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OF THE 'MEZZOGIORNOS OF
EUROPE': LESSONS FOR THE
MEZZOGIORNO OF ITALY**

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ABSTRACT

Unemployment Dynamics of the 'Mezzogiornos of Europe': Lessons for the Mezzogiorno of Italy

The unemployment dynamics in the Mezzogiorno of Italy seem to corroborate the New Economic Geography predictions, whereby, under some specific hypotheses, a stronger economic integration can amplify the regional polarisation of unemployment rates in Europe. It is, however, unclear which features characterize the South of Italy compared to other Peripheral areas in the Union. To answer this question, this work investigates the Core/Periphery pattern in the European Union and carries out a comparative analysis of unemployment rates of the different 'Mezzogiornos of Europe'. Finally, some policy prescriptions are proposed to reduce unemployment in the South of Italy.

JEL Classification: J60, O52 and R58

Keywords: Europe, regional development policies and unemployment

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NON-TECHNICAL SUMMARY

The present Paper investigates the problem of unemployment in the *Mezzogiorno* of Italy within a thorough analysis of the regional distribution of unemployment rates in Europe, by using the Core/Periphery concept, borrowed by the *New Economic Geography* models. These models suggest that, in the presence of increasing returns, of absence of congestion, of local externalities and of insufficient labour mobility, a stronger economic integration may widen regional gaps not only in terms of employment rates, but also in terms of unemployment rates.

We first attempt to identify the boundaries of the Core and of the Periphery of Europe with regard to the physical location of regions. Three different types of Peripheral areas (Cohesion countries, Northern Scandinavian countries, Peripheral regions of large countries) and two types of Core areas (small countries fully belonging to the Core and Core regions of large countries) are identified.

The results of the analysis show that, in the nineties, regional unemployment rate differentials within the EU have widened. The growing disparities have not been determined, however, by a wider Core/Periphery gap, but by an increased variation within both areas. Within the Periphery, in particular, the group of Cohesion countries (with the exception of Greece) have obtained very encouraging results. Ireland has witnessed an amazing catching-up process as against the Union average. Scandinavian Peripheral countries, though starting from a thinner gap, have followed very positive paths too, reaching in 2000 unemployment rates below the European average. Finally, particularly in the late-nineties - namely when, thanks to various macro and micro policy instruments, the EU average unemployment rates started to diminish - the gap between the Union and large countries' Peripheral regions (with the exception of the Northern area of the United Kingdom) has grown. The South of Italy is the most dramatic case: over the period 1993-2000, the ratio between the unemployment rate of the *Mezzogiorno* and that of the European Union has increased from 1.7 to 2.5.

Which lessons for the *Mezzogiorno* may stem from the observation of successful cases in the fight to regional unemployment in Europe? A first useful observation is that peripheral countries such as Spain and Ireland observed a considerable rise in their domestic 'dualism', as well as a considerable improvement in the labour market conditions of the most backward areas. A further element, which might be considered, is the central role played by large multinationals' direct investments in supporting the regional dynamics in the most backward areas of Cohesion countries, particularly of Ireland.

These two elements suggest an intervention in the *Mezzogiorno* of Italy, based not only - as it is commonly maintained - on the introduction of higher labour market flexibility, but also on a 'vigorous' supply policy. This should be aimed at supporting, on the one side, investments from small and medium-sized firms in the most successful areas with some endogenous growth and, on the other side, investments from large firms in those economic situations where there are no pre-requisites for a self-sustained development. Indeed, large firms are strong enough to face external diseconomies connected with the absence or insufficiency of infrastructures, to contrast organised crime and to escape trade unions' rigidities, since they are able to obtain, through their bargaining power with the Government and social partners, not only the necessary infrastructures, but also various derogations to national rules, namely more safety and flexibility in exchange for the 'creation' of local economic development.

Finally, a lesson to be learned from the comparison between the good results of Cohesion Funds and the poor outcome of policies adopted for backward regions belonging to developed countries regards the logic - which we deem useless but which is still in force in the European Union - of State Aids. The same fiscal policy can be considered a distortion of competition if it is used to promote development of backward regions within a non Peripheral country, while it may be accepted as perfectly lawful when it concerns a whole Peripheral country, even though it is combined with identical measures at the national level. Nowadays, this is even more doubtful in the light of the strong decentralisation process ongoing in Italy as well as in other European countries. Therefore, today, the *Mezzogiorno* should have the possibility of differentiating its fiscal treatment from that of the North-Centre of Italy.

A similar anomaly holds true for trade unions, when they impose to adopt the same rules, the same labour contracts, the same wages in different regions of a country (but not in different countries) in Europe, irrespective of their differentials in terms of productivity, infrastructures, culture, entrepreneurship, cost of living and so on. This anomaly has recently been partially overcome in Italy, by granting the possibility to fix diversified wages in the areas where 'negotiated contracts' ('*Contratti d'Area*' - Area-based Contracts - '*Patti Territoria*' - Local Pacts - and '*Contratti di Programma*' - planning contracts) have been implemented. This is not enough. Rules, contracts and labour costs should vary at the microeconomic level, using 'objective' indicators as those regarding the labour productivity in each province.

1. Introduction

Many empirical studies have recently examined the regional distribution of unemployment in Italy (see, for example, Attanasio - Padoa Schioppa – hereafter FKPS - , 1991; Bertola - Ichino, 1995; Faini – Galli - Gennari - Rossi, 1997; Prasad - Utili, 1998; Alesina - Danninger - Rostagno, 1999; Cannari - Lucci - Sestito, 2000; Brunello - Lupi - Ordine, 2001). Those works have documented the strong widening of imbalances characterising regional labour markets since the late-eighties. While some Northern Italian administrative regions (*Trentino Alto Adige, Veneto, Friuli Venezia Giulia, Emilia Romagna, Lombardia* and *Valle d’Aosta*) have reached “full employment” in 2000 (i.e. unemployment rates lower than 5%), at the end of last decade four Southern Italian regions (*Campania, Calabria, Sicilia* and *Sardegna*) had unemployment rates over 20%. This strong polarisation of unemployment rates was prompted, on the one side, by the rapid labour force growth in the *Mezzogiorno* and, on the other side, by the strong decline of both labour mobility from the South and capital mobility from the Centre-North.

A less debated and scarcely analysed issue concerns the relative position and evolution of Southern Italy with respect to the other “*Mezzogiornos* of Europe”¹, namely the most backward regions of Europe (for instance those included in the Objective 1 for Structural Funds). Indeed, in most Union countries there are major regional labour market imbalances – though never as strong as in Italy -, with some areas in full employment and at the same time high-unemployment areas (see also FKPS, 1999 and Overman - Puga, 2002). Which are the similarities and the differences characterising the “dualism” existing in Italy compared to the one observed elsewhere in the Union? Which policy indications stem from the observation of the regional development trends registered in other European countries?

The present paper investigates the problem of unemployment in the *Mezzogiorno* of Italy within a thorough analysis of the regional distribution of unemployment rates in Europe, by using in particular the Core/Periphery concept, borrowed by the *New Economic Geography* models (Fujita - Krugman - Venables, 1999). These models suggest that, in the presence of increasing returns, of absence of congestion, of local

¹ Some exceptions are the studies of Davies - Hallet (2001) and Taylor - Bradley (1997), providing comparative analyses of unemployment gaps between regions in some Union countries.

externalities and of insufficient labour mobility, a stronger economic integration may widen regional gaps not only in terms of employment rates (ratio between the number of employed people and the population), but also in terms of unemployment rates (ratio between the number of unemployed and the labour force)². Under those assumptions, the dismantling of trade barriers (including exchange rate risks eliminated through the single currency adoption) reduces transaction costs between regions and leads to the spatial agglomeration of productive activities (hence labour demand) in the richest and most thickly populated areas of the Union (the Core). Clustering together thus represents a strong advantage for firms, as they have access to a wide supply of inputs, large pools of skilled labour, efficient infrastructures and advanced know-how emerging in other firms nearby - competitors or complementary -, firms belonging to the same "district network". Besides, it is always profitable to produce in the wealthiest area, with the largest market, highest incomes and demand (the Core), so as to maximise the benefits drawn from economies of scale. When transaction costs between regions fall, firms can exploit the economies of scale while selling at low transport costs on secondary markets (Periphery), which are no longer protected by the barriers deriving from limited international integration.

These concentration/agglomeration mechanisms - in keeping with efficiency criteria - widen the economic gap between the Core (the heart of the activities) and the Periphery, where all the activities linked to the exploitation of local resources - (agriculture) and non-tradable goods (services) - remain. These trends are associated to two well-known features of the European system: a low propensity of the population to move "between and within" Member States and an inadequate interregional wage differential due to institutional constraints of various kinds. Thus, the Core/Periphery pattern induced by economic integration is mirrored in the widening of different employment opportunities and even more so in larger unemployment gaps.

The unemployment dynamics in the *Mezzogiorno* of Italy seems to corroborate the *New Economic Geography* theory. It is however unclear which differences characterise the South of Italy compared to other Peripheral areas in the Union. To answer this question, we first need to investigate the Core/Periphery partition in the European

² For an ample discussion on these issues, see also Braunerhjelm – Faini – Norman - Ruane - Seabright (2000) and Basile - De Nardis - Girardi (2001). Actually, most of the *New Economic Geography* models neglect any imperfection in the labour market and hence they do not explain the geography of unemployment. Recently, however, Epifani - Gancia (2001) attempted to introduce unemployment in the *New Economic Geography* literature. They build a symmetric two-region model along the lines of Krugman (1991) and introduce imperfect labour mobility and equilibrium unemployment by assuming frictions in the job-matching process within the labour market.

Union. Thus, following the insights of Keeble - Offord - Walzer (1988) and Copus (1999), an attempt is made to identify the boundaries of the Core and of the Periphery of Europe with regard to the physical location of regions (supposing to draw a circumference with the compass point in the Baden-Württemberg). Those borders do not correspond to national/political frontiers because the latter lose their importance in an integrated area, as regions directly interact one with the other. Thus, some European States may be classified as fully Peripheral: Cohesion countries (Greece, Spain, Portugal, Ireland) and Northern Scandinavian countries (Finland, Sweden); other States, all small, may be considered as fully Core countries (Austria, Belgium, The Netherlands, Denmark, Luxembourg); finally, the largest countries in Europe either in terms of GDP or of population (Italy, Germany, the United Kingdom, France) include both Core and Peripheral regions. In other words, three different types of Peripheral areas (Cohesion countries, Northern Scandinavian countries, Peripheral regions of large countries) and two types of Core areas (small countries fully belonging to the Core and Core regions of large countries) may be identified.

