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## PROBLEMS

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### *Two "Souths": the United States and Italy since the 1860's*

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#### 1. Introduction

Classical economic theory suggests that the free flow of resources in an open economy will induce factor price equalization, narrow income differentials and close regional gaps. Yet, where regional dualism exists, the consequent process takes place over several generations (or, in particular cases, not at all if public policies are not implemented). The best examples of economic retardation are offered by the United States' South since the Civil War and the Italian South (the *Mezzogiorno*\*) since the *Risorgimento* (Italian reunification) in 1870.

This exercise in comparative history is an attempt to examine the two "Souths" during a period of somewhat more than a century and to pose the query: Why has the South within the United States, after a prolonged period of divergence, been able to embark on a successful period of convergence, that is, to close the gap substantially between the South and the national average, especially in the last half century? Conversely, why has the South of Italy, despite considerable absolute improvement, been unable to narrow the difference between it and the rest of Italy? While many, if not all, nations have a range between the most developed and the least developed regions, both of these "Souths" have been at the extreme end of the distribution. The literature on the uneven development of the two "Souths" within these dual national economies is voluminous; consequently, it will be possible to do no more than focus on salient similarities and differences.

\* The Land of the Mid-day Sun as the Italian South is known.

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In 1860, the United States was already one of the most economically advanced countries and has held this position ever since. The Civil War was fought to decide whether the United States would be one nation or two; the South emerged, devastated from the conflict, and did not recover its lost momentum until more than half a century had elapsed.

Italy, on the other hand, first unified in 1870, was probably the least economically advanced of the then major nations. Clearly, Italy started out in an inferior position that then deteriorated still further. Italy's per capita gross national product was of the order of less than half that of the United States during the 1870's, about a third before World Wars I and II, and only a sixth shortly thereafter. Since the 1950's, the difference between Italy and the historic leaders has been considerably reduced; most striking has been the relative decline of both the United Kingdom, the first industrialized nation, and the United States as well as the concomitant relative rise of Italy. After a series of wars between 1859-1871 Italy became politically unified but not economically integrated. In both Italy and the United States the national government pursued policies that aided the already more industrialized areas.

The American South belies the simplistic observation that there is an inextricable connection between the natural resources available and the level of economic development. The South has adequate soil, abundant (possibly excessive) rainfall, and enough resources for industry; certainly the historic discrepancy between the South and the nation cannot be explained primarily by a deficient resource base. In contrast, the Mezzogiorno has minimal resources for either agriculture or industry and, were it not for the fact that Japan has prospered despite its negligible resources, the very absence of resources might constitute a convincing explanation of poverty.

One of the shared characteristics of less developed economies and one that is frequently offered as an explanation for that condition is excessive population, particularly in relation to resources. Although the absolute population of each South soared, the South's share of the United States population has not varied significantly for more than a century. More significantly despite massive emigration, the South's share of the total population of Italy has not changed. Emigration is at least as much a key to understanding Italian demographic history as immigration is to American; furthermore, the great bulk of Italian emigrants came from the South. There have been three major population movements in the United States: immigration, the westward movement, and urbanization. The U.S. South either lagged or did not participate in any of the three demographic shifts as fully as the nation as a whole. The South suffers from a paucity of vibrant newcomers; immigrants bypassed the region until the 1960's. There are Italian parallels except for the crucial difference that Italy was a "sending" nation of able-bodied workers rather than a "receiver" and that immigrants bypassed the region until the 1960's. Also, the internal migration was northern in search of industrial jobs instead of land (although many Italians also did go to South America in search of land).

Modernization implies industrialization and both the United States and Italy have witnessed a shift of population from farms and to industries in the big city. But

this occurred much later in Italy. Just as a higher proportion of the Italian population has been engaged in agriculture than in the United States, so a higher proportion of people in the Italian South has been engaged in agriculture than in the American South. Since per capita income in agriculture historically has been generally lower than in other sectors of the economy, people in both countries have been pulled in the direction of higher-income occupations.

## II. The United States

The most readily available yardstick for comparison between a problem region, and the larger economy of which it is part, is per capita income. However, this measure can be misleading because of both income inequality and transfer payments. One must begin by stating the obvious, namely, that for more than a century white and black income in the South have diverged sharply. The American South is the classic example of economic development with racial discrimination and it would be difficult to overemphasize this factor in all its varied ramifications. Prior to the Civil War per capita income in the South was comparatively high in both American and World terms. The South was richer in 1860 than any European country except Britain and had a higher per capita income than Italy until World War II. If slaves are included, southern per capita income was approximately 70 per cent of the United States average. In the years after the Civil War, per capita income in the South as a percentage of the national average fell decisively to a nadir of 50 per cent of national income in 1880 and remained that way for decades with a substantial convergence movement commencing only as recently as 1930. Explanations for this sharp divergence have been adduced that go beyond sheer wartime physical destruction. The emancipation of the slaves lessened the labour input and worsened the profitability of cotton cultivation. In any event, after the Civil War, no southern "economic miracle" occurred.

During the long era of divergence, per capita income in the South hovered close to half the national average. Between 1880 and 1930 the South neither gained on the rest of the country nor fell further behind. Since the per capita income of both the South and the rest of the country grew at similar rates, the relative difference held constant but the absolute difference widened, unlike in Italy between 1860 and 1950. Few would have dreamt in 1930 that the U.S. South, by the fourth quarter of the twentieth century would have succeeded in overcoming its past.

The thirties was an unusually bleak decade for the South; President Franklin D. Roosevelt declared: "It is my conviction that the South presents right now, in 1938, the Nation's No. 1 economic problem." In support of this sweeping assertion, a Federal Government inquiry reported: "The richest State in the South ranks lower in per capita income than the poorest State outside the region"<sup>1</sup>. Although the South was definitely poor at that date in comparison with the rest of the United

<sup>1</sup> U.S. NATIONAL EMERGENCY COUNCIL, *Report on Economic Conditions of the South*, Washington, Government Printing Office, 1938, pp. 1.21.

States, it should be noted that the South was rich in comparison with most of the rest of the world as had been true in 1860.

Since then, per capita income in the South has gained perceptibly on the rest of the nation. The proportion of the labour force in agriculture has declined which has meant a shift of the rural poor from agricultural underemployment to a closer approximation of full employment in low-skill industries. There has been a major emigration from the South. Also, the Fair Labor Standards Act (1938), the national spread of unionization (still below the national average in the South), public works bringing many farms into the market economy (which meant that the South was the first section to emerge from the depression), have induced a reduction of the income differential between southern and non-southern workers for the same occupations. "Despite the steady convergence, however, it was not until 1950 that the southern relative returned to antebellum levels. It has taken almost a century for the South to regain the relative standing it held on the eve of the Civil War."<sup>2</sup> Even now, although its per capita income is not much less than the national average, almost all southern states have below average per capita income; the South still has an above average proportion of its families below the poverty line, and blacks are relatively worse off in the South than in the nation.

Having lost the Civil War and political control over its own economic destiny, the South was never able to evolve a comprehensive public policy for economic development to the extent that would have been possible for an independent nation. At the very least, an independent South might have industrialized more if it had been able to impose a protective tariff and thereby erect a barrier against competition from the more industrially advanced North. Regional independence might have developed the South faster if the regional government had been development-oriented and not landowner-ridden. Also, competition was hampered by state and local governments that offered economic incentives in order to entice industry. These policies were more successful in the North because it had already an established industrial base. Under these circumstances, government played a mixed part in the southern drive for economic development. To be sure, the Federal Government promoted the southern economy: the Tennessee Valley Authority provided both low-cost energy and water transportation; local road building extended the market thereby permitting increasing returns to scale; the Rural Electrification Administration extended electricity to areas not profitable for private power companies. Yet one cannot find a coherent regional policy to which it is possible to attribute substantial results.

