

THE SOUTHERN QUESTION

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The underdevelopment of Italy's southern region compared with the prosperous north is largely considered Italy's gravest problem and greatest challenge today, as it has been since unification in the 1860s. The portion of Italy known as the Mezzogiorno, all regions south of Rome on the main peninsula and two island regions off its coast, comprises 40% of Italy's land mass and one-third of its population and is a powerful source of perplexity and frustration for policy makers and the entire Italian citizenry. (Butalia)

The differences between the Mezzogiorno and the rest of Italy are staggering. Economically, the regions of the south (Campagna, Abruzzo, Basilicata, Puglia, Calabria, Sicily and Sardinia) lag far behind, accounting for only 20% of Italy's gross national product and 70% of its total unemployment. The region suffers from an unemployment rate of approximately 20%. (Veronese) Moreover, a thriving black market economy, significantly lower incomes and greater levels of poverty continue to plague the area. The north and center regions (hereafter "the north"), on the other hand, have become models of rapid growth and prosperity. In the northeastern region in par-

ticular, where small business clusters dominate the highly successful production economy, unemployment is only about 4%.

Why do such stark differences exist? Conventional economic theory suggests that levels of regional development within a country will gradually converge. (Putnam) Yet Italy has been a unified country for over 130 years. Does the Italian "Southern Question" defy the theory? Or is it only a matter of time until the southern region naturally catches up to the north? Is there anything the government can, or should, do to ensure this? Nearly all of Italy's neighbors have a particular region that lags behind the rest of the country — Epirus in Greece, Cornwall in the United Kingdom, Galacia in Spain and Brandenburg in Germany. However, the Mezzogiorno is an extreme case of this common development problem. (Barca) Indeed, some say Italy is truly two nations. This is not an absurd observation, considering the 44% (and rising) income gap between north and south in 1998. (Barca) The difference becomes visually clear as one travels down the peninsula, from the thriving industrial cities of Milan and Turin, past the lush rich countryside of the Po Valley, through the powerful core of

the nation, Rome, and down into the starkly different, depressed sun-scorched southern towns.

The divisions that separate the north and the south extend beyond economics to historical, social and cultural differences. Two very different Italys have unsuccessfully struggled to merge into one nation over the course of a century. However, the problems leading to the current situation began long before unification. In an effort to explain the large and increasing divergence of economic prosperity that has occurred and to assess the probability of economic improvement in the future, it is necessary to analyze the nation's complex past. The origin and evolution of this problem have their roots in a variety of characteristics both regions have adopted over the centuries.

A Nation with Two Histories

Many have directly blamed the struggles unique to the southern region on its history of foreign occupations, neglect and exploitation. Byzantine, Arab, Norman, German, French and Spanish conquerors imposed their rule and culture on southern Italy for centuries after the Roman conquests took the region from Greece. (Mignone) Twelfth-century Norman kings set up a feudal system, which persisted until the start of the 19th century. The values and structures imposed on the region during this long feudal past linger today.

In contrast to the relatively free north of the time, an oppressive feudal organization in the south created a "patron-client" culture that has served as a long-lasting socio-cultural barrier to development. (Mignone) These vertical social relations of dependence and domination instilled early on produced an individualistic society, where civic spirit is weak and trust and cooperation are limited to close members of one's family and social circle. (Putnam) This death of trust in social and business relations significantly constrains economic development and has created an environment where crime and exploitation thrive.

In the same period when southerners remained subject to autocratic rule, northern communal city-states began an experiment

with self-governance and democracy. The hierarchic power structure pervasive throughout southern Italy created a society greatly different from the liberal and egalitarian north. The emerging northern communal political and social norms fostered mutual assistance within closely integrated guilds of trade and craftsmen. The expansion of these networks resulted in increasing prosperity. Their success was rooted in finance and commerce, horizontally structured and held together by the powerful glue of cooperation and trust. This was the beginning of today's highly successful industrial districts, to which this region owes the majority of its economic prosperity. (Putnam)

The economic disparity that divides the north and the south, then, can be partially traced to the social structures (horizontal versus vertical) that have emerged. The middle of the 19th century brought great advances in industrialization, living standards and income for the horizontally structured northern societies, but left the south behind. By 1911 northern incomes exceeded southern by 50%. (Putnam) Disparity levels in income and unemployment have fluctuated but are still persistent almost a century later. The following analysis describes the main economic weaknesses that have developed over time and continue to burden the struggling economy.