The theoretical framework adopted and the empirical evidence obtained both suggest that - alongside with the ongoing reforms aimed at enhancing the labour market flexibility and mobility in Italy - a public intervention is necessary to sustain Southern employment based on a supply-side policy meant both as a support to local entrepreneurs, where an endogenous development is already under way, and as an investment promotion to attract large firms external to the area.

The present paper is organised as follows. Section 2 describes the data set used in the empirical analysis and defines the Core/Periphery pattern. Section 3 shows the results of the regional distribution analysis of unemployment rates in Europe: it stresses the heterogeneity between Core and Periphery performances and examines the “dualism” within each EU Member State, with a comparison between the results of the different “*Mezzogiornos* of Europe”. Section 4 tries to identify to what extent “regional factors” account for the variability in unemployment rates. Policy recommendations are illustrated in Section 5. The last section concludes.

2. Regional data and samples

The “Regio” Eurostat data set (Community Labour Force Survey) covers the period 1983-2000, but not for all countries and for all regions. For example, data on German

Eastern *Länder* are available since 1991, those on Greek and Irish regions since 1988, those on Swedish regions since 1990 and those on Austrian regions only since 1993.

In 1992 the definition of unemployed has changed³. Though Eurostat has made no statistical analysis to link the two time series, 1992 cannot be considered a break point, as the changes in the definitions are only marginal. For this reason, we use the whole time series, when available, for *within-country* analyses, though taking into account all the necessary *caveats* for inter-temporal comparisons. When the *whole set* of regions and countries has to be considered, we adopt the most restricted time series (1993-2000), for which we have complete information on all countries and all regions, with few exceptions⁴.

Starting from the NUTS2 level of spatial disaggregation, European regions are classified in different groups: 1) the set of fifteen Member Countries; 2) the set of 202 NUTS2 regions; 3) the two geographical partitions, i.e. the Core (123 regions) and the Periphery (79 regions); 4) the set of fully Core countries; 5) the set of Core regions belonging to large countries having also Peripheral regions (Italy, Germany, France and the United Kingdom); 6) the set of Cohesion countries (Spain, Greece, Portugal and Ireland); 7) the set of Northern Scandinavian Peripheral countries (Finland and Sweden); 8) the set of Peripheral regions belonging to large countries having also Core regions; 9) the set of backward regions (generally, though not necessarily, coinciding with Objective 1 regions of each country), named “the *Mezzogiornos* of Europe”.

Table 1 offers a detail of the regions belonging to the different partitions of the Core and Periphery, identified through an updated version of the map by Keeble - Offord - Walker (1988), reported in Graphs 1.

Table 1

Graphs 1

³ The definition adopted until 1991 was the following: “Unemployed persons are those who, during the reference period of the interview, were aged 14 years or over, without work, have made serious efforts to find one and who were immediately available for work”. Since 1992 the definition has changed: “Unemployed persons are those who, during the reference period of the interview, were aged 15 years or over, without work, available for work within the next two weeks and had used an active method of seeking work at some time during the previous four weeks”.

⁴ In the United Kingdom, the data on the unemployment rate of London is missing until 1994; for Finland and Sweden, information on the whole set of regions are available only since 1996.

For the different groups of regions, various statistical indicators are computed and σ convergence analysis is supplied, based on the time path of the weighted coefficient of variation of regional unemployment rates.

3. Regional Distribution of Unemployment Rates in Europe and the Core/Periphery Pattern

In our analysis, seven points are underlined, identified with capital letters from A) to F).

A) High unemployment rates in Europe are concentrated in Peripheral regions. In spite of the persistent distribution of the regional unemployment rates, in the nineties some important changes in the map of regional unemployment took place in Europe.

The regional distribution of unemployment rates in Europe over the nineties is shown in Graphs 2, which map regions in three different groups for two years (1993 and 2000): “Low-unemployment regions” (i.e. regions with unemployment rates between the minimum and the first quartile of the unemployment distribution), “Medium-unemployment regions” (i.e. regions with unemployment rates between the first quartile and the average of the second and third quartiles) and “High-unemployment regions” (i.e. regions with unemployment rates between the average of the second and third quartiles and the highest unemployment rate)⁵.

Graphs 2

In both years, high unemployment rates are concentrated in Peripheral regions, often but not necessarily coincident with Objective 1 regions. In 1993, they were observed in Southern Italy (with the exception of *Abruzzo*), Ireland, South, West and Central Spain, East Germany, all French Peripheral regions (*Poitou-Charentes, Aquitaine, Midi-Pyrénées, Limousin, Languedoc-Roussillon* and *Corse*), but also in some Central French regions (among which the province of Paris), Northern Ireland, Yorkshire and some

⁵ This classification criterion is borrowed by Pench - Sestito - Frontini (1999).

Objective 1 regions of the United Kingdom, *Hainaut* and *Liège* (Belgium), *Attika* (Greece), five Danish provinces, and the most Peripheral (Northern) areas of Sweden and Finland.

In 1993, low unemployment rates were, instead, concentrated in the EU Core regions⁶, but also in Portugal and in Greece.

In spite of the persistent characteristics of unemployment, some major changes in the regional distribution of unemployment rates occurred in the period between 1993 and 2000. In 2000, indeed, most Irish and Southern regions in the United Kingdom became low- unemployment areas, while Greece became a high-unemployment country, probably because of the deep structural changes it faced when switching from a mainly agricultural to an industrialised country⁷.

B) Over the nineties the asymmetry in the distribution of regional rates of unemployment in Europe increased.

In 1993, 50% of EU-15 regions had unemployment rates ranging from a minimum of 2.1 to 9.2% (median level); the other regions showed unemployment rates ranging from 9.2 to a maximum of 32.4%. The average unemployment rate was 10.5%. The positive skewness (roughly defined as the mean-median difference) indicates that few high-unemployment regions pushed up the average (EU-15) unemployment rate. In 2000, half of the sample had unemployment rates ranging from a minimum of 1.7 to 6.8%, while the rest of the regions showed unemployment rates between 6.8 and 27.7%. The average level declined less than the median one, so that the skewness degree increased.

The rise of the positive skewness is well shown in Graphs 3, that plots the kernel densities of regional relative unemployment rates (i.e. the ratio between the regional unemployment rates and the Union average rate) in 1993 and 2000. To better

⁶ Luxembourg, Austria, some Northern Italy regions (*Trentino Alto Adige, Valle d'Aosta, Veneto and Lombardia*), some Dutch regions (*Gelderland, Flevoland, Utrecht, Noord Brabant and Limburg*), some Belgium regions (*Antwerpen, Oost-Vlaanderen, Vlaams Brabant, West-Vlaanderen and Luxembourg*), some Western Germany regions (*Stuttgart, Karlsruhe, Freiburg, Tübingen, Oberbayern, Niederbayern, Oberpfalz, Oberfranken, Mittelfranken, Unterfranken, Schwaben, Hamburg, Darmstadt, Gießen, Kassel, Lüneburg, Detmold, Koblenz, Trier, Rheinhessen-Pfalz and Schleswig-Holstein*) and some France regions (*Midi-Pyrénées and Languedoc-Roussillon*) belong to this category.

⁷ In 1993, the weight of agriculture on total employment was equal to 22% in Greece, to 14% in Portugal, to 11% in Ireland and to 9% in Spain. In the same year, in other Union Member States, this weight was much lower (between 2 and 6%) and stable over the nineties. In the four Cohesion countries, between 1993 and 2000, the agriculture sector expelled labour force in favor of industrial and service sectors, but in Greece - unlike what happens in the other Cohesion countries - the reshaping process in the agriculture sector does not seem to go alongside with an adequate absorption on the part of other sectors.

understand this Graph, note that 1.0 on the horizontal axis corresponds to the European average unemployment rate, 2.0 indicates twice the average and so on. The height of the curve over any point gives the probability for any region to have that relative rate. Thus, the area under the curve between 0.0 and 1.0 gives the total likelihood for a region to have a relative unemployment rate equal to or lower than the European average. This probability has increased over time, since the area under the 2000 curve between 0 and 1 is larger than the corresponding area under the 1993 curve. At the same time, also the probability for a region to have an unemployment rate exceeding twice the European average rises: the right hand side of the distribution grows longer. Thus, in the period examined, a larger number of regions have experienced unemployment rates below the European average or exceeding twice its value; while a decreasing share of regions shows unemployment rates between the average and twice the average.

Graphs 3

The polarisation of regional unemployment rates in Europe (that is the increase of the number of regions with very low and very high rates of unemployment) is also documented by Overman - Puga (2002) for the period 1986-1996, both through the kernel density analysis and through the adoption of transition matrices. According to these authors, polarisation reflects the effects of economic integration on the spatial distribution of the economic activity: the dismantling of trade barriers encourages the geographical concentration of employment and, pending adjustment mechanisms (labour mobility and/or wage flexibility), a polarisation of regional unemployment rates occurs.

C) Over the nineties, international unemployment differentials within the European Union decreased, while interregional disparities increased. The unemployment gap between Core and Peripheral regions did not change significantly, but regional differences within the two areas sharply widened.

During the period 1993-2000, European regional unemployment rates in Europe diverged: the weighted coefficient of variation, calculated for the 202 regions of our sample, increased from 53.4% to 62.3%; the widening is particularly pronounced in the last three years (1998-2000). There is, however, some evidence of international

convergence: the weighted coefficient of variation, calculated for the 15 Member Countries, declined from 41.4% to 36.2% (see Graph 4). Four of the countries which in 1993 had rates of unemployment over the Union average strongly narrowed the gap from the European average (namely Spain, Ireland, Finland and Denmark), while one of them (France) widened it. Among the countries that in 1993 showed a rate of unemployment below the Union average, four of them increased their own advantage (namely the Netherlands, Portugal, Sweden and United Kingdom), while six worsened their relative positions.

