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Regional and National Industrial Policies in Italy, 1950s-1993.
Where Did the Subsidies Flow?

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ABSTRACT

This paper compares the magnitude and distribution of regional subsidies to Southern industry to those of subsidies available in the country as a whole through the national industrial policy. The comparison highlights the fact that from the second half of the 1970s, industry located in the most prosperous region of Italy, the North-West, was the main beneficiary of subsidised credit. These findings refine our understanding of the regional policy for Southern Italy and the reasons for its limited achievements. Moreover, the redirection of subsidies away from the South cast doubts on the extent of the Italian government's commitment to its programme of regional development.

Regional policy; Industrial policy; Regional pattern of government spending.

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INTRODUCTION

Increasing attention has been paid recently to the spatial impact of all types of government expenditure and consequently to the appraisal of expenditure in overt regional policies in the wider context of overall government spending (MACKAY and WILLIAMS, 2005; HEALD and SHORT, 2002; ARMSTRONG and TAYLOR, 2000, SHORT, 1981). This line of investigation allows an assessment of the extent to which public expenditure reflects regional 'needs' and clarifies whether this reflects a coherent implementation of regional programmes (GRIPAIO and BISHOP, 2005; MACKAY and WILLIAMS, 2005; MCLEAN and McMILLAN, 2003). This type of analysis is also important in order to assess whether government spending helped to create a comparative advantage for assisted areas in attracting economic activity and investment. This effect might be reduced greatly and even offset by public spending in other regions.

This paper adopts a similar line of investigation to reassess the much-publicised commitment of the Italian government to address the country's economic dualism, between the prosperous North and the underdeveloped South. The analysis covers the whole experience of the Italian regional policy, the so-called 'Extraordinary intervention for the South' and focuses on two major financial tools to promote Southern industry: subsidised loans and grants. These are studied in the context of subsidies available throughout the country within the framework of the national industrial policy. This comparative analysis brings to light unknown features of the Italian regional and national industrial policies and points out a spatial distribution that reflects neither the relative underdevelopment of the recipient regions nor the

priority position officially attributed to the government regional effort. Moreover, the attempt to assess the demand for financial subsidies, performed in this paper for the first time, helps to clarify to what extent the diversion of resources away from underdeveloped regions was an institutional decision.

The paper is structured in four sections. It begins with an overview of the system of regional subsidies to industry and its national counterpart, from their inception in the 1950s to the end of the regional programme in 1993. It moves on to provide a long-term analysis of the geographical distribution of subsidised and market medium-term credit in section two, and the third section estimates the 'net subsidy' within subsidised credit extended. The final section, based on unpublished Ministry of Industry datasets, assesses to what extent the institutions managing regional and national subsidies were able to satisfy the applications for these.

REGIONAL AND NATIONAL INCENTIVES TO INDUSTRY

Every document on Italian economic policy stresses the public sector's involvement in efforts to overcome the country's economic dualism (PADOA SCHIOPPA KOSTORIS, 1993, p.75). Such efforts began in 1950 with the establishment of the Cassa per il Mezzogiorno (henceforth Cassa) an institution created *ad hoc* to manage a complex regional programme, the 'Extraordinary intervention for the South', supported not only domestically, but also by the International Bank for Reconstruction and Development (D'ANTONE, 1997). The Italian regional programme was all-embracing and ranged from building infrastructure to land reclamation and the financing of industry.

Figure 1 around here

Cassa intervention in industry began in 1957 and took the form of financial subsidies - soft loans, grants and fiscal subsidies – and industrial infrastructure, including connecting industrial sites to energy sources, water supply and sewage. The rationale and priorities in extending subsidies and providing infrastructure changed over time. In 1957, Cassa activities were concentrated in specific locations called ‘nuclei’ and ‘areas’ of industrialisation, clearly attempting an implementation of the growth pole theory (PERROUX, 1955; HIRSHMAN, 1988). From 1971, it sought to encourage investment in areas experiencing depopulation and from 1976, all such differentiation in the South was abandoned.

Grants, introduced in 1957, were available for the purchase of machinery (up to 20% of total expenditure) and construction costs (up to 25%), with the level depending on several factors such as industrial sector, investment per employee, firm size and location. The maximum grants were awarded to firms in modern sectors undertaking large investments within a nucleus (ALLEN and MACLENNAN, 1970).

The original 1957 definition of size of eligible firms (less than 500 employees and fixed assets below 3bn lire) was soon abandoned (PERGOLESI, 1988). By 1962 limits on employees and fixed assets were lifted and grants could be awarded on the first 6bn of investment for firms of any size. The lifting of the size limits has been a much-debated aspect of the policy. It has been interpreted as a diversion of the incentive system away from its original intention of developing an organic network of

SMEs, and a reflection of the need to attract modern industries to the South and investment from large Northern companies (DUNFORD, 1988; CONTI, 1979; FEDERICO and GIANNETTI, 1999).

The Cassa-subsidised loans were extended at interest rates varying between 3% and 5% with the lowest interest for smaller plants. Loans could cover a maximum 70% of the planned investment, were repayable over 15 years and could be obtained in addition to grants, with the provision that the combined grant and loan could not exceed 85% of the total investment (ALLEN and McLENNAN). The Cassa covered the differential between subsidised and market interest rates, whereas the loans were to be managed by the three medium-term credit institutions (henceforth MTCIs) operating in the South, Isveimer, Irfis and Cis, which thus bore the risk of bad loans and defaults.

In the period under analysis the Italian banking system was specialised in market terms, meaning that banks could collect and lend money on the short-term market only and MTCIs could collect and lend money on the medium-term market only. The two markets were closely connected, the banks being among the establishing partners of the MTCIs. Setting up MTCIs was the way the banks could access the medium-term credit market, and the banks could finance them by purchasing their bonds. Short-term credit was defined as repayable within one year and medium-term credit from one to ten years, except in Southern Italy (up to 15 years) (PONTOLILLO, 1971).

The Cassa 1957 scheme was not the first, as from the early 1950s, soft loans for small and medium-sized firms (SMEs) were available throughout Italy and were regarded as a major instrument of national industrial policy. The national schemes were a response to the belief of the Bank of Italy (henceforth BoI) and the Association of Industrialists (Confindustria) that SMEs needed additional support, as they had less bargaining power with banks and were disadvantaged in terms of accessing financial markets. The BoI was aware of the importance of small firms in the Italian economy: a report from the BoI Study Centre shows that firms with fewer than 100 workers employed almost 37% of the national workforce in 1947 (ASSO and RAITANO, 1999). Political considerations, such as gaining the support of small entrepreneurs and avoiding concentrations of labour demand and supply, also played a significant role in the formulation of national schemes (CERS-IRS, 1986).

