

The European Economic Community and Italian Regional Disparities, 1951-1987

Marcella Mulino, Luisa Giallonardo, Lelio P. Iapadre, Matteo Cipriani
University of L'Aquila

ABSTRACT

Economic disparities across regions have been a concern for the European Economic Community since its foundation, despite the widespread belief that economic growth fostered by European integration would reduce the cross-country dispersion of per capita GDP. While there is empirical support for a positive link between the EEC and convergence among member states, the influence of European economic integration on within-country regional disparities is more disputed. This paper examines the evolution of income dispersion among Italian regions in the period 1951-1987, in order to ascertain whether the substantial catching-up by the South during the 1950s and 1960s and the subsequent standstill in regional income and output gaps with respect to the North were primarily due to European integration. To this end, we analyse the dynamics of the main determinants of the evolution of regional income differentials in Italy since the birth of the EEC, as well as the South's capability to cope with the new competitive environment. We argue that the performance of the South's per capita GDP relative to the North's was only indirectly related to European integration; to a great extent, it derived from changes in Italy's general economic conditions and in the economic policy stance towards the South.

1. Introduction

The process of European integration formally began with the Treaty of Rome, when six countries founded the European Eco-

conomic Community (EEC).¹ The aim was to establish a free-trade area and customs union, an objective attained on July 1, 1968, when all internal tariffs were abolished and a Common Customs Tariff replaced the national customs duties in trade with the rest of the world. The removal of internal tariffs² and the new customs union were expected to bring significant economic gains for all member states. By intensifying competition between firms, it was argued, economic integration would force improvements in their efficiency, while increased specialization in accordance with the law of comparative advantage would boost overall efficiency. In addition, the expanded size of the market would make it easier to exploit scale economies, leading to higher levels of production.

As stated in the Treaty, the European Economic Community had as its goal, "... by establishing a common market, ... to promote ... a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States ..." (Article 2).

At the time, the widely accepted analysis held that trade liberalization and economic integration would contribute to faster growth at both the national and the regional levels, but there were also fears that European economic integration might exacerbate regional problems. Actually, the extent of a country's potential gains from economic integration depends on its level of economic development, its economic and financial structure and its ability to withstand increased competition. So when favourable conditions are lacking, economic integration may also lead to relatively slower growth, or even decline, in poorer regions.

¹ Actually, the process of integration started earlier. We focus on institutional integration, which began in 1957.

² Although tariff barriers and quotas were abolished in advance of the 12-year phase-in period foreseen by the Treaty, non-tariff barriers to trade in goods proved very hard to dismantle. It took an additional 25 years, until the Single European Act, to achieve a (still imperfect) common market where non-tariff barriers and restrictions on factor movements were abolished.

Regional disparities in output and income have thus been a concern for the European Community since its inception. The Preamble to the Treaty of Rome establishes the objective of reducing disparities across regions in the EEC. The signers indicated, among the motivations of the Treaty, that they were anxious "... to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions ...".

The nascent EEC elected to let regional measures be implemented at national level and not directly at Community level. The original six member states were a relatively homogenous economic group, with the notable exception of the South of Italy. The dominant view was that integration would drive growth and convergence, thanks to free trade, which would lead to specialization according to the principle of comparative advantage. However, the question of regional disparities was partly addressed in the Treaty of Rome with the creation of a public bank, the European Investment Bank (EIB),³ largely to help fund infrastructure and industrial construction in poorer regions. Between 1959 and 1970, the EIB devoted nearly two-thirds of its resources to financing projects mostly based in the South of Italy; even so, its activities were relatively limited in scale. The founders also hoped that measures to promote the movement of labour in the Community would help level down unemployment, and that the common agricultural policy's support for farm incomes would play a redistributive role in favour of less industrialised and poorer areas.

Although various social and regional measures were adopted over the years at Community level and the funds available for re-

³ The task of the EIB was to "... contribute ... to the balanced and steady development of the Common Market... For this purpose, the Bank shall, by granting loans and guarantees on a non-profit-making basis, facilitate the financing of ... (a) projects for developing less developed regions; (b) projects for modernising or converting undertakings or for developing fresh activities called for by the progressive establishment of the Common Market where such projects by their size or nature cannot be entirely financed by ... Member States ..." (Article 130).

distributive objectives gradually increased, the outlays involved were fairly limited and regional economic gaps continued to be dealt with mainly at the national level. The persistence of profound regional income disparities in Europe led, starting in 1989, to more active regional and cohesion policies, entailing a sweeping reform of the Structural Funds and a huge increase in their resources, which nearly doubled.

The working of European regional policy and its effectiveness in reducing regional disparities have been examined in countless theoretical and empirical studies. We are interested, instead, in a collateral problem, namely the effects of European economic integration on within-country regional disparities, with specific reference to the evolution of income dispersion among Italian regions. Consequently, we only consider the period prior to the inception of a systematic European regional policy with the first programming period (1989-1993) of cohesion policy. We will cover the years from 1958 to 1987, that is, from the Treaty of Rome to the Single European Act, during which, despite the reference to “harmonious” development and “balanced expansion” in Article 2, the Community did not put into effect extensive re-distributional policies.

There is general agreement on the importance of European integration in reducing the dispersion of per capita GDP between EEC countries. However, many observers have pointed out that within-country regional disparities in the European Community showed no tendency to diminish during the 1980s and the early 1990s, when economic integration in Europe deepened (Giannetti, 2002).⁴ The fifteen years following the Treaty of Rome saw a substantial convergence between the North and the South of Italy, but regional income and output gaps have remained more or less constant since then. Therefore, the question we aim to address is whether the South’s

⁴ Yet, the development experience of the poorest regions was not uniform: “a few regions, such as Ireland and some regions of Spain and Portugal, showed improvements in economic conditions, while Greece and the Italian Mezzogiorno lagged” (Giannetti, 2002, p. 540).

catching-up during the 1950s and 1960s was primarily favoured by European integration or instead by other, mainly domestic, factors.

The paper is organized as follows. Section 2 summarises the convergence debate involving different theoretical approaches. The focus is on the growth-enhancing channels of economic integration and their possible influence on income convergence. In Section 3, we review the empirical literature studying the extent of such a link in the EEC experience. Section 4 deals with the evolution of regional income differentials in Italy since the birth of the EEC, tracing the dynamics of its main determinants. Section 5 assesses the influence of Italy's participation in the EEC on the relative dynamics of regional per capita GDP by looking at the South's ability to cope with the new competitive environment. Section 6 offers some concluding remarks.

2. The convergence versus divergence debate

Following the revival of interest in economic growth, from the mid-1980s the topic of convergence began to receive a great deal of attention.

It has long been postulated that economic integration produces substantial growth effects because greater competition will result in higher productivity and better exploitation of scale economies.⁵ Integration among countries is held to be an important factor influencing the evolution of income and growth differentials between the countries involved. More specifically, eliminating barriers to trade and the free movement of productive factors is thought to promote the efficient allocation of resources, allow a country to achieve economies of scale and scope, facilitate the diffusion of knowledge,

⁵ For instance, the Cecchini Report stated that the completion of the Single Market was expected to bring about a one-off rise in EC income of between 2.5 and 6.5 per cent. But the greatest benefits of the liberalisation lay "in its dynamic effects: more innovation, faster productivity gains, and a higher growth rate of output and income" (Baldwin, 1989, p. 1).

foster technological progress, and encourage competition in domestic and international markets, thereby contributing to the optimization of production processes and the development of new products.

Economic theory has identified several channels through which trade can influence growth, with different theoretical approaches underscoring distinct mechanisms that favour or impair convergence across countries.