There is a close causal relationship between the trend in the convergence of per capita income and the convergence of economic structure. Areas with relatively high income level tend to have a relatively high proportion of that income derived from manufacturing. Between 1860 and 1930, the South produced a fairly constant

<sup>2</sup> STANLEY L. ENGERMAN, "Some Economic Factors in Southern Backwardness in the Nineteenth Century," in JOHN F. KAIN and JOHN R. MEYER (eds.), *Essays in Regional Economics*, (Cambridge, Harvard University Press, 1971), pp. 281-282.

proportion of national value added by manufacture. But, using the broad geographic scope of the "census South," the South's percentage of value added in manufacture rose from 17.5 in 1950 to 27.3 in 1977. The same pattern of convergence can be found for the South's share of manufacturing employment. The South's percentage edged perceptibly upward from 16.3 in 1899 to 27.5 in 1972. The trend is unmistakable and there is absolutely no doubt as to either the rate or timing of the shift of the South from divergence to convergence in manufacturing.<sup>3</sup>

Why did the South lag in manufacturing as compared with the national pattern and why has it been able more recently to improve its relative standing? In 1860, the South had about a third of the population and a fifth of the factories but produced only a tenth of the manufactured goods. "The southern industrial laggardness may not have resulted entirely from rational adjustment to factor and product market conditions."<sup>4</sup> Manufacturing was underexploited in the South at the end of the antebellum period despite high profitability owing to sectoral capital immobility based on the high status of farming. It seems likely, as Bateman and Weiss contend, "...that the region's comparative advantage had been overindulged. Had this been corrected according to the prevailing market signals, the southern economic condition would have improved. But the Old South still may have had its 'deplorable scarcity' in industry."<sup>5</sup>

On the eve of the Civil War the South was a capital deficit region but, in spite of this, exported capital to the North. For this reason as well as others, such as a shortage of skilled labour, manufacturing in the South shared several attributes which differentiated it from the rest of the United States. Not only did the South have less manufacturing than the nation but also the manufacturing there was dominated by small-scale enterprises despite the existence of such large-scale enterprises as the Tredegar Iron Works, the largest iron manufacturer in the South and the fourth largest in the nation, the Saluda and Granite textile mills, and

<sup>3</sup> *Ibid.*, p. 283; WILLIAM H. NICHOLLS, *Southern Tradition and Regional Progress*, (Chapel Hill, University of North Carolina Press, 1960), p. 28; CHARLES P. ROLAND, *The Improbable Era: The South Since World War II*, (Lexington, University Press of Kentucky, 1975), p. 17; CALVIN B. HOOVER and B.U. RATCHFORD, *Economic Resources and Policies of the South*, (New York, Macmillan, 1951), pp. 115-116; WILLIAM H. NICHOLLS, "Southern Tradition and Regional Progress: A Perspective from the 1970's," *American Journal of Agricultural Economics*, LIV (December, 1972), p. 737; THOMAS H. NAYLOR and JAMES CLOTFELTER, *Strategies for Change in the South*, (Chapel Hill, University of North Carolina Press, 1975), p. 31; VICTOR R. FUCHS, *Changes in the Location of Manufacturing in the United States Since 1929*, (New Haven, Yale University Press, 1962), pp. 5, 7; HARVEY S. PERLOFF, EDGAR S. DUNN, JR., ERIC E. LAMPARD, and RICHARD F. MUTH, *Regions, Resources, and Economic Growth*, (Baltimore, Johns Hopkins Press, 1960), pp. 153-154, 253; Census of Manufactures, 1972, III, 47; *Statistical Abstract of the United States*, 1980, p. 809.

<sup>4</sup> FRED BATEMAN and THOMAS WEISS, *A Deplorable Scarcity: The Failure of Industrialization in the Slave Economy*, (Chapel Hill, University of North Carolina Press, 1981), p. 18.

<sup>5</sup> *Ibid.*, p. 163.

a few tobacco factories. It is worth noting that the Harpers Ferry Armory, a federal government installation located in a remote area of Virginia and developed in isolation from its environs, contrasted unfavourably with its counterpart, the Springfield Armory in Massachusetts, in the heart of an industrial area with numerous manufacturing enterprises and skilled workers in its vicinity. More generally, the structure of southern manufacturing was predictably resource-oriented. Southern manufacturing continued to be resource-oriented throughout the remainder of the nineteenth century and this characteristic became even more accentuated as heavy industry decreased in relative importance in the region. During the twentieth century, conversely, manufacturing in the South has become increasingly like manufacturing elsewhere but remained highly labour intensive in its reliance on cheap labour.<sup>6</sup>

It is possible, of course, that the South made a virtue of necessity and that therefore "... the late industrialization of the South was largely the result of the South's comparative advantage in agriculture until about 1920..."<sup>7</sup> If this assessment is valid, then the South made the best possible use of the factors of production at its disposal and no alternative would have enabled the South to better its relative position.

The cotton textile industry, well established before the Civil War, rejuvenated during the late nineteenth century, and the leading southern industry during the period, 1900-1940, illustrates these trends and tendencies. "The weak performance of Southern textiles in the 1920's is important for regional economic history, because the progress of the South toward the national per capita income level was completely reversed during the decade... and a marked increase in industry wage levels stifled its growth."<sup>8</sup> The South in 1940 depended more on a single manufacturing industry than any other region but low wages in this industry had weak linkages elsewhere and, in addition, the cotton textile industry was too small a sector to affect the total economy.<sup>9</sup> Still, the southern textile industry had internal forward linkages and gradually drove its older northern counterpart from the field acting, as it expanded "... as a source of industrial discipline for four generations of southern farmers and as a school of business leadership for hundreds of otherwise untrained

<sup>6</sup> ALBERT W. NIEMI, JR., "Structural Shifts in Southern Manufacturing", *Business History Review*, XLV (Spring, 1971), pp. 82-83; ALBERT W. NIEMI, JR., *State and Regional Patterns in American Manufacturing, 1860-1900*, (Westport, Greenwood Press, 1974), pp. 10, 12, 17, 87.; ALBERT W. NIEMI, JR., *Gross State Product and Productivity in the Southeast*, (Chapel Hill, University of North Carolina Press), 1975, p. 17.

<sup>7</sup> ROBERT ELLIOTT HELLMAN, "A Reinterpretation of the Economic History of the Post-Reconstruction South, 1877-1919", Ph.D. Dissertation, Massachusetts Institute of Technology, 1975, p. 188.

<sup>8</sup> GAVIN WRIGHT, "Cheap Labor and Southern Textiles, 1880-1930," *Quarterly Journal of Economics*, XCVI (November, 1981), pp. 624-625.

<sup>9</sup> MARY J. OATES, *The Role of the Cotton Textile Industry in the Economic Development of the American Southeast: 1900-1940*, (New York, ARNO Press, 1975), pp. 5, 139-140, 153, 164.

youths..."<sup>10</sup> In this fashion the cotton textile industry performed the same role in the South as in other less developed areas.

Any attempt, however speculative, to explain the weakness of southern manufacturing in general must include the supply and cost of capital, the shortage of entrepreneurs and managers, the absence of an experienced labour force, and the inadequate transportation network. Skilled workers in the South earn at national wage rates mirroring the shortage of skilled workers whereas — even today — unskilled workers are paid at 70-80 per cent of national wage rates. This is reflected in the fact that, although manufacturing has been an engine of growth for the South since 1950, southern manufacturing is still more resource-oriented than manufacturing in the nation as a whole. Convergence is to some extent industry specific in the sense that technologically advanced and capital-intensive industries raised the averages of the South even if they did not directly benefit other industries.

The historic shortage of capital in the South involves two related but separate elements: capital accumulation depends on both the amount and the distribution of income and also on the existence of financial intermediaries which mobilize and allocate capital efficiently. Income was decidedly lower in the South which handicapped capital formation; on the other hand, income inequality was slightly greater in the South than in the non-South which may have been conducive to capital formation. The South's network of financial intermediaries was not well developed in comparison with other regions and the integration of the southern capital market into the national and European capital markets was retarded raising the cost of capital. Not surprisingly, the South imported capital. "Why could ... [northern capital] not have entered the South even more thoroughly, patriated itself there, and developed an industrial and manufacturing sector more closely comparable to the Northeast or the Middle West?"<sup>11</sup>

Some capital attracted by higher rates eventually flowed to the South. The flight of the textile industry from New England is a case in point although southerners provided the great bulk of the capital in that industry. This limited capital migration was offset to some extent by a contrary movement of southern capital northward because the national capital market was centred there (due in part to the National Banking Act of 1863), with consequent lower transaction costs. Gradually, the South was better integrated into the national capital market, the flow of capital southward increased, the locally generated supply of capital grew, and the barriers to entry declined for banks in the South. As a result, the differential between the cost of capital in the South and the non-South narrowed, ceasing by the 1960's for those enterprises large enough to have ready access to the national capital market. Beyond this, it is indeed quite possible that the cost of capital was not nearly as important as a

<sup>10</sup> JACK BLICKSILVER, *Cotton Manufacturing in the Southeast: An Historical Analysis*, Studies in Business and Economics, Georgia State College of Business Administration, Bulletin Number 5, 1959, p. 170.