From 1952 SMEs in the whole country could receive soft loans through Regional Medium-Term Credit Institutions (RMTICs, *Mediocrediti Regionali*), which were able to extend loans at lower interest rates (6.5%) because they could refinance themselves under favourable terms at the Central Medium-Term Credit Institution (CMTCI, *Mediocredito Centrale*), established by the Treasury in 1952 (MEDIOCREDITO CENTRALE, 1955). Another scheme, subsidised by the Ministry of Industry (MI), was launched in 1959. While the RMTICs offered small loans of up to 50m lire, the MI offered larger loans on preferential terms for Southern firms. Firms in the South could borrow up to 1bn lire, repayable over 15 years at an interest rate of 3%, while firms elsewhere could borrow only up to 500m, repayable over 10 years at 5% (ABI, 1963). In subsequent years, yet more schemes were introduced. Of particular interest is the Sabbatini scheme (1329/1965), which sought to help the

machine tool industry recover from the crisis. It subsidised the purchasing and leasing of domestically produced machines - a limitation later abolished in accordance with EEC regulations - worth between 1m and 3bn lire and the scheme was managed by the MCC (MEDIOCREDITO CENTRALE, OSSERVATORIO SULLE PICCOLE e MEDIE IMPRESE, 1997; SCANAGATTA, 1989). Both the producer and the purchaser benefited from this scheme as producers could rediscount bills and purchasers could dilute the payment over five years at a subsidised interest rate (MOMIGLIANO, 1986). In the second half of the 1960s a scheme in favour of exporting firms was also introduced (131/1967). This envisaged tools such as subsidised insurance to export credits and the provision of credit finance at subsidised interest rates (PONTOLILLO, 1971). The proliferation of schemes, later called a 'jungle of incentives', in which the same firm could benefit from several schemes, is interpreted in the literature as a consequence of the lack of a coherent industrial policy. The absence of an all-embracing approach left room for pressures from economic and industrial groups, which then brought about the formulation of individual schemes addressing specific and/or sectoral problems (BARCA and MANGHETTI, 1976).

The awareness of the need to simplify the loan system led to the harmonisation of regional and national schemes in 1976-77. By that time, subsidised credit was perceived as a particularly important tool of the country's economic policy due to the severe 1975 recession and the BoI's restrictive monetary policy. It was felt that in such a situation, credit to industry had to work as a balancing and corrective mechanism able to facilitate firms' access to credit (VASSALLI and VISENTINI, 1978). Various subsidised credit schemes were unified in a single one (scheme

902/76). The whole country was classified according to various degrees of development and subsidised credit was made available throughout, on progressively preferential conditions for less developed regions. For instance investment up to 15bn could benefit from soft loans in the South, whereas investment up to 7bn only could be eligible in underdeveloped areas of the Centre. The details for each region are given in table 4 in the Appendix. In addition a new soft loan scheme was introduced in 1977 (scheme 657/77). This scheme is considered particularly important as it emphasised the restructuring of existing plants, rather than the establishment of new ones (PENT FORMENGO, 1986). The terms of the availability of soft loans throughout the country were similar to those of the 1976 scheme (Appendix, table 5). In addition the Cassa amended its grant scheme in 1976 (Appendix, table 6) and the value of the maximum combined total subsidy (soft loan and grant) was reduced from 85% to 75%.

Subsequent years saw further schemes, such as the Fund for Technological Innovation, managed by the MI and set up in 1982. This aimed to provide soft loans to firms of any size planning to undertake investment to introduce technologically advanced production processes and is still considered the pillar of the policy for technological innovation in Italy (MOMIGLIANO, 1986). SMEs were also entitled to grants for the purchase and leasing of high-tech equipment (scheme 696/1983). Southern SMEs were entitled to grants covering up to 32% of the cost of the equipment and SMEs located elsewhere in the country up to 25% (CAMPUS, 1995).

The Cassa had been established as a temporary institution, supposed to last until 1980, but between 1980 and 1986 11 ministerial decrees were passed to prolong its

activities. All political parties agreed to maintain an additional flow of resources to the South but there was disagreement concerning the institutional framework for the management of these funds. The 11 decrees left the institution in a state of uncertainty and precariousness, for each prolonged the Cassa's life for a brief period only, sometimes as short as a year or even three months (CAFIERO and MARCIANI, 1992).

In 1986 the 'extraordinary intervention' was refinanced until 1993. As that date approached, attempts to prolong funding failed because of domestic and external pressures. The parliamentary debate coincided with growing resentment in the North about the level of public expenditure in the South and its harmful effects on Northern employment. Furthermore, critics pointed out that few tangible results had been achieved in 40 years of the Southern policies, which had been a drain on the economy of the North. In addition, there was growing antipathy towards the role of the public administration in the Italian economy and towards the institutional structure operating the Mezzogiorno policy. These tensions led to calls for a referendum on the Southern policy and the considerable success of the Northern separatists. The European Commission also influenced the course of events, by refusing to approve the 1992 bill to refinance the Agency. Given the Commission's opposition, in December 1992 the Italian Parliament decided to abolish the 'extraordinary intervention' and its institutions, with the Southern policy to be replaced by a national programme of assistance for depressed areas (CAFIERO, 2000).

THE GEOGRAPHICAL DISTRIBUTION OF SUBSIDIES

This section studies the regional distribution of subsidised medium-term credit (MTC) generated by the convoluted system of regional and national soft-loan schemes, illustrated in the previous section. The analysis is broken into sub-periods reflecting the changes in the policy regimes and starts in 1953, when the first soft loan scheme became operational. The division into sub-periods also makes it possible to make allowance for variations and inconsistencies in the statistics over time.

Table 1 around here

Table 1 clearly shows that from the second sub-period (1957-65) the South was the region benefiting most from soft loans. In the first half of the 1950s, when the only soft-loan scheme was that subsidised by the MCC (scheme 949/52), the North-West was the main recipient, whereas the South received the lowest share. The small number of loans extended to the South is explained by the MCC in terms of the lack of interest from credit institutions in the South. The scheme offered credit institutions the possibility of refinancing themselves at a lower interest rate, but Southern credit institutions could finance themselves using funds bearing no cost, such as their endowment funds and funds provided by the Cassa, which were also expected to increase in the following years (MEDIOCREDITO CENTRALE, 1954 and 1955).

Figures for the 1957-65 period include soft loans extended by the MCC and by the MI (scheme 623/59). The only scheme operational in those years and not included in the table is the one managed by the Cassa. Information on soft loans managed by the

Cassa between 1957 and 1965 is available, although from a different source, but could not be included in table 1 as it refers only to soft loans approved by the Cassa in those years, whereas information on MCC and MI schemes in table 1 refers to loans actually extended. However, the value of soft loans approved under the Cassa scheme in these years was 880bn 1980 lire, i.e. an annual average of 97.8 billion. Information on soft loans managed by the Cassa between 1957 and 1965 is included in table 3.