Graph 4

The increased regional divergence is due to a larger dispersion both in the Core and in Periphery, rather than to a widening of the gap between the two partitions. Over the period 1993-2000, the average unemployment rate decreased both in the Core (from 7.9% to 6.3%) and in the Periphery (from 15.4% to 12.5%), but the ratio between the two rates appears roughly stationary: the average rate of unemployment of the Periphery remains about twice that of the Core (Graphs 5).

Graphs 5

The analysis of the regional unemployment dispersion also points out a strong and increasing heterogeneity both within the Core and in the Periphery. In 2000, the weighted coefficient of variation was 54% in the Periphery and 44% in the Core. The level of regional dispersion remained approximately stable between 1993 and 1997 in both partitions, then it sharply increased in the last three years (1998-2000). The widening of regional dispersion within the Core is, however, much higher than in the Periphery: cohesion is less and less observable in the Core of Europe.

D) Within the Periphery, the group of Cohesion countries shows very encouraging results. Even the countries totally peripheral but not receiving Cohesion Funds (Sweden and Finland) follow a very positive development path. Quite the reverse, the gap between the peripheral regions of large countries and the European average increases.

The evidence of a strong heterogeneity both in the Periphery and in the Core suggests to disaggregate the average rate of unemployment of the two partitions, in order to observe the dynamics of the different categories of Core and Periphery described in Section 2:

- 1) Peripheral Cohesion countries,
- 2) Peripheral Northern Scandinavian countries,
- 3) Peripheral regions of large countries having also Core regions,
- 4) Small Core countries,
- 5) Core regions of large countries having also peripheral regions.

In the nineties, Cohesion countries registered a strong performance relative to the Union average (Graph 6): from 1993 to 2000, the average unemployment rate of Cohesion countries decreased from 16.6 to 11.4%. Therefore, this group of countries seems to follow a completely different development path compared to other Peripheral regions. In the case of Ireland, a true catching-up process is observed.

Graph 6

In 1993, the average unemployment rate of the two Peripheral Scandinavian countries was very close to the Union average. Moreover, during the last three years (1998-2000), they reached an unemployment rate below the Union average.

Conversely, Peripheral regions of large countries (the *Mezzogiorno* of Italy, Eastern Germany, Western France and the Northern part of the United Kingdom) sensitively worsened their relative positions. Graph 6 clearly shows that this group of regions followed a path of unemployment opposite to that observed in Cohesion countries. From 1993 to 2000, the ratio between the average rate of unemployment of these regions and that of the European Union increased from 140 to 180%.

To complete the unemployment analysis within the Core/Periphery partition, the dynamics of the two Core areas defined in Section 2 must be observed. Graph 7 shows that, while the Core regions of large countries do not register sensible variations in their unemployment rate compared to the European average, the regions of fully-Core countries, though starting from an already positive condition, show a clear upgrading.

To summarize, for those countries which are either fully Peripheral or fully Core, the unemployment trend seems to be particularly favourable, while the status of

partially Core and partially Peripheral countries is a disadvantage, both for their most developed and for their least developed regions.

Graph 7

E) Over the nineties, the regional unemployment dispersion within each Union Member State was increasing and its variation appears inversely related to the evolution of the corresponding national mean unemployment rate.

In the nineties, the average unemployment rate of the EU Member States (except for Italy, Germany and Greece) decreased. In the same period, within-country regional unemployment differentials rose. Thus, an inverse relationship between the regional dispersion dynamics within each country and the evolution of the corresponding average unemployment rate emerges. Italy is the only country to show both an increase of the mean unemployment rate and a widening in the regional dispersion: from this viewpoint, the *Bel Paese* represents a sad outlier in Europe.

In the second half of the nineties, the average unemployment rate of most Union countries fell sharply, also as a consequence of the policy interventions aimed at increasing the labour market flexibility and at healing the public finance, due to the creation of the Monetary Union. The second half of the nineties is characterised by a reduction in the average unemployment rates even in Italy and in Germany and by a strong regional dispersion increase. Only Greece continues to present an anomalous situation. Thus, within both developed and developing countries, one may generally observe a widening in regional differentials combined with a reduction in average unemployment rates.

The scatter diagram clearly shows the negative relationship between the dynamics of regional dispersion within each European Member State and the evolution of the corresponding average unemployment rate (Graphs 8). The correlation between the two variables equals -0.46 for the period 1993-2000 and -0.56 for the period 1996-2000. This finding may suggest that, to reduce labour market disequilibria, it is important to rely on those regions that already have the best conditions. Thus, a good employment policy should select successful cases, so as to incentivate the development of those regions that already have high growth potentials.

Graphs 8

F) The contemporaneous presence of both high- and low-unemployment regions may be observed not only in Italy, but also in most European countries. In the nineties, the internal “dualism” tends to rise almost everywhere, in Cohesion countries as well (with the exception of Greece). However, while the strong rise of “dualism” in Italy is accompanied by an equally increasing gap between the Mezzogiorno and the EU average, even the most backward regions in Cohesion countries appear to be dragged by the strong development of the country they belong to.

Between 1992 and 2000 the ratio between the average unemployment rate of the *Mezzogiorno* and that of the North-Centre of Italy rises from 250 to 350%. Meanwhile, the ratio between the average unemployment rate of the South and that of the European Union increases (from 170 to 250%).

The presence of a large “dualism” should not be considered, however, as a peculiarity of the Italian economy. In most European countries, there arise strong regional labour markets disequilibria – though never as pronounced as in Italy –, with the contemporaneous emergence of full employment areas (that is regions with unemployment rates below 5%) and high-unemployment areas⁸.

Admittedly, not only the European Union as a whole, but also most European countries are not to be considered optimal monetary areas: the co-presence of high- and low-unemployment regions represents a clear signal of the existence of frictions limiting the regional factors’ mobility (see also FKPS, 1999).

Thus, there is a “*Mezzogiorno*” in each country. Obviously, one may not always speak of “dualism” in a narrow sense and in some cases one should use the term pluralism. The results, not reported here, of the kernel density estimates of the regional relative unemployment rates show a bimodal distribution of regional relative unemployment rates in Italy (see also Brunello - Lupi - Ordine, 2001) and in Germany in 1993, indicating a marked “dualism” within the two countries. The co-presence within these countries of Core and Peripheral regions (the South of Italy and the Eastern German *Länder*, defined by Sinn - Westermann, 2001, with a criterion different from ours, “The Two *Mezzogiornos*”) is sufficient to explain this finding. In 2000, while the German situation remains unchanged, in Italy the signals of “dualism” are no longer

⁸ The only exceptions are the Netherlands, Austria and Portugal. In those countries that show strong internal cohesion but are also relatively small both in terms of GDP and population, regional unemployment rates in 2000 are all very low.

evident, rather a pluralism seems to emerge, with a higher heterogeneity within the South. In the case of Spain, an inverse process has occurred: from the unimodal distribution observed in 1993, a bimodal distribution, hence a "dualism", has emerged in 2000. Finally, there is no evidence of a bimodal distribution for all other countries.

Although we cannot speak of "dualism" in a strict sense, it is however useful to identify the most backward and the most developed areas within each country, so as to perform a comparative analysis among the "*Mezzogiornos* of Europe". The distinction is obvious only in those countries - Italy, France, Germany and the United Kingdom - which have both Core and Peripheral regions. In the case of Spain, Ireland, Sweden and Finland - whose regions all belong to the Periphery but not all to the European Objective 1- the identification criteria for backward areas are given by their belonging to Objective 1. Finally, in the case of fully Core countries (Denmark, Belgium and the Netherlands⁹) having no regions in Objective 1, and in the case of fully Peripheral countries having all regions in Objective 1 (Greece and Portugal), backward areas are defined according to the empirical observation of the 1993 regional unemployment rates.

For each country (except for Luxembourg that is formed by one region only), two ratios are calculated: a) the ratio between the unemployment rate of the backward area and that of the most developed area (considered as the indicator of the degree of internal "dualism"); and b) the ratio between the unemployment rate of the backward area and the average EU unemployment rate (considered as the indicator of the gap from the average European condition). The dynamics of these two indicators from 1992 to 2000 and from 1996 to 2000 is shown in a scatter plot (Graphs 9). In synthesis, between 1992 and 2000 the degree of internal "dualism" increases in most EU countries. Italy is, however, the only country (together with Belgium) where, from 1992 to 2000, both the internal "dualism" and the gap between the most backward area and the Union average has increased. Spain, Ireland, the United Kingdom and the Netherlands show a rising "dualism", but also a falling gap between the most backward area and the European average. An opposite situation is observed for Germany, Greece and Portugal. Denmark narrows its gap with the Union without increasing its internal "dualism". Finally, in the case of France, there is no evidence of a strong trend in the two dimensions considered. In the second half of the nineties - that is in the period of maximum decrease of national

⁹ More precisely, one region in Belgium (Hainaut) and one in the Netherlands (Flevoland) receive Objective 1 support.

unemployment rates in Europe – a rise in the internal “dualism” appears in all EU Member States, except for Greece; only in the other Cohesion countries, in Denmark, Sweden and the Netherlands a reduction in the gap between the most backward regions and the European average emerges. Thus, these countries (in particular Cohesion countries) are the only successful ones, able to prompt the most backward regions. Conversely, the least developed areas within the other countries have increased their distance from the Union average.

Graphs 9

4. To what extent do “regional factors” account for the overall variation in unemployment rates?

The wide regional unemployment dispersion observed within each EU country may partially depend on the regional differences in the labour force distribution among the various categories (male and female, young and old, long- and short-term unemployed, high- and low-skilled unemployed and so on). Admittedly, the unemployment phenomenon tends to hit more harshly some groups of people, in particular women and the young (FKPS, 1999). Think, for example, to the problem of female unemployment, connected to the double “employment” of women within the family and at work, or to the problem of young unemployed, connected to the discrimination between *insiders* (over-protected employees) and *outsiders* (first job-seekers).

If spatial differences in the unemployment rates were connected only to regional differentials in the distribution of young and female unemployed, to eliminate regional labour market imbalances it would suffice to enforce policy measures aimed at reducing the rigidities which tend to increase the equilibrium unemployment rate (FKPS, 1993; Scarpetta, 1996), raising wait unemployment¹⁰. Therefore, to assess the role of “regional effects” in explaining the spatial unemployment heterogeneity within the European Union, it is necessary to control the effect of local differences in the labour force characteristics. However, available data only show the effect of age and gender, not of the other labour force characteristics.