The convergence property of the neoclassical growth model stems from the key assumption of diminishing returns to reproducible capital, so that capital will flow to poorer countries or regions, where returns should be higher. The lifting of barriers to trade and to the free movement of factors across countries reinforces the tendency towards convergence, as capital will flow to capital-scarce countries and labour from labour-intensive countries. This will lead to faster capital accumulation and growth in poorer countries (regions) than in rich ones. Along with capital/labour ratios, labour productivity and per capita income will tend to converge across countries towards a common steady state, where both growth rates and per capita income levels will be the same. This prediction of “absolute” convergence in neoclassical models depends, however, on the hypothesis that countries (or regions) share similar characteristics, such as saving and population growth rates (Barro, 1991). When economies differ with respect to such key variables, they move towards different steady states, i.e. there will be “conditional” convergence.

Subsequent growth models have challenged the above theoretical approach. A variety of models have been put forward that assume some externality arising from the accumulation of non-physical capital or from economies of agglomeration.

Endogenous growth theories assume that technological change is the result of deliberate activities of economic agents, and that production is associated with externalities arising from the accumulation of human skills or the diffusion of technology. Intangible capital is not subject to diminishing marginal returns; on the contrary, investment in human or knowledge capital enhances the productivity

of both labour and physical capital. Differences in human skills and production technologies are bound to widen over time, leading to increasing technology gaps and thus to divergent output per capita among countries (or regions).⁶ However, gaps may be reduced through technology transfers and the diffusion of innovations and ideas in response to the integration of markets, since countries more fully integrated into the world economy have access to a larger knowledge base than more isolated ones. Greater openness is also related to increased domestic and international competition for domestic firms, which are compelled to absorb foreign knowledge and technologies in order to survive. It should be stressed, however, that openness can enhance the growth process only insofar as poorer countries are able to gain access to more advanced technologies and to benefit from the greater stock of knowledge capital generated in leading countries.⁷ Real convergence would seem to depend crucially on both the speed of technology diffusion and the capacity of countries to take advantage of the international diffusion of knowledge.

Pursuing a different line of reasoning, the new geography literature pioneered by Krugman (1991) also reaches the conclusion that economic integration may reinforce a pattern of increased spatial income inequality. The argument is as follows. Industries enjoying increasing returns to scale tend to concentrate in regions with larger markets, where they can also save on transport costs (the so-called "market access" or "home-market" effect), while the periphery regions specialize in industries with constant or diminishing returns to scale. Individuals have an incentive to move to larger-market regions, which offer higher real wages and a greater variety of goods. This tends to increase the size differences among markets and

⁶ For a survey, see van der Ploeg and Tang (1992).

⁷ Modern discussion of the issue of economic convergence among countries and regions began with Gerschenkron (1962), who argued that poor countries could benefit from the advantages of "relative backwardness" since the possibilities of technology transfer from more advanced countries could speed up the pace of industrialization.

strengthen the incentives to migrate for both firms and individuals. Hence, increasing returns, interacting with migration and/or vertical linkages between firms, give rise to agglomeration effects and path dependency, leading to cumulative causation effects.⁸ Location can thus become a self-reinforcing process creating divergent growth paths. Economic integration creates a larger market, fosters agglomeration externalities and strengthens the above mechanism. But income divergence between countries (regions) is not the only possible outcome: if labour mobility is low (as is the case among many European countries), the concentration of production will push up wages. A comparison between higher wages in the core regions and higher transport costs in peripheral regions may make relocating to core regions less attractive.⁹

The theoretical debate translated into an empirical dispute about the proper way to define and measure real convergence, as empirical assessment of the convergence hypothesis was considered the main way to discriminate between different theoretical approaches. Several empirical studies have applied time series and cross-section data to test economic convergence among countries and regions. However, the empirical debate is still open, since growth processes take a long time and sometimes are interrupted, or obscured by asynchronous business cycles, or influenced by changes in public policy. So it is not easy to reach a firm conclusion about convergence among countries and regions without very long time series, which are seriously lacking at the regional level.

3. European economic integration and convergence

Before the formal birth of the EEC, Scitovsky (1956) investigated

⁸ The theoretical background of this literature dates back to the early works in growth theory that inspired the development policies of the 1950s and 1960s. See, for instance, Myrdal (1957) and Hirschman (1958).

⁹ A model by Puga (1999) demonstrates that the lack of migration can make the relationship between integration and agglomeration non-monotonic.

the potential growth effects of European integration. He pointed out that such effects would work through the increase of competition, the increase in market size and the subsequent exploitation of scale economies, resulting in higher productivity: "The low labor productivity of European manufacturing industry is believed largely to be due to the use of obsolete and inefficient manufacturing equipment; and there is a strong feeling that integration would improve this situation. The improvement is expected to result from the greater scope for economies of scale and the greater mobility of capital that integration would bring about" (p. 71). In the same vein, Allais (1960) and Balassa (1961) stressed the importance of dynamic effects stemming from European economic integration, reaching analogous conclusions.

The experience of the EEC provides a useful sphere for examining the link between trade liberalization and income differentials. In fact, the Community trade liberalization was far-reaching¹⁰ (Table 1), and commerce between its members, which made up most of their overall trade, intensified significantly.

TABLE 1
Average tariff rates in the EEC (per cent)

	National tariff rates in 1958 (before entry)	External tariff in 1968
Benelux	9.7	10.4
France	17.0	10.4
Germany	6.4	10.4
Italy	18.7	10.4
Average change from previous level	–	-20%

Source: Sapir, 1992.

¹⁰ According to the ample review by De Melo et al. (1992), the EEC clearly surpassed the European Free Trade Association (EFTA) as regards the share of intra-regional exports in total exports.

During the ten-year transition period following the Rome Treaty, the EEC countries' imports from the rest of the world, relative to GDP, declined a little, while the ratio of intra-EEC imports to GDP doubled.¹¹ Looking at a more comprehensive measure of regional trade deepening, Mongelli et al. (2005) find that the ratio of intra-regional trade to GDP for the six founding countries rose from 14.3 per cent in the sub-period 1958-72 to 21.3 per cent in the sub-period 1973-84. The percentage change from initial values was impressive in the first sub-period, especially up to the end of the Bretton Woods era, and much lower in the second. The ratio of intra-regional trade to total trade slightly increased, from 42.4 per cent in 1958-72 to 44.9 per cent in 1973-84.

The positive relation between trade openness and economic growth is demonstrated in a good number of studies:¹² an explanation based on the role played by technology in determining a country's output level and growth stresses that trade enhances competition between importers and exporters and forces them to learn and utilize ever better technologies in the struggle to survive and grow. An explanation for the effect of trade on income disparities among countries is offered by the "catch-up hypothesis" (Gerschenkron, 1962), which suggests that the greater the technology gap between countries, the faster the laggard countries can be expected to grow as they catch up with the leaders.

3.1 The empirics of European cross-country convergence

Most analyses dealing with the question of whether European integration had a positive impact on growth are cross-country studies. Some of these compare EEC members with other developed countries at a similar stage of development in order to verify whether European regional integration had a specific bearing on

¹¹ In the same time span, factor flows showed negligible increases (Ben-David, 1993).

¹² Edwards (1993) provides a general survey of the relationship between openness and growth.

growth. For instance, Henrekson et al. (1997) find evidence of a permanent growth effect of European integration (0.6 to 1.3 per cent per year), a finding rejected in other studies (De Melo et al., 1992, Vanhoudt, 1999). More appealing from our point of view are studies that focus exclusively on EEC-EC-EU member states,¹³ evaluating in retrospect whether regional integration boosted their growth rates and whether levels of per capita income have converged.¹⁴ The numerous studies of this issue refer to different time periods and employ different empirical approaches.¹⁵ Their results are somewhat mixed as regards the most commonly used measures of economic regional disparities: absolute and conditional β -convergence, and σ -convergence.¹⁶ Most models do find a slow convergence – global or only referring to some regions.

A stimulating paper by Ben-David (1993) examines the relationship between trade liberalization and income differentials within the EEC, by considering annual cross-country standard deviations of (log) per capita income against the stages of EEC trade integration.

After the birth of the European Coal and Steel Community

¹³ The name “European Economic Community” (EEC) dates from the Treaty of Rome and refers to one of the three European Communities, the others being the European Coal and Steel Community and Euratom. In 1967, the institutions of the three Communities were merged and the whole structure was referred to as the European Community (EC). With the Treaty of Maastricht, the EC became the first pillar of the European Union (EU).