It seems important to note that even excluding soft loans granted to Southern firms by the Cassa, the South received the lion's share from the second sub-period. Obviously this was the result of a larger number of soft loans extended and/or larger sums granted to the South through national schemes. These allowed Southern firms to borrow twice as much as their Northern and Central counterparts. Thus by the end of the 1960s, the South consolidated its position as main recipient of soft loans, but the North-West also increased its share to 27.5%. The Centre and the North-East received a progressively smaller share.

Starting from 1966 the Bank of Italy published a consistent series of information on the lending activity of the MTCIs. Therefore it was possible to calculate the annual net balance of credit transactions from that date to the end of the period under analysis. Figure 2 displays the results. Subsidised credit includes sums awarded under all national schemes in operation, and for the South, all loans issued by the Cassa.

Figure 2 around here

As already noted in table 1, the South, entitled to both national and regional schemes, was by far the main beneficiary until 1972. In 1971, the provision of credit increased throughout the country, reaching values well above the average for the previous period. In 1972, Southern Italy experienced an even more remarkable increase in the supply of subsidised MTC, mainly because 1972 was the first year in which credit envisaged by a new scheme approved at the end of 1971 (scheme 853/71) was actually available. These years also witnessed an exceptional increase in demand for credit resulting from the exceptional quantity of industrial applications, mainly concerning plans for investment in the basic sectors in the South (BANCA D'ITALIA, 1971d).

From 1973-74 the net balance of credit transactions became negative for all regions, as new issues of such credit were lower than the repayments on previous issues. Various factors were responsible: funds allocated as contributions towards interest payments dried up in some sectors; and the MTCIs had problems raising funds, due to the drop in quotations on the bond market. This last factor, combined with the delay in adjusting the base rates on subsidised operations, made medium-term lending unprofitable. Until the reorganisation of subsidised credit in 1976, interest rates were fixed by the appropriate law or by *ad hoc* decrees, whereas the Cassa or government contribution varied to cover the difference between the subsidised interest rate and the base rate. The base rate, defined on the basis of the cost (weighted average) incurred by the MTCIs in issuing bonds in the previous four months, was determined bimonthly by the Interministerial Committee for Credit and Savings (ICCS). Despite the increase in ordinary interest rates after 1973, subsidised interest rates remained constant until 1975, when they rose for all categories of loans (see Appendix, figure

11). This system was ended in 1976, when subsidised interest rates were pegged to the reference rate.

The delays in adjusting the base rate resulted in a dramatic decrease in the availability of subsidised as well as ordinary MTC (for ordinary MTC see figures 12 and 13 in the Appendix). Given the difference between short- and long-term interest rates, banks preferred lending their liquid assets at higher interest rates, i.e. short-term. Diverting resources from medium- to short-term lending was technically possible because of close institutional and economic links between the MTCIs and the banks (BANCA D'ITALIA, 1974d). As explained in the previous section, the MTCIs had been created, under the terms of their charters, by the ordinary banks, which helped finance the MTCIs by acquiring their bonds.

The BoI intervened in order to redirect money into the medium-term market, preserving low interest rates. In June 1973 the BoI introduced the so-called 'portfolio obligation' (vincolo di portafoglio), which obliged banks to increase their investment in bonds, a large share of which was issued by MTCIs, to a minimum of 6% of their deposits. This 'portfolio obligation' was renewed periodically until 1978, but after 1975 the size of investment as a percentage of new deposits was gradually decreased (FAZIO, 1979). Moreover, between 1973-78 the BoI tried to protect small firms from credit rationing. It imposed a ceiling on further loans to all groups of borrowing firms, with the exception of the smallest group, considered the most affected by the liquidity squeeze (CROFF and PASSACANTANDO, 1979).

From 1975, MTC recovered slightly due to the BoI measures, the increase in the net

value of securities issued by the institutions and the profitability of the adjusted base rate and interest rates on MTC (BANCA D'ITALIA, 1975d). For although the net balance of credit transactions remained rather low and even negative until the beginning of the 1980s, it never again reached the 1974 low. However, the area where the net balance of subsidised credit transactions remained consistently negative until 1984-85 was the South, the area previously receiving the lion's share!

Figure 3 gives a clearer understanding of the direction of subsidised MTC after 1976. It is based on statistics on new subsidised MTC extended published by the BoI from 1974 onwards. These figures are preferable, as they are not affected by changes in patterns of loan repayments.

Figure 3 around here

From 1976, a major change took place in the direction of subsidised credit, and the North-West, rather than the South, became the main beneficiary. The BoI explained the South's dramatically reduced share of subsidised MTC in 1976 as the result of a tendency, already apparent in the previous years, to leave the financing of Southern firms almost entirely to the Cassa, whereas national schemes concentrated on the North and Centre. In 1976, the South's disadvantage became evident due to the delay in approving the 1976 scheme, whereas the previous scheme (law 853/1971) covered only the 1971-75 period. Not only was the access of Southern firms to national schemes reduced, after 1976, but Cassa expenditure on subsidies as well as its overall expenditure also started to fall, as shown in figure 4 below.

Figure 4 around here

The analysis presented in this section shows that the 1976 're-organisation and harmonisation' of subsidised credit throughout the country meant not only that 'incentives that were once reserved to the South were extended on massive scale to the entire country', as noted by FAINI and SCHIANTARELLI (1983) and DEL MONTE and GIANNOLA (1997), but more precisely that the South lost its position as the main beneficiary, which was taken over by the most prosperous area of the country, the North-West. PERGOLESI (1988) also noted the diversion of subsidised credit away from the South to the North-West but timed it differently, in 1973-74, on the grounds that from 1973 subsidised credit decreased in the South. However, the decrease was even more marked in the North-West in those years, and therefore at that date the South still seems to be 'privileged'. This is certainly not the case after 1976, when subsidised credit continued to increase in the North-West and decreased in the South. The precise timing of this redirection of resources is an important exercise, as it helps us understand the reasons behind it.

It seems plausible to establish a connection between the 1976 'reorganisation and harmonisation' of the system of subsidies and the 1975 recession. The fourfold increase in the oil price and the indexation of wages, in place since 1970, had a severe effect on the profitability of businesses. Italy, like Britain, initially responded to the oil shock with expansionist measures that allowed growth to continue, and Italian GDP grew by 5.4% in 1974. However, balance of payments problems became more severe and the BoI introduced restrictive measures that led to a contraction of domestic demand and production and ultimately to a contraction of GDP by 2.7% in

1975 (JAMES, 1996, pp. 283-285). It seems plausible that when the Italian GDP fell in 1975, for the first time since the Great Depression and the Second World War (ROSSI and TONIOLO, 1996), boosting the economy of the whole country, by redirecting resources to the most productive regions, rather than the depressed ones, became the new priority.