¹⁰ Bishop (1997) and FKPS - Lupi (2002) show that, within the *Mezzogiorno* of Italy people prefer to wait for a public job, rather than accepting a more risky private one.

A simple variance decomposition analysis assesses the explicative power of the “regional factors”, after controlling for other dimensions. More precisely, the natural logarithm of the regional unemployment rate disaggregated by age, sex, region and year (from 1995 to 1999) is regressed, for each country, on a set of dummy variables relative to each year (to capture cyclical and structural aggregate effects), to the age bracket (the young vs. the old), to the gender (males vs. females) and to single regions¹¹. The same estimate is repeated without regional dummies. Then, the difference between the adjusted R² of the first and the second estimates is computed, thus obtaining the share of variance explained by regional dummies. This share is over 40% in the case of Germany, Austria, Italy and Belgium (Graph 10).

Graph 10

For most European countries the “regional component” represents an important factor in explaining the unemployment spatial dispersion, irrespective of gender and age. Obviously, the regional dummy tends to capture the effect of different potential determinants of labour market imbalances, which are not directly observed in the analysis: for example, regional productivity differentials (not adequately compensated by wage cost differentials), regional heterogeneity in the economic system (for example, the weight of public or agriculture employment), regional differences in infrastructures, human capital and crime rate. Although we do not know the weight of each factor, it is possible to state that the regional unemployment problem in Europe - more particularly in some Union countries such as Italy and Germany - cannot be only connected to the social exclusion of some segments of the population (such as women and the young), but it mainly stems from an insufficient regional development, which should be faced and solved through a whole series of macro-and microeconomic instruments.

5. What policies for the *Mezzogiorno* of Italy?

By now, within the European Union, centripetal forces are at work, which contrast the spatial dispersion of economic activities in Europe and reduce the profitability of investments in the EU peripheral areas. Thus, alongside with measures for labour

¹¹ The specification of the model is as follows: $\text{Ln } X_{i,k,s,t} = \beta \text{DR} + \chi \text{DA} + \delta \text{DS} + \varepsilon \text{DT}$, where i = region; k = age; s = sex; t = year; $\text{Ln}X$ = natural logarithm of the unemployment rate; DR = regions dummies; DA = age dummy; DS = gender dummy; DT = temporal dummy.

mobility and flexibility, a “vigorous” industrial policy is necessary to sustain Southern Italy’s economic development. The analysis carried out on successful cases of fight against unemployment in other backward regions of Europe suggests the following three economic policy conclusions.

1) Relying on successful cases, by rewarding endogenous development areas

Point E) in Section 4 underlines the existence of an inverse relation between the regional dispersion dynamics and the average unemployment rate dynamics in EU Member States. Furthermore, Point F) clearly shows a strong “dualism” within most countries and indicates how in some countries - such as Spain and Ireland - even the most backward areas seem to be prompted by the strong overall development of the State to which they belong. These results support the idea of a public intervention concentrated in the areas characterised by substantial entrepreneurship. Thus, to promote the development of the *Mezzogiorno* of Italy one should provide incentives to investment in already successful areas, consolidating the existing industrial tissue. In any event, the *Mezzogiorno* of Italy can no longer be considered as a homogenous area. Some empirical studies on “local labour systems” (see Viesti, 2000; Cersosimo - Donzelli, 2000) report, for example, that the industrial activity in the *Mezzogiorno* is strongly concentrated in some provinces of *Puglia, Basilicata, Campania, Abruzzo* and *Molise*. Even the unemployment phenomenon is not fairly distributed within the South (Graphs 11). By rewarding successful areas, regional gaps within the *Mezzogiorno* might increase, but the South as a whole would grow more.

Graphs 11

In the case of Southern Italy, rewarding successful areas would imply to concentrate public interventions in the endogenously-driven development areas (i.e. industrial districts formed by firms of a limited size and networks where large firms interact with smaller firms, like Natuzzi in the province of Matera), providing incentives for the birth and growth of small and medium-sized firms. The consequent higher labour division might help boost labour productivity and, thus, employment. Also considering the public finance budget constraints, public incentives for Southern small and medium-

sized firms' investments should be targeted selecting the areas where larger returns are expected.

The many instruments supporting small and medium-sized firms show that policy-makers do favour endogenous development processes. However, the prevailing practice in granting financial incentives, particularly those foreseen by Law n. 488/92 and by Local Pacts, did not enable the choice of the areas where the largest impact might take place, which sometimes reduced the effectiveness of the provisions adopted (see, for example, Aronica - Padovani - Servidio, 2000).

II) Incentivating the location of large domestic and foreign firms in the regions where there are no pre-requisites for the endogenous growth

Supporting the existing industrial setting and consolidating the endogenously-driven ongoing growth process does not mean, however, renouncing to an intervention in favour of those many and large areas where the industrialisation does not go on or has not even started. Where the pre-requisites for endogenous development lack, regional growth should be boosted by attracting big domestic and foreign firms, as demonstrated by the experience of Cohesion countries, in particular of Ireland.

What are the sources of Ireland's relative growth performance? The dominant view in the literature seems to be that rapid growth has been driven mostly by a very dynamic export sector (pharmaceuticals, electronics and, more recently, finance and call centres) dominated by multinational firms which have invested heavily in Ireland in recent years and served as a conduit for the adoption of advanced technologies (Ruane - Görg, 1997 and 1999; de la Fuente - Vives, 1997). This boom in foreign direct investment would reflect Ireland's attractiveness as a natural base for exports to the European Union. Furthermore, this attractiveness would be due in part to the provision of generous tax incentives which may have served to compensate for other disadvantages such as high prices for business services and other inputs in manufacturing. Until 2001, in Ireland income tax rates were 10% for foreign firms and 28% for domestic firms. In 1999, the Community forced the country to introduce a fiscal reform unifying the two rates at 12.5% for all firms, both domestic and foreign; but this reform was only enforced in 2002. In the meantime, Ireland solved its own development and unemployment problems.

Other important factors would be the availability of a highly skilled and English-speaking labour force, relatively low labour cost (preserved in recent years by an incomes policy aimed at wage moderation), heavy investment in infrastructure and an appropriate exchange rate policy. An additional consideration is the inflow of large subsidies from the European Union, which has helped to finance infrastructure and educational investment. Finally, according to de la Fuente - Vives (1997), the success in attracting foreign direct investment in recent years was triggered by Ireland's clear bet for macroeconomic stability and its commitment to a sustainable fiscal policy: in particular, fiscal consolidation may have acted as a catalyst, helping to change foreign investors' perception of the country.

In the wake of the positive experience of Ireland, some economists' idea to promote the industrialisation of the most backward Southern areas by attracting big firms seems, therefore, valuable (Giunta, 2002). Only the latter can guarantee the overcoming of the minimum development threshold, over which an endogenous dynamics may be primed, whereby local small and medium-sized firms interact between them and with big firms. In particular, according to experts who make explicit reference to the *New Economic Geography* models (see, for example, Barca - Pellegrini, 2000), nowadays in the *Mezzogiorno* - as it recently happened in other backward European regions - large firms (both domestic and foreign) can play a new role, going beyond the classical multiplier effects of increasing employment and enforcing the productive structure. In particular, the positive externalities deriving from the presence of big firms in those regions are well known: development of subcontracting relationships with local small and medium-sized firms, spin-off processes, creation of skilled labour and entrepreneurship, introduction of new technologies (see also *Ministero del Tesoro, Bilancio e Programmazione Economica*, 1998)¹².

While recognizing the importance of a (renewed) key role of large firms (both domestic and foreign) for the economic development of the *Mezzogiorno*, one must also wonder which actions are needed to incentivate big firms to invest in the backward regions of Southern Italy, rather than in other developing areas of the Union. The ingredients of the Irish success in attracting foreign investment were already listed. In

¹² Many theoretical and empirical contributions have recently shown that foreign direct investments may trigger positive externalities in the host country, even though the extent to which domestic firms can benefit from the foreign presence may be geographically bounded. Nevertheless, it has also been noticed that multinationals may induce monopolistic pressures which crowd out domestic firms and impoverish local economic systems (for a recent review of this literature, see Blomstrom - Kokko, 1998). With reference to Italy, Castellani - Zanfei (2001) have examined the impact of foreign investors on the domestic firms' productivity.

keeping with those considerations, a recent econometric work on the location determinants of foreign greenfield investments in Italy (Basile, 2002) suggests that the major factors attracting foreign investments towards the *Mezzogiorno* rather than elsewhere are: public infrastructures, unit labour costs and financial and tax incentives. This analysis also underlines that foreign start-ups in Italy do not emulate location strategies of domestic firms. In other words, *ceteris paribus*, foreign business groups do not invest more intensively in those regions where there is a higher concentration of other firms. This means that congestion costs, mainly connected to the lack of available labour force in the large Northern provinces, generate centrifugal forces, which contrast agglomeration forces, connected to the potential demand and supply externalities, generated by the spatial concentration of economic activities. Therefore, high unemployment provinces in the South have a greater potential capability of attracting greenfield foreign direct investments than Northern-Central ones. This is in keeping with the evidence of a process of “*meridionalizzazione*” (southward moving) of large firms in Italy, as observed by Florio - Lucchetti - Quaglia (1999). It means that the *Mezzogiorno* is gaining a gradual weight in the strategy of major Italian and foreign industrial concerns; indeed, over the past thirty years, the share of plants and of employed people in large firms located in the *Mezzogiorno* has been gradually increasing.

However, the potential attractiveness of Southern provinces can emerge only if certain conditions are met: firstly, the necessary infrastructures¹³ are to be created; secondly, the gap between the labour cost and the productivity trends must be narrowed; thirdly, an adequate system of public incentives, aimed at favouring foreign direct investments, must be built.

With regard to the infrastructures, the results of some simulations shown in Basile (2002) suggest that a small improvement in the stock of public infrastructures does not affect the regional distribution of foreign greenfield investments. Only a very strong leap forward in infrastructures in the *Mezzogiorno* can allow a significant reallocation of foreign capital towards Southern regions. This finding is very important, since each year the actual expenditure for public works systematically falls short of the planned figure.