<sup>11</sup> WILLIAM N. PARKER, "The South in the National Economy, 1865-1970," *Southern Economic Journal*, XLVI (April, 1980), pp. 1040-1041.

deterrent to industrialization as might appear at first glance since the degree to which industry is capital-intensive varies considerably although it should be noted that the South did not emphasize the capital-intensive industries.

Labour as a factor of production can be quite deceptive. Low money wage rates need not mean low real wage rates and definitely need not imply low labour cost per unit of output. In addition, in some industries labour constitutes a significant share of total cost while in others it does not. The South was long a low-wage region not only because of the industry mix (wages per worker and capital per worker in manufacturing tend to be closely correlated) but also because southern wages tended to be lower for individual occupations. To this should be added the much lower rate of man-hours lost. Superficially this should have lured industry and a great deal of the industrial expansion of the 1950's and 1960's can be tied to low wages and non-union labour. However, low labour cost is never a sufficient explanation for industrialization.<sup>12</sup> At the turn of the nineteenth century, white (and the factory work force was all white) southern urban manufacturing wages were approximately equal to northern although the skill level was unequal. Manufacturing in the southern economy at that time conceivably did not expand because wages were too similar in North and South. Low wages may only become "attractive" when a minimum quantum of social overhead capital is established. Finally, one should note the correlation between the proportion of the labour force in non-agricultural occupations and income; convergence in the share of the labour force in industry, in industry mix, and within occupations has resulted in convergence in income.

In order to analyze the development of an economy, one must be aware of the institutional constraints that affect interregional differences in prices and productivity and also the role of entrepreneurs in accepting or changing these constraints. Joseph Schumpeter pioneered in stressing the vital role played by entrepreneurs. Ever since there have been those who have suggested that the presence or absence of entrepreneurs can help to account for economic development; the difficulty is that there is no empirical way of conclusively establishing either the quantity or quality of an economy's entrepreneurs in relation to demand especially since no entrepreneur, any more than a symphony conductor, can produce results unaided. Nonetheless, such evidence as exists indicates that both the quantity and quality of southern entrepreneurship has differed from that of the nation and that, moreover, the South has lost entrepreneurs through migration; although there has been some improvement during the past three decades, the underlying condition continues. Historically, southern entrepreneurs were conditioned by the institutional con-

<sup>12</sup> The U.S. National Emergency Council's polemical report contended: "Low wages have helped industry little in the South. Not only have they curtailed the purchasing power on which local industry is dependent, but they have made possible the occasional survival of inefficient concerns." U.S. National Emergency Council, *Report on Economic Conditions of the South*, p. 39.

straints; hence the development of a business society, comparable to that which evolved elsewhere, lagged in the South.<sup>13</sup>

The South benefitted from a vast expansion of the federal budget during the last half century and federal spending/tax ratios favour the South. Through its political power in Congress the South achieved some of the results, for example, transfer programme and military bases, that it would have gained through independence. "Since the 1930's the South has enjoyed what might be called 'most favoured region' status in terms of federal spending to narrow the per capita income gap."<sup>14</sup> In one form or another, the South received more from the Federal government than it paid in taxes although there was no bias in public spending toward the South since it received less than the per capita national average. The increment in southern per capita income through transfer payments and other federal budget expenditures has fostered the growth of southern market-oriented industries. Also, and of cardinal importance, the externalities of gain from road building were greater in the South than elsewhere since this incorporated former subsistence farms into the market economy. Federal fiscal policy is, in a sense, a giant redistribution scheme directly aimed at benefitting the poor at the expense of the rich and indirectly, the low income region as against those with higher income. It may be that federal spending can be credited with having been something of a catalytic agent, but it is also true that private non-farm income in the South has grown somewhat faster than either federal spending or personal income.<sup>15</sup>

The South has always relied more on agriculture for its livelihood than the non-South. Almost 60 percent of the South's labour force was engaged in agriculture as late as 1910, whereas agricultural employment constituted only about a third of the national labour force. Even in 1940, southern agricultural employment exceeded the national average by 73 per cent; the difference is now non-existent. Outward migration from southern agriculture resulted from the substitution of capital for labour, more industrial jobs, the boll weevil, and the response to the stagnant demand for cotton coupled with immigration restriction.

<sup>13</sup> CLARENCE DANHOF, "Business Leadership in the South," *Journal of Business*, XXIX (April, 1956), p. 136; C. ADDISON HICKMAN, "The Entrepreneurial Function: The South as a Case Study," in MELVIN L. GREENHUT and W. TATE WHITMAN (eds.), *Essays in Southern Economic Development*, (Chapel Hill, University of North Carolina Press, 1964), p. 109; JAMES M. HOWELL, "Shifting Patterns in Southern Business Leadership," *Review of Regional Economics and Business* (October, 1979), p. 5; CLARENCE H. DANHOF, "Characteristics of Southern Business Leaders in the 1950's," in FRED BATEMAN (ed.), *Business in the New South: A Historical Perspective*, First Annual Sewanee Economics Symposium, 1980, (Sewanee, University of the South, 1981), pp. 78, 87-89; 99, n. 5.

<sup>14</sup> WILLIAM H. MIERNYK, *The Changing Structure of the Southern Economy*, (Research Triangle Park, Southern Growth Policies Board, 1977), p. 40.

<sup>15</sup> This reinforces the conclusion that "the importance of federal spending... on economic development has been much overstated" (BERNARD L. WEINSTEIN and ROBERT E. FIRESTONE, *Regional Growth and Decline in the United States*, (New York, Praeger 1978), p. 43.

For the longest time southern agriculture differed significantly from that prevailing in the remainder of the nation. First, owing in part to geographic limitations on its ability to develop diversified, technologically advanced agriculture, the South in the post-bellum era emphasized cotton until the coming of the boll weevil; the South can be said to have been a victim of the staple trap. Cotton output increased from 3.8 million bales in 1860 to 11.6 million in 1910 to 13.9 million in 1930. "Perhaps the most fundamental change in the agricultural history of the South since the Civil War has been the decline of King Cotton."<sup>16</sup> In 1970, cotton production fell to 10.1 million bales owing to competition from synthetics which met the needs of two-thirds of the market; cotton's share of southern agricultural income declined from nearly half in 1930 to less than a fifth by 1960, and American cotton production moved out of the South to other states to be replaced by more profitable soybeans and livestock.<sup>17</sup>

Second, to discuss southern agriculture without mentioning race is impossible, and yet it is too easy to utilize race as a universal explanation. For decades after the Civil War, blacks constituted much of the southern agricultural labour force and concentrated on the lowest rung, the sharecropper. Southern farm operators were almost entirely white by the 1970's as the landless left the land.

Third, southern farm operating units were smaller than average and tenancy, typically sharecropping, was more prevalent. It is conceivable that race, both because the former slave received neither land nor capital (that is, neither the forty acres nor the mule, upon emancipation) and also because the black suffered from discrimination in all areas of life, had a bearing on both of the above. Certainly with renting or sharecropping, farm operation size also declined. In view of the presumed economic rationality of sharecropping, despite its other disadvantages and implications, sharecropping may have had a positive effect on southern agriculture by assigning the managerial function to the most able and by sharing the risks. Farm tenancy crested during the distress of the early thirties but the Agricultural Revolution had placed tenancy on the road to extinction by the end of World War II; by 1965 only about 80,000 black sharecroppers lingered in the South. Therefore, land reform, in the sense of land to the landless, never took place in the American South. By 1960, the reverse was true since the size of the units of farm operation of 1860 had been restored with capital-intensive technology substituted for labour-intensive slavery.

Fourth, while American agriculture typically has been capital-intensive, southern agriculture, as exemplified by cotton, remained labour-intensive utilizing family labour until the introduction of the mechanical cotton-picker supplemented by the tractor and chemical herbicides, insecticides, and fertilizers. The number of tractors in the South increased five times between 1940 and 1960; tractorization made cotton

<sup>16</sup> GILBERT C. FITE, "Southern Agriculture Since the Civil War: An Overview," *Agricultural History*, LIII (January, 1979), p. 4.

<sup>17</sup> HARRY D. FORNARI, "The Big Change: Cotton to Soybeans," *Agricultural History*, LIII (January, 1979), pp. 251-252.

growing capital-intensive. It is not possible to know if the mechanical cotton-picker, the symbol of the South's belated Agricultural Revolution, was invented a century later than the reaper-harvester because of low-cost labour, the inherent difficulty of the task, or the cultural backwardness of the South. Machine-picked cotton first became economically significant after World War II and by now it is the only economically viable method.<sup>18</sup>

Finally, the South never internally resolved its agricultural difficulties, namely, too many people and consequently smaller units of farm operation using labour-intensive technology resulting in lower per capita incomes. Eventually, technological change supplemented by New Deal farm credit programmes that increased the supply of credit and reduced the interest rate fostered capital formation and the adoption of the technological innovations. This imposed an exogenous solution on the South facilitating the consolidation of units of farm operation and inducing the mobility of sharecroppers and other low income farm workers out of agriculture and, in countless instances, out of the South.