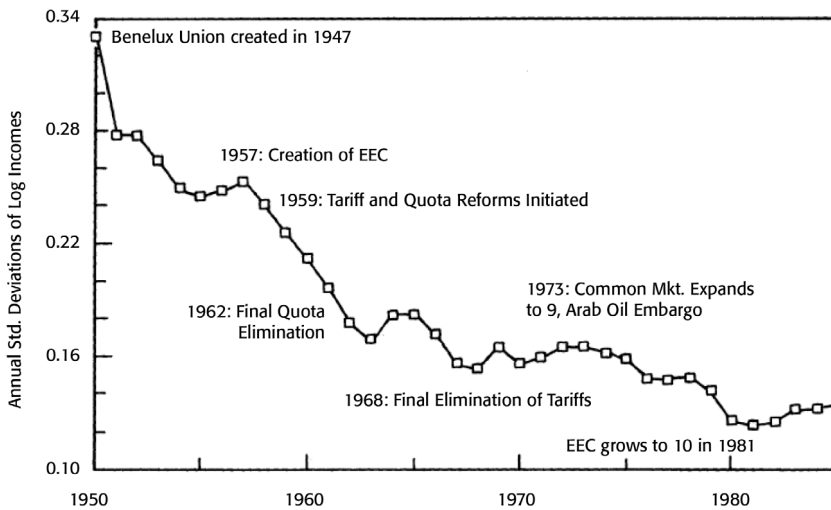
¹⁴ Let us point out that in most empirical analyses, the potential convergence is not estimated with reference to a steady-state per capita income level, but with respect to the mean of per capita income. The mean refers to the national mean in case of estimates of regional convergence within a country and to the supranational mean in case of estimates of convergence among countries.

¹⁵ Eckey and Türk (2005) offer a thorough review of this literature.

¹⁶ There are several definitions of convergence. The concept of β -convergence refers to poorer economies growing faster than rich ones. It covers two types of convergence: absolute and conditional. The former exists when the difference in growth rates results in all economies converging to the same steady-state level of GDP per capita, while the latter occurs when only economies with the same initial structural conditions, such as factor endowment or institutions, will achieve the same GDP per capita in the long run. The concept of σ -convergence refers to a decrease over time of the dispersion of income across countries or regions.

(ECSC), income dispersion declined, but the sharpest fall occurred in the decade after the signing of the Treaty of Rome, especially up to 1962, when all remaining trade quotas were abolished. The years from 1965 to 1968 saw further, albeit moderate, reductions in income dispersion. In 1968, when trade tariffs and quotas were no longer in place, the average income dispersion in the European Economic Community was similar to that between states in the United States, whereas in 1950 it had been 30 per cent higher. It is worth noting that these results date from years in which non-tariff barriers were still in place and in some cases were even increased to make up for the phasing out of “official” barriers. In addition, trade in agricultural products was exempted from some of the measures governing the rest of the EEC’s internal trade.

FIGURE 1
Per capita income dispersion among the EEC founding countries, 1950-1985



Source: Ben-David (1993).

Figure 1 summarizes Ben-David’s results. The behaviour of income differentials appears to indicate a strong positive relation between the removal of trade barriers and the reduction in income

disparity across EEC countries.¹⁷ Relating the pace of the convergence process to the timing of the liberalization process, the analysis points to an explicit convergence bonus associated with European integration. Since the decrease in income disparities across EEC countries followed an uneven pace, it may be useful to divide the period under examination into two sub-periods, which relate to different stages of European integration.¹⁸ The first sub-period, from the Treaty of Rome (March 1957) to July 1968 (completion of the customs union) was characterized by rapid integration, while the second sub-period, from the start of the 1970s to the mid-1980s, recorded a more sluggish integration. According to Ben-David's data, it appears that the convergence process was faster in the first sub-period and much slower in the second, thus confirming the positive relation between integration and convergence.

Also Cappelen et al. (1999) judge that European integration led to a convergence process among member states, since they find a significant decrease in national dispersion among EC-9 member countries between 1960 and 1980. After 1980, this trend appears to continue, although at a slower pace. A similar conclusion is reached by Crespo-Cuaresma et al. (2002), who find evidence of both σ -convergence and β -convergence among EC-9 members for the period 1960-98: "poorer countries have caught up with the richer ones since the 1960s, and the rate of convergence is found to be between approximately 3.5% and 5.5%" (p. 14). In addition, they show that the duration of membership has a positive impact on income growth, and that this effect is stronger for poorer countries. Their assessment is that countries with lower initial incomes grew faster than the more advanced countries and profited more from long-term EEC membership.

¹⁷ The above relationship may support both the hypothesis that countries that trade a lot with one another tend to converge, and the hypothesis that similar countries tend to trade more (Linder, 1961). However, the evidence that a significant increase in convergence, together with a substantial rise in the volume of intra-EEC trade, began to occur simultaneously with the removal of trade barriers suggests that the former is the more likely interpretation.

¹⁸ For the above distinction, see Mongelli et al. (2005).

Similarly, the empirical findings of Yin et al. (2003) support the hypothesis of economic convergence among the European countries. They estimate both σ - and β -convergence for the period 1960-1995 for the EEC's six founding members, as well as for successive EC compositions (EC-9, EC-12 and EC15), finding a steady tendency towards a σ -convergence among the wider EC groups of countries. For the EC-6 countries, they obtain a somewhat different pattern: a decline in income dispersion in the first two decades under examination, with an ensuing increase. The income dispersion among the EEC founders is nevertheless the lowest by comparison with the other, wider EC groups of countries. The explanation they offer is that EC "enlargement was accomplished at the cost of interrupting integration of the existing members" (p. 198). As to β -convergence, their results support the hypothesis of absolute convergence for the entire period for all the different EC compositions, with faster convergence among the six founding members.

3.2 The empirics of European regional convergence

A different strand of empirical literature deals with analyses at the regional level, considering either regional convergence across all European regions (here labelled "European" convergence) or regional convergence within single European countries ("national" convergence). Although the literature provides evidence of "national" convergence in EEC-EC-EU member states since the 1960s, the results on "European" convergence are more ambiguous. Some studies (for instance, Neven and Gouyette, 1995) obtain statistical evidence of convergence taking place in the period 1975-1990 at the level of all European regions, but the trend is not strong. Others (Boldrin and Canova, 2001) do not find support for either "European" divergence or convergence in the 1980s and the first half of the 1990s for most regions in Europe.¹⁹

¹⁹ Convergence across all European regions has sometimes been studied in order to evaluate the effectiveness of European regional policy. For instance, Boldrin and Canova

It has been suggested (Quah, 1996, Galor, 1996) that the scant evidence of “European” regional convergence may be due to a tendency of the steady-state distribution of per capita income to cluster around more than one pole of attraction. Thus, different regions may belong to different “convergence clubs”²⁰ (Baumol and Wolff, 1986) for complex reasons, not least their “social capability” for growth. Initial conditions of per capita income and human capital, dispersion of the distribution of income and education within regions, capital-market imperfections, externalities and geographical location, all may determine the position of a region in the steady-state distribution of per capita income and the club it will join. The presence of convergence clubs accounts for the possibility of multiple steady-state equilibria to which economies with similar fundamentals will converge. It also helps explain the persistence of regional inequalities at both the “national” and the “European” level, coupled with some reduction of inequality among countries, as was seen during the 1980s and early 1990s.

Testing the “European” regional convergence hypothesis from the start of the European integration process is handicapped by the limited availability of consistent long-time series of per capita GDP for EEC-EC-EU regions.²¹ Estimations by Barro and Sala-i-Martin (1991), Armstrong (1995) and Sala-i-Martin (1996) find evidence of “European” regional convergence, but their analyses draw on different and not always comparable data sets and also suffer from geographical limitations.