With regard to the labour cost, a centralised system of wage bargaining is inadequate for the development conditions and the location disadvantages of the South

¹³ Infrastructures are obviously important to prompt the development of systemic areas dealt with at point D).

of Italy. Compared to a strongly negative productivity differential with Northern-Central regions, the average labour cost in the South is not sufficiently different from the one prevailing in the rest of the country, also due to the opposition of the European Commission to specific de-taxations in the *Mezzogiorno*. The divergence between the labour cost and the productivity dynamics tends to generate asymmetrical effects: it creates a constraint for the regional attractiveness of external investments and, thus, for job creation in the South, while it does not significantly affect the highly productive Northern-Central regions¹⁴. Recently, such an anomaly has been partially overcome, since diversified wages were allowed for the locations where “negotiated contracts” took place. This is not enough: within the same region and even the same province there are large productivity differentials. Therefore, wage bargaining should be differentiated at a regional and firm level.

Finally, with regard to the incentives to attract foreign direct investments in the South (from the Centre – North and from abroad), they should be set within what are known as “*contratti di programma*” (“planning contracts”). The evaluation of this policy instrument seems to be positive (Florio - Giunta, 1998 and 2002). Recently, however, the “planning contracts” have been stopped.

III) Allowing for a diversified fiscal treatment in the South and in the North-Centre

Apart from different forms of financial incentives (for new investments), tax incentives should also be promoted to boost regional development. Some cross-state analyses in the United States (see, for example, Head - Ries - Swenson, 1999) show that regional fiscal differences do substantially affect the location of Japanese firms in the USA. Furthermore, as demonstrated by the experience of some European countries, such as Ireland, the use of fiscal incentives may be very effective to attract foreign direct investments. However, when fiscal incentives operate indistinctly over the whole national territory, there is no room for diversified fiscal treatments which could create an advantage for substantial capital movements towards developing regions, as it happened in Ireland.

¹⁴ With reference to asymmetric effects on employment, see Pench - Sestito - Frontini (1999).

Thus, the adoption of a regionally diversified fiscal policy aimed at prompting regional economic growth (for example, an income tax rate for firms specifically meant for the *Mezzogiorno*) seems a necessary step to attract investments in the most backward areas of the South and to solve the long-lasting “Southern problem”. Nowadays, because of the constraints imposed by the European Union in the interpretation of “State Aids”, the condition of being a partition of a country and not a State has hampered the introduction of particular fiscal advantages for the *Mezzogiorno* (Moro, 2001). The irrelevance of national boundaries within an integrated area, such as the European Union, induces, however, to overcome that approach. The ongoing process of fiscal and administrative decentralisation taking place in Italy¹⁵, as well as in many other European countries, seems to make obsolete the past positions of the European Commission on competition distortions induced by State Aids granted in some Peripheral areas of Core countries and paves the way to regionally diversified fiscal policies in Europe, irrespective from the country a region belongs to.

Finally, as the fiscal counterbalancing incentives in the *Mezzogiorno* are much smaller relative to the rest of Italy, due to its Peripheral localisation, a public intervention is necessary to restore a situation of fiscal neutrality, not only compared to other European countries, but also with respect to other Italian regions. In this way, the South of Italy, as well as the other developing regions belonging to large Union countries, such as Germany, could compete in fiscal terms not only against the most developed areas of the Core of Europe, but also against the Peripheral Cohesion countries.

6. Concluding remarks

The present paper supplies an empirical analysis of the labour market conditions in the European Union, providing six propositions on regional unemployment. Its ultimate aim is to infer some economic policy prescriptions useful to solve the unemployment problem in the *Mezzogiorno* of Italy. The theoretical framework used is what is known as the *New Economic Geography*, whereby, under the hypothesis of increasing returns, absence of congestion, local externalities and insufficient labour mobility, a stronger economic integration may widen regional gaps in terms of unemployment rates, while identifying a "Core" (the object of agglomeration) and a "Periphery".

¹⁵ See, for example, Araghi - Zanardi, 2001; Bordignon - Cerniglia, 2001; Dell’Aringa, 2001; Viesti, 2001; ISAE, 2002b.

The results of the analysis show that, in the nineties, regional unemployment rate differentials within the EU have widened. The growing disparities have not been determined, however, by a larger Core/Periphery gap, but by an increased variability within both areas. Within the Periphery, in particular, the group of Cohesion countries (with the exception of Greece) have obtained very encouraging results. Ireland has witnessed an amazing catching-up process as against the Union average. Scandinavian Peripheral countries, though starting from a thinner gap, have followed very positive paths too, reaching in 2000 unemployment rates below the European average. Finally, particularly in the late-nineties - namely when, thanks to various macro and micro policy instruments, the EU average unemployment rates started to diminish - the gap between the Union and large countries' Peripheral regions (with the exception of the Northern area of the United Kingdom) has grown. The South of Italy is the most dramatic case¹⁶: over the period 1993-2000, the ratio between the unemployment rate of the *Mezzogiorno* and that of the European Union has increased from 1.7 to 2.5, which means that the chance to be unemployed in the South today is twice and a half that of the Union average, while it was less than twice eight years ago.

Which lessons for the *Mezzogiorno* may stem from the observation of successful cases in the fight to regional unemployment in Europe? A first useful observation is that peripheral countries such as Spain and Ireland observed a considerable rise in their domestic "dualism", as well as a considerable improvement in the labour market conditions of the most backward areas. A further element, which might be considered, is the central role played by large multinationals' direct investments in supporting the regional dynamics in the most backward areas of Cohesion countries, particularly of Ireland.

These two elements are enough to suggest an intervention in the *Mezzogiorno* of Italy, based not only - as it is commonly maintained - on the introduction of higher labour market flexibility, but also on a 'vigorous' supply policy. This should be aimed at supporting, on the one side, investments from small and medium-sized firms in the most successful areas with some endogenous growth and, on the other side, investments from large firms (either domestic or foreign) in those economic situations where there are no pre-requisites for a self-sustained development. Indeed, large firms are strong enough to face external diseconomies connected with the absence or insufficiency of

¹⁶ It should be noticed, however, that the unemployment rate of the South of Italy probably reflects more than elsewhere a strong presence of underground economy (see ISAE, 2002a).

infrastructures (roads, energy, water supply, telecommunications), to contrast organised crime and to escape trade unions' rigidities, since they are able to obtain, through their bargaining power with the Government and social parties, not only the necessary infrastructures, but also various derogations to national rules, namely more safety and flexibility in exchange for the creation of local economic development.

Finally, a lesson to be learned from the comparison between the good results of Cohesion Funds and the poor outcome of policies adopted for backward regions belonging to developed countries regards the logic - which we deem useless but which is still in force in the European Union - of State Aids. The same fiscal policy can be considered a distortion of competition if it is used to promote development of backward regions within a non Peripheral country, while it may be accepted as perfectly lawful when it concerns a whole Peripheral country, even though it is combined with identical measures at the national level. Nowadays, this is even more doubtful in the light of the strong decentralisation process ongoing in Italy as well as in other European countries. Therefore, today, the *Mezzogiorno* should have the possibility of differentiating its fiscal treatment from that of the North-Centre of Italy.

A similar anomaly holds true for trade unions, when they impose to adopt the same rules, the same labour contracts, the same wages in different regions of a country (but not in different countries) in Europe, irrespective of their differentials in terms of productivity, infrastructures, culture, entrepreneurship, cost of living and so on. This anomaly has recently been partially overcome in Italy, by granting the possibility to fix diversified wages in the areas where "negotiated contracts" ("*contratti d'area*" - Area-based Contracts -, "*patti territoriali*" - Local Pacts - and "*contratti di programma*" - Planning Contracts) have been implemented. This is not enough¹⁷. Rules, contracts and labour costs should vary at the microeconomic level, using "objective" indicators as those regarding the labour productivity in each province. Today this is possible, because such data exist; however, even within the same province there might exist a strong heterogeneity, so that wage bargaining should be differentiated not only on a regional base, but also at the firm level.

¹⁷ In the past, Italian Southern firms were allowed to pay lower social security contributions than their Central-Northern counterparts. There are, however, different reasons to believe that this type of wage subsidy, phased out in 1995, is not the best way to diversify the labour cost in different geographical areas. Firstly, social security de-taxations do not eliminate the wage and regulatory rigidities hampering the adjustment process in different labour markets. Moreover, this instrument forces labour cost differences at a very aggregate geographical level (Centre-North/South), while clusters of high and low unemployment arise at a smaller locational level. Thus, it is important that labor cost differences too can arise at a much finer geographical level.

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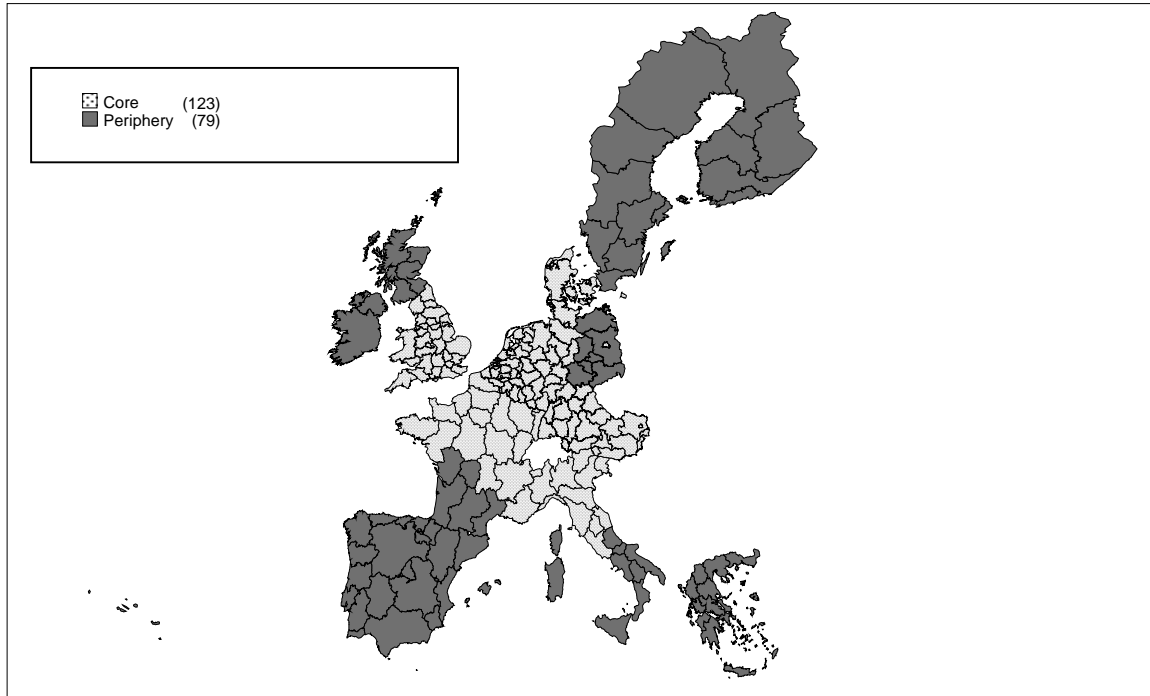
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Table 1 – European Union: Core and Peripheral Regions.