Despite a substantial and prolonged migration to other regions with higher per capita income and higher economic growth rates, the South's proportion of the American population has held more or less constant. As a consequence of this movement of labour, the South frequently lost the better educated and more highly skilled. On the other hand, "... a high proportion of the out-migration has been from low-income groups. Out-migration rates have generally been highest from states with low per capita incomes."<sup>19</sup> During the past thirty to forty years, the South has lost low-income (largely black) elements of the population and has attracted a middle-income (largely white) population. Much of the industry that has moved to the South has had to bring its entire skilled labour force from outside. The South has had a surplus of low-skilled labour but the higher-skilled workers have been outsiders. On balance, then, migration flows have helped the South in a rather large way although never of sufficient magnitude to achieve a much higher level of economic growth and development without additional capital investment, technology, and management. Without migration, the South would have been left in an even worse position with regard to the supply of, and demand for, labour; migration from low-income areas to high-income areas has, however, resulted in convergence more by bringing the high-income areas down than by raising the low-income areas.

The high birth rates of the South, about a third as urbanized as the nation in 1890, half in 1920, and three-fourths in 1950, offset outward migration. This high birth rate, a contrary force, has meant that the South has had a high dependency ratio, that is, a high proportion of its population is not included in the labour force.

<sup>18</sup> GILBERT C. FITE, "Mechanization of Cotton Production Since World War II," *Agricultural History*, LIV (January, 1980), pp. 204, 206; MOSES S. MUSOKE, "Mechanizing Cotton Production in the American South: The Tractor, 1915-1960," *Explorations in Economic History*, XVIII (October, 1981), pp. 348-49, 371.

<sup>19</sup> JAMES G. MADDOX, with E.E. LIEBHAFSKY, VIVIAN W. HENDERSON, and HERBERT M. HAMLIN, *The American South*, (New York, Twentieth Century Fund, 1967), p. 48.

Thus, the South's low labour force participation rate has been below the national average, negatively affecting the per capita income.

In view of the economic advantages of migration, one might inquire why this population movement did not manifest itself earlier and also why it was not even more massive. On the one hand, until World War I, immigration largely met the need for an expanding labour supply in American industry and, on the other, there were several different kinds of formal and informal obstacles that inhibited the ability of blacks to migrate. Migration accelerated during World War I because of the restrictions on immigration from abroad, wartime demands for labour, and the boll weevil. Northern industry came to the South and provided transportation to the North and housing in factory communes. Finally, during the 1960's net in-migration first appeared and there was heavy positive in-migration in the 1970's. This reverse movement, especially of skilled workers, testified to the prospect of economic opportunity in the South as well as to the success of its catching-up process.

The ability of the people in the labour force is closely correlated with the level of education. Even before the Civil War, the South (including only the white population) was less well educated in the sense of formal schooling than the nation generally. Massachusetts instituted compulsory primary schooling in 1852; no southern state followed this lead until 1900 and the last southern state did not fall in line until 1918 by which time the first non-southern state adopted compulsory schooling at the secondary level. Before the Civil War the South restricted any type of formal education for black slaves. Emancipation dumped about a third of the region's population on the labour market. These newly emancipated slaves were ill-equipped to cope in a market environment (most became sharecroppers). Even if one allows for lax enforcement of compulsory schooling legislation, there is no question that the South continued to lag. This observation is confirmed by expenditures per student in the late nineteenth century, commonly derived from property taxes, as well as from numerous indices of educational achievement. In short, the South trailed in both per capita income and per capita education cost.

Weakness in southern education had a negative but measurable impact on economic growth although education is also an effect of development. Investment in education is essentially investment in human capital formation and here, too, the South was chronically deficient. Before World War II the South spent an above average proportion of its income on education but, because it had so many children and less income, the region spent less per student than the national average. A high birth rate and a low per capita income combined to deter human capital formation; however, the balance between outward and inward migration enhanced the educational level of the southern population. The South is still educationally behind the rest of the nation whether one looks at illiteracy or at higher education. However, this is much less true for those just entering that labour force than for the labour force as a whole.

Even before the Civil War there were those in the South who ascribed the nature of the antebellum southern economy to the South's status as a colony within the

United States. Minimally, "an independent South could have imposed an optimal tariff which would have promoted southern industrialization and raised southern income."<sup>20</sup> This colonial condition has been variously described as including such exogenous factors as: monopoly, absentee ownership, freight-rate differentials, and the high protective tariff. By the 1950's, more dispassionate analysts rejected the colonial explanation for divergence between the southern and national economy. Other colonies tried to remedy their subordination by independence, but the South had attempted this unsuccessfully and could not resort to that measure again.

The grave danger of the colonial delusion is that a scapegoat was sought for southern difficulties rather than seeking a cure within the system.<sup>21</sup> Furthermore, according to the colonial argument, its dependent status handicapped the South because it was unable to harness the full power of the state for the purpose of promoting economic development. This assumes that the elite wielding power, the landlords, planters, merchants, and bankers who dominated the South, would have used this power to promote economic development rather than to defend the status quo. This constituted a dilemma for the oligarchs since economic growth represented a potential threat to the stability of their society and therefore the South can be aptly portrayed as an instance of retarded development under the aegis of a traditional elite. The southern elite apparently concluded that industrialization would not offset possible social disorder.<sup>22</sup>

The high protective tariff ended in the early 1930's, and the freight-rate differential was abolished in 1945. Absentee ownership still prevails since many facilities in the South were and are branch operations of national or international firms with northern headquarters, ownership, and control. For example, the southern steel industry suffered after United States Steel acquired the Tennessee Coal and Iron Company in 1907. Although relatively few national corporations originated in the South, some national corporations have relocated their main offices in the South. It should be noted that the South's per capita share of national wealth is still somewhat less than its per capita share of income. Finally, whatever weight the colonial argument may have had at some time in the past this burden has been lessened as the South's economy level more closely approaches that of the national level.

Industrialization or modernization involves, among other things, changes in the culture. If either the leadership or the following masses is steeped in tradition and opposed to change, the process is hampered. In the South, the romanticized agrarian way of life transfixed its adherents and hampered the rise of the bourgeoisie. The failure of the South, until recently, to attract a significant influx of non-southerners

<sup>20</sup> THOMAS F. HUERTAS, "Damnifying Growth in the Antebellum South," *Journal of Economic History*, XXXIX (March, 1979), p. 100.

<sup>21</sup> CLARENCE H. DANHOF, "Four Decades of Thought on the South's Economic Problems," in MELVIN L. GREENHUT and W. TATE WHITMAN (eds.), *Essays in Southern Economic Development*, (Chapel Hill, University of North Carolina Press, 1964), p. 50.

<sup>22</sup> JONATHAN M. WIENER, *Social Origins of the New South: Alabama, 1860-1885*, (Baton Rouge, Louisiana State University Press, 1978), p. 223.

(either from other parts of the nation or from outside the nation) stemmed from the deleterious effects of a socioeconomic environment hostile to outsiders that more than offset the lax competitive conditions. Business, for decades, failed to retain the many able business-oriented persons who emigrated from the South. The southern agrarian intellectuals' nostalgic *I'll Take My Stand* (1930) articulated an extreme minority anti-industrial viewpoint for that era and echoed a culture in which social prestige resided in the land. Was the South poor because it was traditional or was the South traditional because it was poor? One economist contended: "It would be more appropriate to argue that the South has persisted in its agrarian value system because of its lag in industrialization rather than to attribute the latter to its stubborn agrarianism."<sup>23</sup> Historically the South had a regional value system and social structure that readily differentiated southern culture from that of the non-South. The very process of industrialization and thereby the strengthening of the industrializing elite, as it has made the South's economy more like the national, has also eroded the uniqueness of southern culture. The dominant agrarian values of the South have declined *vis-à-vis* the industrial-urban although "... remnants of the old Southern tradition are still clearly discernible."<sup>24</sup> The close of the era of school segregation and the opening of the political process to blacks by the mid-sixties "... promised an end to the outmigration of Southern blacks."<sup>25</sup> These plus the sharp reduction in the southern black/white income differential made it legitimate to refer to the Americanization of the South.