Constraints on Development and Business Investment

Although not as poor and disadvantaged, in some ways the Mezzogiorno more closely resembles a developing nation than it does the rest of Italy and Western Europe: dependant growth, wasted resources (physical and human), stagnant development, heavy emigration, large-scale unemployment and dominance of the agricultural sector. Obstacles to the development of a prosperous, well-functioning economy in the Mezzogiorno include 1) inferior stock and quality of natural and financial resources, 2) poorly developed infrastructure, 3) absence of trust in formal and informal relations among firms, 4) persistent corruption and a large black market and 5) pervasive organized crime.

Resources

The physical disadvantages plaguing the Mezzogiorno have placed Italian farmers and entrepreneurs (as well as foreign investors) at a great disadvantage. Relatively rugged terrain, a dry summer climate, large expanses of deforested mountain and erodable hill country, over-exploited soil, and aridity and hydrologic disorders all contribute to the region's natural economic misfortunes. The lower peninsula also lacks sufficient waterpower sources, an important input in industry formation. An inferior water supply in the south has resulted in far fewer textile mills than in the north. In addition to plentiful water sources, the north also enjoys navigable streams and canals, a stable supply of iron ore and a climate conducive to agriculture, all of which contribute to an ability to generate capital for continued investment and growth at a rate greatly surpassing that in the south. ("Italy")

In addition to the dearth of physical resources, the south suffers from a scarcity of financial resources. The Mezzogiorno economy is primarily agricultural, made up mostly of poor farmers with little to invest in modernization or overproduction for trade. Moreover, capital is much less likely to stay in the south; those fortunate enough to possess high stocks of wealth tend to invest in luxury homes and financial accounts in more prosperous areas. In the north bank deposits are three times higher and capital utilization is nearly seven times greater. (Veronese)

The unwillingness of outside investors to lend capital compounds the problem. Credit, an economic institution invented in the medieval northern Italian republics, is much more difficult to come by in the south. (Putnam) Foreign investors (and Italians from other regions) realize that the unique difficulties that thwart business success in the south increase risk. To compensate for this high risk, banks must impose higher requirements and interest rates on southern entrepreneurs. Interest rates on loans exceed those in the north by approximately 5.5%, severely limiting profitable opportunities for southern entrepre-

neurs. (Veronese)

Direct investments in manufacturing and other facilities also have been slow. Despite the need for labor among northern Italian industries, firms have turned to Eastern Europe and even Africa to avoid moving southward in their own country. Relocation poses challenges in any context, but especially for northern Italian entrepreneurs who are unlikely to find the firmly established supply chains and collaborative relationships on which they so heavily rely in their native towns. Areas of Eastern Europe and Africa nevertheless are able to attract businesses with their low wages, while relatively higher wages combined with the challenges unique to southern Italy create an unattractive and inhospitable business climate that has kept potential investors at bay. However, many firms have begun to set up operations in the Mezzogiorno in recent years, indicating that the situation is improving, in part because the area actually has much to offer.

Infrastructure

Entrepreneurs in the south struggle for the most basic inputs and structures necessary to any business. Poor transportation infrastructure is the most serious problem. More distant from the heart of Europe than the rest of the country, the Mezzogiorno cannot benefit as much from trade, which has brought great prosperity to the northern regions. The insufficient quantity and quality of roads, harbors and airports greatly limit economic activity between the region and the world market.

In order to produce goods and services and earn a decent living, citizens and businesses also need adequate supplies of water and energy, both lacking in the lower half of the Italian peninsula. Some organizations based in Sicily may receive piped water only one day in three and experience blackouts on a regular basis. ("The EU's Third-World Island") This not only has deterred investors and entrepreneurs but also has turned away foreign companies who may otherwise consider operating in the region.