(2001, p. 242) state that “so far there is no statistical evidence that Structural Funds have had a positive impact upon the growth rates of either labour or total factor productivity in the poorer regions.” As clarified above, we do not consider European regional (cohesion) policy, restricting our analysis to the years up to 1989.

²⁰ Convergence clubs exist when a subset of regions are converging on a particular value of steady-state GDP per capita but the club as a whole is diverging from the steady-state values of other clubs.

²¹ Data sets for the earlier decades, 1950-70, are especially poor. Eurostat provides data on regional (NUTS 2) income in purchasing power standards (PPSs) from 1980. Cambridge Econometrics’ European Regional Database contains annual observations for the same period.

Since we focus in this paper on the impact of European integration on Italian regional disparities in the first phase of the integration process, in what follows we only refer to some empirical contributions on "national" regional convergence, i.e. concerning the dispersion over time of regional GDP per capita within European countries, based on data for the post-war period.

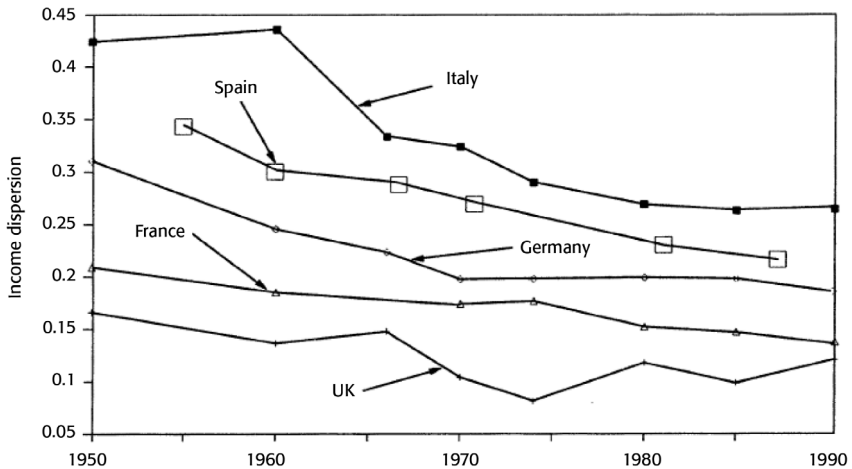
Within a more comprehensive study on convergence among countries, Barro and Sala-i-Martin (1991) analyse data for 73 regions of seven European countries and present estimates for the period 1950-1985. Using a neoclassical growth model, they point to the existence of a β -convergence both between and within countries. They obtain a convergence rate for European regions within the respective countries of just below 2 per cent per year, similar to the results of analogous exercises for the US states and Japanese prefectures. In addition, they calculate that the income dispersion²² within European countries shows a declining trend, from 0.28 in 1950 to 0.18 in 1985, although the latter still appears somewhat above the corresponding value for the US.

Sala-i-Martin (1996) extends the above analysis up to 1990, reaching similar conclusions. In addition, he estimates the speed of "national" β -convergence within three EEC founding countries, finding somewhat different values: 1.6 per cent per year for France, 1.4 per cent for Germany and 1.0 per cent for Italy.²³ He also reports the behaviour of income dispersion for the regions within each country. The overall pattern (Figure 2) shows a decline in income dispersion for each country, especially in the period 1950-70, while in the period since 1970 the σ -convergence was much slower. Italy exhibits the highest regional dispersion of per capita GDP for the entire period, but also the greatest decline in the 1960s.

²² Measured by the standard deviation of the log of regional per capita GDP relative to the mean of the respective country.

²³ It is worth noting that, according to the same estimation exercise, both the UK and Spain, which joined the EEC later, display higher convergence rates: 2 per cent in the case of the UK and 2.1 per cent in that of Spain (for the period 1955-87).

FIGURE 2
Dispersion of GDP per capita within five European countries, 1950-1990



Source: Sala-i-Martin (1996).

In the following pages we will analyse whether the dynamics of the per capita income gap between Italy's regions can be attributed to a positive effect of European integration. To this end, we now look at the factors that help to explain the above dynamics, as well as at the southern economy's evolution with respect to its ability to cope with the new and enlarged competitive environment in Europe.

4. Regional economic differentials in Italy, 1958-1987

As noted earlier, Italian participation in the EEC was supported by the belief that deeper European integration would boost domestic growth. It is generally acknowledged that European integration contributed to the high growth rates of income in the years following the Treaty of Rome. At the time, the Italian economy was in a position to benefit from the increase in market size, which led to fuller and more efficient utilization of domestic resources. Italian industry had already embarked on modernization, while Italian wages were

relatively low, favouring trade competitiveness. The strongly protective customs tariffs on industrial products (see Table 1) were no longer needed; quite the contrary, they threatened to act as a source of inefficiency.

Between 1958 and 1963, expanding foreign demand interacted with growing domestic demand, fostering the phase of high growth rates in real income known as the Italian “economic miracle”: on average, 6.3 per cent per year.

Exports of goods grew at an average annual rate of 16 per cent, but those to Italy’s five EEC partners even faster, by 26 per cent per year.²⁴

A corollary belief was that the expansionary exogenous effects of integration would spread from richer to poorer regions, with an expected decline in regional disparities. In fact, the fifteen years following the Treaty of Rome were characterized by convergence between the North and the South of Italy, and the gap in per capita income between the two areas diminished rapidly. The ratio of the real per capita income in the South to that in the North rose from 54 per cent in 1957 to over 65 per cent in 1972. Afterwards, convergence halted and even went into reverse, so that in the 1980s the ratio was similar to that recorded in the second half of the 1960s (Figure 4).

4.1 *Measures of convergence across Italian regions*

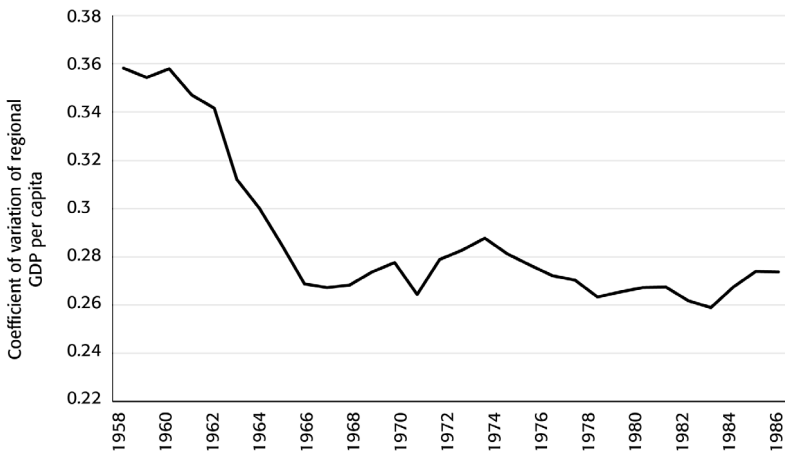
We now turn to the question of the convergence of regional per capita incomes toward the national mean. Many alternative measures are available to quantify the degree of convergence or divergence over time. One popular approach refers to β -convergence; it involves regressing the growth rate on each region’s initial GDP per capita and is often used for the formal testing of neo-classical growth theory, to which it is directly related. Another approach refers to σ -convergence, that is, the dispersion of GDP per capita across re-

²⁴ In the period 1951-58, the average annual growth in total exports was lower, equal to about 10 per cent. See Ciocca et al. (1975).

gions. Since it directly describes the distribution of income across regions without relying on the estimation of a particular model, some economists suggest that this approach is of more general use.²⁵ The most frequently used measures of σ -convergence are the standard deviation and the coefficient of variation, the latter defined as the ratio of the standard deviation of the distribution of regional GDP per capita to the mean (Williamson, 1965).

Figure 3 analyses the evolution of the coefficient of variation for the period under examination and clearly indicates a β -convergence process across Italian regions. However, almost all the decrease in the dispersion took place in a very short span of time, between 1958 and the end of the 1960s. The σ -convergence is substantial, with the coefficient of variation falling from 0.36 in 1958 to 0.27 in 1971, after which it remained roughly constant, within the range of 0.26-0.28.

