government, modest salaries and the strict measures enforced to restore public finance.

Contrary to what might have been feared in view of the financial situation in 1994 when the movements of capital produced a clear deficit, in 1995<sup>19</sup> both trade and salaries marked a positive trend. Italy's net foreign debt also decreased. After the conspicuous losses of 1994, capital outflow started to decrease, whereas investment in the building sector continued to diminish, confirming the crisis in this area due to limited family spending and the standstill in public works, with the exception of a few modest initiatives. This was brought about by the judicial inquiries in recent years, coupled with the uncertainty in matters regarding contract regulations.<sup>20</sup>

#### **4. Further Recession and Subsequent Recovery (1995-1996)**

The last four months of 1995 proved to be another difficult period, as industrial production began to slow down again and families were obliged to reduce consumption.<sup>21</sup> Slackness continued throughout the entire year of 1996. Exports that in 1995 had increased by 11.6%, marked a negative trend (-0.3%) in 1996. Investments in machinery, equipment and means of transport fell from 13.4% (1995) to 1.3% (1996). But since imports were drastically reduced, the balance of trade recorded an increased surplus so that the ratio of the net foreign debt to gross domestic product fell from 11% in 1992 to slightly more than 3.3% in 1996.<sup>22</sup>

The lower inflation rates then contributed to limiting the average increase in the cost of living, which remained at approximately 3.9% in 1996, while the inflation differential compared to France and Germany was reduced to 1.1% and 1.6%, respectively. Business began to expand again towards the end of 1996, stimulated by the return of an expansive phase in the international economic cycle and the disinflation of the economy in general that went even beyond the parameters fixed by the Maastricht Treaty. During 1997 the inflation differential compared to France and Germany was almost erased and by the end of 1997 the net foreign debt had almost halved.

<sup>19</sup>*Ibid.*, pp. 59-62.

<sup>20</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, Roma 31 May 1996, (Roma, 1996), pp. 53-61.

<sup>21</sup>*Ibid.*, pp. 60-61.

<sup>22</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, Roma 31 May 1997, (Roma, 1997), pp. 58-63.

Continuous cooperation among management and workers allowed the disinflation to produce almost total stability in consumer prices. Family consumption started to increase, especially in the sector of durable goods; in fact, in order to help the automobile industry emerge from crisis, the government offered a substantial incentive to those who wished to change their old automobile (at least 10 years old) with a new one. The increase in consumption, however, affected family savings which had already been reduced by tax increases. Notwithstanding the increase in the rate of unemployment, the low rate of gross fixed investment and the reduction in the trade surplus, GDP increased by 1.7% in 1997 compared to the 0.7% in 1996. However, the increase continued to be lower than that recorded in other European Community countries.

## **5. The National Debt**

It must be pointed out that what distinguished Italy from the other European countries was not so much the lower rate of growth but the public debt.<sup>23</sup> This debt did not just suddenly appear, but had begun to accumulate in the early 1970s when Italy, like other industrialised countries, had to face a considerable increase in public expenditure for social purposes (mainly for health, welfare and local organisations) without a corresponding increase in public income (an increase that did in fact exist in other European countries). This deficit was covered by the issue of national debt bonds. Since the debt continued to increase, the government was obliged to pay higher interest rates in order to issue new bonds. Hence, while Japan paid a 0.4% interest rate on its public debt, the United States 1.9%, Great Britain 2.9%, Germany 3%, Italy was paying 10.4%. The interest rate continued to increase, especially towards the end of the 1980s, reaching very high levels. Therefore the deficit already accumulated for the creation of a welfare state increased with the interest that had to be paid on the debt; this continuous and ever more conspicuous deficit forced the government to issue more public debt bonds. Hence, year after year, the public debt grew so as to exceed two million billion lira in 1995. It is thus clear that the dual relationship between the deficit and GDP, and between the public debt and GDP caused Italy to drift away from the European Community. The Italian budget deficit in 1995 was approximately 140 thousand billion lire, that is, about 9-10% of GDP, while Europe recorded values ranging around 4 to 5%; the ratio of the public debt to GDP exceeded 120%, a value recorded only by Belgium, whose budget deficit, however, did not exceed 5% of its GDP.

In order to reduce the budget deficit, the government increased taxation in terms of both value-added tax (VAT) and social taxes. In terms of GDP taxation went from 42% (1989) to 46% (1999) and both direct and indirect taxes increased. The ratio of direct taxes to GDP increased from 14.3% (1989) to

<sup>23</sup> L. De Rosa, *Oltre Maastricht*, *op. cit.*, p. 259.

15.1% (1999), while that of indirect taxes increased from 10.4% (1989) to 15.3% (1999). As regards social taxes, the ratio to GDP increased from 12.6% (1989) to 15% (1997), falling only in 1998 and 1999 to 12.4% (1999).

In the meantime the deficit continued to fall, but the decrease was not so much due to a fall in public expenditure nor because profits had increased from 42% (1989) to 48.3% (1999) of GDP, but mainly on account of interest rates that had decreased by 2%.<sup>24</sup> The reduction in the interest rate had always been considered an essential condition for reducing the public debt because the reduction in interest rates offset the crowding-out effect on the manufacturing sector produced by the government's continuous recourse to the financial market. The manufacturing system suffered severely and could not compete with high interest rates. The government, therefore, made a great effort to invert the trend, confident that lower interest rates would stimulate investment and create more opportunities for employment.<sup>25</sup> Until 1994 the results were insignificant despite the fact that, since the early 1990s, the government had tried to encourage medium and long-term loans to help overcome the financial difficulties of the domestic market. In 1991 the government succeeded in issuing medium and long-term bonds (instead of short-term ones) and would have continued in this direction had Italy in 1992 not been involved in the monetary crisis mentioned earlier. Between 1992 and 1993, medium and long-term debt absorbed by the financial market increased from 46.1% to 49.8%, while short term debt decreased from 23% to 20.9%, the difference being deducted by the central bank. Hence, as early as the end of 1993, most of the debt matured after 3.29 years.<sup>26</sup>

The trend towards replacing short-term debt with medium or long-term debt continued in the years that followed and contributed towards reducing the yield differential between Italian and German ten-year government bonds. This differential dropped from 640 to 310 points in 1993, reaching 260 points during Berlusconi's first government, and then started to rise again after the change of government.<sup>27</sup>

## **6. Privatisation**

Another way to reduce the public debt was to dispose of state companies,<sup>28</sup> using the profits gained from their sale to pay off the debt. This was not a new idea. In Europe, and in the United Kingdom in particular, privatisations

<sup>24</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, Roma 31 May 2000, (Roma, 2000), p. 175.

<sup>25</sup> *Ibid.*, pp. 260-261.

<sup>26</sup> H. M. Scobie-S. Mortali-S. Persaud-P. Docile, *The Italian Economy in the 1990's*, (London-New York: Routledge, 1996), pp. 83-84.

<sup>27</sup> *Ibid.*, p. 85.

<sup>28</sup> *Ibid.*, p. 89 ff.

had already begun in the 1980s; they then spread through Western, Central and Eastern Europe. The Italian government intended to privatise companies on the basis of a medium-term programme, with Law 35/1992, estimating to gain some 7,000 billion lire in 1993 and 10,000 billion in each of the years that followed; however, part of the sums obtained were necessary to pay off, first and foremost, all the IRI and ENI debts.