Relationships

The socio-cultural factors produced by different historical experiences of northern and southern Italy have formed two very distinct cultures of business relationships. Putnam carefully studied the political culture and history of the two geographic areas and concluded that the divergence between the north and south is rooted in the absence of a civic tradition in the latter region. In comparison, the northern Italian tradition of civic duty and trust resulted in the growth of a culture and institutions that proved conducive to the growth and success of industrial districts. Putnam found a strong correlation between a strong civic tradition, both historic and current, and stronger institutional performance today. This has led him to believe that the prosperity gained by these regions was a consequence of their high degree of civic engagement and also to assume that this quality lacking in the south has held it back economically.

The civic spirit unique to the north emerged as a result of high levels of trust: "The communes sprang originally from voluntary associations, formed when groups of neighbors swore personal oaths to render one another mutual assistance, to provide for common defense and economic cooperation." (Putnam) The communal northern Italians quickly found that the development of closely integrated communities of traders enabled them to excel in commerce. Northern communities also formed groups for mutual security and economic benefit. These included guilds, business partnerships, neighborhood associations, parish organizations and politico-religious parties. This civically active culture fostered a combination of competition and cooperation that drove businesses to innovate and improve while also capitalizing on the benefits of shared risk and establishing channels of production and access to capital. It is no coincidence that the productive and successful industrial districts that have become the pride of Italy's economy are concentrated in the regions of northern Italy that have epitomized civic tradition and community.

In the south, trust and cooperation among competitors has always been low. In stark con-

trast to the beneficial social bonds established early in the history of the northern region, the only social bonds that arose in the autocratic feudal southern societies were bonds of personal dependence. A 19th-century report described Calabria at that time as a society existing in isolation, without any trace of associations or mutual aid. Its society was "held up by the natural civil and religious bonds alone...of economic bonds there is nothing, no solidarity between families or between individuals or between them and the government." (Putnam) Consequently, Putnam classifies the regions of the south, where feudalism reigned for centuries, as the least civic of all Italian regions. Such a result can in part be blamed on foreign intervention. The controlling powers of that time are blamed for promoting mutual distrust and conflict among their subjects and destroying the horizontal ties that existed in order to continue their reign of domination and exploitation, practices only reinforced by the feudal nobility. (Putnam) The individualist culture and vertically aligned social and political loyalties that resulted from a history of learned subordination continue to weaken southern entrepreneurs' potential prosperity. A culture in which everyone seeks to gain at each other's expense has proven the detriment of the community as a whole.

Industrial districts do exist in the south and are increasing in number. However, trust is the key element lacking in the south. Without this glue that binds districts together, prosperity is more difficult to achieve. The formation of similar industrial districts could enable southern economies to become more export based and self-sufficient and reduce their heavy reliance on state assistance. (Rullani)

Corruption and the Underground Economy

Although crime rates in Italy are relatively low, the nation's crime problem is unique and especially damaging to economic growth. Two broadly related areas that characterize Italian crime are corruption and black market activity. An old Calabrian proverb illuminates the pervasive cultural acceptance of crime in this area: *Chi ara diritto, muore disperato* (He who

behaves honestly comes to a miserable end).

Corruption, the exchange of money for political favors, runs rampant in all of Italian society. No longer considered shameful or wrong, bribery has increasingly become an accepted social practice. Transparency International (TI) each year ranks countries based on their level of corruption. According to this ranking, Italy is the most corrupt of all Western nations, ranked 31st out of a total 102 countries in 2002. For comparison, TI ranked Finland first (the least corrupt), the USA 16th, Colombia 57th and Russia 71st that year. TI also assigns each country a score, on a scale of 0 (entirely corrupt) to 10 (entirely clean). Italy received a score of 5.2, a step down from 5.5 the year before, but an improvement over 4.6 in 2000 and earlier years. These scores reflect the fact that Italian companies and individuals often seek favors from the government, such as reduced taxes and special business opportunities, which they are able to obtain through a system of kickbacks. Although this situation extends across the country, it is especially prominent in the south, where firmly established patronage systems often secure political power. (Paoli)

Corruption harms economic development in several ways. Primarily, it undermines the legitimacy of the state. A weak and unpopular state cannot pursue an orderly and lasting process of development. A weak state also leads to other problems, such as the empowerment of criminal organizations that arise to fill power vacuums. In addition, corruption stifles business activity, making it more difficult for companies to start, grow and compete. Entrepreneurs and investors may be turned off by the uncertainty involved in such an environment where it is necessary to bribe bureaucrats and officials to obtain licenses, bids or capital.