As noted at the outset, there is a tendency for the per capita income of large regions within nations to converge in the long run if the factors of production are properly mobile and other things are equal. Regions differ in their cultural environment; this may account for the slow pace in the transmission of those characteristics conducive to convergence. There is ample justification for believing that "... the social change that [emancipation] necessitated took longer [than the Civil War] to accomplish. With all of the disadvantages of the latecomer and none of its advantages, the South developed a business society that lacked the dynamic qualities that were clearly present elsewhere in the nation."<sup>26</sup> The Civil War and its aftermath including, among other things, the dependence on cotton and the rapid industrialization of the non-South culminated in a half century and more of pronounced divergence and lent an air of seeming permanence to the South as a problem economy. However, a series of external shocks forced the South to integrate into the

<sup>23</sup> NICHOLLS, *Southern Tradition and Regional Progress*, *op. cit.*, p. 18.

<sup>24</sup> NICHOLLS, "Southern Tradition and Regional Progress: A Perspective from the 1970's," *loc. cit.*, p. 741.

<sup>25</sup> MANCUR OLSON, *The Causes and Quality of Southern Growth*, (Research Triangle Park, Southern Growth Policies Board, 1977), p. 38.

<sup>26</sup> HAROLD D. WOODMAN, "Agriculture and Business in the Postbellum South: The Transformation of a Slave Society," in FRED BATEMAN (ed.), *Business in the New South: A Historical Perspective*, First Annual Sewanee Economics Symposium, 1980, (Sewanee, University of the South, 1981), p. 59.

national economy: the Civil War ended slavery, the boll weevil ended the dependency on cotton, and a combination of actions ended the Jim Crow era. Contributing to the convergence in the last half century were: probably first and foremost, cheap non-union labour, an increase in the extent of market organization (itself the outcome of societal choice), the "southern Agricultural Revolution", the cessation of mass immigration, natural resources, cheap space, the influx of new resource-based industries (such as chemicals, paper and light metals), as well as such other factors as Federal Government policy, climate, and air conditioning.

Per capita income in the South is now little behind that of the nation. The economic structure of the South, especially the decline in the relative importance of agriculture and the consequent increase in the share of the labour force in manufacturing and services, closely approximates that of the United States but an important difference remains, namely, a greater reliance on government employment. In manufacturing, the percentage of workers in the South was a third less than the national average in 1940 but only a tenth less by 1975. Moreover, the durable goods sector has increased relatively at the expense of the non-durable goods. Also, the tertiary sector in the South was 40 per cent below the national average in 1940 but only 9 per cent below in 1975.<sup>27</sup>

After several decades of convegency, the South no longer relies on outward migration to rescue its underemployed. Rather the South attracts the young and the unemployed from outside the region. The ability of the southern economy to support education is supplemented by a broad range of federal programmes designed to equalize education. There is a national capital market that enables the South to tap non-South capital. The South has ceased to be uniquely southern and such cultural and value differences as still exist are increasingly marginal and quite within the normal range for a country otherwise as varied as the United States. Whatever substance the colonial relationship once may have possessed has been superseded by taxing, spending, and other policies that collectively have played a subsidiary role in aiding the South as part of a broad effort at levelling up. The South's economic resurgence has been the result of private initiative more than of anything else. The South has real economic advantages compared to the North: lower-cost non-union labour, natural resources, especially oil and natural gas, improved transportation, nearness to markets, warmer climate, lower taxes, and pro "free-enterprise" attitudes which have induced private businesses to move to the South. These economic forces are all working to the advantage of the South today as illustrated by the fact that between 1969 and 1979 manufacturing productivity increased much faster in the South than nationally while the reverse was true for wages; this potent combination of factors enhanced the South's attractiveness for decision-makers.

The American South always had cheap labour, natural resources, and other potentially important factors, but it was not until the 1950's that the South began using them to good advantage. There were other economic forces in the North pushing industry out of the region that coalesced shortly after World War II with

<sup>27</sup> MIERNYK, *op. cit.*, pp. 8, 11-12.

those encouraging industry to move to the South. In short, the American South of 1980 was not what it had been in 1860, 1880, 1900, 1930, or even 1950. The decline in the spate of popular and scholarly publications on the South as an underdeveloped economy testifies to the success of the movement for convergence.

### III. Italy

The United States, unlike Italy, has been a high-income nation since before the American Revolution. Italy was not among the richest areas in the eighteenth century before the Industrial Revolution; in addition, its comparative standing had deteriorated by the *Risorgimento*. At the end of the XIXth century, Italy was poor not only in comparison with the United States, but also in comparison with the nations of northern and western Europe.<sup>28</sup> Italian real per capita income tripled between 1860 and 1960; in contrast, the real per capita gross national product of the United States increased by about five times during roughly the equivalent time period. Italy, a latecomer, prospered during a limited twenty-year industrialization flurry prior to World War I. During the last three decades, the pace of Italian economic growth has quickened in a dramatic and unprecedented fashion and has exceeded that of a number of other countries, including the United States.

Italy, as we know it today, was politically restructured around the period of the U.S. Civil War. In a socio-economic sense, the southern part (the *Mezzogiorno*) and the North have remained separate entities. The socio-economic dualism must be sought in the history of this area. The roots of the South's millenarian backwardness lie in the third century B. C. At that time, southern Italy was prosperous, enjoying all the benefits of Greek civilization. As part of the Greek Empire, Sicily and the southern continental provinces were considered important economic and cultural centres. But then a series of invasions began which ravaged the region, leaving it sick and impoverished, and from which southern Italy never fully recovered. The first onslaught was ushered in by the Romans who destroyed both Lucania and Apulia so completely that historians in the first century of our era could find no traces of their previous cultures. The land lay silent and abandoned; and even before the Roman Empire started to decay, southern Italy was considered a backward country. Later, barbarian invasions had a further impact on both the culture and the physical environment.

Throughout the Middle Ages, southern Italy continued to be a shuttlecock in the global games of medieval imperial powers. In time, it became evident that southern Italy was marked by political and geographical disadvantages which were to increase in years to come. When Constantinople fell in 1453, contact with the Orient ceased. With the discovery of America, Europe's trade centre shifted westward to the Atlantic and the South became isolated. The situation persisted

<sup>28</sup> One must include a *caveat* to comparisons because per capita income for 1860, either for the United States South or Italy, may be misleading owing to the largely agrarian nature of the United States South at the time.

with the Spanish conquest in the sixteenth century. For four centuries in Sardinia and Sicily and for two centuries in continental southern Italy, Spanish domination did not interfere with the feudal system on which it was policy-dependent. Spain continued its own colonial policy-high taxes and prohibition of trade and industries.

When, in 1860, the industrial North united with the agricultural South, the North, having the economic and political advantage, immediately dominated its southern neighbour. The new central government's fiscal policy was especially detrimental to the South. Land taxes stopped agricultural development. Southern infant industry was annihilated by a relatively liberal tariff policy.

It seems that the South was somewhat poorer than the North at the time of unification and, as such, had a much lower potential for development. Its industrial structure was weak with a high proportion of industry being artisan in character. Agriculture was also inferior to that in the North. Capital was scarce, and land distribution based on feudal or semifeudal relationships between land owners and cultivators proved grossly inefficient.

The administration of land reform was far from perfect and allowed, in time, consolidation of large landed estates, the *latifundia* which did not constitute a handicap as such. Indeed, had they been cultivated efficiently, they probably would have contributed more to the standard of living than does the present patchwork of small holdings. But most of the large estates were owned by absentee landlords who left the fields uncultivated and let the soil waste away. Living off a few rich lands entrusted to administrators, these landlords built themselves mansions in northern urban centres. In a way, the feudal system was merely continued by the barons and landlords who, having no concern for the peasant population, allowed it to fall into greater misery.

The harsh climate and overworked soil produced a barely marginal level of agricultural productivity. The threat of malaria on the coast and plains forced the population into the still poorer hilly areas. The increasing pressure of population at the higher elevations inevitably led to a greater cultivation of potential woodland which further aggravated the ever present problem of erosion. In addition to the problems in agriculture, industry was inefficient; an inadequate communication and transportation network was still another area in which the South was at a disadvantage relative to the North.

At the beginning of this century, there was no dearth of legislation directed at improving socio-economic conditions in the South. Yet the failure of these efforts to narrow the gap between the North and South was due in part to: (1) the means available for executing the legislation were often inadequate, and thus most of the adopted measures remained only aspirations; (2) policies were often too ad hoc and unrelated to each other; (3) policies concentrated too much on agriculture and infrastructure and too little on industry; (4) the basic limitations of geography and climate could not be overcome.