To implement privatisation the government planned to transform the four principal holdings (ENEL, ENI, INA, and IRI) into joint stock companies, in order to make their shares quotable on the stock market, and also to subject them to private law and no longer to public law.

With Decree Law no. 389 of 27 September 1993 the Italian government decided to keep a *golden share* of all companies in the process of privatisation for a period of no more than five years in order to prevent new buyers from liquidating the companies or from changing the companies' statutory objectives. Another law no. 33 of 17 September 1993 authorised winding up EFIM, while Law no. 531 of 20 December 1993 established a Control Authority for all public utility companies. A decree law no. 216 of 31 March 1994, introduced a series of regulations 1) limiting private participation in privatised companies; 2) protecting minority share holders; 3) regulating share-holder meetings; and 4) facilitating the growth of "public companies", which, until that time, had not been not a very common type of company in Italy. In the case of some companies (SIV; EFIM; ACCIAI Speciali Terni; ILVA Laminati pi-ani; and Italmimpianti), the government proceeded to sell off the shares. For other companies, only major stock transfers were transacted (as in the cases of: Nuova Tirrenia, Società Autostradale, Dalmine; ISE, ENICHEM Augusta, Nuovo Pignone, BNL, SEAT-editoria, Italgel, Cirio, Bertolli, De Rica, Credito Italiano, etc.). In other cases, the government privatised by dividing the company capital into tranches, putting the tranches onto the market slowly in the years that followed in order to avoid price falls.

The 7,000 billion lire that the government planned to gain in 1993 proved, in fact, to be slightly less than 3,000 billion, even considering the transfer of major share parcels of many companies such as ENI, EFIM and IRI, whereas the 10,000 billion gain envisaged for the years to follow was far greater. In 1994 the profit reached almost 13,000 billion, in 1995 13,000 billion, in 1996 more than 14,000 billion, in 1997 40,000 billion, in 1998 almost 21,000 billion. in 1999 48,000 billion, and in 2000 almost 20,000 billion lire. Altogether between 1993 and 2000 the Italian state raised 172,000 billion lire from privatisation.<sup>29</sup>

Thanks to privatisation, greater taxation, and more especially to the drop in interest-rate outgoings, the ratio of the public debt to gross domestic product

<sup>29</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 1999*, Roma 31 May 2000, (Roma), p. 108; *idem*, *Assemblea generale ordinaria dei partecipanti per il 2000*, (Roma), 31 May 2001, *idem*, p. 113.

fell,<sup>30</sup> even if not sufficiently to meet the 60% value fixed by the Maastricht requirements. Before the much discussed "hole" in public finance, before the tragic events of 11 September 2001 and prior to the threat of war, it had been predicted that in the year 2004 the above-mentioned ratio would have settled to around 95%.<sup>31</sup>

## **7. Economic Effects**

Increased taxation, along with the fall in public expenditure, including expenditure on major public works, had inevitably led to deflation. Consumption had fallen and unemployment characterised most of the decade. Family consumption, which during the years 1980-1989 had increased annually by 2.9%, and which in the years of the crisis (1990-1994) had increased by 0.5%, began to rise again slightly in the second half of the decade, increasing at an annual average of 2.1%. This increase was not, however, sufficient enough to bring about a fall in unemployment, whose yearly average was 5% between 1971 and 1979, rising to 8.5% between 1980 and 1989, 9.5% from 1990 to 1994 and 11.6%<sup>32</sup> from 1995 to 1999; it fell only marginally (by about 1%) in the year 2000.

The overall transformation of the Italian economy had certainly contributed to these results, a transformation that had not actually begun in the past decade but which had clearly accelerated during this period.

By the end of the twentieth century the structure of the Italian economy had changed considerably. It was no longer based mainly on agriculture and industry, but on the tertiary sector. Agriculture, forestry and fishing did, in fact, enhance the added value of their product and increase their productivity. However, on account of the continuous decrease in specialised workers these sectors continued to decline in their contribution to GDP. The contribution made by this sector was no more than 3.2%.<sup>33</sup>

Industry also increased productivity and almost doubled the added value of various types of product, but it still continued to lose share year by year, recording a 28.4% decrease in its percentage of GDP.<sup>34</sup> The other branches of this sector were also slack: construction remained substantially static and manufacturing also declined. Furthermore, compared to the significant increases recorded in France, Germany, Spain and in the euro area in general,

<sup>30</sup> Percentage of public debt in relation to GDP.

95.4, 97.2, 100.6, 107.7, 118.1, 123.8, 123.2, 122.1, 119.2, 116.2, 115.1

Cfr., Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 1998*, *op. cit.*, 1999, p. 167

<sup>31</sup> *Idem*, *Assemblea generale ordinaria dei partecipanti per il 2000*, *op. cit.*, Roma, 2001, pp. 190 ff.

<sup>32</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, p. 67.

<sup>33</sup> *Ibid.*, p. 95.

<sup>34</sup> *Ibid.*

Italian industrial output remained substantially stationary. Even if the year 2000 marked some progress due to greater exploitation of production capacity, rising to 80%,<sup>35</sup> this progress was not sufficient to bridge the growth gap compared to other euro-zone countries. The sharp competition in the euro market continued. Italian industry was now considered to be lagging behind somewhat in the use of information and communication technologies. This backwardness was difficult to recover from for many reasons.

For example a radical reorganisation of companies was necessary, together with a consistent and complex retraining of personnel; adequate telecommunication and transport services needed be set up; an important change in company and bankruptcy laws was required. There should have been better coordination in privatisation and competition policies to counter the persistence of monopolistic-type concentrations.<sup>36</sup> In 1999, Italian industry had actually used around 77% of its production capacity.<sup>37</sup>

The most significant increase was noted in the tertiary sector which, in this period, began to take on a greater role in the economy as a whole. Between 1970 and 1990 the percentage of tertiary workers in the total labour force rose from 36.6% to 58.3%, which aligned Italy alongside countries such as Germany and Japan. Aided by the expansion in public administration and also by the incomplete modernisation of certain services, such as commerce, this trend continued through the last decade of the century. By the end of 1998 the share of personnel working in this sector reached 64.4%.<sup>38</sup> The contribution of the services' sector to the formation of GDP was stable, constituting 68.5% in 1999 and 68.2% in 2000,<sup>39</sup> while the contribution made by agriculture was in decline, dropping from 3.2% (1999) to 3% (2000), while industry remained stationary at 28.3% (1999) and 28.4% (2000).

The moderate signs of improvement in the Italian economy recorded during the year 2000 brought about an increase in employment, especially for the lower paid categories. The unemployment rate for women fell by 1.7% and for young people by 2.9%. 80% of the new jobs were part-time or fixed-term contracts, while the number of individuals performing "semi-subordinate" work (professionals and outside collaborators with a working relationship similar to subordinate workers) almost doubled, reaching some 2000. It has been noted that in the euro-zone the highest number (61%) of long-term unemployed was recorded in Italy, "where a certain dualism existed between a protected and better-paid sector and an excessively precarious one".<sup>40</sup>

<sup>35</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 2000*, *op. cit.*, p. 104.