Italy's large underground economy also contributes to its unique criminality. Often described as a tumor, due to its cancerous effects on the Italian economy, black market activity accounted for an estimated 20%–30% of the nation's GDP in the 1990s. The scope of Italy's underground economy is larger than in any other Western nation. Comparable estimates for Italy's neighbors include Germany

with a black market comprising 4%–6% of GDP, France 6%–10% and the United Kingdom 8%–12%. (Paoli)

Many blame the presence of such a large underground economy on the state. State efforts to regulate, tax and supervise economic activity, along with inefficient bureaucracies and low public approval ratings, have encouraged citizens to turn to alternate sources of power and protection (ie, the Mafia) or to avoid the law altogether. This illegal economic activity can be categorized into two sectors, the informal and the criminal sectors. The informal sector involves the sale of goods that are legal, yet their production and distribution is not supervised or taxed by the government. The most notable example of this was a highly developed glove-making industry in Naples that operated as a “ghost” industrial system in the late 1980s, successfully avoiding taxes and escaping Italian economic records.

The fraction of Italy's working age population in the informal sector is great. Undeclared employment could account for as much as one-third of Italy's total employment and is most widespread in the south. In the main southern economic sectors, 60%–80% of employers employ an “under the table” workforce. In some areas this figure exceeds 90%. (Paoli) The informal sector accounts for a greater proportion of the underground economy than does the criminal sector, which involves the production and circulation of illegal goods and services (of which the most common include narcotics and humans). Criminal sector activity is largely associated with organized crime groups primarily based in the south.

Organized Crime

Although linked to the types of crime described previously, organized criminal activity merits discussion in greater detail because of its detrimental effect on the southern region specifically. The Italian Mafia is a group of large, locally based and stable coalitions including the Casa Nostra of Sicily, the 'Ndrangheta of Calabria and the Camorra of Naples. Their presence has been documented since the mid-9th century. These groups hereafter are collective-

ly referred to as the “Mafia,” a system based on foundations of trust and solidarity for the pursuit of individual interests through collective action. Such interests include the pursuit of profit maximization through trade in illegal goods and services (within the criminal sector described previously), but their main purpose appears to be the acquisition of power and political domination. (Paoli) The large inflow of profits from their criminal (and legal) activities has contributed greatly to the Mafia’s strength and political power. The importance of money has grown throughout the history of the Mafia. In 1986, the government of Italy estimated that the Mafia’s total profits in that year amounted to 12.5% of Italy’s GNP (approximately \$604 billion in that year). In 1997 one business association estimated that criminal activity accounted for more than \$80 billion of business. (Burnett and Vaccara) However, Mafia groups are involved in much more than criminal economic activity and thus have a far greater negative impact on the southern Italian economy than does the criminal sector of the underground economy.

Having originated from the old feudal societal structure, Mafia groups have filled the power vacuum left by the weak state and continue to maintain public order in their own fashion. Their power has waxed and waned throughout history; it was notably reduced in the 1990s following a public outcry over the assassination of two top anti-Mafia judges. Mafia influence is likely strengthening again as time has passed, and it seems as if this firmly rooted element of southern culture may never go away.

Often referred to as a “self-help institution,” the Mafia is in the business of selling *trust*, a much sought after commodity in the region. (Putnam) Yet, the services the Mafia provides come at great cost. Many young southern Italians who cannot find work blame the Mafia. They identify the greatest deterrent to starting up businesses as the *pizzo*, or the protection money they must pay to the local Mafia organization. According to the Italian National Association of Small Business, 80% of shops in Palermo, Sicily’s main city, and Catania still pay a *pizzo*. (“Cosa Nostra, Continued”) Not only do local entrepreneurs have to hand over a portion of their profits to the Mafia, but also the

mere presence of this force contaminates the regional economy by keeping outside investors at bay. The increased costs and uncertainty caused by a strong Mafia presence in southern Italy is a strong deterrent to any entrepreneur or potential foreign investor.