Moreover, following a renewed foreign exchange crisis in January 1976, the International Monetary Fund (IMF) agreed to a stand-by arrangement in favour of the lira but imposed provisions for reducing the government deficit, controlling internal domestic credit, introducing changes in the indexation procedure and maintaining a competitive exchange rate (JAMES, 1996). In addition to this, the decision to join the EMS meant stabilising exchange rates, yet another constraint on the devaluation of the currency in order to make Italian products more competitive abroad (MICOSSÌ and TRAU, 1994). This might explain the reorganisation of subsidies for exporting firms (the original 131/67 scheme was replaced by the 227/77 scheme) and the 100% increase in subsidised credit to exports between 1976 and 1978, as shown in figure 5.

Figure 5 around here

The renewed emphasis on credits for exports helps explain the redirection of subsidised credit away from regional schemes, but it is not the full story. Figure 5 above shows that from 1983 onwards subsidised credit for exports decreased whereas the unspecified group of 'other schemes' increased. The BoI does not clarify which schemes are included in this group, but it seems plausible that it includes the Sabbatini scheme, as in 1989, when this became a separate item in the BoI statistics,

the share of ‘other schemes’ halved. According to other sources, subsidies extended through such schemes began an increasing trend from the second half of the 1970s (Appendix, figure 14). Moreover, the ‘other schemes’ group is likely to include schemes to promote technological innovation, approved in the 1980s (see previous section). Figure 6 below shows that the schemes receiving increasing resources after 1976 were directed mainly to the North-West.

Figure 6 around here

NET SUBSIDY AND ESTIMATED TOTAL SUBSIDIES

The previous section showed that after 1976 the North-West, rather than the South, was the main beneficiary of soft loans. However, it might be argued that Southern soft loans were extended on more generous conditions than in the rest of the country. Interest rates were consistently lower in the South, albeit by as little as 1.6 percentage points on average, and the redemption period of Southern soft loans was consistently longer, up to 15 years. In order to estimate the net subsidy, or the ‘gift’ component, in the soft loans extended to the various regions of the country, the formula devised by Faini has been applied (FAINI, 1985, p. 320):

$$S = L \left\{ 1 - \frac{r_A(1+r_A)^N}{(1+r_A)^N - 1} \left[\frac{(1+r_M)^N - 1}{r_M(1+r_M)^N} \right] \right\}$$

where: L = loan; r_M = market long-term interest rate; r_A = subsidised interest rate; N = length of the loan

According to this formula, the absolute size of the net subsidy within a subsidised loan depends on the absolute size of the loan, the differential between subsidised and market

interest rates and the redemption period.

The estimate is computed on figures referring to the net balance of credit transactions from 1966, which include loans extended to the South under all schemes, to 1972, as after that date the net balance of credit transactions became negative. The estimate starts again from 1974, when the series of the 'new credit extended' began, and continues until 1993.

Figure 7 around here

Figure 8 around here

Figures 7 and 8 confirm the picture provided by the previous section. Even taking into account the more generous conditions attached to soft loans in the South and estimating the 'gift' element within soft loans, the North-West remains the main beneficiary in the post-1976 period.

It should also be taken into account that Southern Italy was entitled to grants in addition to soft loans. Information on grants (presented in table 3) is based on unpublished datasets provided by the MI. As previously mentioned, such datasets include annual information on grants and subsidised loans, approved by the Cassa in the year, but not necessarily extended in the same year, whereas the BoI figures on soft loans refer to credit extended within each year. Nevertheless, an attempt has been

made to give an idea of the total subsidy going to the South, and therefore grants have been added to the net subsidies. The results are displayed in the figure below.

Figure 9 around here

Only if grants are added can the South be said to be the most subsidised area of the country after 1976. However, it received fewer subsidies than the rest of the country considered together, as shown in figure 10.

Figure 10 around here

REQUESTS FOR, AND AVAILABILITY OF, SUBSIDIES

The analysis conducted in the previous sections has shown to what extent the various regions benefited from subsidies. However, whether such a distribution was determined by the applications for, or availability of, subsidised loans has not been explained. Table 2 below addresses this issue using unpublished data provided by the MI.

The MI data set includes information on applications and extension of soft loans through two major schemes, the above-mentioned MI scheme (scheme 623/59) and the DPR 902, introduced in 1976. The latter marked the reorganisation of soft-loan schemes throughout the whole country. Information on these two schemes includes, for each year and region, the number of applications received by the central institutions, the investment proposed and the value of subsidised loans applied for.

Corresponding statistics are provided for approved applications, by year and region, specifying their number, the value of the approved investment and size of the subsidised loan granted. These figures refer to the second stage of the selection. The initial assessment of the investment project was performed by the credit institutions authorised to extend subsidised credit. However, these were under great pressure to accept a large number of projects (VENTRIGLIA, 1980; ID., 1981).

Table 2 around here

Columns 3 and 4 clarify the percentage of MTC and MTC directed to finance investment (MTCi) represented by the MI and DPR 902 schemes. For the period up to 1975 and from 1981 to 1986, the schemes for which data were available represent a high share of the subsidised credit to industry for investment purposes, and therefore the results are most reliable for those periods. The table indicates the degree to which the national institutions in charge of subsidised credit responded to applications for loans. It is clear that a very high share of the applications for subsidised loans was successful, suggesting that areas benefiting less from such schemes were those where less subsidised credit had been sought, with the exception of Southern Italy from 1976 onwards, where far stricter selection criteria were applied after that date.

Table 2 indicates the ability of Southern firms to access only national soft-loan schemes. Southern firms and firms expanding in the South were eligible also for soft loans and grants managed by the Cassa. Figures on Cassa subsidies in table 9 refer to grants and soft loans approved by the Cassa in a given year, rather than those actually awarded. This discrepancy was due to the Cassa's legal permission to grant incentives

beyond its current financial means, and it could thus award sums out of funds that were expected to be available in years to come (VACCARO, 1995). Table 3 demonstrates the trends in both availability of, and applications for, Cassa assistance from 1957. This table is based on a further data set provided by the MI, specifying the number of applications, the value of the investment represented by the applications, the number of applications accepted and the investment represented by successful applications.

Table 3 around here

The data set includes the value of grants (G) and subsidised loans (L) approved by the Cassa (and later the Agency), but it does not include information on the size of subsidies requested by the applicants. It is possible to estimate how much demand was actually satisfied by Cassa subsidies in terms of investment approved as a percentage of investment plans submitted (VA%VS). Moreover, given that the Cassa incentives allowed for assistance (loan and grant together) amounting to a maximum of 85% of the value of the intended investment (70% after 1975), the maximum demand for subsidies can be estimated as 85% (70% after 1975) of the submitted investment (VS). Therefore, the maximum satisfied demand (MSD) can be calculated as explained in the table keys.