<sup>36</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 2000*, (Roma, 2001), *op. cit.*, p. 102.

<sup>37</sup>*Idem*, *Assemblea generale ordinaria dei partecipanti per il 1999*, (Roma, 2000), *op. cit.*, pp. 95-96.

<sup>38</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 1999*, (Roma, 2000), *op. cit.*, p. 99.

<sup>39</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 2000*, *op. cit.*, p. 103.

<sup>40</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 2000*, *op. cit.*, pp. 80-81.

Another aspect that greatly differentiated Italy from the other leading industrialised nations was the self-employed sector. After Greece, Italy was the country with the highest percentage of self-employed workers and in Italy, as in Greece, this percentage has continued to increase.<sup>11</sup> The prevalence of small companies makes it difficult to allot funds for innovative activities. In fact, in terms of GDP in 1998-1999, the percentage spent by firms on research and development was as follows: 1.37% in France, 1.57% in Germany, 1.22% in the United Kingdom, 1.14% in the European Union in general, 2.01% in Japan, 2.08% in the United States, while in Italy companies devoted only 0.56% to research.<sup>12</sup> Nor have the resources allocated by the state for research and development changed this situation. In terms of GDP, France allocated 2.20%, Germany 2.32%, the United States 2.08%, the United Kingdom 1.87%, while Italy it was a mere 1.3%.<sup>13</sup>

## **8. Southern Italy**

The race towards the euro and the transformation of the Italian economy that have taken place over the past decade have not benefited Southern Italy. The restoring of public finance, undertaken in order to meet the Maastricht requirements, has been carried out mainly at the expense of Southern Italy and the Islands, where no major public works have been carried out, and from which almost all economic decision-making centres have been withdrawn. Furthermore, the South and the Islands have been deprived of part of their capital on account of the increase in taxation. However, the first part of the decade is to be distinguished from the second.

In the first part, the inherent lack of development factors (i.e. skilled human resources, production investment and infrastructure), obstacles of a local nature (crime and corruption), and the absence of public support, after the regime of special intervention had ended, had widened the divide with the Central-North regions, which was felt, above all, in the most populated regions (Campania and Apulia). In 1995, according to the Svimez estimates, the GDP growth rate in the Southern regions was still about half of that of the Central-North regions (1.7 and 3.5%, respectively), while per capita income had dropped below 57% compared to that of the Central-North, settling at values that were half of those recorded in the mid-1960s. According to studies carried out by the Bank of Italy the 1991-1995 period was marked by a continuous deterioration in the situation. This was partly ascribed to different demographic trends but mostly to the inferior growth of production (at constant prices) which in the South increased slightly more than 1.5%, while in the Central-North it increased by 6%. Foreign and

<sup>11</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 1999*, *op. cit.*, p. 103.

<sup>12</sup> *Ibid.*, p. 105.

<sup>13</sup> *Ibid.*

home demand had affected in varying degrees the widening gulf between North and South. Of the total volume of Italian exports, exports from the South were less even though the ratio between exports and sales of southern companies with more than 50 employees was just slightly lower than those in the North.<sup>44</sup>

As for home demand, this had begun to decline, especially between 1992 and 1995, with the reduction in public investment; the policies regarding aid to the depressed areas were being modified, and the tax deductions in favour of southern companies were being noticeably reduced, hence weakening their already limited competitive resources.

The reduction in public spending in the South had highlighted the serious structural deficiencies of the southern economy. The per capita level of investment, which at the beginning of the decade had amounted to two thirds of northern investment, progressively decreased to less than half. At the same time, the current net salaries of full-time workers had decreased by 11.2% in the South and by 2.7% in the central-North, thereby accentuating the already manifest inequality in incomes. During the past decade the percentage of people belonging to families with low incomes in the South has increased by about 50% and the number of workers with low income has doubled.<sup>45</sup>

In 1995, the government attempted to react to the worsening economic and social conditions in the South by promoting actions to improve the situation. However, the inadequacy of the instruments and measures, together with the bureaucratic obstacles that impeded the investment projects, contributed towards delaying improvement.<sup>46</sup> In fact, in 1996, according to the Svimez surveys, a further decline in the South, compared to the Central North, was recorded. While the Central North registered an 0.9% increase in production, the South remained stationary at 0.1%.<sup>47</sup>

The situation seemed to improve in 1997. The South recorded a 2.6% increase in GDP, which greatly exceeded the 1.8% recorded in the Central North. In fact, figures had improved considerably, especially as regards exports. But, already in the following year, GDP figures for the South and the Central North were almost the same, around 1.9% and 1.8%, respectively. This was reversed in 1999 when the South recorded a 1.5% increase in GDP and the Central North 1.7%. In the year 2000 this trend continued: the South recorded an increase of 2.5% while the Central North 3.1%, an average that concealed the real increases, which were 3.9% in Central Italy and 3.5% in the North-East.<sup>48</sup> It must be pointed out, moreover, that the gap between North

<sup>44</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, held in Roma on 31 May 1996, (Napoli, 1996), pp. 85-86.

<sup>45</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 2000*, *op. cit.*, p. 103.

<sup>46</sup>*Idem*, *Assemblea generale ordinaria dei partecipanti*, Roma, 31 May 1996, *op. cit.*, p. 86.

<sup>47</sup>Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, Roma, 31 May 1997, (Roma, 1997), p. 93.

<sup>48</sup>Svimez, *Rapporto 2001 sull'economia del Mezzogiorno*, (Bologna: Il Mulino, 2001), p. 98.

and South was somewhat mitigated on account of the migratory flow from the South which consisted of some 88,000 people in 1998, approximately 79,000 in 1999 and about 67,000 in 2000.<sup>49</sup> This migratory flow slowed down but did not reverse the demographic growth in the South. The South remains the only area with a natural increase in population, yet this increase has not succeeded in modifying the demographic decline of the entire country.<sup>50</sup> Today, the South numbers around 20 million inhabitants.<sup>51</sup>

With the exception of the period 1990-1995, which was affected by various crises, there is no doubt that in the second half of the decade Southern Italy had not continued to develop equally throughout its territory. Development dynamics differed from region to region. The most active regions were Basilicata and Molise, followed by Calabria and Abruzzo. In any case, as has been recognised, "all eight Southern regions have a per capita GDP level that is considerably lower than that of all Central North regions, thus confirming the persistent "dualism" in the economic make-up of the country".<sup>52</sup>

Differences among the eight Southern regions did, however, appear during the course of the decade in question. Abruzzo is the region that (with its 89.8%) more closely matched the average national level, followed by Molise (81.7%) and Basilicata( 71.7%).<sup>53</sup>

It is, indeed, a fact that the economic growth in some of the Southern areas is due to the gradual increase in their exports especially in the field of manufacturing industries, to the other countries of the European Union, but mostly towards the United States and Asian countries. Their international trade grew from 62.3% (1995) to 72.6% (2000).