World War I induced a reallocation of resources from the South to the North. According to Luigi de Rosa, the rapid reindustrialization of the North was largely

financed by government procurement. This was accomplished by "forced savings in the agricultural sector (taxation and inflation) thus mostly in the South and through selling of government bonds chosen especially by southerners," who were not familiar with industrial capital markets.<sup>29</sup> The economic crisis and inflation of the post-bellum period further benefitted the North that sold to the South industrial products protected by tariffs and purchased agricultural products under "privileged conditions."<sup>30</sup>

By the 1930's, governmental attempts to create a self-sufficient economy by encouraging artificial industrial expansion were also doomed to failure because the region lacked the most elementary raw materials, such as coal, petroleum, and iron. At the outbreak of the Ethiopian War, when the League of Nations imposed economic sanctions on Italy, the situation became desperate; nor did it improve with her entrance into World War II on the German side.

Following World War II, the perennial problem of the South once again came to the fore. Indeed, the great debate on the "Southern Question" resumed as soon as the armistice was signed. All post-Fascist policy makers, regardless of ideology or party, recognized the rift between the North and the South as a matter of fact. The Mezzogiorno, not unlike the U.S. South before 1860, a backward region within a "national" state in an open economy, was prevented from achieving development. "Openness," that is, free movement of labour and capital, may maintain the status quo for long periods of time. First, resources tend to concentrate in the more advanced region; second, because of lack of trade barriers, high productivity, and greater marketing sophistication, the more advanced region finds a ready outlet for its commodities (that are necessarily competitive) in the less developed region; furthermore, the less developed region is vulnerable to economic fluctuations occurring in the more affluent section of the open economy.<sup>31</sup>

The most important step taken after the War was the creation, in 1950, of the *Cassa per il Mezzogiorno* (Fund for the South and hereafter the CASSA) to plan, finance, and implement policies leading to self-sustained economic growth.<sup>32</sup> By that time, the Marshall Plan was in effect, and the North was regaining its industrial strength rapidly. The South received some of the dole more as a palliative than as a direct development activity. The task of the CASSA was to carry out a plan of extraordinary measures to assist the South in a long-term programme of invest-

<sup>29</sup> LUIGI DE ROSA, *La rivoluzione industriale in Italia e il Mezzogiorno*, (Bari, Laterza, 1974), p. 159.

<sup>30</sup> *Ibid.*, pp. 160-161.

<sup>31</sup> GUSTAV SCHACHTER, "Regional Development in the Italian Dual Economy," *Economic Development and Cultural Change*, XV (1967), p. 198.

<sup>32</sup> At the end of the nineteenth century, some infrastructure was proposed by political "meridionalists" with influence in Rome, such as Giustino Fortunato, Gaetano Salvemini, and Francesco Nitti. Under Fascism in the 1920's and 1930's, the draining of the Pontine Marshes and the creation of Mussolinia in Sardinia helped little. Before 1922, emigration was the main safety valve; between 1922 and World War II, emigration was barred, but migrants' remittances helped those left behind.

ments and public works. The State assumed the responsibility of supplying the CASSA with funds for a period of ten years, that over the years was extended to 1984. The main objectives were two-fold: to create infrastructure in order to attract entrepreneurs and to develop agriculture as the main sector of the region. Yet, the public works for infrastructure had little linkage effect because most construction companies were northern, and local people found employment during the gestation period but none afterward. Agricultural development created almost no new employment opportunities for the close to two million unemployed or underemployed agricultural labourers. According to Friedrich Voechting, the CASSA, similar to the earlier land reform policies, was used as a "grand gesture," a political palliative to southern intellectuals as well as to the peasantry.<sup>33</sup> It is easy to agree with Sandquist:

Some present-day critics of Italian regional policy contend that the early 1950's were the crucial lost years. When Italian industry was expanding at an extraordinary rate to meet the deferred demand for peacetime goods, they argue, was the critical time for governmental intervention to bring about dispersal. By the time the boom was over, industry was solidified in its Milan-Turin-Genoa "industrial triangle," and the amount of "mobile" investment that could be directed to the Mezzogiorno was greatly diminished. Yet, if the government could have foreseen at the time that an "economic miracle" was in the making, it might have had all the more reason to be loath to interfere with the entrepreneurial decisions that were bringing the miracle about.<sup>34</sup>

To be sure, politically, the creation of the CASSA had a very positive impact. Whenever a major social problem arises and needs immediate attention, the fastest way of taking the heat off the subject is to establish a study commission that shows good intent to resolve the problem. Of course, a by-product of such action is that it puts off the needed solutions.

Massive governmental intervention did not avert southern economic deterioration with respect to the country as a whole. Notwithstanding the large out-migration experienced by the South (relative share of the population decreased from about 37 per cent in 1951 to about 35 per cent in 1970), relative per capita income continued to slide (70.14 per cent in 1951; 65.05 per cent in 1969). In general, the proposed planning process was neither indicative nor operational. The State intervened *a posteriori* to correct market imperfections but initiated little coordinated efforts to bring about a consistent and comprehensive development programme. In the decade 1961-1971, industrial jobs increased by about 35 per cent but as a share of national industrial jobs, decreased from 17.3 per cent to 15.1 per cent, while the number of local factories decreased by 7.8 per cent.<sup>35</sup> The number of private cars in the South increased 20-fold and at a much faster rate than in the North. In terms of growth (income and production), the South has fared well.

<sup>33</sup> FRIEDRICH VOECHTING, "Considerazioni sull'industrializzazione del Mezzogiorno," *Moneta e credito*, LI (June, 1958), *passim*.

<sup>34</sup> J. SANDQUIST, "Italy: Two Societies, Two Economies" (Mimeo).

<sup>35</sup> *Informazioni SVIMEZ*, Supplement to Bollettino, 31 Oct. 1972.

Yet, after a total investment of 40,000 billion lire (\$7 billion at the 1970-75 rate of exchange), labour participation decreased from 37 per cent to 32 per cent, and total employment declined about 600,000. In fact, between 1965-70, no new net industrial employment was created. The increase in employment in large establishments was accompanied by an equal decrease in small establishments. Between 1960-1970, unemployment declined in the North while increasing in the South, in spite of the huge outflow of working-age people. In 1960, the South accounted for 40 per cent of the nation's unemployed and, in 1970, for almost half of all the unemployed. Yet the South represents about one-third of the total labour force. Over the same period, instead of the 350,000 forecasted to emigrate from the South, 438,000 people left the South.<sup>36</sup>

The data on unemployment are misleading because the participation rate declined below that of most developed economies. The manpower potential of Italy as a whole, especially in the South, is considerably higher than one might read from employment statistics. As one OECD study shows, the employment data include a large number of underemployed, both on the farm and in the cities. The low participation originates in the lack of labour demand that, in itself, represents disguised unemployment.<sup>37</sup>

Economic indicators do not tell the entire story. Conditions of underdevelopment have been ameliorated in some cases (hospital beds, roads, pupils in schools), and worsened in other cases (deterioration of the environment, unemployment, underemployment, and migration). One might say that while growth did occur (5 per cent annually), the social fabric has been shattered. Growth occurred because the rate of investment (public and private) had been sufficiently large to induce a broadening of the productive apparatus, but this is exactly what shattered the old social order without building up a new one. The capital-intensive industrial complexes that dot the South destroyed more jobs than they created and crowded the cities without providing adequate social services.<sup>38</sup> According to an OECD *Survey*, investment in the South "mainly centered on heavy industry, in particular iron and steel metal works and chemical industries, a fact that reduced its employment location effect. As in the past, it was mainly the North which benefitted from the job-creating effects of investment by public corporations. The share of state holding companies in total investment in the South nearly doubled to 26 per cent, but the corresponding share of employment rose only by one percentage point to 4.3 per cent."<sup>39</sup>

<sup>36</sup> OECD, *Economic Surveys: Italy*, Paris, November 1972, p. 35.

<sup>37</sup> *Ibid.*

<sup>38</sup> AUGUSTO GRAZIANI, "Lo sviluppo industriale del Mezzogiorno," *Rotary International*, Rome, 1972, p. 8.

<sup>39</sup> OECD, *Economic Surveys*, 1972, *op. cit.*, pp. 74-75. In a study of southern and northern entrepreneurs conducted jointly by DOXA, a private public opinion research agency, and the journal, *Espansione*, it was pointed out that 72 per cent of northern entrepreneurs questioned said there were more advantages to investing in the North — and only 8 per cent indicated that there were more advantages to investing in the South. At the same time.