The VA%VR and MSD percentage varied considerably, mainly due to fluctuations in the demand (VS). Consistently with the analysis on the BoI statistics, grants and loans (G and L) show a decreasing trend after 1975, particularly evident for the latter. It seems that overall, regional institutions were not able to satisfy demand for subsidies

to a large extent. This made it even more important for Southern firms to be able to access national schemes, the distribution of which has already been discussed.

CONCLUSIONS

This paper demonstrates that despite the emphasis on the Italian government's commitment to the development of the South, a large portion of subsidies for industry was directed to the most prosperous area of the country, the North-West, from the second half of the 1970s. The increase in the availability of subsidies in non-Southern regions of the country in the 1970s has been noted by some authors, but the magnitude of the increase was not known, and neither was the fact that subsidies and soft loans awarded to the North and Centre (considered together) outweighed those given to the South.

Using original MI records, this paper has also assessed to what extent institutions in charge of subsidised credit responded to applications for loans. The issue is covered for the first time in this paper, and it is clear that the distribution of subsidies was driven by the applications for subsidies rather than by their availability. The only exception was Southern Italy from 1976 onwards, the only region where the share of accepted applications for national schemes started to decrease.

It is acknowledged that the changed economic conditions following the oil crisis created a hostile environment for regional policies in various Western European countries. The disillusionment with regional policies led to the redefinition of assisted areas in the UK, which brought about a reduction of those to two-thirds of the area

included in the pre-1978 definition (YUILL *et al.*). In Italy this meant a redirection of resources from regional to national and sectoral schemes. After the 1975 recession, fostering the development of the South was no longer a priority, and the new priority was to boost the national economy and its exports.

The distribution of government funds is a politically sensitive issue. The growing discontent recorded in the North of Italy towards the regional programme and the ruling parties that managed it might have played a role in the diversion of subsidies (D'ANTONE, 1997; CASSON, 1999). Given firms' declining profits, due to high labour costs since 1969, the fourfold increase of oil prices, and increasing taxation, government subsidies might have been used as a balancing mechanism and as an instrument to create political consensus.

These results of the regional distribution of subsidies in Italy are striking when compared to similar work on the UK (MACKAY and WILLIAMS, 2003, McLEAN and McMILLAN, 2003), which broadly confirmed a distribution of identifiable public spending dictated by 'needs' and pointed out only three significant outliers: Northern Ireland, Scotland and London. The Italian case after 1976 seems of far greater proportions, even when considering only identifiable expenditure. Admittedly, this article has not measured the Italian departure from the criterion of 'needs' in a way that is strictly comparable with the studies on Britain. However, it seems that even a less detailed analysis, like the one performed, has thrown clear light on the post-1976 redirection of subsidies away from the South.

Of course, these results raise the question whether this was an efficient use of public resources. It has been argued that expenditure to improve infrastructure, health or human capital where these are poor is more effective than the same amount spent in areas where these are good (MCLEAN and MCMILLAN, 2003). However, evidence suggests that this may not be the case when public expenditure takes the form of credit to industry. In this instance the opposite may be the case, with Northern firms recording higher returns on capital provided by the Italian government than Southern firms. Nevertheless, it might be argued whether government credit was at all necessary for Northern firms, which could have financed themselves on the market (SPADAVECCHIA, 2003).

The new evidence emerging from this paper refines our understanding of the persistence of the North-South gap in Italy. There is wide agreement that the main achievement of the 'extraordinary intervention for the South' lay in preventing the widening of the gap between North and South, rather than in promoting convergence. However, given the regional distribution of subsidised credit and grants shown in this paper, interpreting such a lack of convergence as a 'failure' of the South or of the regional policy does not seem correct. Subsidies to other areas of the country were significant, and this was bound to affect the comparative performance of the South.

APPENDIX

Table 4 around here

Table 5 around here

Table 6 around here

Figure 11 around here

Figure 12 around here

Figure 13 around here

Figure 14 around here

PRIMARY SOURCES

Original datasets provided by the Ministry of Industry in Rome.

MINISTERO DELL'INDUSTRIA, COMMERCIO E ARTIGIANATO:

- Serie storica delle domande di agevolazione industriale nell'ambito dell'Intervento Straordinario per il Mezzogiorno, 1957-1993 – Leggi: 634/57, 717/65, 853/71, 902/76, 657/77, 64/1986.

- Serie storica delle iniziative industriali agevolate (al netto di revoche, respinte o archiviate), nell'ambito dell'Intervento Straordinario per il Mezzogiorno, 1957-1993 – Leggi: 634/57, 717/65, 853/71, 902/76, 657/77, 64/1986.

Regioni: Lazio, Marche, Abruzzi, Campania, Molise, Puglia, Basilicata, Calabria, Sicilia, Sardegna.

Legge 623/59:

- Serie storica domanda pervenute per regione e per anno, 1959-1976.

- Serie storica domande accolte per regione e per anno, 1959-1976.

Regioni: Piemonte, Val D'Aosta, Liguria, Lombardia, Trentino A.A., Veneto, Friuli V. G., Emilia R., Marche, Toscana, Umbria, Lazio, Campania, Abruzzo, Molise, Puglia, Basilicata, Calabria, Sicilia, Sardegna.

DPR 902/76:

- Serie storica domanda pervenute per regione e per anno, 1976-1993.

- Serie storica domande accolte per regione e per anno, 1976-1993.

Regioni: Piemonte, Val D'Aosta, Liguria, Lombardia, Trentino A.A., Veneto, Friuli V. G., Emilia R., Marche, Toscana, Umbria, Lazio, Campania, Abruzzo, Molise, Puglie, Basilicata, Calabria, Sicilia, Sardegna.

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Table 1: Geographical distribution of subsidised MTC, 1953-1965 (annual average, bn, 1980 lire)

1953-56	North-W	North-E	Centre	South	Italy
bn lire	48.4	23.7	26.6	19.8	118.5
% Italy	40.8	20.0	22.5	16.7	100
1957-65					
bn lire	152.7	119.4	113.6	252.4	638.1
% Italy	23.9	18.7	17.8	39.6	100
1966-70					
bn lire	771	365	421	1,240	2,797
% Italy	27.5	13.1	15.1	44.3	100

Sources: MEDIOCREDITO CENTRALE (1962); PERGOLESI (1988) p. 302; BANCA D'ITALIA c (1967-1971).