Even if the Central North dominates the export sector, the South has gained 10 percentage points in six years, demonstrating its capability to keep pace with Central Northern productivity.<sup>54</sup> In the case of certain products the South has recorded rates higher than average values. The increase in the exportation of electrical apparatus and precision instruments from the Abruzzi and chemical products and electrical machinery from Sicily is surprising.

This progress, however, did not reflect government intervention, except in the case of Law Decree no. 488 of 19 December 1992. In fact, in the period 1997-2000, the so-called programmed negotiation, centred on the Treasury, offered a very meagre financial contribution. A mere 223 billion lire was distributed in favour of the 12 first-generation territorial agreements, concentrated in the southern regions and approved in 1996-1997, while 827 billion lire was distributed for the 15 area contracts signed between 1998 and 1999. The

<sup>49</sup> *Ibid.*, p. 5.

<sup>50</sup> *Ibid.*, p. 7.

<sup>51</sup> *Ibid.*, p. 15.

<sup>52</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 2000*, *op. cit.*, pp. 110 ff.

<sup>53</sup> Svimez, *op. cit.*, pp. 101-102.

<sup>54</sup> Svimez, *op. cit.*, pp. 149 ff.

sums distributed were, however, quite modest considering that they did not even exceed a third of the funds allocated by the CIPE (Inter-ministerial Committee for Industrial Policy). From 1999 the sums distributed in favour of second-generation territorial agreements seem to have improved, even if the sums were divided between Central North and South. A more consistent contribution is awaited thanks to the application of Objective 1 of the Community Aid Programme 2000-2006, which provides for a budget of 86,000 billion lire up to 2008, 55,000 billion of which is to be reserved for the South.

However, this prospect can drastically change with the enlargement of the European Union and the resulting lowering of the European per capita GDP average. It is already known that, when the Middle European countries enter the Union, only Campania and Calabria will fall into the categories of Objective 1.<sup>55</sup>

## **9. A Different Campania**

Considering the above-mentioned facts, it should be evident that, beyond changes in the economic situation and the persistent continuous gap with the rest of Italy throughout the decade, the Campania Region has radically changed. The Campania Region of the third millennium is different not only from the one that opened the twentieth century but also considerably different from the one surviving the aftermath of war and especially different from the Campania Region of ten years ago.

To begin with, agriculture has changed. Of the 824,000 hectares that make up its agricultural area (i.e. 60% of its entire regional territory) the farms, excluding those with less than a hectare, slightly exceed 201,000 hectares, 40% of which are of livestock. The farms are not very large. Their average area is smaller than those of all other Italian regions. Compared to a national average of 6.4 hectares per farm, the average of the Campania farms does not exceed 3.1 hectares. This is due to changes over the past decade which have seen a 16.3% reduction in the number of farms in Campania from 1993 to 1997, that is to say twice the national figure (7.3%), while employment has decreased from 19.8% (1993) to 7.8% (1999).<sup>56</sup>

The year 2000 recorded a significant flight from the countryside.<sup>57</sup> Notwithstanding the larger size of farms, which makes it possible to employ more machinery, the increase in the average productivity of farm work in Campania is far less than that recorded on the national scale. Another factor to take into account is that the regular farm workers who have left agriculture

<sup>55</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti*, Roma, 31 May 2001, (Roma, 2001), pp. 117-120.

<sup>56</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1999*, (Napoli, 2000), pp. 9 ff.

<sup>57</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 2000*, (Napoli, 2001).

have been replaced by casual workers. After Calabria, Campania is the region that employs the largest number of casual workers: for 13 regular workers there correspond 87 casual labourers. But this is not the only change that has come about in Campania agriculture.

Besides the slackness in horticulture and the cultivation of industrial plants, there has also been a conspicuous decline in arboreal agriculture (13.6%) and, in particular, of olive-growing on account of the spread of parasites that affect the production of olives and olive oil considerably. Campania agriculture has mainly turned to cereal agriculture, livestock breeding and vine growing. The particular care devoted to these sectors of agriculture has made it possible to produce prestigious and high-quality products that has opened the way to the production of dairy products and wine, besides the already profitable production of oil, providing interesting prospects in national and international markets.

In the future these prospects may change the situation. In the meantime, on account of the changes that have come about the contribution of agriculture and livestock breeding to regional GDP dropped from 4.9% (1991) to 3.8% (1998); the same may be said for Campania agricultural exports that decreased from 5 to 4%.<sup>88</sup>

The changes occurring in industry are also quite significant. First, during the past decade the building sector has recorded a progressive decline.<sup>89</sup> In fact the decline in the building industry had already begun in the mid-1980s. At that time this activity accounted for 10% of the regional GDP, and employed both directly and indirectly more than 15% of the workforce. Ten years later, in 1995, its GDP percentage dropped to 4%, and its employees decreased by 40%.<sup>90</sup> The situation could have only been reversed by a reactivation of public works. But the implementation of regional public works was very slow. Even though announcements for public tenders increased (in 1996 the envisaged expenditure was 20% more than that in 1995 and 76% more than that in 1994), the works that had actually been commissioned were no more than 30% of those envisaged, while the number of building sites actually opened in 1996 were fewer than 35% of those commissioned.

It must be noted that the discrepancy between public tender announcements, awards and opened building sites depended partly on Law 109/1994, modified by Law 216 of 2 June 1995 (Merloni Law), prohibiting local institutions from issuing building licences. Other obstacles came about on account of procedural and bureaucratic complications, including the frequent suspen-

<sup>88</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1999*, (Napoli, 2000), pp. 9-10.

<sup>89</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1998*, (Napoli, 1999), p. 6.

<sup>90</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1995*, (Napoli, 1996), pp. 20-21.

sion of works due to variations in course of construction, lack of authorisation for administrative permits, insufficient resources, disputes with the contractor, which sometimes resulted in the freezing of funds.<sup>61</sup>

Nevertheless, in 1998, after a six-year negative trend, the sector began to show signs of improvement, despite the recession in residential building. The stimulus was given by new industrial investment and the allocation of contracts for public works, which had been reduced by 3% but were possible thanks to the public tenders of the previous year.<sup>62</sup> Another stimulus also came from Law 449/1997 that provided tax reductions for the renovation of housing. The government had great expectations with regard to this law, but the number of those who actually benefited from the incentives proved to be four times lower than the national average. During the year 1999 the total employment in this sector decreased by 5.3%. But this figure does not account for the considerable presence of illegal labour<sup>63</sup> and illegal building, for which the Campania region holds first place.<sup>64</sup> According to ANCE and *Legambiente* (The Environmental Movement) in the period 1996-1998 21,738 illegal houses were built in Campania, 21% of the total national figure.<sup>65</sup>

Investments had also been made to restore and convert non-residential buildings for industrial and commercial use and, following a decade of stagnation, new industrial plants began to be built. At the end of May 2000 many new factories were under construction, representing over 18% of those already functioning.<sup>66</sup>

Hence, it is not surprising that in 1999-2000 the building sector was the one in which employment was undergoing the greatest expansion.<sup>67</sup> This was exactly the opposite of what was happening in manufacturing industry, where, as early as the intermediate ISTAT census, there had been a 8.8% drop in employment between 1991 and 1996. The fact is that foreign demand had mainly helped to stimulate industrial activity. In 1995 it was noted that "the activity levels in sectors lacking in significant non-regional outlets continued to remain stationary".<sup>68</sup> Both 1995 and 1996 marked a relatively important industrial slowdown, with a considerable reduction in employment. In 1996 the number of those employed in Campania industries was just 4.4% of the national total.<sup>69</sup>

<sup>61</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1996*, (Napoli, 1997), pp. 20-21.