Hope for Improvement

The first half of this article presents a rather negative view of the economic situation in the Mezzogiorno, perhaps suggesting there is little hope for improvement. In fact, the regions possess considerable resources that have unfortunately been severely underutilized due to the aforementioned constraints. These constraints notwithstanding, the Mezzogiorno has great growth potential. The region already has seen improvements in its economic performance in recent years. Growth in output, employment, investment and exports has been spurring the region’s economy faster than the rest of the nation. Specifically, southern Italians can build on their lively entrepreneurial climate, high quality and availability of human capital and rich cultural resources to further close the gap with the rest of their nation.

Entrepreneurship

Despite lower levels of economic activity and widespread unemployment, the entrepreneurial climate in the Mezzogiorno is described as “lively.” (Barca) Surveys conducted among southern Italian youth show that they are more likely to start enterprises than their northern counterparts. Since 1995 the turnover rate of southern non-agricultural enterprises (the number of new businesses opened less the number of businesses shut down) also has been rising. By 1997, this rate exceeded that in the center-north. (Barca) The vitality of entrepreneurship in small business can be credited for bringing about much improvement to the region. As a result, industrial districts of small businesses comparable to those found in the north are arising at a faster pace. Southern Italian cities such as Basilicata, Matera and Catania have become well-known districts for the production of mattresses, furniture and high-tech products respectively. (“Arrivederci, Roma”)

Recognizing the potential of this strength, the government has taken steps to spur entrepreneurial activity. A law enacted in 1986 established the Committee for the Development of Young Entrepreneurs in the Mezzogiorno, providing financial assistance to potential entrepreneurs under age 29. The state cooperates with established, private firms that act as “tutor” companies providing advice and assistance to each recipient. By 1991 the Committee funded \$15 million in investments and created 13,000 jobs. (Mignone) The success of this effort has proven the capabilities of young southern entrepreneurs. Southern businessmen and women operate in a challenging environment in which they face many obstacles and lack many needed inputs, yet they have demonstrated they have the drive and ability to succeed. Expanded assistance programs would be useful in furthering the goals of this state committee established more than 15 years ago. Entrepreneurs could greatly benefit from any type of assistance to ameliorate their situation. Such assistance should also include lower interest loans for promising business ventures, training courses in business techniques that have proven successful in other regions and further study into alternative solutions for operation in such a unique business climate.

Human Capital

Southerners are as well educated as their neighbors to the north thanks to a consistent national education system. Despite their high level of education and skill, only 22% of college graduates find work in their first year, compared with 50% in the north. (Burnett and Vaccara) These high rates of unemployment can be interpreted as a great asset to business. They represent a large surplus of skilled labor, which drives down the cost of labor to employers. In 1998 salaries in the Mezzogiorno were 54.8% of the northern average. (Burnett and Vaccara) Employers can take advantage of these relatively lower labor costs in the region, in addition to the reasonably high levels of productivity and employee loyalty (which keep turnover low and costs down). In fact, productivity levels in the south are about 80% of the northern average. In addition, southern productivity is

growing at a faster rate — close to double the northern growth rate. (IMF) Adding to the oversupply of available labor in southern Italy is its large percentage of unskilled labor, which can be attributed to a rapid influx of Eastern European and African immigrants in search of employment and a better life.

Some northern businesses already have decided to move production facilities south to take advantage of the labor bargains. Faber, a wood furniture producer from the northeast Veneto region, has recently established small production facilities in Calabria, as has the large producer of textiles, Franco Ziche (also based in the Veneto), in nearby regions. These are only two examples of an increasing number of Italian firms that view the south as a location for profitable investment. The region is also seeing an increase in direct foreign investment, primarily in the information technology (IT) sector. The high quality human resources, low labor costs and fiscal incentives have attracted companies such as Alcatel, HP, IBM, Omnitel and Nortel. As a result, southern Italy has seen significant growth in its IT market, slowly becoming a fierce worldwide competitor in this industry (“Information Technology”).

