REGIONAL POLICIES IN SOUTHERN ITALY SINCE 1945

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Introduction

Within industrial countries regional problems have evolved differently regardless of similarities in the process of capital accumulation and industrialization. The theory of polarization points out that one economic activity will attract another, and that many economic activities will attract others in geometrical progression. If no deliberate policies of regional development exist, in a market economy under usual oligopolistic conditions regions may differ drastically in their growth rates. A realization of this regional tendency for lopsided growth has driven economists and policy makers to identify the factors that prompt differentiation and to study policies that will narrow the gaps among regions.

International trade theory, based on the Heckscher-Ohlin model, attempts to show that the free flow of resources in an open economy will bring about equalization of per capita income. Regional economists who believe in this theory maintain that the wealth of the rich will overflow to the poor; free movement of resources will influence factor cost equalization; location of development will be determined by the attractiveness of resources (or their combination) for private entrepreneurs. Industries will flock to benefit from low labour costs in poor regions and to take advantage of relative abundance of capital and external economies in rich regions. This, of course, will narrow income differentials and close regional gaps in a relatively short period of time.

On the contrary, historical evidence demonstrates that market forces alone do not close regional disparities of economic growth within a country; an area left behind economically can never achieve a sustained process of development if adequate measures are not taken to counter-balance the advantages of more advanced areas. In other words, deliberate policies for development of poor regions are needed to stop the process of spontaneous polarization towards already wealthy areas.

The Case of Italy

Italy has been used as a laboratory for examining regional dualism, since the differentiation between the North and the South of the country is larger than that of any other European nation. Since political unification, conditions of underdevelopment in the South have remained rooted in historical and economic conditions. The origin of the depressed state of the Mezzogiorno may be traced as far back as the third century B.C., when a series of invasions so ravaged this once prosperous part of the Greek Empire that even before the Roman Empire started to decay, southern Italy was considered a backward region. The feudal system, introduced by the Normans in about 1200 A.D., remained intact until the French Revolution and subsequent French conquest, when steps were finally taken to dissolve the system. But by subtle and devious means the feudal landlords retained their hold on the land far into the twentieth century.
When the industrial North was united with the agricultural South in 1860, the former, having the economic and political advantage, immediately dominated its southern neighbor. Land taxes crushed agricultural development. Southern infant industry was annihilated by various tariff policies adopted by the central government. This situation continued without any major change until World War I, after which the autocratic regime prescribed a policy of self-sufficiency which had unfortunate results. Nor did the situation improve during World War II. The war brought more misery to the South than to the North because the Allied invasion of 1943 and subsequent battle were concentrated on southern territory. By the end of the war southern Italy was in total ruin and political chaos.

During the postwar reconstruction period the gap between the North and the South, already long in existence, continued to widen. The Mezzogiorno's problems increased with its failure to keep pace with northern development. Galloping inflation and the considerably higher living standard of the northern population, which found employment in the reconstruction process, aggravated the deprivation of the southern population. In the late forties, one-third of the southern labour force was unemployed or underemployed. Then, for the first time in the history of the nation, official thinking was earnestly directed toward narrowing the economic gap between the North and South by improving general conditions in southern Italy. During the next twenty-five years various steps were taken by the government to achieve an immediate amelioration of living standards and to foster long-run, autonomous economic growth.

Since 1945 six general periods (sometimes overlapping) of public policies in the south can be distinguished: (1) 1945-1949, reconstruction applied to Italy as a whole with very little emphasis on regional development other than some minor welfare measures; (2) 1948-1951, land reform principally in the South under strong political pressure supplemented by makeshift policies of assistance; (3) 1950-1957, agricultural development programs and build-up of infrastructure under partial planning; (4) 1957-1965, mass emigration occurring simultaneously with policies of rapid industrialization; (5) 1966-1970, regional policies within the framework of a five year national plan; and (6) 1971 to the present, stabilization policies to stem the effects of national depression and rapid deterioration of the lira due to change in petroleum prices.

Policies During Reconstruction

The early measures of assistance by the government consisted of tariff exemptions, public works, extension of credit, and reduction of freight rates on the state-owned railroads. These steps, however, were ameliorative rather than fundamental and resulted only in a temporary and rather inconspicuous improvement in the regional economy even for the short-run.

Land Reform and Financial Assistance

The position of the South vis-à-vis the North deteriorated further in the immediate post war period as a response to social unrest on the farm, during the late 1940s a program of land reform was enacted. Land reform policies can consist in distributing land to the peasants to be cultivated on a family basis or in setting up organizations through which the peasants cooperate in managing large holdings on a commercial basis. Unfortunately, the former choice was adopted. This decision induced fractionalization of holdings - often a few acres in size - and perpetuated inefficiency of production, because the peasant had neither the financial means nor the knowledge to improve and maintain the land at highly productive levels. The second choice would more likely have brought the introduction of modern methods of production, as large commercial farms can more readily secure funds and increase productivity. The land reform of the late forties and early fifties added little to productivity and consequently did not affect the basic structure of southern agriculture. It was, therefore, evident that further action was necessary.