<sup>62</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1998*, (Napoli, 1999), pp. 21-23.

<sup>63</sup> According to Svimez, illegal work in the Campania building sector reached almost 60% against a 25% value recorded in the Northern regions.

<sup>64</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1999*, (Napoli, 2000), pp. 16-18.

<sup>65</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1999*, (Napoli, 2000), p. 17.

<sup>66</sup> Assemblea generale ordinaria dei partecipanti per il 2000, *op. cit.*

<sup>67</sup> Svimez, *op. cit.*, pp. 52-53 Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 2000*, (Napoli, 2001).

<sup>68</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1995*, (Napoli, 1996), p. 6.

<sup>69</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1996*, (Napoli, 1997), pp. 11, 14, 48-49.

Two circumstances helped to improve the situation: the increase in foreign demand and the partial increase in domestic demand. Due to the increase in prices and the fall in profits, this recovery mostly favoured medium and medium-large companies which, in order to satisfy foreign demand, had used up to 80% of their productive capacity. Their vertical integration, arising from their use of major technologies, had obviously damaged the smaller companies, which were unable to interact with foreign markets or with the rest of the industrial system.

The types of exports differ from province to province. The areas of Salerno, Caserta and Naples mainly export products agricultural produce, forestry products and fish. The province of Avellino has mostly exported office machinery, leather goods and shoes, textile products and clothing and also mechanical products. The province of Benevento has not been engaged in any large-scale export activities, since it is the least industrialised province in the Campania region.

The provinces most engaged in exportation are Caserta, Salerno and above all Naples, which alone has supplied more than 50% of Campania's exports. The province of Caserta produced 15% of exports, exporting minerals, iron and non-ferrous metals, non-metallic minerals and products, mechanical metal products (farm and industrial machinery, office machinery, electrical materials and supplies), wood, paper, rubber and other industrial products, textile products and clothing. Approximately 19% of Campania's exports come from the Salerno province consisting of minerals and non-metal products, farming and industrial machines, foodstuffs, beverages and tobacco, wood, paper, rubber and other industrial products. However, as mentioned above, the province that has contributed most to the Campania's exports is Naples.

The latter has exported almost all energy and transport products, an enormous quantity of chemical products, textiles and clothing, leather and shoes, wood, paper and rubber, more than 51% of farming and industrial machinery, and a considerable amount of electrical material and supplies, minerals and non-metal products.<sup>70</sup>

The overall fortunes of manufacturing industry did not improve despite the percentage increments of the years 1997-1998 since at the end of 1998 industrial production began once again to decrease, and for most of the year 2000 it recorded modest results. Towards the end of the year the situation improved but without producing any effects on employment. In fact, the industrial sector recorded a further 2.3% drop in employment.<sup>71</sup>

This sector has certainly been affected by the disappearance of public industry. The number of workers in state-controlled industries decreased between 1990 and 1999 from 28% to 8% of the total number of Campania employees. At the same time a change in the structure of industry occurred. Food and fashion industries have progressively developed. An interesting feature is that

<sup>70</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1998*, (Napoli, 1999), p. 29.

<sup>71</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1999*, *op. cit.*, pp. 11-13.

in recent years investments have been made mostly in favour of locally-owned companies, while no new investments have been recorded for non-locally owned ones. Small and medium companies seem to be expanding, while larger companies have progressively reduced the use of their plant, limiting their productivity to 70%.<sup>72</sup> As we have already mentioned, most of the industrial activities are dependent on the demand from Central North and foreign industry. Considering 100 companies operating in Campania, only 26.9% export more than 25% of their turnover. Furthermore, among the 95 companies that have reached this objective, almost half of them did so after 1992. What has contributed towards their success in far distant markets abroad, apart from the competitiveness of their prices, is the great effort that has been made in the search for new markets, in addition to home demand.<sup>73</sup>

Despite the presence of more regional products sold on foreign markets it must be recognised that the quantity and variety of regional industrial production is in decline compared to 1991, as are exports. In 1997 and 1998 the province of Avellino lost more than a third of its exports, and those of Benevento and Naples fell by 13.5% and 0.4%, respectively. From 1991 to 1998 the province of Naples lost 16% of its exports, the province of Benevento 23.1% and, albeit marginally, the provinces of Caserta and Salerno have taken advantage of this situation.<sup>74</sup>

The year 1998 marked a slowing down compared to the previous year.<sup>75</sup> This slow down has been ascribed to the fall in foreign demand which, after constantly increasing between 1994 and 1997, began a downturn which in 1999 was still in progress. In fact, Italian products had lost part of their competitiveness.

Neither agricultural produce, similarly affected by the slow-down, nor the building industry has counterbalanced the fall in demand. Since the crisis involved the main sectors of the Campania economy, it obviously affected both family consumption and expenditure for fixed investment for the larger companies and companies in general. These investments had considerably expanded in 1997 thanks to the funds granted to small and medium-sized companies. Investment had picked up again in 2000, but was mostly concentrated in large companies.<sup>76</sup> However, these investments did not stimulate employment, but rather further reduced it. Between 1998 and 1999 the Campania re-

<sup>72</sup> *Idem*, *Note sull'andamento dell'economia della Campania nel 1999*, *op. cit.*, pp. 11-13.

<sup>73</sup> *Ibid.*, p. 25.

<sup>74</sup> *Ibid.*, p. 28.

<sup>75</sup> The production of manufacturing industry. Percentage variations related to the previous period:

Periods	Campania	Mezzogiorno	Italy
1997	3.4	2.9	2.6
1998	1.9	1.6	1.9
1999	-1.3	-0.7	-0.4
1999-iv quarter	1.4	0.9	2.8

<sup>76</sup> Banca d'Italia, *Assemblea generale ordinaria dei partecipanti per il 2000*, *op. cit.*, p. 93.

gion lost 6% of its jobs, and between 1999 and 2000 another 2.4%. Among the regions of Southern Italy Campania is the one with the greatest loss of jobs.<sup>77</sup>

## 10. The Tertiary Sector

Without experiencing an industrial revolution, the Campania region has now reached the post-industrial age, namely that of commerce and services. In these sectors, signs of a silent but continuous transformation are evident. For centuries large-scale and small-scale trade has characterised this region and Naples, in particular. In the second half of the nineteenth century, approximately 75% of the Neapolitan population made their living through trading.

More than a century later, in 1996, as can be observed by an intermediate census, the weight of commerce in Campania still proves to be above the national average (26.4% against 21.9%), even if it is less than that of South Italy as a whole (27.2%).