FIGURE 3
Dispersion of GDP per capita across Italian regions, 1958-1987



Source: Own calculations based on Svimez (2011) and Istat data.

²⁵ See Monfort (2008).

The above-mentioned pattern of convergence between the North and the South of Italy is confirmed by a number of studies, which largely reach similar conclusions even though they employ different techniques to assess regional disparities. For instance, based on the hypotheses of the neo-classical growth model, Barro and Sala-i-Martin (1991) find there is strong evidence that the poorer regions of the South of Italy grew faster than the richer ones in the North between 1950 and 1985: "The south of Italy has not yet caught up because it started far behind the north, and the rate of β -convergence is only about 2 percent a year" (p. 151). In a subsequent study,²⁶ the same authors find a rate of β -convergence across Italian regions of 1.55 per cent per year over the period 1950-1990, again a result consistent with the predictions of the neo-classical model. However, this outcome seems to be due entirely to the substantial convergence recorded in the first half of the period.

Boltho et al. (1997) take into account the shifting patterns of the convergence process in Italy by dividing the years 1950-1991 into sub-periods. They find evidence of rapid convergence in the years 1960 to 1970, with a positive and high rate of β -convergence (about 5 per cent per year). For the 1970s and 1980s, however, their estimations signal a process of convergence within but not between southern and northern regions. Considering the entire period, they conclude that "overall, the evidence provides little support for the view that Italy has converged. Except for the 1960's, convergence was either absent or limited to the convergence of the southern regions among themselves" (p. 247).

Pace and Saba (1998) analyse σ -convergence instead, obtaining a fall in per capita income dispersion across the Italian regions only in the period 1960-1975; in the following two decades, regional income disparities tended to increase. In addition, they examine the per capita distribution of income across regions and identify two peaks respectively below and above the national average, a signal

²⁶ Barro and Sala-i-Martin (2004).

of the presence of two different convergence clubs. Their evidence appears to corroborate the results of Boltho et al. (1997).

Viesti et al. (2011) confirm the significant reduction in the output gap between South and North in the period 1951-1973, and an ensuing standstill – and even a reversal – in the South’s economic convergence. Using data at the provincial level, however, they indicate an additional difference between the two periods. Initially, convergence between the two macro-regions was coupled with a reduction in the internal variability within them, resulting in a unimodal distribution of per capita output across all Italian provinces. By contrast, for 1974-1990 they find a geographical polarization around two modes, with all the southern provinces in the poorer group and none above the national average. Again, we have empirical confirmation of the “convergence clubs” hypothesis.

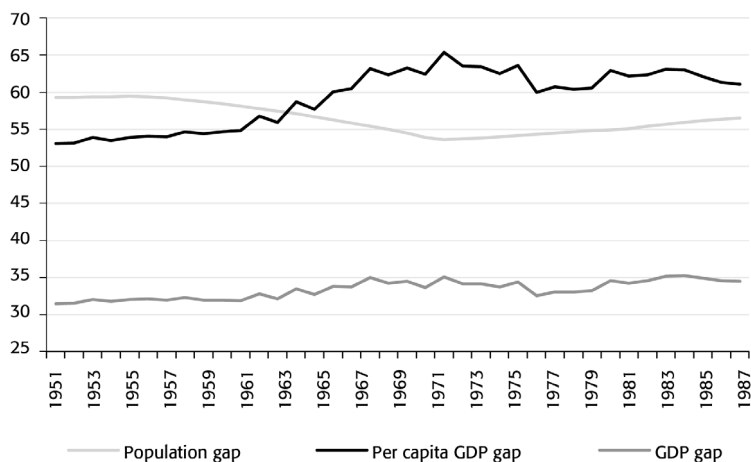
4.2 Factors behind the dynamics of the per capita income gap

The role of the diverse factors that help to explain the dynamics of the per capita income gap can be analysed by decomposing the gap into its components.

First we consider that the GDP per capita gap is the result of the variation in the output gap less the change in the population gap. In 1958, the real income of the South was less than one third of the real income of the North whereas its population was nearly two thirds as great as that of the North, so the South’s per capita GDP was about half that of the North. The situation improved until 1972, since the real output growth in the South exceeded that in the North by 0.4 percentage points per year, with the South-North output ratio rising from 32 per cent in 1958 to 35 per cent in 1972. Since the population gap simultaneously decreased from 59 to 53 per cent, the ratio of per capita GDP between the two areas increased from 54 per cent to over 65 per cent (Figure 4). Demographic dynamics helped to lessen the disequilibrium between population and available resources in the South, thus supporting the convergence in output per capita. The South, where the population growth rate was always

higher than in the rest of Italy, experienced a surge in outward migration: between 1958 and 1972, some 3 million people left the South for destinations elsewhere in Italy or abroad, corresponding to an average annual negative domestic migratory balance of over 6 per cent of resident population. The South-North migration remained significant through most of the 1970s.

FIGURE 4
South-North ratios: GDP, population and per capita GDP (per cent)



Source: Own calculations based on Daniele and Malanima (1997) and Istat data.

The effect of domestic migration on the evolution of the per capita GDP gap between the North and the South is shown in Table 2,²⁷ where the “domestic migration effect” appears to explain nearly

²⁷ Taking into account the long-run growth process, a decrease in population has opposite effects on growth: it makes a country’s per capita GDP increase while lowering its potential productive capacity. Actually, Boltho (2010) estimates that, from 1953 to 2000, migration had a negative impact on Italy’s per capita GDP gap. His explanation is that “it was the more skilled and enterprising that left the Southern part of the country” (p. 7). In fact, mass migration involved not only farm workers and rural underemployed, but also craftsmen, helping to cause the “destruction of the fabric of specific craft and industrial skills that had been rooted in the South before the war and could have fostered development” (Brusco and Paba, 1997, p. 283).

one half of the decrease in regional disparities in the 1950s and nearly two-thirds of the decrease in the 1960s. In the 1970s and 1980s there was an increase in the South's population relative to the North's, the result not only of a higher birth rate but also of a sharp reduction in northward migration, with the net migratory balance steadily decreasing. One major reason was almost certainly the huge jump in national unemployment rates that followed the 1970s oil shocks, but the fall in wage differentials²⁸ also played a role, especially in the 1970s.

TABLE 2
Effect of migration on the dynamics of North-South gap in per capita GDP

Year	Per capita GDP gap (South/ North) * 100	Change in the gap (percentage points) with respect to the previous decade			
		Total	of which: GDP effect	of which: population effect	
				Total	of which: domestic migration effect
1951	47.3				
1961	55.8	8.5	7.5	1.1	4.1
1971	67.0	11.2	6.5	4.8	7.0
1981	62.2	-4.8	-3.5	-1.4	2.9
1991	59.6	-2.5	-0.6	-1.9	1.6

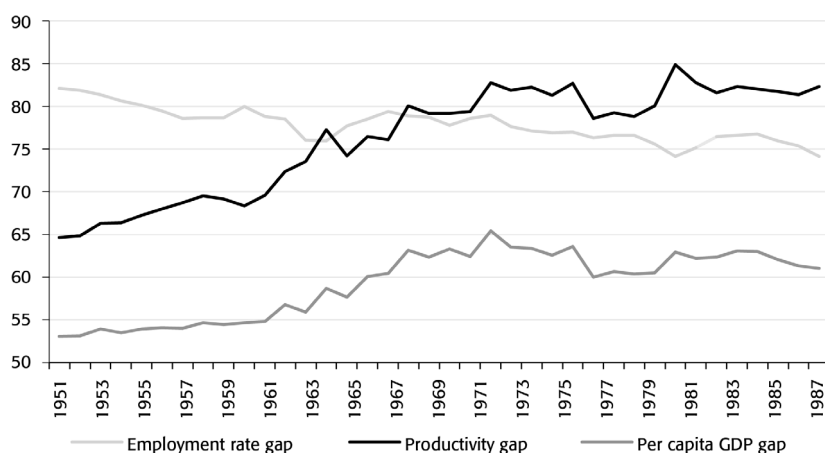
Source: Viesti et al. (2011).