The Creation of the Cassa

In an effort to stimulate agricultural development and also to build up southern "social overhead", the Cassa per Il Mezzogiorno - "The Fund for the South" - was established on August 10, 1950. The task of this agency was to carry out a program of special measures to assist the South in a long-term series of investment and public works financed by the State. The aim was to create enough external economies to establish preconditions for development; once this was accomplished, the next step would be to accelerate the process of industrialization.

The new government policy between 1950 and 1957 constituted the first serious attempt in the region's history to endow it with the same obvious benefits as the North, at least with regard to public works and services upon which economic expansion depends. But while during the first seven years the stress was mainly on agriculture in this sector made very small gains and frequent criticism was cast upon the modest results it should be recognized, however, that only a small portion of the Cassa's projects could have influenced development by 1957. One-third of the Cassa's projects were not completed and therefore unable to generate any income, and about half of the projects which were completed could show results only in the long-run.

In general, industrial policies were not as successful as had been expected because the Cassa's projects were too dispersed. No significant changes were made in farm organization, and the incentives offered by the Cassa failed to strike a vital note of response in the rural population. Despite this, the agricultural efforts of the Cassa did provide guidelines for future action.

Industrialization Policies

Disatisfaction with accomplishments in agriculture up to 1957 led the Italian government to change development policies radically in favour of rapid industrialization, concentrating on the heavy, durable goods industries. For this purpose, industrial zones and areas of industrial development were created. The program of industrial development includes incentives to private business, commitments for Italy's mixed and government enterprises, credit facilities, etc. Of these, the most important in terms of implementation is the program for the Italian mixed and government enterprises/companies, which the government controls or owns outright, such as IRI (Agency for Industrial Reconstruction) and ENI (National Agency for Carburants); since 1957 these enterprises have been required to allocate at least 40 per cent of their annual investment in the South.

In statistical terms, the process of industrialization shows impressive results. On a regional scale, the non-agricultural sectors doubled
output between 1951 and 1965, a substantial increase. Nevertheless, many drawbacks remained. First, on a national scale the southern share of manufacturing production fell slightly behind (from 17.05 per cent in 1951 to 16.40 per cent in 1965), thus showing no narrowing of the regional gap. Secondly, most of the growth in industrial output was attributable to government-controlled firms. In a sense this makes Italy a country with an industrial base of two principal types: private in the North, and public in the South. Thirdly, the "spilling over" from the industrial giants to the economy as a whole did not take place. Private medium- and small-sized enterprises continued to concentrate in the more developed North despite tax exemptions, cheap credit, and other privileges offered to them in the South.

The greatest hopes were placed on the then fashionable growth poles. One may gain a great deal of insight from the Italian experience with growth poles, in terms of the errors committed and the achievements made. The basic weakness of the system has been for each commune to be an area of development. It is understood that to be effective these poles of growth must be limited in number and size. As a result of southern "provincialism" (campanilismo), the number of development areas increased to cover a fifth of the southern territory and to include half of the southern population. "Growth poles" will be rendered meaningless if most of southern Italy becomes an "area of development".

The communes themselves compete with the areas and the nuclei in attracting investment. Many communes, regardless of whether included in a "pole" or not, offer free sites (which the communes must buy from private owners), local tax exemption or deferment, and other services. Furthermore, each commune has its own zoning regulations superimposed upon, or in contradiction to, "poles", provinces, or regional zoning. The would-be investor remains bewildered by the confusion arising from this duplication. Also, in general, townships' treasuries are usually very meager, since communes rarely operate in the black, have limited powers of taxation, and, because of the general poverty, have a very small tax base. Therefore, communes either disappoint investors who come there in good faith or they request that the central government foot the bill.

An internal deficiency of the areas of development and nuclei is the lack of urban planning. Italian specialists in urban economics claim that economic planning and urban planning are two sides of the same coin - they cannot be separated. But the choice of industrial estates offers ample evidence that neither the government poles are by the sectoral administrative authorities thought in these terms. P. Radogna, an Italian "urbanist", claims that the industrial requirements of the poles do not make the adjusted economic structure of the southern regions. Furthermore, available locations for industrial estates within the area were not optimal, lacking adequate provision of urban infrastructure such as communication, transportation, water and sewer systems. The net result is that the industrial "pole" functions independently of the urban concentration where it is located. In other words, not only is there no connection between communes within the poles and outside the poles but there is a complex divorce between the "old" economic structure (the commune) and the "new" economic structure (the pole).