The divergence with national figures can be explained by the prevalence of retail businesses. The Campania region is defending its commercial vocation based on a multitude of small businesses, but it is continuously hampered by large-scale distribution. In 1996, 62.2% of its business employees worked for companies that still had fewer than three employees, and this type of company did not exceed 45% in Italy and 40% in the Central North. However, by the second half of the decade the situation seemed to be changing. In the past three years the presence of large shopping centres (department stores or mega-stores, hypermarkets, supermarkets, cash-and-carry) has increased as much as the sales areas and these have increased both in relation to the country as a whole and above all in relation to South Italy. Nevertheless, there is still a long way to go, and care is needed because, even if the large distribution chains have up to now brought about an increase in investment and employment to a greater extent than in other parts of the country,<sup>78</sup> the number of those whose means of existence depends on business in Naples is still high.

Another sector undergoing transformation is that of transport, which is being developed, partly due to the movement of containers but to a greater extent on account of the increase in tourism. Both trends have impacted on the port activities of both Naples and Salerno. However, the two ports have followed different paths. In the early 1990s Salerno had already equipped its port for container shipping, and hence was able to obtain excellent results, reaching traffic volumes just slightly inferior to those obtained by the port of Naples. It even obtained better results in the shipping of motor vehicles, taking all the exports from the Melfi factory. Nevertheless, Naples continued to reign supreme as the major mercantile port of the region, moving more than three times the freight in the port of Salerno. It is also the major tourist port, which with its traffic of giant cruise ships has five times

<sup>77</sup> Svimez, *op. cit.*, pp. 52-53.

<sup>78</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1999*, *op. cit.*, pp. 19-21.

the passenger transport of the Salerno port. Furthermore, the airport of Naples is being fully developed, but not so much for goods as for passengers.<sup>79</sup>

Tourism is also expanding rapidly even if the Campania region does not seem to be adequately equipped with support services. What the Campania region has to offer as far as accommodation is concerned (including hotels, guest rooms and tourist accommodation) is below the national average. Regarding the amount of sleeping accommodation, Campania has about a third of the national average, but it is rapidly developing its rural tourism and farm residences, which have increased from 18 (1991) to 168 (1999).<sup>80</sup>

With the end of the crisis of the early 1990s, during which both Italian and foreign tourism was at a standstill, from 1994 onwards hotel and non-hotel accommodation have witnessed a steady increase. Tourist visits rose from 16 million to 19 million in 1996<sup>81</sup> and, with a million visits each year, reached 22 million in 1999.<sup>82</sup>

Business, transport and tourism are the main components of the tertiary sector but this also includes credit and general service industries, with particular importance being given to company services.

With regard to the credit sector, the period under study has been an unlucky one for banking overall. First, private banks started to disappear, then savings banks, then cooperative banks, then *Isvimer*, and finally the Bank of Naples.

From 1992 to 1995, the Neapolitan Bank produced very poor results. Hence, during the year 1996, a law decree was passed permitting the Treasury to increase its business capital; at the same time banks and institutional investors intervened financially, stipulating trade-union agreements and buying the bank's shares. The capitalisation of the Bank of Naples was completed in December 1996 with a sum slightly higher than 2000 billion lire. On the 31 December of the same year the bank was authorised to sell overdue credits, financing contracts, credits at a standstill for sums greater than 100 million, credits and securities at risk, and shares deriving from recoveries and the restructuring of credits to the Company for the Management of Activities (S.G.A.) at a price of 12,364,381 billion lira.<sup>83</sup>

The above-mentioned transactions sealed the fate of the bank forever, but its name was not to be erased from the national and southern Italian banking world, considering its centuries-old roots in society, an asset which no buyer would turn down. However, the bank would no longer maintain its independence.

Its name appears alongside the other 52 banks that statistics indicate as having their administrative office in Campania, but which, in fact, relate to banks outside Campania and even outside the South.

<sup>79</sup> *Idem*, *Note sull'andamento dell'economia della Campania nel 1999*, *op. cit.*, pp. 21-22, 55-56.

<sup>80</sup> *Ibid.*, p. 26.

<sup>81</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1995*, (Napoli, 1996), p. 26.

<sup>82</sup> *Idem*, *Note sull'andamento dell'economia della Campania nel 1999*, (Napoli, 2000), p. 56.

<sup>83</sup> Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1996*, *op. cit.*, pp. 45-46.

Their growth is inevitably linked to the economic development of the South alone. Other banks – that have taken over their capital – will manage those funds which cannot be profitably invested in the South and will certainly invest them where they will gain greater profits, and keep the profits deriving from their role as intermediaries for themselves.

The above-mentioned operations had also been carried out by Campania banks when they had enjoyed full autonomy but then the profits deriving from their intermediation were invested in the South. By its capital this allowed the Bank of Naples to expand outside the South, hence helping to strengthening its position.

It has taken around 140 years to put an end to the independence of an institution like the Bank of Naples, and much less to dispose of those savings banks and cooperative banks that resisted the centralising policies of fascism, and the many other private banks that had played an important role in the economic development of the South. This all happened during a radically changing phase of southern Italian politics.

The crisis of the southern welfare system also engulfed the southern Italian banking system. Indeed, it was not the first time that the southern Italian banking system had to pay for the consequences of the abrupt changes in the economic policies of Italian governments. For example, it had occurred once before towards the end of the nineteenth century, when the Crispi government had wanted to switch from a free-trade to a protectionist policy, creating a major crisis that seriously harmed the commercial banks of the time and that almost brought about the bankruptcy of the Bank of Naples. At that time the government realised that by removing a financial driving force, such as the Bank of Naples, from the South meant depriving it of a very important instrument. The Treasury Minister then was Luigi Luzzati, who, without obliging the state to finance the bank, devised a brilliant financial strategy to provide it with the liquidity necessary to recover its strength and operating capability, and the state itself even profited from the operation.<sup>81</sup> The Minister then selected and obliged a member of Parliament, Nicola Miraglia, to examine the question of the bank in detail, and to complete the necessary operations. Miraglia thus became aware of the need for the South to have its own bank. He was so convinced of the importance of this goal as to come into conflict with Luzzati himself, who, having become Prime Minister, wanted to use part of the bank's capital to finance some important social works at a time when the bank had not yet completely recovered.

At the end of the nineteenth century, Luzzati was encouraged in his objective to save the bank by various interventions of the local authorities (Mayors, Presidents of Provinces, Deputies, Senators, Chambers of Commerce and Industrial Associations). All these authorities publicly intervened to rescue the

<sup>81</sup> I. De Rosa, *Storia del Banco di Napoli. Istituto di emissione nell'Italia unita (1863-1926)*, vol. III, (Napoli, 1992), pp. 5 ff.

bank. Yet this time round silence is the rule and with the exception of only one contrary view, the Bank of Naples is no longer of interest. Hence, the end of a Neapolitan institution was decreed, an institution which was not only Neapolitan but Southern Italian, national, international, directed by Neapolitans and around which, for four centuries, the economic and social history of Naples and continental southern Italy, besides Italy as a whole, had revolved; an institution that had accompanied and protected the savings earned by the sweat of millions of emigrants from the South who had gone out to populate and support far-distant lands with their labour.