The dynamics of the per capita output gap may also be traced back to the changes in the labour-productivity and the employment-rate gaps. Productivity was the chief engine of the convergence of per capita GDP: in the 1950s and even more in the 1960s, southern labour productivity grew rapidly. This occurred thanks to a sectoral

²⁸ According to Boltho (2010), in the early 1960s wages in the South were as much as 50 per cent lower than those in the North. The gap decreased to around 30 per cent by 1968 and fell further with the abolition of regional wage differences based on local cost-of-living indices in 1969.

composition effect reflecting the sharp relative decline in agriculture to the benefit of industry and services, coupled with the migration of southern workers who had been employed in activities where productivity was low. But the main explanation for the narrowing of the productivity gap, despite simultaneous productivity gains in the North, lies in the fast pace of industrialization in the South, driven by large-scale private and public investments. As a result, in 1973 the South's productivity level was about 83 per cent that of the northern regions (Figure 5). During this period, the dynamics of the productivity gap more than offset the relative decline in the employment rate, accounting for the convergence in GDP per capita between the two areas. The convergence in labour productivity came to a standstill in the following period (1974-1987), during which the relative employment rate diverged. According to this decomposition, the interruption of the convergence in per capita income from the mid-1970s derived from the pause in the recovery of relative productivity and the worsening of the relative dynamics of the employment rate in the South.

FIGURE 5
South-North ratios: employment rate, productivity
and per capita GDP (per cent)



Source: Own calculations based on Svimez (2011).

Table 3 confirms the above dynamics of the contributions of productivity and employment rate to the evolution of the North-South gap in per capita GDP. The decomposition points up the overwhelming role of the decrease in the productivity gap in explaining the significant convergence that took place until 1973, as well as the negative role played throughout the period by the poor dynamics of the employment rate.

TABLE 3
Effect of productivity and employment on the dynamics
of the per capita GDP gap

Year	GDP per capita gap (South/North) * 100	Change in the gap with respect to the previous period (percentage points)		
		Total	of which:	
			Productivity effect	Employment effect
1957	54.0			
1973	63.5	9.5	10.2	-0.7
1987	61.3	-2.2	-0.4	-1.8

Source: Own calculations based on Svimez (2011).

5. Economic integration and regional economic differentials in Italy

It is not easy to assess the extent of the influence of European integration on the relative dynamics of regional per capita GDP.

On the eve of the Treaty of Rome, it was widely believed that integration was bound to have expansionary effects which would then spread from richer to poorer regions, bringing about a decline in regional disparities.²⁹ However, some Italian economists voiced the fear that a free-trade area would favour the North of Italy, which

²⁹ For instance, Saraceno (quoted in Gioli, 1997) stated that the overall national growth promoted by the EC would allow a higher rate of capital accumulation, which could then be earmarked for the development of the South.

was more industrialized, export-oriented and closer to continental European economies. They argued that, in such a context, economic integration could hamper the industrialization of the South just when that process was beginning to gather strength.³⁰ Another argument supporting “pessimism” about the effects of European integration on Italian regional disparities was linked to the difference between the North and South in their endowment of infrastructure in the early 1950s. Successful participation in the European Community would actually require a huge upgrading of existing infrastructure, but the necessary investments would entail the allocation of financial resources far in excess of those the country could muster.³¹

Needless to say, the actual performance of southern regions was due to multiple and often interacting factors, among which are (national) policy interventions. The failure to achieve a long-term, lasting convergence among Italian regions has been amply discussed in the literature. Explanations refer to the South’s insufficient wage differentials and labour market flexibility (Faini, 1998), its poor infrastructure (D’Antonio and Vinci, 1992), its inefficient financial system (Faini et al., 1993), the inadequate expansion of its industrial base, with particular reference to local small enterprises (Brusco and Paba, 1997; Viesti et al., 2011), the limits of policy measures (Sarcinelli, 1989; Galli and Onado, 1990), and so on. All the above factors contributed to the ultimate outcome.

³⁰ De Cecco (1981) reports the main arguments for and against Italy’s participation in the EEC, expressed at two conferences held in May 1952 and May 1958. At the latter, Marco Fanno emphasized that the South, where agriculture was overweight and industry underweight in terms of output and employment, might be adversely affected by the integration process. Fanno argued that the path to economic development required a structural change in favour of industry, but that the increased competition created by the EEC was likely to hurt the South’s fragile industries. He also stressed that such an outcome was to some extent foreseen in the Treaty of Rome where it established the European Investment Bank and the European Social Fund.

³¹ This question was partly addressed by the creation of the European Investment Bank as part of the Treaty of Rome, largely to help fund infrastructure construction in poorer regions. Before joining the EEC, Italy pressed for such an outcome. In fact, between 1959 and 1970 the EIB devoted nearly two-third of its resources to finance industrial and infrastructural projects mostly based in the South of Italy.

We do not pretend to offer a thorough analysis of the numerous and complex causes that determined the observed economic dynamics. In what follows we will only sketch out the main factors, linked to the competitive environment deriving from Italy's participation in the EEC, that influenced the dynamics of the per capita income gap.

5.1 *Industrialization and supply capacity*

EEC trade liberalization fuelled trade mainly in industrial goods, but sectoral specialization differed across Italian regions. In 1951, 55 per cent of the South's economically active population worked in agriculture and 23 per cent in industry, compared with 39 and 35 per cent, respectively, in the North. Although the situation improved in the following decades, with the share of industrial employment in the South rising to 31 per cent in 1961 and to 35 per cent in 1971 (it subsequently fell back to 27 per cent in 1981), the gap with the North remained unchanged at approximately 13 percentage points (Daniele and Malanima, 2011). A similar pattern emerges from the "industrialization index", that is, the ratio of industrial employment to population. In the South, the index rose from 4.1 per cent in 1951 to 6.2 per cent in 1981, and then slightly decreased. The northern regions exhibited a similar trend, but the level of the index was nearly three times higher.³²

Moreover, industrialization in the South displayed a distinctive feature: it was mainly driven by large, capital-intensive plants in basic sectors serving the domestic market. In the vast majority of cases, capital investment came from companies that were state-owned, foreign-owned or based in northern Italy.³³

³² See Mulino (2006).

³³ From 1957 state-owned corporations were required to locate at least 60 per cent of new investment and not less than 40 per cent of total investment in the South. As a result, the South's share of total investment by state-owned corporations rose from 17 per cent in 1957 to 40 per cent in 1962.

Their investments were supported by fiscal incentives that reduced labour and capital costs and by the modernization of southern infrastructure, mainly financed by the Southern Italy Development Fund (Cassa per il Mezzogiorno)³⁴ and the EIB.

The new manufacturing plants were concentrated in heavy industry, serving the industrial needs of the entire Italian economy. As Giannola (2010) points out, the modernization of southern industry was functional to the overall progress of Italian manufacturing, since basic industry in the South was essential to the success of the Italian export industries that were at the forefront of the “economic miracle”.

Industrialization “from the outside” (Viesti et al., 2011, p. 8) only provided a feeble stimulus for self-sustained growth in the South. The new large firms had only minor dealings with local producers and failed to generate significant induced effects on employment and investment in other local enterprises or to foster local management capabilities. Southern firms reaped the benefits of externalities from the exogenous industrialization to only a limited extent,³⁵ so that the “expansion of the southern industrial base proved insufficient in number of enterprises and ill-adapted in composition” (Viesti et al., 2011, p. 35). In this respect, Brusco and Paba (1997) observe: “The South lost a large number of small enterprises that may have achieved regional size but could not withstand the offensive from the enterprises of the North” (p. 271).