Poor coordination might partly explain why by 1965 no spillover occurred from the "new" structure to the old one. In a way, it is a repeat of the basic industries' experiences in the south; there are still islands of sophisticated technology in the midst of poverty. Perhaps there is a connection between the two experiences. The poles should have concentrated in the production of those items which would use the production of these "local" resources, such as mechanical industries (the steel of Naples and Taranto or the byproducts of a chemical complex). In other words, besides primary local resources such as labour and raw materials, a new favourable dimension was added to southern industrial development, but to no avail.

As with the semi-manufactured products, other local resources were not used optimally and small-sized enterprises continued to concentrate in the more developed North despite tax exemptions, cheap credit, and other privileges offered to them in the South.

Regional Policies and National Planning

The hodge-podge bundle of measures and counter-measures of the middle sixties resulted in some huge industrial complexes but not in an industrial society. Law No. 717 of 26 June 1965 attempted to make some sense of existing policies and to replace the ad hoc with a systematic approach. The law instituted a Five Year National Economic Plan within which a special program of coordination of public policies in the South was included. The aim was to coordinate various sources of credit and to direct public incentives toward the South for a more balanced growth process.

Many of the features of the previous programs were retained: the tax and credit incentives, the role of the Cassa, the growth poles and
agricultural policies. Probably the most innovative aspect has been the establishment of an Institute of Industrial Technical Assistance (IASMI), aimed at promoting investment and at giving federal assistance to potential investors from the North and abroad. Included also is a center for vocational training for those professions needed by new industries settling in the South (FORMEZ). As already decided in 1957, the main emphasis was given to industrial development. The Cassa was to play a major role. Cassa's financing shifted from 56.1 per cent in agriculture between 1950-65 to 26.5 per cent between 1966-69, while for industry the shift was from 6.9 per cent to 44.1 per cent. It was hoped that this would finally propel a take-off in the depressed area of the country.

Up to 1965, although the government contributed investment funds and some partial "indicative" planning and operational projects to southern Italy, the market forces, left largely unhampered, showed meagre results. On the one hand, basic industries, financed through government and mixed enterprises or credit and tax incentives, were rapidly created; on the other hand, the industrial incentives did not attract small or medium enterprises, nor did the huge investments in land reform and reclamation bring about farm reorganization.

The general feeling in Italy at that time was that the government should assume a more direct role in development policies than it had done in the past. There was a consensus that the planning needed for the South could not be of an "indicative" nature only, assuming that the private sector would operate to achieve the prescribed goals. It was evident that the market forces in the South did not automatically create an expansionary movement and that new policies for development should involve much more than just a territorial redistribution of resources. The development of a country is a unifying action, a coming together of diverse parts. Planning thus implies the obligation of providing solutions for all related problems simultaneously. In the past, Cassa had looked after the development of the South by enacting many diverse measures. These undertakings were helpful, but too often the absence of a plan to coordinate these scattered parts prevented them from becoming functional. After 1965, an attempt was made to coordinate these policies, and the national plan was thought to be a reasonable vehicle.

Between 1965 and 1969, mainly as a result of a buoyant national economy, the South fared notoriously well. As shown in Table 1, real growth in the regional product increased by one-fourth, but the national product fared even better - 24.5 per cent vs. 27.7 per cent. Therefore, by the end of the period the position of the South deteriorated slightly with respect to the country as a whole. Notwithstanding the large out-migration experienced by the South up to 1969 (its relative share of the population decreased from 37.23 per cent in 1951 to 35.39 per cent in 1969), the 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 program [6, p. 403]. In the two decades from 1951 to 1971 industrial jobs increased by about 35 per cent, but as a share of national industrial jobs they decreased from 17.3 per cent to 15.1 per cent, and the number of local factories decreased by 7.8 per cent [8].

The number of private cars in the South increased twenty fold, at
Table 1

INDUSTRIES OF SOUTHERN ITALY PERFORMANCE AS COMPARED WITH THE NATION (1951 = 100)

<table>
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Source: [2, 3, 4, 10].
a much faster rate than the North. On the other hand, the North-South ratio of living quarters per person remained constant - no change in twenty years. A positive development feature is the increase in the number of beds in hospitals and nursing homes, yet in 1971 there were still only eight beds per 1000 inhabitants compared with 11.9 in the North. In terms of growth (income and production), the South has fared well in comparison with other less developed areas around the world. Yet, after a total investment of 40,000 billion lire ($7 billion at 1950-1976 rate of exchange) labour participation decreased from 37 per cent to 32 per cent, and total employment declined by 600,000. In fact, between 1965 and 1970 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 and 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; but the South represents less than one third of the total labour force. Over the same period, instead of the forecast 350 thousand southern emigrants, 438 thousand people from the South left.