Table 2: Subsidised MTC granted as a percentage of subsidised MTC applied for

	Scheme	S% MTC ^a	S % MTC ^b	North-w	North-e	Centre	South & Islands	Italy	Italy Inv ^c
1953-55	MTCI	100 ^d	100 ^d	87.6 ^d	92.6 ^d	82.4 ^d	98.7 ^d	88.4 ^d	n.a.
1957-65	MI	n.a.	48 ^e	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1966-70	MI	50	n.a.	100	100	99.6	99.7	99.8	99.9
1971-75	MI	28	46	95.8	96.6	97	95.8	96.3	97
1976-80	MI	14	39	83.7	78.2	79.13	83.1	81	85.8
	DPR 902 ^f	3 ^f	14 ^f	56.4 ^f	69.9 ^f	72.5 ^f	^g	66.3 ^f	65.5
1981-86	DPR 902	9	44	89.3	81	83.5	75.3	82.3	86
1987-93	DPR 902	3.2	17	88.3	90.9	94	51	81	87

Keys: a= Scheme as % of total MTC; b= Scheme as % of MTC to investment; c= Value of investment approved as % of investment projects submitted, national average; d= from 1953 to 1955, as only for those years was information on applications provided; e= as a percentage of subsidised and non-subsidised medium term credit to industry (1961-64), as these are the only figures published by the Bank of Italy in these years appropriate for comparison; f=1978-80 only, as the scheme DPR 902/76 became operational in 1978; g=no requests for loans were reported from the South.

Sources: MEDIO CREDITO CENTRALE (1955) for data on MTCI scheme; data obtained from the MINISTRY OF INDUSTRY for MI and DPR 902 schemes; BANCA D'ITALIA a and b (various years) for total subsidised credit and subsidised credit to investment. All data were calculated into constant 1980 lire before the percentages were calculated.

Table 3: Cassa subsidies to Southern Italy (annual average, bn lire 1980)

	AS	VS	AA	VA	G	L	VA%VS ^a	MSD ^a
1957-65	1000	1135	448	289	42	98	25.47	14.46
1966-70	1073	2116	1043	1550	252	373	73.23	34.79
1971-75	2712	8067	1219	3167	548	584	39.26	16.51
1976-80	2017	2,456	1557	1673	436	449	68.13	51.45
1981-86	2763	2181	1745	961	334	276	44.06	40.00
1987-93	4315	4508	1865	1426	506	373	31.62	27.85

Keys: AS=Applications for subsidies submitted to the Cassa; VS=Value of the investments represented by applications submitted; AA=Applications accepted by the Cassa; VA=Value of investments represented by successful applications; G=Grants given by the Cassa; L=Loans extended by the Institutions. MSD=Maximum satisfied demand, calculated as $(G+L)/0.85VR$ until 1975 and as $(G+L)/0.7VR$ after 1976; a= overall period.

Source: Calculations on data provided by the MINISTRY OF INDUSTRY.

Table 4: Soft loan scheme 902/76

Area ^a	Firm size ^b	Max. invest.	Coverage ^c	Period	Interest (% R. R) ^d
South		15 bn*	40%	15	30
Centre (underd)	< 5 bn	7 bn	60%	10	40
North (underd)	<4 bn	3 bn	60%	10	40
Elsewhere	<2 bn	4 bn	50%	10	60

Keys: a= Italy was subdivided into four areas= 1) South; 2) underdeveloped areas in the Centre; 3) underdeveloped areas in the North; 4) the rest of the Centre and North; b= firm size expressed in fixed assets; c= coverage as a percentage of investment; d= Interest rate as a percentage of the reference rate;

* abolished in 1977.

Sources: PERGOLESI (1988), p. 63 (columns 1 to 4); RONZANI (1980), pp. 142-144 (columns 5 and 6).

Table 5 Scheme 657/77

	Size invest	Coverage ^a	Period	Interest ^b
South		70	15	15-30
Elsewhere:				
Restructuring	<2bn	60	10	30-60
	>2bn	50		
Reorientation		40		

Keys: a= coverage as a percentage of investment; b=interest rate as a percentage of the Reference Rate.

Sources: PERGOLESI (1988), p. 65 (columns 1 to 3); BANCA D'ITALIA c, (1978), p. 163 (columns 4 and 5).

Table 6: Cassa grant schemes after 1976

Investment (bn current lire)	Coverage (% investment)
0.2-2	40
2-7	30
7-15 ^a	20
> 15 ^a	15
> 7 ^b	20 (on the quota exceeding 7 bn)

Keys: a=until 1978; b=from 1979

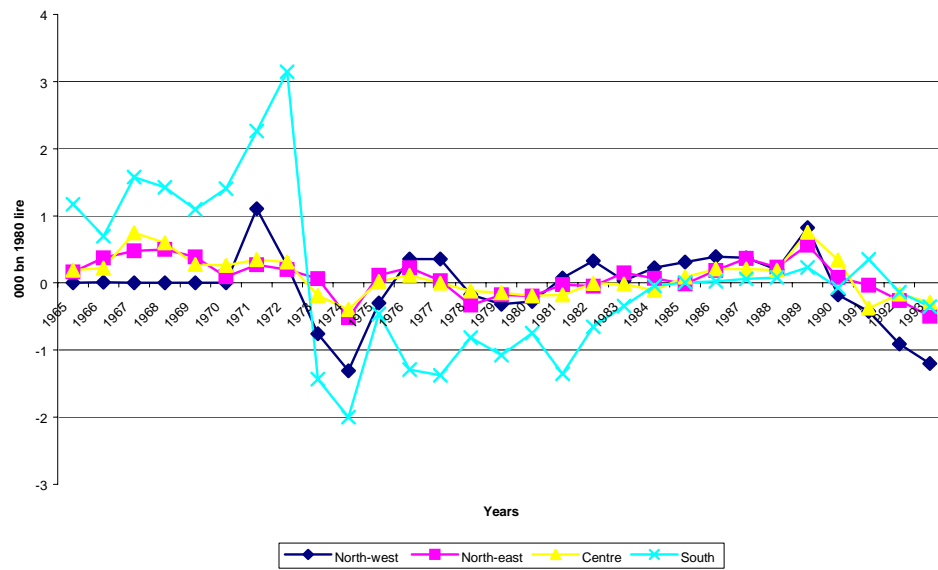
Source: PERGOLESI (1988), p. 61.