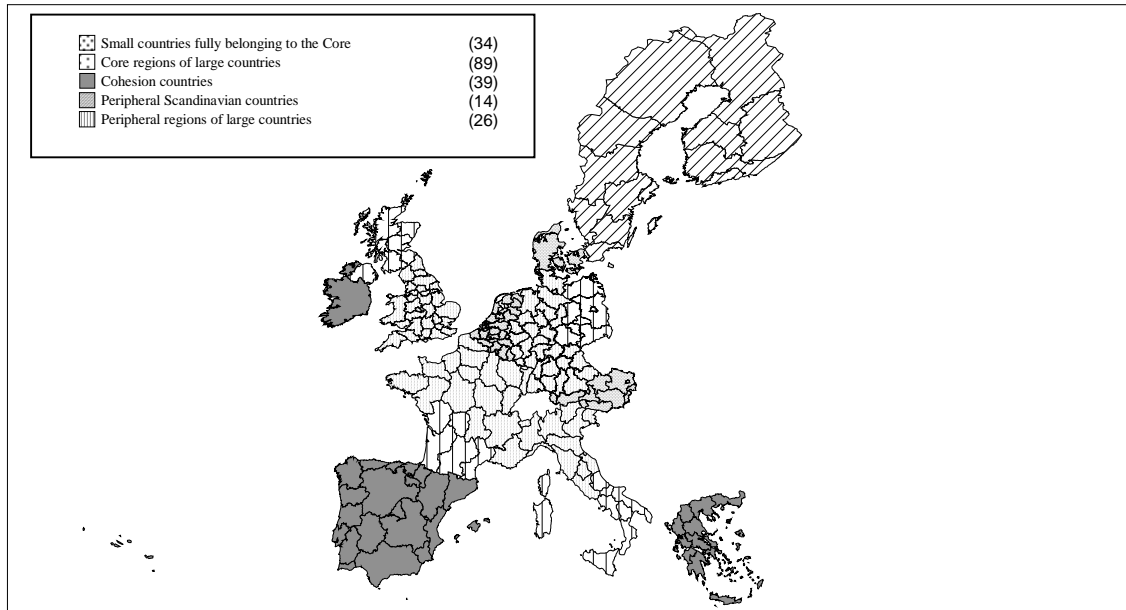
Core	Small countries fully belonging to the Core	Austria, Belgium, Denmark, Luxembourg and the Netherlands
	Core regions of large countries having also Peripheral regions	France, with the exception of Poitou-Charentes, Aquitaine, Midi-Pyrénées, Limousin, Languedoc-Roussillon and Corse, Western Germany, North-Central Italy, United Kingdom with the exception of Scotland and Northern Ireland
Periphery	Cohesion countries	Greece, Spain, Ireland and Portugal
	Peripheral Northern Scandinavian countries	Finland and Sweden
	Peripheral regions of large countries having also Core regions	Regions of West France, East Germany (Brandenburg, Mecklenburg-Western Pomerania, Saxony, Saxony-Anhalt, Thuringia), <i>Mezzogiorno</i> of Italy, Scotland and Northern Ireland

Graphs 1 – European Union: Map of the Core/Periphery Partition.

a) Core and Periphery (number of regions)

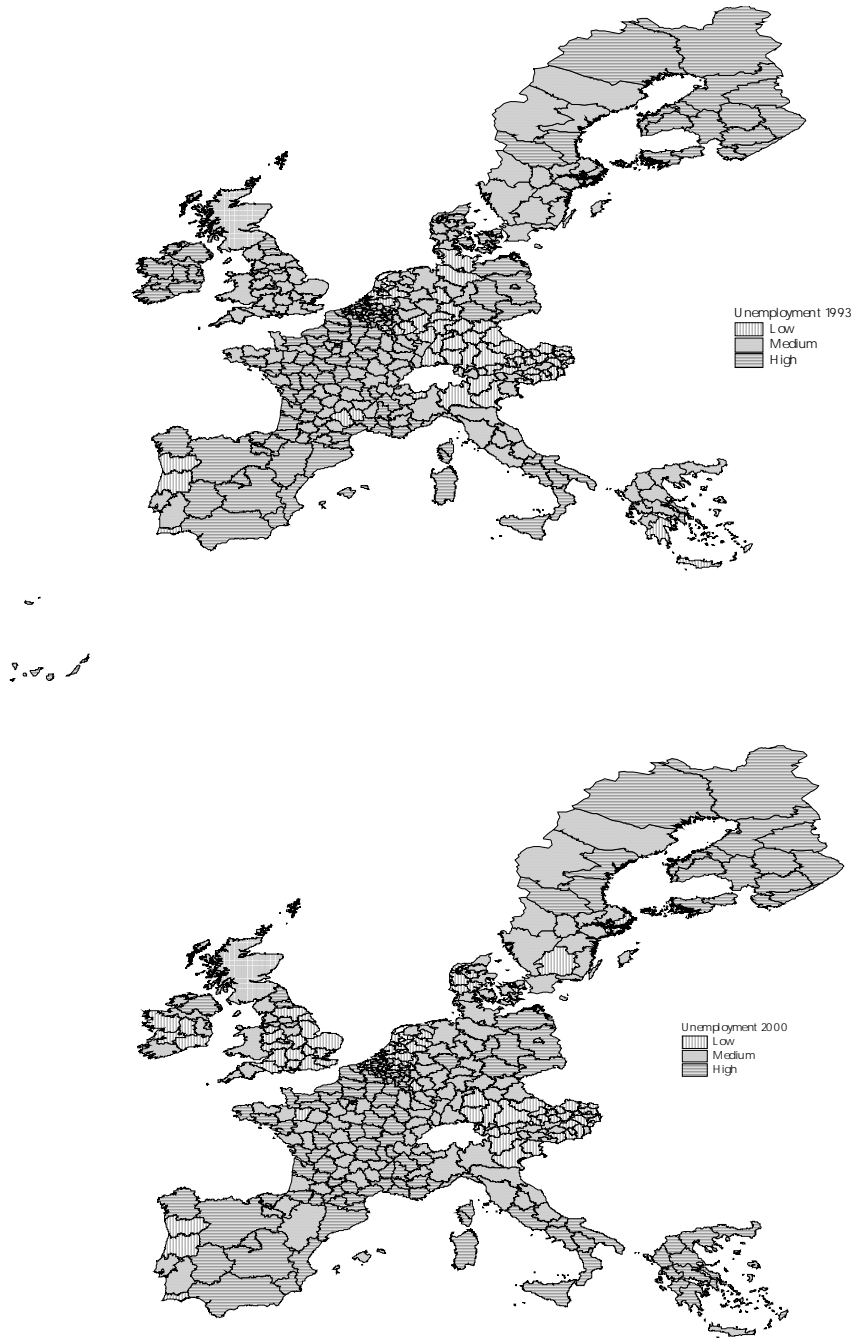


b) Different Core and Peripheral Regions



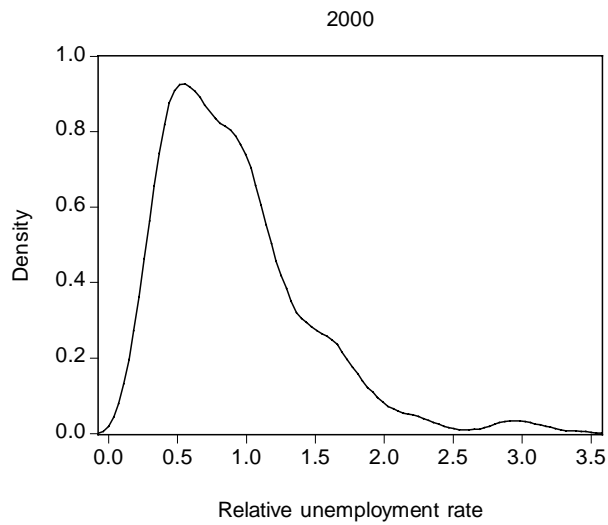
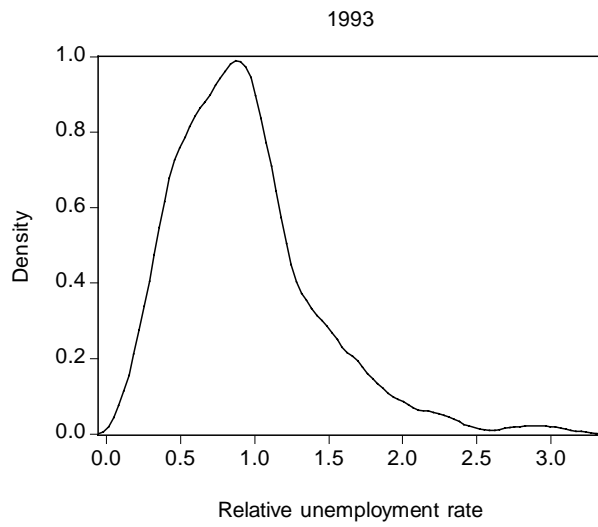
Note: For the regional aggregation in the two clusters (Core and Periphery), the present paper adopts the map by Keeble, Offord and Walker (1988), which defines the boundaries of the Core and Periphery within EU-12. As the present work is applied to EU-15, for the distribution of the regions of Austria, Finland and Sweden to the two groups, the indications of a recent paper by Copus (1999) are adopted. Starting from a level 2 NUTS disaggregation, the Core consists of 123 regions and includes Belgium, Denmark, Luxembourg, the Netherlands, Austria, West Germany, France (with the exception of its Western regions near the frontier with Spain), the North-Centre of Italy, the United Kingdom (with the exception of Scotland and Northern Ireland). The Periphery consists of 79 regions and includes the four Cohesion Countries (Spain, Greece, Portugal and Ireland), the *Mezzogiorno* of Italy, East Germany, some regions of Western France, Sweden, Finland, Scotland and Northern Ireland. The legend reports, in brackets, the number of regions within each group.