The data on unemployment are misleading because the participation rate declined to below the level of most developed economies. The manpower potential of Italy as a whole, especially 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 rate originates in lack of labour demand that in itself represents disguised unemployment [5, p. 35].

By the time of the completion of the plan, conditions of underdevelopment had been ameliorated in some cases (hospital beds, roads, pupils in schools), and worsened in some cases (deforestation of the environment, unemployment, underemployment, and migration). One might say that while growth did occur (5 per cent annually), the social fabric had changed. Growth occurred because the rate of investment (public and private) had been sufficiently large to induce an enlargement of the productive apparatus, but this is exactly what shattered the old social order without building up a new one. The big industrial complexes which dot the South destroyed the handicraft industry, encouraged depopulation of the countryside, destroyed more jobs than they created and crowded the cities without providing adequate social services [5, p. 74].

Stabilization Policies After 1971

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 over the period. In terms of mobilization of resources southern Italy has fared pretty well. However, development is a function not only of mobilization but, to a greater extent, also of distribution of resources. Between 1950 and 1970, most of the industrial investment had been directed into basic industries with high capital-output ratios and very small linkages. Steel and petroleum, which form the bulk of investments, have no backward linkages at all. Imported raw materials do not bring about development of those basic industries such as steel that can induce forward linkages. This local demand for intermediate or final products has to exist for entrepreneurs to be willing to invest in such industries.

It seems that the operation of a mixed economy cannot solve problems of development in the Mezzogiorno. Government legislation, investments, and incentives can and do create a quantum leap in overall industrialization, but leave the economy vulnerable to cyclical fluctuations affected by the nation as a whole.

A preliminary, second national plan for 1971-1975 was enacted in October 1971. This plan considered the South as a problem rather than the central problem in Italy. The plan envisioned three types of actions: (a) "social projects" encompassing the usual sectors of public interest; (b) "promotion projects" in the industrial sectors; and, (c) "special projects" in areas most in need, of which the South was one. Based on these norms, Law No. 853 was enacted in 1971 especially for the South. This law allowed more autonomy but still left financing, and thus decisional powers, centralized.

According to Professor Vera Cao-Plinna, by 1973 (just before the oil crisis) the Southern socio-economy did not improve with respect to the rest of the country because of:

1. the lack of a development strategy at both the national and the regional level, and government reluctance to control the growth of the North;
2. the excess confidence placed in the results obtainable in the plan that did the South through the unplanned spending of a relatively limited amount of national resources (about 20 billion, representing less than one percent of the national income produced during the past twenty years);
3. the lack of coordination of the special programs in the South with the ordinary activities of central government administration operating throughout the nation;
4. the discontinuity and incompleteness of approaches to the restructuring of southern agriculture;
5. the inefficacy of industrial incentives, which have been limited to financing of equipment costs and the provision of similar facilities to enterprises located in the more advanced regions;
6. the kind of capital-intensive and nonpropulsive investments carried out by public enterprises in a few places in the South;
7. the role played by the commercial banking system in pumping savings from the South to support growth in the northern regions;

...
8. the sluggish pressure exercised by the trade unions to obtain a more equitable distribution of employment among the various regions; and

9. the extreme politicization of local authorities, which favored the misuse of significant amounts of resources [1, pp. 175-8].

The petroleum crisis that intervened in 1973/1974 could not have been foreseen by policy makers. The weak structure created over a quarter of a century in the Mezzogiorno could not withstand the pressures. The three five-year plans and the refinancing of the Cassa (Law No. 183) was debated for a year before it was enacted on May 2, 1976. The 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 [9], 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 2.2 per cent for the rest of the country. Even industrial production (which 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, since even the construction industry in the South declined by about 8 per cent, a figure comparable to the rest of the country. But this stability may be challenged, because investment declined by 20 per cent with respect to 1974 and in 1976 no real improvement was evident. Private entrepreneurs considered investing in the South a marginal operation. The public sector (the government and mixed public enterprises), when deciding total outlays, are more than happy to decrease southern ventures proportionately.

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

Conclusions

In an expanding economy, there are many locational choices that, when not taken, are lost forever. In a contracting economy, national welfare takes precedence over regional welfare and locational choices are based strictly on short run efficiency goals of solving problems of national employment, income, price, and balance of payments. Even though politicians and policy makers do not like to admit it, Italy today cannot consider the South as the central issue of long term development, but as one of the issues within the short run cyclical objectives. If this were expressed clearly, perhaps a short run program of consolidation of the gains over the last quarter of a century could be achieved.

References

8. SVIMEZ. Informazioni, Supplemento al bollettino no. 20, 1972.