Between 1960 and 1970, gross investment in the South accounted for 20 per cent of the gross regional product. One cannot, therefore, argue that total investments in the South have been insufficient. In terms of mobilization of resources, southern Italy has fared well.<sup>40</sup> However, development is a function not only of mobilization, but also a function of the distribution of resources. Between 1950 and 1970, most of the industrial investment has been directed into basic industries with high capital-output ratios and very few linkages. The so-called cathedrals in the desert, i.e., the large steel and petrochemical plants that form the bulk of investments, have few backward linkages. Backward linkages occur only when production inputs are numerous and produced domestically, but the steel and petrochemical complexes import most of their inputs, including highly skilled labour. Forward linkages occur when entrepreneurs are induced to use outputs of the above named basic industries. That is, local demand for intermediate or final products has to exist in order for entrepreneurs to invest in such industries. Indeed, symbolic government investments and incentives propelled a quantum leap in the creation of basic industries, but left the economy vulnerable to cyclical fluctuations that affect the nation as a whole.

Reorganization of the national planning system and the administrative decentralization carried out in 1970 through the institution of autonomous regional administrations in all of the 15 ordinary regions accelerated both the formulation and approval of a new law (Law No. 853) for the South, that was supposed to change the scope and mechanism of public intervention. All of the CASSA's former responsibilities in the fields of agriculture and fishing, tourism, handicrafts, and vocational training have been transferred to the new southern regions. Yet the role of the southern regions in the decision-making process concerning their future development was rather limited. For although regional authorities are entitled to meet periodically as a special committee, such meetings were only for the purpose of "formulating proposals and expressing opinions" on all the choices that the Minister for the South must submit to CIPE (the Interministerial Council of Economic Planning). So the South got the regions — but Rome retained the effective veto over all regional development plans.

45 per cent of the southern entrepreneurs agreed that there were more advantages to investing in the North, and only 27 per cent indicated that it was more advantageous to invest in the South. Northern entrepreneurs cited structural reasons, such as distance from markets, suppliers, unqualified manpower and inadequate communication and transportation as the major disadvantages to locating in the South. Only 24 per cent of the northern entrepreneurs mentioned that availability of subsidized credit was a major advantage. One respondent summed up the over-importance placed on subsidized credit by stating, "We shouldn't place too much emphasis on subsidized credit, it helps finance the physical structure but when the establishment is constructed it is more important that regular credit be available to the entrepreneur. The problem in the South is that banks are reticent about giving credit to southern companies." Tino Oldani, *Espansione* (Milan, 1975, n. 69).

<sup>40</sup> See also, DE ROSA, *op. cit.*, pp. 192-193.

By 1976, twenty-two years of efforts to develop the Italian South did not permit the North-South disequilibrium to grow worse. Perhaps one could even say that the economy of southern Italy had become less marginal and peripheral. Nonetheless, there was still no sign of the start of a process of autonomous development, such as would promise the eventual achievement of an economically unified Italy.

The petroleum crisis that intervened in 1973-74 baffled policy makers. The weak structure created over a quarter of a century in the Mezzogiorno could not withstand the pressures. The refinancing of the CASSA for the period 1976-1980 (Law No. 183) was debated for a year before it was enacted in 1976. Its most striking feature was the prostration of the public sector. Still, because of the marginal industrial structure, the effects of the depression were delayed in the South. According to SVIMEZ (Association for the Industrial Development for the South), through 1975 (the height of the Italian depression), the gross regional southern product decreased by one per cent while in the rest of the country, it decreased by 4.6 per cent. The industrial structure was responsible because the South is still much more agricultural than the North, and a good harvest allowed for regional agricultural growth of 5.5 per cent against a 2.2 per cent for the rest of the country. Even industrial production that in the South is only steel, refineries, and petrochemicals decreased by 7.9 per cent, compared with 10.4 per cent in the rest of the country. It appears that the agricultural sector stabilized the economy. But this apparent stability may be challenged because investment declined by 20 per cent with respect to 1974; and, in 1976, no real improvement was evident.<sup>41</sup> Private entrepreneurs consider investing in the South to be a marginal operation. The public sector (the government and mixed public enterprises), when having to decide upon total outlays, is more than happy to cut proportionately its southern ventures.

Concomitantly, for the first time in two decades, the number of returnees exceeded the number of migrants in 1976. The depressed situation in northern Europe pushed many to go home only to find that there were no jobs there either. From a Dusseldorf plant, it is difficult to become accustomed again to the rocky southern farm. With construction at a low level, the urban centres become nuclei of social discontent, difficult to pacify.

Indeed, in 1974, two-thirds of the natural population growth in the South was absorbed by the North.<sup>42</sup> By 1980, because of the natural growth and re-entry of immigrants, the South had 106,000 more people (4.7 per cent rate of annual increase); while the North underwent a slight decline of total population. Further, the dependency rate increased because during the 1970's the North shared 70 per cent while the South only 30 per cent of the growth of the labour force. With all this migration and paucity of growth in agricultural productivity in the South, 24 per cent of the labour force is now in agriculture, while in the North, only 9 per cent is. This high ratio might be explained by the large difference of overall unemployment: 12 per cent in the South and 6 per cent in the North. Jobs are not available for those

<sup>41</sup> SVIMEZ, *Rapporto sull'economia del Mezzogiorno*, various years (1974-1981).

<sup>42</sup> SVIMEZ, *Rapporto 1981 sull'economia del Mezzogiorno*, Rome 1981.

abandoning agriculture and have diminished both in the North and abroad. (In Germany, unemployment in 1981 was felt mostly by the 4.8 million guest workers and their families.)<sup>43</sup>

Demographic differences influence the employment situation but are not necessarily the cause of a persistent lag of the less developed South. Unemployment, as mentioned above, is also determined by the industrial composition through investments that favour capital intensive ventures. But, in addition, unemployment is a reflection of the unattractiveness of the South for would-be private investors who are profit-maximizing. For the last ten years (that is, through 1979), southern output per worker in manufacturing was only 75 per cent of its northern counterpart.<sup>44</sup> Since labour contracts are national in scope, wages and fringe benefits tend to be similar in both the North and the South; but with a productivity rate that is 25 per cent lower, an entrepreneur needs colossal incentives to invest in the South, in order to offset the higher labour costs per unit of output. No wonder that only state economic enterprises are willing (rather forced) to invest there. Yet, since the state enterprises are involved mostly in large plants of capital intensive industries, such as steel and petrochemicals, they use the highest technology; in 1974, labour productivity tended to approach and overtake the North (109.8 for steel and 103.4 for chemicals with respect to the North), only to decline again below the North by 1979 (93.5 for steel and 82.0 for chemicals).

This phenomenon has been explained by Augusto Graziani as stemming from the North's having a productive structure similar to those in the most advanced capitalist countries in the world. The South suffers from an inadequate manufacturing structure (only about 14 per cent of Italian manufacturing value added originated in the South all through the 1970's), as well as from rapid growth of services and government activities. These conditions have not changed because efficiency has remained low over the years (the 14 per cent of Italy's industrial value added originating in the South is produced by 18 per cent of Italy's industrial labour force). The South does not possess a self-propelling industrialization. Industries depend on continuing public subsidies in order to exist. The cultural background did not change greatly with the creation of large steel and chemical plants. In the North, social relations are based on checks and balances between the counterpositions of management and labour; in the South, where the number of industrial workers is still limited, the relationship is paternalistic or bureaucratic and directed by power brokers, based upon how much public resources one can control.<sup>45</sup>

The dualistic character of Italy, different from that of the U.S.A., has changed little over the last century. As the OECD puts it, "the lagged development of the Mezzogiorno is a major structural problem of the Italian economy."<sup>46</sup> After World

<sup>43</sup> *Ibid.*

<sup>44</sup> *Ibid.*

<sup>45</sup> Camera di commercio, industria, artigianato, agricoltura, *Che cos'è la centralità del problema meridionale nello sviluppo italiano*, Naples, 1973, p. 32.

<sup>46</sup> OECD, *Economic Surveys: Italy*, Paris, June 1981, p. 37.