Graphs 2 – European Union: Regional Distribution of Unemployment Rates (1993 and 2000).



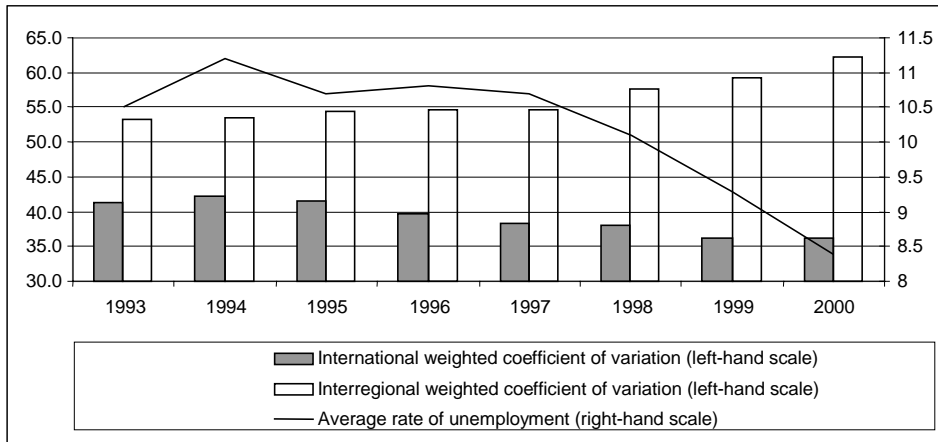
Note: “Low unemployment regions” are those with unemployment rates ranging between the minimum value and the value of the first quartile of the unemployment distribution, “Medium unemployment regions” are those with unemployment rates between the value of the first quartile and the intermediate value between the second and third distribution quartiles; “High unemployment regions” are those with unemployment rates ranging between the mean value of the second and the third quartile and the highest unemployment rate.

Graphs 3 - European Union: Estimated Density of the Regional Relative Unemployment Rate (1993 and 2000).



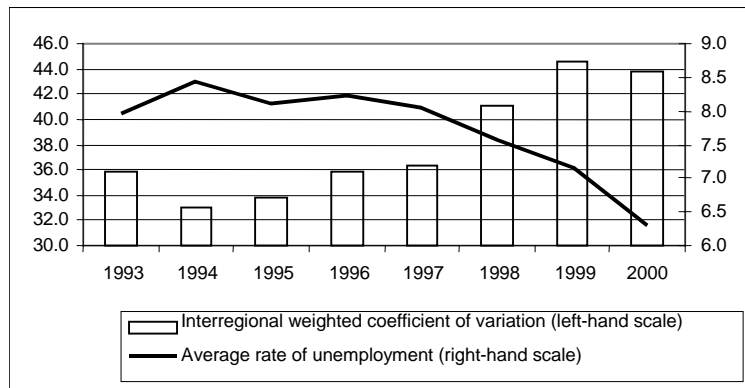
Note: the relative unemployment rate is the ratio between the regional unemployment rate and the Union average rate.

Graph 4 - European Union: Average Unemployment Rate and International and Interregional Weighted Coefficients of Variation. Percentage Values (1993-2000).

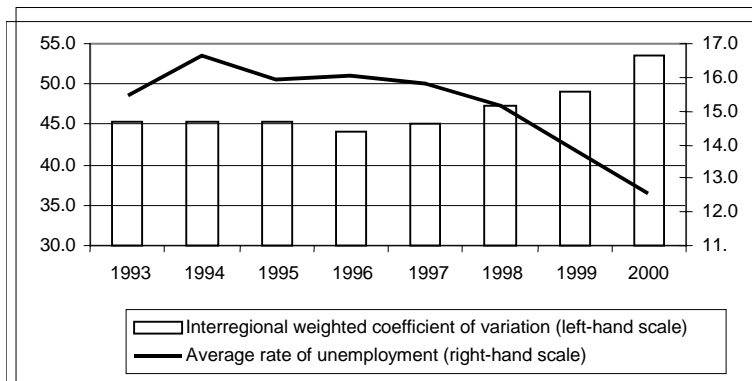


Graphs 5 – European Union: Average Unemployment Rate and Weighted Interregional Coefficient of Variation in the Core and in the Periphery. Percentage Values (1993-2000).

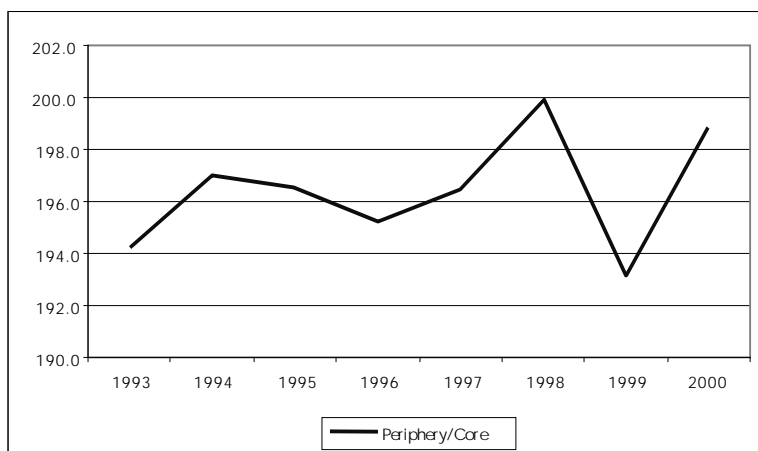
a) Core Partition



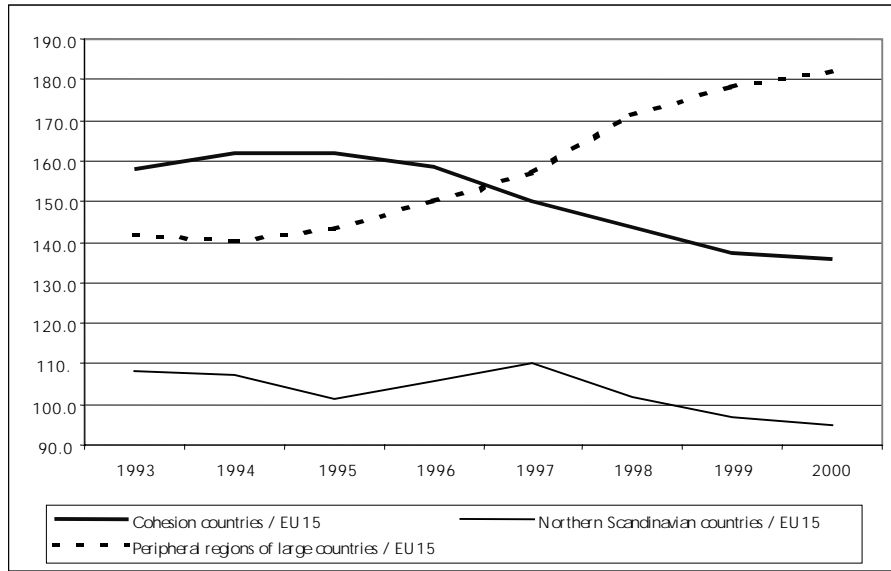
b) Peripheral Partition



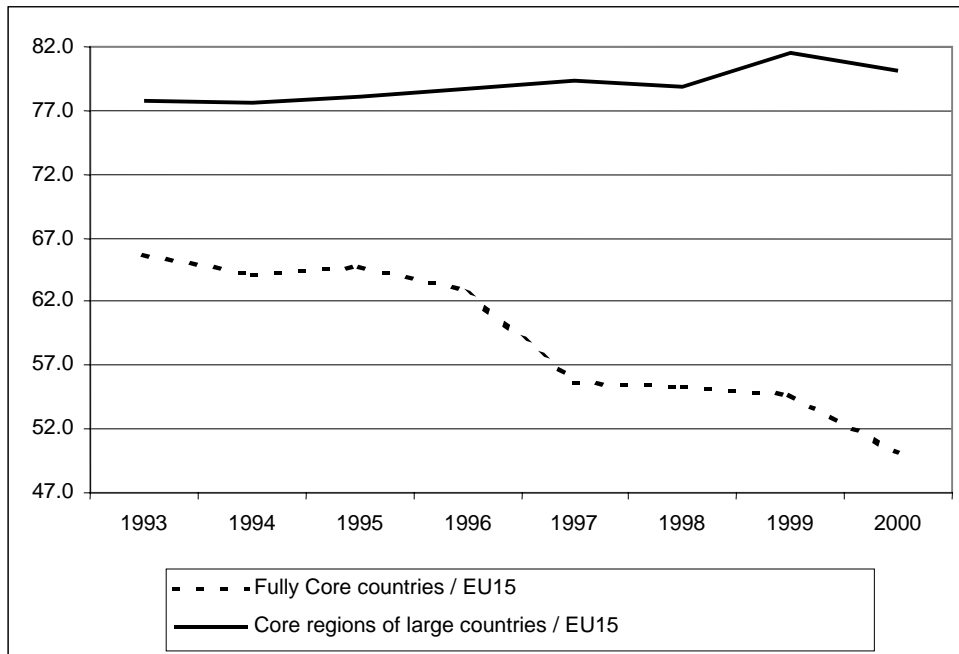
c) Ratio between Peripheral and Core average unemployment rates