Figure 1: The regions of Italy



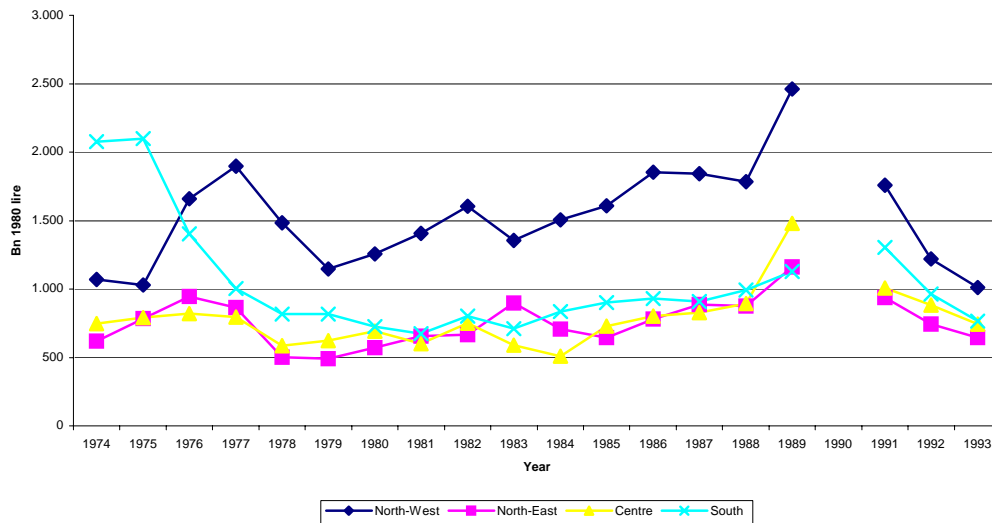
Keys: the National Bureau of Statistics (henceforth Istat, Istituto Nazionale di Statistica) divides Italy into: North-West= Piedmont, Valle d'Aosta, Lombardy and Liguria; North-East= Trentino-Alto Adige, Veneto, Friuli Venezia Giulia, Emilia Romagna; Centre= Tuscany, Umbria, Marche, Lazio; South= Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria; Islands= Sicilia and Sardegna.

Figure 2: Regional distribution of subsidised MTC, 1966-1993, net balance of credit transactions (000 bn 1980 lire)



Sources: BANCA D'ITALIA (1966-1971c); BANCA D'ITALIA (1971-1983a), and BANCA D'ITALIA (1984-1993b).

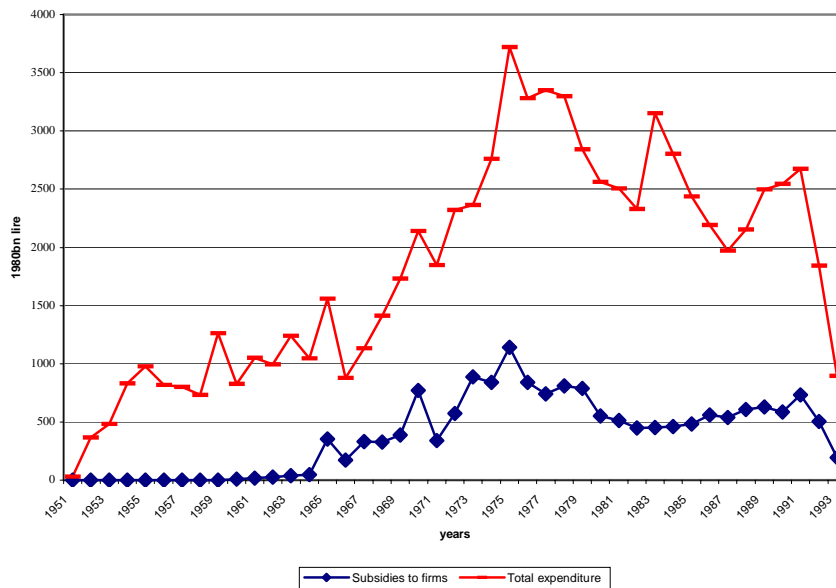
Figure 3: Regional distribution of subsidised MTC, 1974-1993 (new credit extended, bn 1980 lire)



Note: the BoI statistics on new credit extended in 1990 are incomplete. These provide information only for the last quarter.

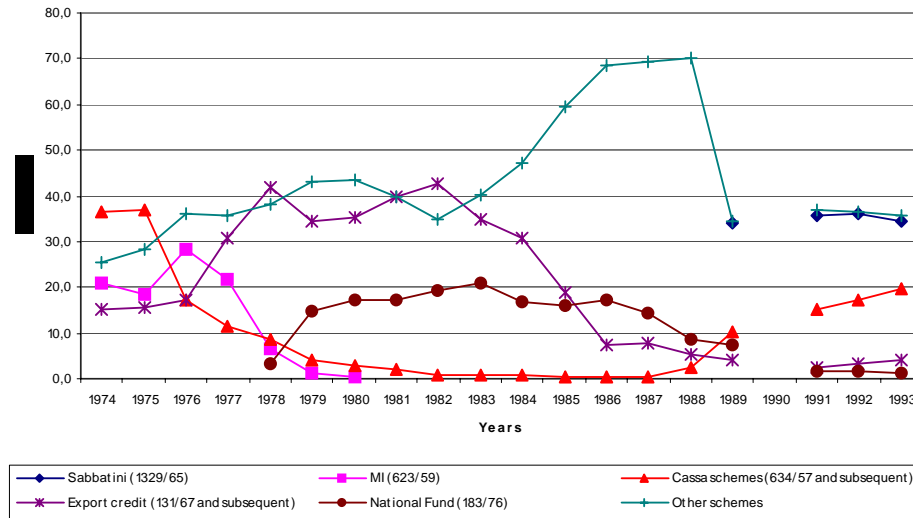
Sources: BANCA D'ITALIA (1971-1983a); BANCA D'ITALIA (1984-1993b).

Figure 4: Real expenditure of the Cassa, 1951-1993



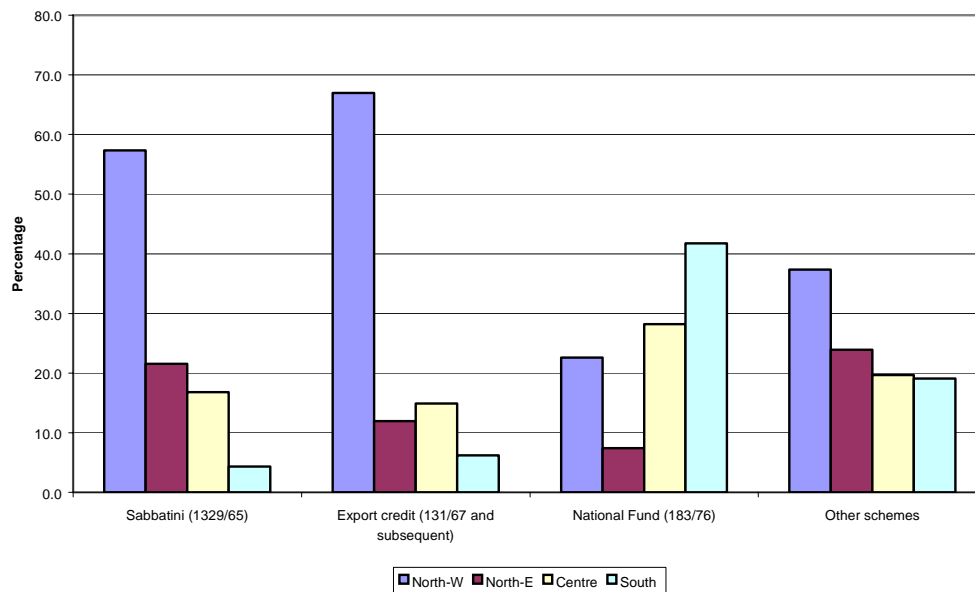
Source: CASSA PER IL MEZZOGIORNO (1951-1993).