Italian as well as foreign companies should perceive great opportunity in the south, and their presence would bring great improvements to the area. New business ideas, methods and culture would be more directly and easily transferred to the struggling entrepreneurs and enable them to build and strengthen their own small business districts. Eager workers should also do their part by continuing to educate themselves and the next generation in skills that would enhance their productive capacity, specifically in the fields of science, engineering and technology.

Cultural Resources

Southern Italy is home to a vast array of ecologic and cultural resources that would make it a prime tourist destination. However, at this point, there are only 62 tourists per 100 inhabitants in the south, compared with 163 tourists per 100 in the North. (Barca) The potential to increase tourism and capitalize on its economic benefits is great. In order to

unleash this potential, the south must fully utilize all that it has to offer. Ancient historical sites are widespread, but only 38% are open to the public, most of which do not offer services to visitors. (Barca) A significant amount of investment is necessary to revive these resources. Historical sites need to be renovated and amenities for tourists increased.

Progress is under way, as seen in some areas that have developed a thriving tourism industry. For example, in one part of Calabria, EU funds have been used to take advantage of the rich biologic and historical environment to create a marine wildlife reserve and renovate a nearby 16th-century fortress successfully attracting thousands of tourists, divers and archaeologists. Potential for increased development of this kind throughout the area is great and the benefits well worth the investment.

New Euro-Environment

The economy of the Mezzogiorno — and in fact the Italian economy as a whole — can no longer be analyzed independently. As a part of the EU, these economies now operate in a greater sphere of interconnected markets and policy. The economic integration of European countries suggests additional challenges and opportunities for the southern regions of Italy. Opportunities include a common currency and a reduction of capital controls, which have enabled capital to flow freely throughout the continent. Even though completely mobile capital should flow to its most productive use, this situation is likely to produce larger capital inflows to wealthier regions, due to a more favorable business climate and lower levels of risk. However, free flowing capital means that there is more capital available for everyone, and even the poorer regions are likely to get a share. Sources of capital include private investors as well as specific EU funds, such as those designated specifically to help poor regions.

Within the EU's Regional Policy is a development fund set up for this exact purpose. Eligible regions for funding are those that have a per capita GDP that equals or falls below 75% of the EU average. Representing 22% of the EU's population, these regions can be found in

almost every country and include all Italian Mezzogiorno regions. The EU's concern for lagging regions stems from its core goals of social and economic integration. According to the Treaty of Amsterdam (Article 58): "...the Community shall aim at reducing disparities between levels of development of the various regions and the backwardness of the least favored regions..." The EU seeks to accomplish this goal by allocating funds to such regions that will use them to help provide basic infrastructure or encourage investments in economic activity. (EUROPA) The Mezzogiorno already has benefited from the EU's financial support through improvements in infrastructure (railways, roads, natural gas distribution and telephone networks) and support for small firms, tourism, rural development and human resources. Thousands of new jobs were created and over 400 new firms arose during the 1989–1993 period. EU funds targeted the development of industrial districts and were successful in establishing a jewelry sector in Campania and enhancing the technologic sectors in Apulia, Abruzzi, Campania and Basilicata. Over the same period, the EU claims credit for 1.1% of the decline in the area's unemployment rate. (EUROPA) For the 2000–2006 period, roughly 30 million euros have been allocated to these Italian regions for continued support of small firms, infrastructure development and improvement of natural and cultural resources for tourism.

The Mezzogiorno carries the responsibility of taking advantage of these capital sources. Leaders must make sure that these funds reach their intended destination as well as focus their energy on maximizing returns on these incoming investments. The area also must produce the necessary changes (such as improvements in entrepreneurial capability and human and cultural resources) to attract additional sources of capital and future EU funds in order to continue the process of development. Speed in implementing these changes is critical because the EU is planning to expand from 15 to 25 member states as of May 1, 2004, an action that is sure to create increased competition for these funds. (Sylvestri) The number of inhabitants residing in areas where per capita GDP falls below 75% of the EU average will rise to 116

million, approximately 25% of the total population of the enlarged EU. (EUROPA) The additional members, located primarily in Eastern Europe, include countries with regions much less fortunate than Italy's Mezzogiorno. Although the EU recognizes that the increased need calls for a significant increase in funds so that current member regions in need can continue to receive assistance, funding nevertheless will become more scarce and competitive as a result of the expansion.