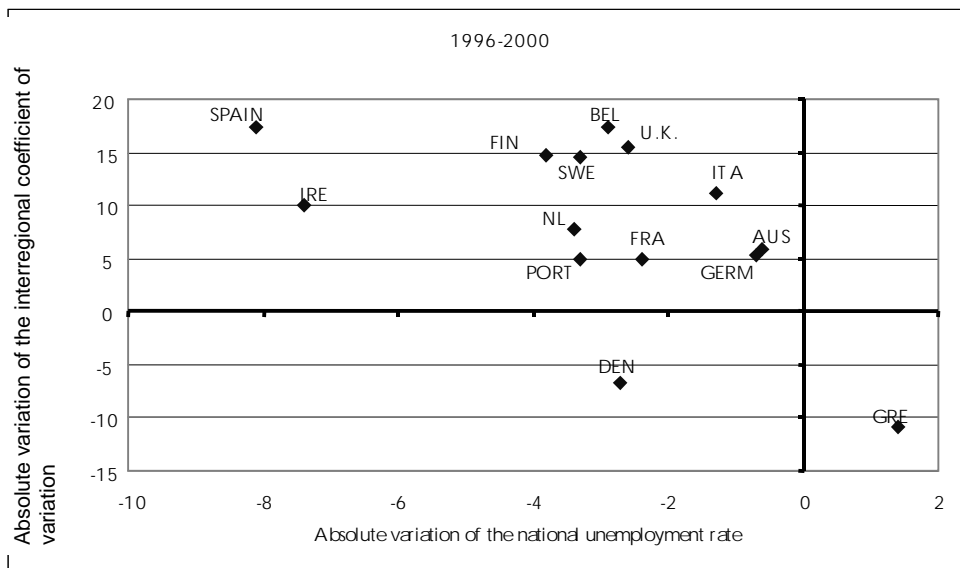
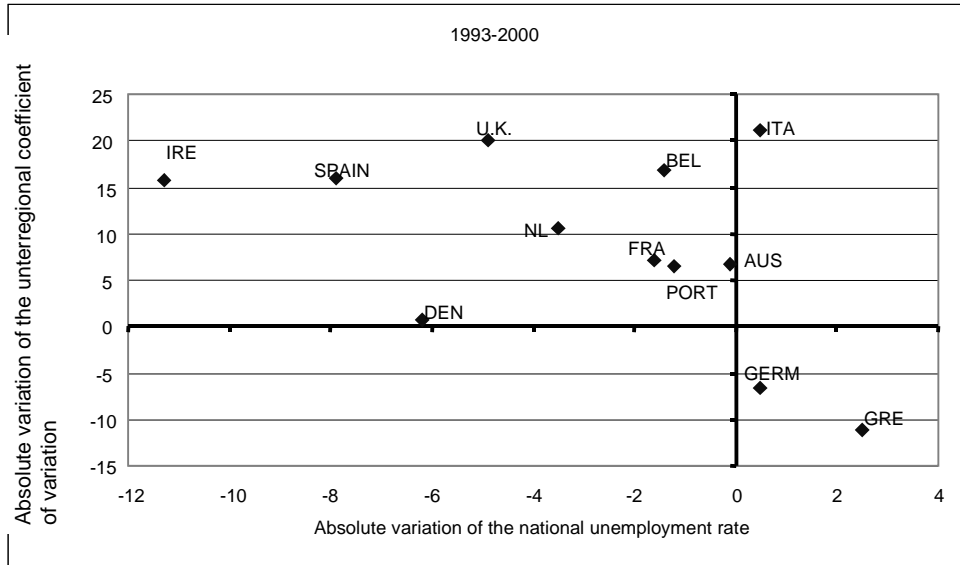
Graph 6 – Ratio Between the Average Unemployment Rate of Each of the Three Peripheral Areas and that of the European Union. Percentage Values (1993-2000).



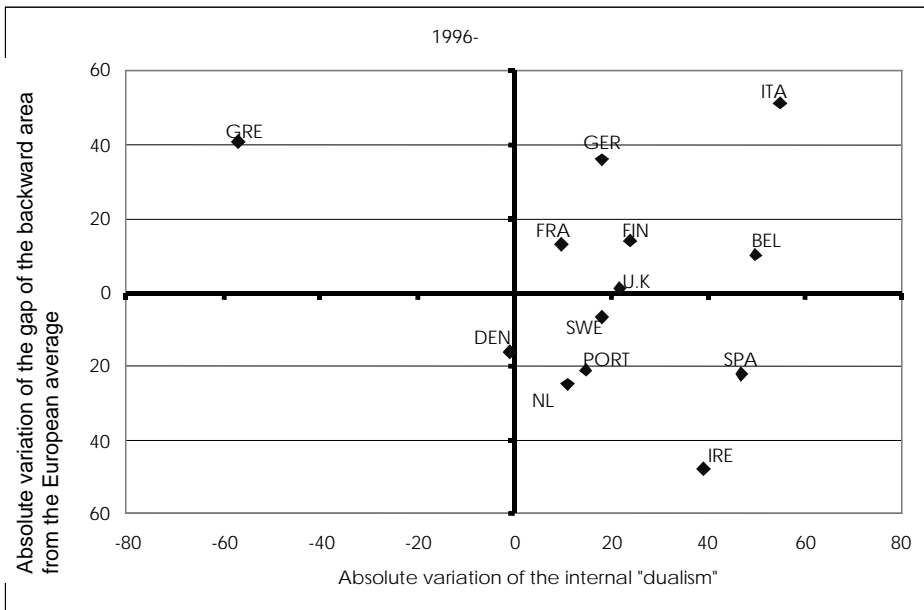
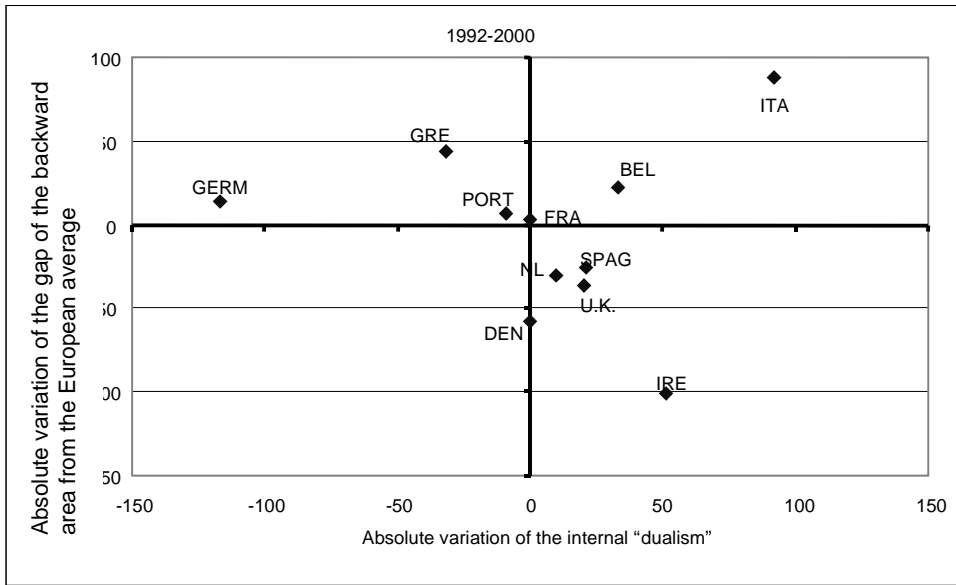
Graph 7 – Ratio Between the Average Unemployment Rate of Each of the Two Core Areas and that of the European Union. Percentage Values (1993-2000).



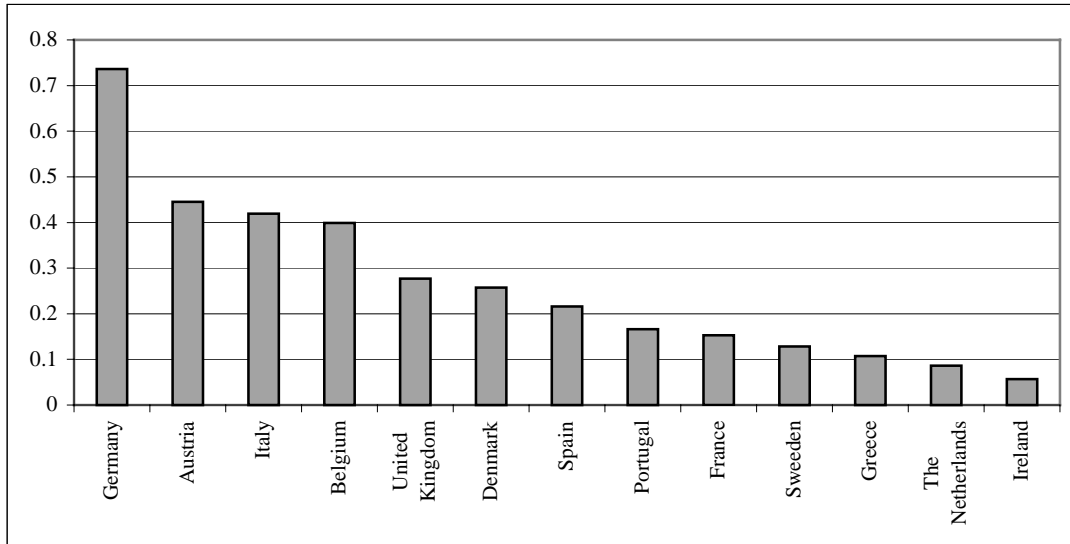
Graphs 8 – European Union: Absolute Variation – by Country - of the National Average Unemployment Rate and of the Corresponding Interregional Weighted Coefficient of Variation. Percentage Values (1993-2000 and 1996-2000).



Graphs 9 – European Union: Absolute Variation - by Country - of the Internal “Dualism” and of the Gap of the Most Backward Area from the European Average. Percentage Values (1992-2000 and 1996-2000).



Graph 10 – European Union: Share of the Regional Unemployment Rate Variation of Each Country Explained by Regional Dummies. Percentage Values.



Note: the natural logarithm of the regional unemployment rate disaggregated by age, sex, region and year (from 1995 to 1999) is regressed, for each country, on a set of dummy variables relative to each year (to capture cyclical and structural aggregated effects), to the age bracket (the young *vs.* the old), to the sex (males *vs.* females) and to single regions. The same estimate is repeated without regional dummies. Then, the difference between the adjusted R^2 of the first and the second estimates is computed, thus obtaining the share of variance explained by regional dummies, which values are reported on the vertical axis of the graph.

Graphs 11 – *Mezzogiorno* of Italy: Inter-quartile Distribution of Provincial Unemployment Rates. Percentage Values (1995 and 2000).



Note: The Legend reports the values of the interquartile distribution of the provincial unemployment rates in the *Mezzogiorno* of Italy and, in brackets, the number of provinces within each group.