Campania and the South no longer possess an independent financial centre, and this is another sign of deep change. In fact, the limited expansion of the banking network in Campania in the last decade has been carried out by banks outside the region. In any case, the problem is not a matter of how many branches are open. The real problem is whether the new owners of the banks operating in the South and in Campania, besides collecting the savings of individuals and families, are also willing to invest: today, this is much easier than it was in the past, considering the transition from specialised banks to universal ones. But are these non-regional banks inclined to invest capital in businesses as the law allows?

According to the Bank of Italy, in 1995, such investments were "still limited". Apart from the cultural difficulties of small- and medium-sized companies, the minimal investment by these businesses was attributed to their trustees' limited professional experience in long-term assessments. Yet in the years that followed the companies' professional expertise did not improve and the rate of investment failed to increase.

Unfortunately the elimination of an independent southern Italian banking system coincided with a long phase of considerable economic stagnation in southern Italy. Until 1994 the crisis had forced the banks to reduce the provision of credit.

In 1995 the increase in unpaid debts and the negative financial situation of many town councils in the Campania region, the lack of investment by local institutions and the reduction in loans for public administrations and finance companies after the disappearance of two local banks, did not change the trend in credit restriction. In 1994 credit was down by -4.2% compared to 1993, and down by -0.95% in 1995.<sup>85</sup> In 1996 there were no noticeable changes. Leaving aside the unpaid debts, credit trends showed a variation of -0.9 which confirmed the caution of banks towards reliable clients.

Credit mostly went to non-financial firms, companies or quasi-companies, families for stipulating mortgages and financing aided by contributions envisaged by Law 482/1992 for investments made in depressed areas.<sup>86</sup>

<sup>85</sup>*Idem, Ibid.*, pp. 30-32.

<sup>86</sup>*Idem, Note sull'andamento dell'economia della Campania nel 1996*, (Napoli, 1997), p. 36.

The year 1997 did not record any significant differences even if in the month of January the Bank of Naples yielded its outstanding credit, which was not all concentrated in the region, to the S.G.A.<sup>87</sup>

The granting of this credit increased the total amount of credit distributed in the region, which from 1996 to 1997 had leapt from 54 billion lira to over 62 billion lira.<sup>88</sup> However, it must be noted that policies of credit supply in Campania had been more restrictive compared to the national average.<sup>89</sup> In 1997 the granting of mortgages to families continued on account of the fall in interest rates. Credit granted for administering local institutions was, on the contrary, reduced by 11.5% on account of the measures imposed by the Treasury. It was reduced also in agriculture, building and commerce, whereas it increased considerably, for the third consecutive year, in favour of tourist and transport activities. Credit flows remained constant for industry in general.<sup>90</sup>

Even if the year 1998, like the previous years, continued to record a reduction in the granting of credit, which continued to be less than the national average, what, in fact, characterised the Campania banking situation was the persistent and increasing movement of credit from short- to medium-long term, especially in the case of mortgages.<sup>91</sup> This trend was accentuated during the year 1999, when larger amounts of credit were granted, this time in keeping with the national average. It was observed, in fact, that the expansion of credit was entirely concentrated in the medium- and long-term sector, which had more than compensated for short-term credit.

Two factors contributed towards favouring medium- and long-term credit: the first was the extending of payment deadlines, common to all the provinces, but particularly marked in Campania on account of the financing concessions made by a pool of Campania-region banks with the objective of paying off the debts of the local health offices; the second was the conspicuous use of this type of credit by families (increased by 1,757 billion lire in a year) to allow them to benefit from the fall in interest rates and to take advantage of the offers made by the banks. In both cases, the credit in question was not granted to increase production. Even the medium- and long-term credit granted to private companies and which represented only a small amount of the credit issued, was used to reduce the onerous debts accumulated on their banking accounts rather than to make investments.<sup>92</sup>

It was recognised that the increase (2.2%) in loans for industrial transformation was rather weak. In 1998 and 1999 the loans of local companies had slightly exceeded 20% and others showed a rise of slightly less than 8%. Self-

<sup>87</sup>*Idem*, *Note sull'andamento dell'economia della Campania nel 1998*, (Napoli, 1999), p. 41.

<sup>88</sup>*Idem*, *Note sull'andamento dell'economia della Campania nel 1996*, *op. cit.*, p. 59.

<sup>89</sup>*Idem*, *Note sull'andamento dell'economia della Campania nel 1998*, *op. cit.*, p. 43.

<sup>90</sup>*Idem*, *Note sull'andamento dell'economia della Campania nel 1998*, *op. cit.*, p. 41 ff.

<sup>91</sup>*Ibid.*, pp. 41-43.

<sup>92</sup>*Idem*, *Note sull'andamento dell'economia della Campania nel 1999*, pp. 38-40.

financing and disinvestment had been greater and government contributions followed the same trend.<sup>93</sup>

The outstanding debts that had accumulated on account of the gap caused by the abolition of the special initiatives for the South and the delay in both the devising of new strategies and their implementation weighed heavily on southern Italy and on the Campania region. Not all the unpaid debts would have led to losses but they had immobilised the banks.

In many cases this crisis brought about the change in the ownership of debts. This change was not always necessary, considering that the re-absorption of the outstanding debts often gave liquidity back to the bank undergoing difficulties.<sup>94</sup> If this possibility had been considered earlier the Campania region would not have added the loss of its credit institutions to the loss of its most important economic and decision-making centres.

Another change took place in employment. The decade under study was a very bad period for the labour market in Campania. The economic crisis of the early 1990s, the difficulties in the building and industrial sectors, together with the limited exploitation of the production capacities of manufacturing industry and the continuous flight from the land, all increased unemployment in the South and in Campania. In Campania the unemployment rate, which included those in search of employment in a period prior to the last thirty days was 26.56% in January 1994, 28.25% at the end of 1994 and above 32% at the end of 1995.<sup>95</sup>

Some of the unemployed were assisted for a certain period of time by the ordinary or special benefits granted by the *Cassa Integrazione Guadagni*. They could then register with public administration offices and state-controlled companies which could hire personnel to promote socially-useful projects that could not be carried out with their own personnel. However, this matter will not be discussed here in view of the fact that many consider these projects socially useless. Instead it is worth examining the measures adopted to promote opportunities for economic development.

## **11. Intervention Strategies in favour of Southern Italy**

Starting with Decree no. 963 of 3 April 1993 which abolished the special initiatives for the South, the government approved Decree no. 244 of 23 June 1995, which became Law n. 341 of 8 August 1995, whereby the "Land Agreement" was introduced. This was an agreement between private and public interests to coordinate various measures aimed at promoting local development in the depressed areas of the country, not only southern Italy. However, this project required, and still requires, a long and complex proce-

<sup>93</sup> *Ibid.*, pp. 41-42.

<sup>94</sup> *Ibid.*, p. 43.

<sup>95</sup> *Idem*, *Note sull'andamento dell'economia della Campania nel 1995*, *op. cit.*, cfr. Appendice, Tav. aB10.

dure.<sup>96</sup> Hence it took a long time to get underway. Up the end of 1996, out of 100 "agreements" envisaged for the Campania region, only 13 had been drawn up, of which only 3 were officially formalised, although they never actually took place. Even less efficient were the "area contracts", envisaged in the "Work Agreement", stipulated by the government and management and workers on 24 September 1996. With the amendment made to the 1997 Finance Policy Programme, which eliminated the exception made (albeit for limited periods and areas) regarding the minimum wages required by national contracts, the above-mentioned "area contracts" were no longer effective.