Southern firms’ difficulty in keeping up with the expansion of local, domestic³⁶ and foreign demand is confirmed by the area’s re-

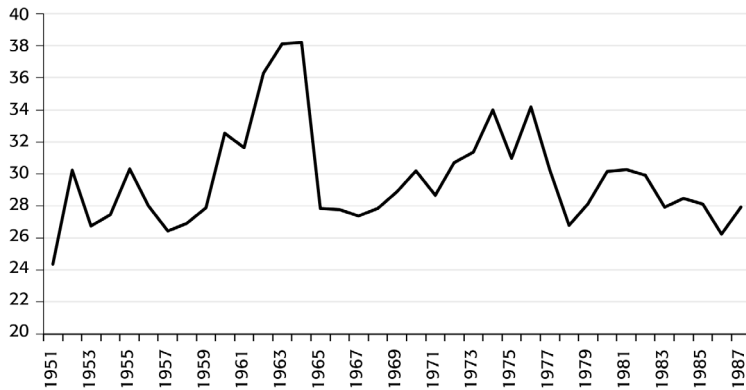
³⁴ During the first years, the Southern Italy Development Fund focused on infrastructure for agriculture, water supply and government services. Starting in 1957, it extended its action to direct industrial promotion.

³⁵ Giannola (1979) shows that the sectors stimulated by public policies were characterized by a low share of wages and salaries in value added, by weak backward linkage effects, and by heavy dependence on inputs, such as energy, transport, marketing, research, or engineering, that came mainly from firms outside the South.

³⁶ The rapid expansion of the Italian domestic market is testified to by the increase in Italy’s share of Western European GDP, from the 11-12 per cent typical of the interwar years, still prevailing in 1950, to over 15 per cent by 1980. See A’Hearn and Venables (2011).

curring trade deficits. According to regional accounts data (Svimez, 2011), the South's net imports averaged about 30 per cent of regional GDP during the period under examination (Figure 6), rising steadily from 26 per cent in 1957 to a peak of 38 per cent in 1963 and 1964.

FIGURE 6
South's net imports (as a percentage of regional GDP)



Source: Own calculations based on Svimez (2011).

The South's recurring current account deficits allowed divergence between the levels of consumption and GDP per capita, indicating a dependence on transfers of resources from outside the area. These took various forms, from public sector investment in infrastructure to capital investment by state-owned enterprises and private corporations (the latter thanks to direct grants and fiscal incentives), to public sector transfers to households.

The Southern Italy Development Fund played a major role in enhancing the growth of value added and productivity in agriculture and strengthening the industrial structure. Between the 1960s and the first half of the 1970s, the policy of "extraordinary intervention" helped southern industry to develop and modernize, appreciably narrowing the gap with the North. The effort was truly massive: between 1951 and 1988, discretionary intervention in the form of investment incentives and infrastructure construction aver-

aged some 4 per cent of regional and nearly 1 per cent of national GDP, amounting to €4.5 billion per year (at 2005 prices). Infrastructural and industrial investment in the area powered a rapid increase in gross fixed capital formation. The investment rate rose from 23.7 per cent of GDP in 1951 to 31.9 per cent in 1955; by 1971, the investment rate in the South was 37 per cent, nearly twice as high as in the North (20.7 per cent). In relative terms, in 1957 gross fixed capital investment in the South was just above one-third of the corresponding value in the North; in 1964 it amounted to more than one half, reaching a peak of nearly 60 per cent just before the first oil shock.

As Sarcinelli (1989) observed, in a dual economy transfers of resources towards the poorer region may promote its growth, and lessen regional dependence, as long as the increase in income and demand is able to stimulate local production. On the other hand, there is the risk that only the more competitive firms in the poorer region will be able to meet the increase in demand, so that local enterprises may even be compelled to exit the market. This risk is lower when transfers go to infrastructural and industrial investments, but it is much higher when transfers consist in income support. To some extent, this appears to have been the case for southern Italy, especially from the 1970s, when the increase in domestic demand fuelled by public transfers to households translated into imports from outside the area more than into local production of goods and tradable services (D'Antonio, 1988).

5.2 *Openness and competitiveness*

In the above setting, it is not surprising that the two macro-regions behaved differently as regards access to foreign markets. Post-war trade liberalization determined a significant rise in the Italian economy's degree of openness,³⁷ from 20 per cent at the beginning of the 1960s to over 36 per cent twenty years later (UIC data). Import

³⁷ Measured as the ratio of the sum of exports and imports to GDP.

and export flows grew rapidly up to 1971, by about 12 per cent a year. After the oil shocks, trade flows continued to grow, albeit at a lower rate of about 6 per cent for both imports and exports (Vasta, 2010). The ratio of exports to GDP rose from 7.5 per cent in 1963 to 11 per cent in 1972. The growth in exports intensified until 1977, with the ratio to GDP reaching about 18 per cent, but subsequently stalled.

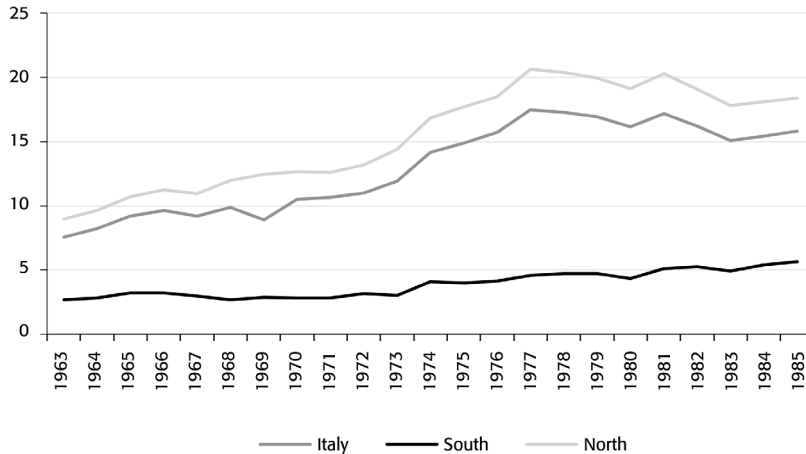
Within this context, the North and South displayed very different patterns. At the beginning of the 1960s, the southern economy was far more closed, with a trade openness ratio of just below 6 per cent as against the North's 24 per cent. Over time, the openness of both areas increased, but the difference between them persisted, with the North recording an openness ratio nearly four times higher than the South's in the 1980s.

An examination of the ratio of regional exports to regional GDP makes clear that the South relied on foreign demand much less than did the North throughout the period considered, with the gap steadily widening over time (Figure 7). The South's exports-GDP ratio was very low in the 1960s, and although exports grew more rapidly than GDP, the ratio only rose to about 8 per cent in 1985; the ratio in the North was nearly three times as high.

In 1963, the South accounted for 24 per cent of Italy's GDP but for only 8 per cent of its exports; some two decades later, in 1985, the figures were roughly unchanged, confirming the enduring limits of the South's foreign trade integration. There are multiple reasons for this; some of the explanations that have been offered refer to industry's sectoral and size characteristics, partly related to the industrialization process sketched above, and to geographical factors.

Gomellini and Pianta (2007) show that up to 1970, exports increased in all sectors of industry except for food processing. Notable among export-oriented sectors were motor vehicles, other engineering, and textiles, which exported about 30 per cent of their production. A cursory glance at industrial census data shows that in 1951 under 18 per cent of southern industrial workers were employed in mechanical engineering and transport equipment, a little less than

FIGURE 7
Ratio of exports to GDP (per cent)