Conclusions and Recommendations

The stark differences dividing northern and southern Italy have deep historical roots that have created very different social structures. The southern social structure, compounded with other disadvantages such as natural resources and location, has created a much less attractive business climate and contributed to high levels of unemployment. These differences are so deeply set that economic convergence has been unacceptably slow. In addition, the swelling ranks of unemployed have contributed to rising organized crime and illegal economic activity, factors that further stifle investment and economic growth.

Two questions posed at the outset of this analysis remain: Can the Mezzogiorno ever catch up? and What can be done to speed along the process? Positive recent developments suggest an optimistic answer to the first question. Specifically, as Dr. Enzo Rullani, professor of economics at the University of Vicenza, suggests, the trend towards small business district development and investment from the north and abroad is the main source of hope. Additionally, the Mezzogiorno's comparative strengths (human capital, entrepreneurship and natural/cultural resources) combined with new opportunities in the European and international environment are promising. Although the Mezzogiorno faces considerable obstacles to business growth and development, its unique strengths and recent positive performance indicate that it can catch up with the rest of its country, and with the rest of Europe.

In order to achieve these goals and overcome the challenges lingering from history, Italians need a multidisciplinary approach com-

bined with a considerable amount of time and resources. Such an approach must be far more complex than current Prime Minister Silvio Berlusconi's slogan for the south: *Testa, Terra, Turismo* (brain, land, tourism). Although this slogan includes a few of the key strengths on which the Mezzogiorno can capitalize for growth, improvement requires more extensive, varied efforts.

The main goal should be to reform the region into an environment friendly to business and investment. This requires ensuring that all the complementary factors are in place and functioning well. Such a task involves improving the region's weaknesses in infrastructure and bureaucracy and combating crime and corruption. This will require a high level of public capital in the initial stages. Public investments of the past have not seen great returns, primarily due to poor control and execution, but also the unsuitability of projects. Capital was squandered, much of it falling into the hands of the Mafia. In addition, many of these projects were doomed from the start for lack of complementary factors (institutions, infrastructure and so forth).

The government's role will be an important one, as it must provide public goods not profitable for the public sector to produce. They also must ensure that past mistakes will not recur and that the plan is comprehensive enough to include all necessary factors for success. These factors are improved infrastructure, applicable educational training opportunities and cultural resources and historical sites. The state also must fill power vacuums by decentralizing control and placing more political and economic decision-making power in the hands of capable, trusted local authorities. Government can cooperate with businesses and use fiscal incentives to discourage industrial districts from succumbing to Mafia control. Government leaders also have the challenging task of establishing legitimacy and trust in a land whose people are not accustomed to looking to their leaders and lawmakers for protection. However, government should not take an overwhelming role, but make room for private initiative as well. A main focus of the government should be to eliminate state-imposed disincentives to business, such as excessive regu-

lation, and to increase the efficiency of the bureaucracy. A stronger judiciary also is in order to restore confidence in contract law and loosen the grip of Mafia control. These measures would promote economic development as well as social cohesion and solidarity in the nation as the gap between the north and south slowly narrows.

If these measures are taken, southern Italy will see an increase in investment and business activity, a decrease in unemployment and, finally, the regional income convergence that economic theory predicts. With an improved busi-

ness climate, northern companies in need of land and labor will enter southern regions, creating jobs and spreading skill and expertise. Industrial districts will continue to grow and develop, southern entrepreneurs will experience a greater degree of success and foreign business will see investments in the region as a profitable choice. The costs of these efforts are large, yet the benefits to be gained far exceed any monetary sum. A stronger, truly unified nation can one day emerge, benefiting all citizens of Italy, as well as those of member EU countries and the world economy as a whole.

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