War II, public policy concentrated its efforts at eliminating the lag. Still, in 1951, southern per capita gross domestic product at current prices was 65.3 per cent and, by 1979, was 69.2 per cent of the Italian per capita gross domestic product.<sup>47</sup> In real terms, over the past thirty years, the South had a respectable annual GDP growth of 4.4 per cent, but the North did better at 4.9 per cent. Moreover, growth of the domestic product resulted almost exclusively from an increase in productivity (4.6 per cent in the North and 4.5 per cent in the South); thus very little employment creation took place. It appears that preference was given by people leaving agriculture or by new entrants in the labour market to private and public services.<sup>48</sup>

Based on these shifts, the OECD claims that the South entered the 1980's essentially as an underdeveloped region.<sup>49</sup> Indeed, data on domestic demand sustain this view. In 1980, as in 1951, the South spent annually about 20 per cent more than it produced. The seemingly profligate attitude of the South irks its brethren from the North because, not only does the South invest more as a share of GDP (in 1979, 16.7 per cent for the North and 24.6 per cent for the South), but also its private consumption (60.3 per cent vs. 69.5 per cent) and public expenditures (14.3 per cent and 22.4 per cent) are superior.<sup>50</sup>

Since 1951, the Italian South has witnessed an overt and sustained effort for closing the gap existing since the unification. In absolute terms, the South has progressed more over the last thirty years than in the previous ninety years. A great leap forward has taken place but different from that in the United States. The North has done likewise or better.

In real per capita terms and in comparison to the North, income deteriorated while consumption and labour-force participation improved. The largest change due to government efforts is evident in investments that were, compared to the North's, about 50 per cent in 1950 but 74 per cent in 1980.<sup>51</sup> Since the definition of unemployment and underemployment changed drastically over time, it is difficult to assess whether the condition also improved over time. Still, at this writing, in terms of the total labour force, the South has twice as many people unemployed as the North, and this is what the Southern problem meant to the Bourbons over a

<sup>47</sup> F. PILLOTON, "Divari territoriali, movimenti migratori e attendibilità della documentazione statistica: l'esperienza italiana dell'ultimo trentennio," *Informazioni SVIMEZ*, New Series, XXXIV (Jan.-Feb., 1981), p. 6.

<sup>48</sup> In 1951, 56.6 per cent of the southern labour force were in agriculture but, by 1978, only 25.2 per cent remained; and agriculture's share of GDP declined from 34 per cent to 13 per cent. This shift, however, did affect the industrial sector a little since employment increased between 1951-1978 from 14.6 per cent to 18 per cent and GDP increased from 17.8 per cent to 20.6 per cent. (ISTAT, *Occupati presenti in Italia anni 1951-1978*, Rome, 1979). Note that services' share of GDP doubled from 23.1 per cent in 1951 to 45.6 per cent in 1978.

<sup>49</sup> OECD, *op. cit.*, 1981, p. 41.

<sup>50</sup> *Ibid.*, p. 44.

<sup>51</sup> SVIMEZ, *op. cit.*, 1981.

hundred years ago and means today in Italy, one of the top ten industrial nations of the world.

First, demographic changes worked diversely in the two "Souths." In Italy, up to the 1950's, it seemed that the major problem was population pressure. At the time, economists such as Vera Lutz, advocated induced mass migration and employing the remaining "small" population for animal husbandry, forestry, and the like.<sup>52</sup> Indeed, mass migration occurred. On the one hand, it increased the dependency ratio (more consumers than producers); on the other hand, it diminished population pressure. Over a thirty year period (1951-1981), the population grew at a rate of less than one per cent annually.

Both "Souths" started just before World War II with about the same percentage of national per capita income. (In 1930, the U.S. South's per capita income was approximately half the national average, about 70 per cent in 1950, and 90 per cent in 1980.) The Italian South's per capita income improved slightly between 1951 and 1980 from 64.9 per cent to 68.8 of Italian per capita income. This resulted mainly from outside resource flow. But even this minor gain is doubtful because data at current prices year to year do not seem to verify this. For example, other statistics comparing the South with the North show that the South-North per capita deteriorated slightly.<sup>53</sup>

It seems that the process of development in the Italian South has been quite different from that of the U.S. South. In the U.S., the South, especially over the last half century, largely through autonomous market forces, has caught up with the North. In Italy, special public intervention has become institutionalized, and an autonomous development is not yet in sight. Taking this institutional framework as given, it is probably necessary to revamp public productive and social activities in order to achieve sustained economic growth and diminish dependency on the dole.

As mentioned earlier, the transfer of resources from the North to the South in Italy has been immense (over one-fifth of the South's resources have originated in the North), but policies influencing the allocation of resources have been partial to capital-intensive, rather than labour-creating industries. A distorted process of economic growth has occurred. Not only have all investment outlays originated outside the region, but also the South has consumed more than it has produced. The seemingly affluent environment created by disbursement of huge public funds has induced an increase in the propensity to consume rather than to invest. With industrial employment opportunities increasing more slowly than the number of those entering the labour force, notwithstanding migration, fractionalized trade and other services at the lower labour-productivity scale expanded. After 1973, even the euphoria of apparent affluence diminished. By 1980, it appears that a regional shift,

<sup>52</sup> Vera Lutz, "Some Structural Aspects of the Southern Problem: The Complementarity of Emigration and Industrialization," *Banca nazionale del lavoro Quarterly Review*, December, 1961, pp. 367-402.

<sup>53</sup> SVIMEZ, *op. cit.*, 1981, p. 41; Guglielmo Tagliacarne, "Calcolo del reddito prodotto," *Moneta e credito*, September 1962, p. 11.

similar to that in the U.S., is less attainable under the present conditions of the world economy. The U.S. South brought into the equation adequate natural resources, temperate climate, and an attractive investment environment relative to management-labour relations. Besides a climate similarity, none of the U.S.'s conditions can be repeated in the Italian South. Many socio-economic conditions are different; therefore, a replica of the process of development is not realizable in the foreseeable future.

#### IV. Conclusion

Why has the per capita income of the American South, half the national average in 1930, converged so that today per capita income is 90 per cent of the national average? The Italian South had a per capita income two-thirds the national average half a century ago and this relative standing has not altered since; why?

Almost a century elapsed before the American South was as well-off relative to the United States as it had been prior to the Civil War. If one uses a recognized bottom, namely, 1930-35, as a benchmark for assessing the upward progress of the American South, fifty years have been required for the South to achieve approximate parity with the nation. In that span of time numerous obvious differences, as well as some much less obvious, have been virtually obliterated and income, economic structure, education, and other economic, social, and political characteristics of the South now collectively make the South much less a local culture and more an integral part of the American culture. For example, as recently as the thirties the appellation of the South as a colonial economy retained enough credibility to be taken seriously as an explanation for its depressed economic condition. Even then, such measures as the federal progressive income tax had already been instituted to transfer income from rich individuals and rich regions to poor individuals and the poor South; this policy has been vastly augmented as the income tax has grown as a means of raising revenue.

If the experience of the American South is any guide, one cannot reasonably expect the forces maintaining divergence in Italy to be overcome before the end of this century, if then. Some are more optimistic and contend that the end of dualism in Italy is only a matter of time. Given both the depth and breadth of the chasm dividing the Mezzogiorno from the remainder of Italy and an assessment of the South's economic potential, one should anticipate that at least as much time will be needed to shift from divergence to convergence in Italy as in the United States. Since the Mezzogiorno has been able to do no more than hold its own during the last fifty years, it is conceivable that convergence may never be accomplished.

Migration, historically never more than a palliative, has been a means of reducing the labour surplus accompanied by considerable social strain arising from the more or less forced separation of men from their families. Education has been improved in the South and has been equalized as between regions both quantitatively and qualitatively, first for the younger generation and then gradually for the

entire population. As the man-resources ratio has been corrected, agriculture has benefited, but adjustments of the crop mix to the specific environment of the Mezzogiorno have been insufficient and at a much slower pace than in the American South.

Economic growth in the Italian South has decreased the importance of agriculture thereby displacing marginal agricultural workers; and industry has expanded, not only in the South but also in the North, to absorb the human resources no longer productively employed. However, if you cannot raise the bridge, you must lower the river. If the Mezzogiorno cannot achieve per capita income parity through even greater industrialization owing to its resource base, convergence may be attainable only through reduced population. The government has done much, but if either good intentions or money alone were enough, the millenium reasonably could be expected to have arrived; the limitations of government must be recognized. The forces which generated and perpetuated divergence are powerful and deep seated. It long has been known that the most important factor in economic growth or economic development is non-economic, that is, cultural in the broadest possible sense; and it is precisely the non-economic which is least amenable to quick, easy manipulation. There is always a process of polarization in which growth begets growth and this is seldom overcome in the short run. Unfortunately, even in the long run, different than in the U.S. South, economic theory, which predicts convergence if the factors of production are mobile, has not yet been verified in the Italian South.