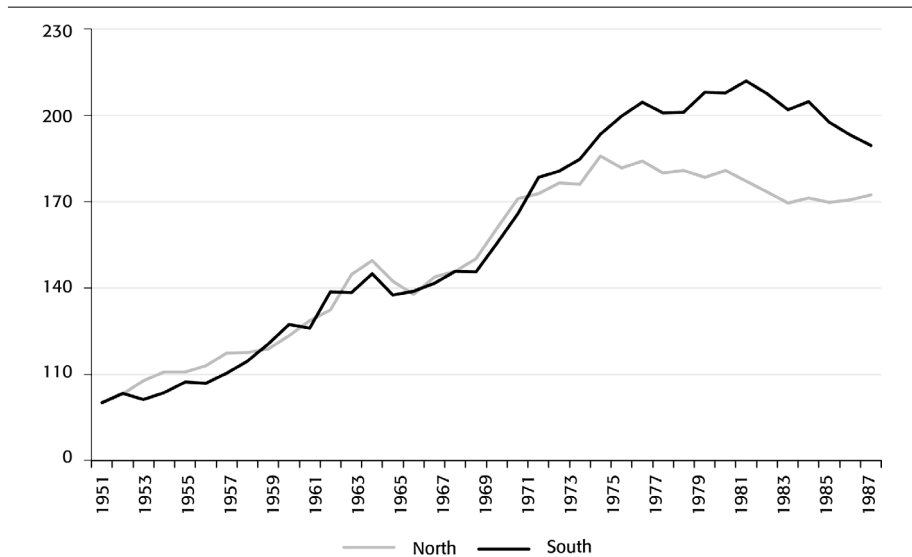
Source: Own calculations based on UIC and Svimez (2011) data.

half of the share so employed in the North. In 1981, the share of southern industrial workers employed in the same sectors was twice the initial value, but still 5 percentage points less than in the North. In 1951, nearly 30 per cent of industrial workers in the South were employed in food processing, against only 8 per cent in the North. By 1981, the share of the workforce employed in that industry in the South had halved but it was still 7 percentage points higher than in the North. Consequently, the sectoral distribution of industrial employment was less export-oriented compared with the North. The analysis by A'Hearn and Venables (2011) confirms the greater export propensity of the North, as they find evidence that its specialization was strongest in industries "in which Italy had a revealed comparative advantage in the early post-war decades" (p. 23).

Moreover, the much smaller and chiefly local southern firms met serious obstacles in entering larger, non-local markets, partly owing to inadequate distribution networks (Barca, 1997). By contrast, price competitiveness did not constitute a barrier to southern exports. We consider the ratio of southern to northern unit labour costs (ULCs)

as a proxy of relative price competitiveness on domestic and foreign markets between the two Italian areas. ULCs in the South were significantly lower than in the North throughout the 1950s and 1960s, since southern wages were well below those in the North and the productivity gap was shrinking. With the abolition of regional wage differentials based on local cost-of-living indices, starting from 1969 labour costs in the South moved into line with the national average, but in a context of significantly lower productivity.³⁸

FIGURE 8
Unit labour costs (1951 = 100)



Source: Own calculations based on Svimez (2011).

As a result, from 1971 onwards ULCs increased by more in the South than in the North (Figure 8), with a negative impact on the South's relative competitiveness. Yet, despite the increase in unit

³⁸ Lüttge (2014) estimates that the productivity gap between the two areas is ten percentage points larger when calculated with reference solely to tradable sectors.

labour costs in the South relative to the North, a sizeable gap persisted.³⁹

Building on the strand of literature that focuses on geographical aspects of economic growth, some authors (A'Hearn and Venables, 2011; Lüttge, 2014) underline the role of geographical factors in determining the limited ability of southern regions to take advantage of growing economic integration in Europe. As expected, that development led to a geographical reorientation of exports: from 1951 to 1971, the share of Italian exports going to other EEC founding members more than doubled, from 21.2 to 44.8 per cent of the total. Besides exploiting the advantages of larger domestic demand, scale economies, increasing returns and agglomeration externalities due to existing clusters of activity, regions in the North benefitted from their proximity to European markets. The South instead suffered from a comparative geographic disadvantage, since transport costs increase with distance from markets. In addition, transport costs depend on the quality and density of road, rail and air traffic networks, which all underwent a remarkable expansion in the North, while transport infrastructure lagged behind in the South. Fratianni and Marchionne (2008), using a gravity model to estimate the effect of distance on Italian exports, find a significant export elasticity with respect to distance, its value exceeding unity. Based on the above estimates, A'Hearn and Venables (2011) calculate that a doubling of distance from the destination market⁴⁰ "is associated with a 70% fall in predicted exports" (p. 22).

Whatever the reasons, the poor foreign trade activity of the South signals a serious difficulty in taking adequate advantage of the external opportunities arising from the formation of the Com-

³⁹ According to data from Svimez (2011), which refer to the whole economy, southern unit labour costs rose from about 35 per cent of northern ULCs in the 1960s to over 42 per cent in the 1970s. For the industrial sector, Viesti et al. (2011) obtain higher values for relative ULCs: 77 per cent in 1971.

⁴⁰ In their exercise, production is assumed to take place in Milan and Bari, respectively, while the destination market is Berlin.

mon Market. Thus European integration, per se, can hardly explain the South's significant catch-up growth in the 1950s and 1960s, or the pause in the convergence process in subsequent decades.

6. Concluding remarks

It is generally agreed that European integration was crucial in determining the Italian economy's high growth rates in the years following the Treaty of Rome. The link between the "economic miracle" and the process of European integration has been closely studied, and there is a consensus view that Italy's rapid growth in the period was mainly export-led, given the "expansionary process in our foreign trade, which was largely interpreted as the 'E.E.C. effect.'" (Ciocca et al., 1975, p. 302). At the same time, the expansionary exogenous effects of integration interacted with an already growing domestic demand for both investment and consumption goods.

The 1950s and 1960s were marked not only by Italy's "economic miracle" but also by the South's most successful performance to date and were the only period in which the South achieved significant catch-up growth. However, in our opinion there is no clear evidence of direct causality between the increase in economic integration and substantial convergence between the South and North of Italy. The convergence process came to an abrupt halt in the mid-1970s, the regional income gap remaining more or less constant thereafter. Yet, the period in question saw no substantial changes in the environment of European economic integration or in the southern economy's relatively low degree of openness.

Italy's participation in the EEC, along with the progressive trade liberalization on a global scale, contributed to the country's high GDP growth rates in the two post-war decades. Southern convergence (and the subsequent lack thereof) appears to have been only indirectly linked to the European integration, deriving more from changes in the overall economic conditions of the country and in the economic policy stance towards the South.

During the years of the “economic miracle”, the economies of the two macro-regions became more integrated, a development fostered by the increasing number of large, capital-intensive plants in basic industries in the South serving the country’s industrial needs. At the same time, mass migration to the North simultaneously provided the work force needed to meet expanding demand and eased the unemployment problem in the South. This integration at the domestic level had beneficial effects for the whole Italian economy. A set of public policy programmes accompanied these processes. The modernization of southern infrastructure, combined with fiscal incentives, boosted southern capital formation rates and supported rapid industrialization, which, together with migration outflows, assisted the rapid progress of per capita output in the South and income convergence across Italian regions.

The subsequent phase of non-convergence coincided with a different macroeconomic environment following the 1970s shocks. The South witnessed a radical change in the competitive setting, since the shocks had more severe repercussions there than in the rest of the country.⁴¹ The southern industrial apparatus – given its size, sectoral and technological characteristics – was more vulnerable to adverse economic developments and also less capable of embarking on the process of industrial decentralization that allowed smaller firms to achieve significant competitive gains. Its competitiveness also deteriorated with the abolition of regional wage differentials. In addition, with the crisis of the mid-1970s and the decline in labour demand in the North, domestic migration slowed sharply. Both economic and demographic factors contributed to stalling the convergence process. Another factor was the change in the economic policy approach, which shifted from promoting fixed capital formation to supporting households’ disposable income and consumption, making the southern economy less competitive and more dependent on external resources.

⁴¹ See Ciocca et al. (1975), Viesti et al. (2011). Currency devaluations as well had asymmetric effects, owing to the two macro-regions’ different degrees of openness.

In conclusion, in both phases multiple factors were at work, influenced by the national and international macroeconomic environment and by public policies. European integration encouraged economic growth, and the Italian economy succeeding in adapting to the new situation; high growth rates of demand and output, coupled with public policies favouring the industrialization of the South “from the outside”, helped to decrease the dispersion of per capita GDP among Italian regions. The oil and wage shocks of the 1970s triggered deep changes in the macroeconomic framework, as well as in the economic policy perspective. In the new context, the significant convergence process of the previous twenty years ground to a halt.

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