The projects for redeveloping abandoned industrial areas which could be financed by Law 236/93 were also very few and far between. The agreements for the de-industrialisation and industrial reorganisation of six depressed areas in difficulty, including two in Campania at Torre Annunziata (Naples) and Airola (Benevento), were signed after four years on 12 February 1997.<sup>97</sup> In the meantime, the employment situation in Campania had plummeted. By the end of 1996 the unemployed were calculated to be 1,039,000 (out of a total population of 6 million),<sup>98</sup> i.e. 70% more than the number of employed, against a national average of 30% and 55% in the remaining southern regions. Unemployment increased in 1996 on account of the lack of confidence that spread among those searching for regular employment. On the contrary there had been an increase in casual and illegal labour.

Even if difficult to ascertain, in 1991 the level of irregular employment in Campania was higher than that of the national average and of the rest of the South, and this trend continued to increase during the decade.<sup>99</sup> The region with the highest rate of casual employment was Calabria with 30%, followed by Campania with 26%, and then Sicily 24.5%. The lowest level recorded in

<sup>96</sup> It required that the public resources provided should not exceed 100 billion, that the cost of the infrastructure should not exceed 30% of production investment, that the owner of the business should invest a sum which was no less than 30% of the investment.

<sup>97</sup> *Idem*, *Note sull'andamento dell'economia della Campania nel 1996*, *op. cit.*, pp. 29-32.

<sup>98</sup> Istat, *Popolazione e movimento anagrafico dei comuni*, Anno 1998, (Roma, 2000), p. 13.

<sup>99</sup> % of irregular employment over % of total employment per sector and territorial region:

Sector	Southern Italy		Central North		Italy		Campania	
	1996	2000	1996	2000	1996	2000	1996	2000
Agriculture	35	38	22	22.9	27.6	30.3		
Industry	18.5	18.6	5.1	5.3	7.8	7.9		
Industry (in strict sense)	14.2	14.2	3.7	3.7	5.5	5.5		
Building	26.8	27	10.7	10.8	15.7	15.9		
Services	223	24	13.8	13.8	16.3	16.9		
Total	21.5	23.5	12	12.1	14.5	15.1	24	26

Source: *Smirnez, op. cit.*, pp. 795-796.

the South for irregular employment was 13.5% in Abruzzo.<sup>100</sup> Workers from outside the European Union have always been part of this illegal workforce.<sup>101</sup>

The efforts made to reduce unemployment had until then produced but scarce results. In fact, in 1997, the Minister of Employment, Treu, issued Law no. 196, whereby companies could hire workers on special temporary contracts, and government offices were opened to promote these. Nevertheless, businesses did not respond very positively to the measure and only a small minority of workers were employed in this way. Again, Decree no. 468 of 1997, sought to reform the law regulating Socially-Useful Work, in an attempt to transform the latter into permanent work through the creation of mixed private and public companies made up of local institutions and workers. The outcome was insignificant, considering that those hired were assigned to perform regular services.

Neither was the attempt to legalise contracts for illegal workers successful. Local enterprises had very little propensity to regularise their workers and, in the meantime, this phenomenon continued to grow. In 1998, the Campania region counted the greatest number of casual workers, greater by far than the Veneto region that held second place: 70% of declared casual workers were employed in non-farming businesses, while the rest worked on farms.

Law 95/1995, which replaced the preceding proposals, also sought to reduce unemployment in the South and in Campania. Its objective was to give support to young entrepreneurs both in the South and in certain areas of the Central North. However, very few projects were financed in Campania. Law 608/96 had a similar objective with its "honourable loans", which was meant to be an incentive to set up businesses.

Most of these measures had to pass through a lot of red tape. The machinery devised to promote development in the South was slow-working. Once again, in 1998, since the "area agreements" had given poor results, CIPE proposed another financing procedure.<sup>102</sup> But in the first three months of 2000 the 8 "Agreements" approved for the Campania region had not yet been implemented and have just completed their bureaucratic procedures.<sup>103</sup> With the intention of accelerating the implementation of the "area contracts", on 11 November 1998 the CIPE introduced new procedures. Yet by mid-2000, while the contract regarding the Castellammare and Torre Annunziata areas was about to start, the others, signed in 1999, regarding Airola (in the Benevento area), Cratere (in the Avellino area) and Caserta Nord, are still waiting to get underway. In brief, between 1994 and March 2000, approximately 3500 projects have been examined, but financing has been approved for only 20 pro-

<sup>100</sup>Svimez, *op. cit.*, pp. 797-797.

<sup>101</sup>Banca d'Italia, *Note sull'andamento dell'economia della Campania nel 1996*, *op. cit.*, pp. 25.

<sup>102</sup>*Idem*, *Note sull'andamento dell'economia della Campania nel 1998*, *op. cit.*, pp. 36-39.

<sup>103</sup>*Idem*, *Note sull'andamento dell'economia della Campania nel 1999*, *op. cit.*, pp. 35.

jects and the resources actually disposed of, to date, are less than 5% of the total amount allocated.<sup>105</sup> Hence, notwithstanding those employed in socially-useful work and those with short-term contracts, unemployment in Campania, at the end of the year 2000 is still very high, at around 23.7%. Only Sicily (24%) and Calabria (26%) have higher rates. Furthermore, it did not reach higher levels due to the low participation of women in the labour market (27.6%) against a national average of 35.3%.

If one considers that there are regions like Trentino-Südtirol where the unemployment rate does not go beyond 2.7%, Veneto, where it just reaches 3.7% and Lombardy where it does not go above 4.4%,<sup>105</sup> it cannot be denied that the country is truly wasting its human capital. Hence, it is not surprising that a region like Campania, which between 1996 and 2000 has grown on a yearly average at a rate below that of the Central North (2.5% against 3.1%), should be that with the slowest rate of development. Nor did the recovery in 2000 change the situation in this region. Excluding Sardinia, the Campania region produced the lowest increase in GDP, lower than Apulia, which has had higher GDP rates in the past compared to those recorded in Campania. Campania recorded 1.7%, Abruzzo 3.1%, Molise 4%, Basilicata 3.7%, Calabria 3.6% and Sicily 3.3%.

These GDP rates of growth, which make it difficult to bridge the gap between the Central North and South Italy, explain the low per capita incomes in the southern regions, which are 50% lower than those recorded in the Central North and especially low in Calabria and Campania<sup>106</sup>. They clearly show how much wealth and income Italy is deprived of, and how its role is weakened among the European nations and the world as a whole.

<sup>105</sup> *Ibid.*, pp. 35-37. The Bank of Italy commented on the evident failure, admitting that the "poor experience in territorial planning and the poor cooperation and coordination among the various parts of the economic and institutional network, the need to programme intervention in the area without proper urban planning and an incomplete knowledge of the characteristics of local production, had hampered the proposals in their early promotional stages". *Ibid.*, p. 37.

<sup>106</sup> Svimez, *op. cit.*, p. 59.

<sup>106</sup> Svimez, *op. cit.*, pp. 982-985.

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