Figure 5: Composition of subsidised credit, new credit extended, 1974-1993



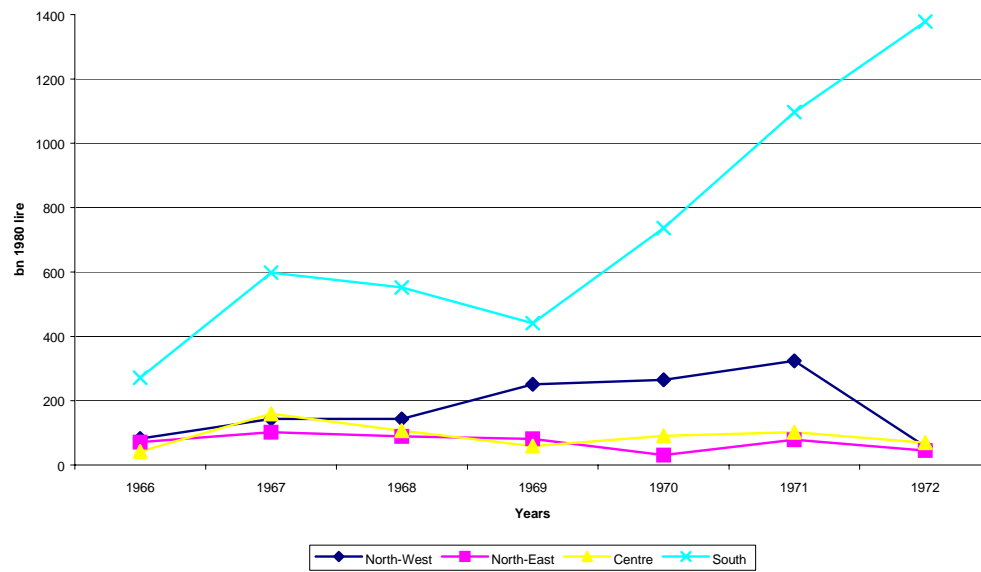
Sources: BANCA D'ITALIA (1971-1983a); BANCA D'ITALIA (1984-1993b).

Figure 6: Regional distribution of schemes receiving increasing funds after 1976



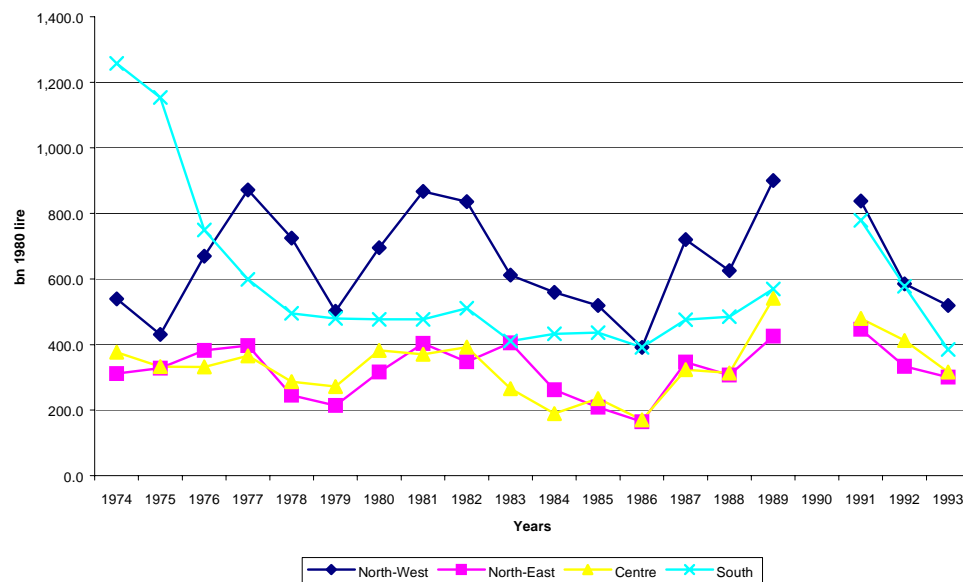
Sources: BANCA D'ITALIA (1971-1983a); BANCA D'ITALIA (1984-1993b).

Figure 7: Geographical distribution of net subsidy within soft loans, 1966-1972 (estimate based on the net balance of credit transactions, bn 1980 lire)



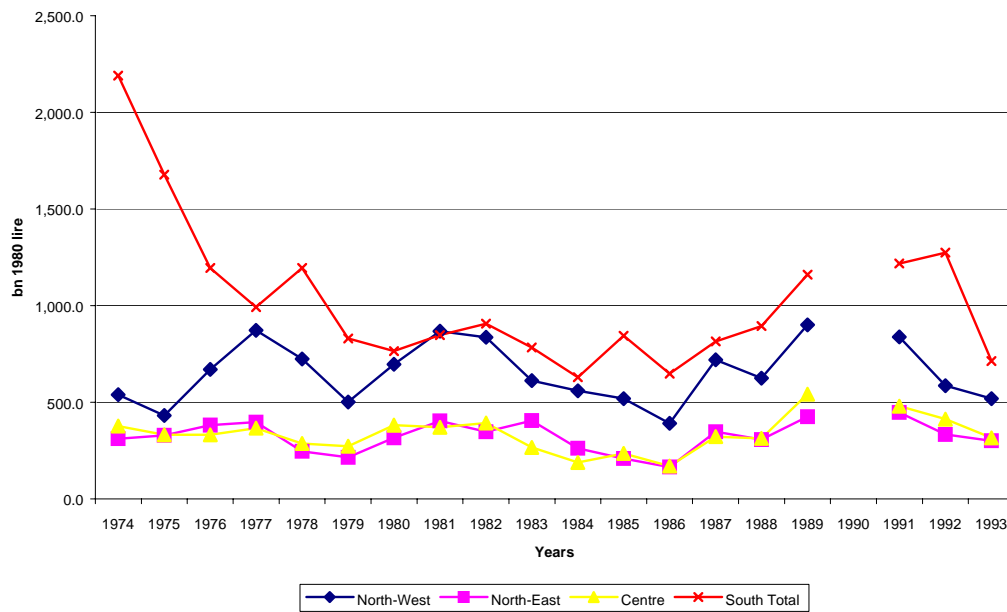
Source: estimations on BANCA D'ITALIA (1966-1971c).

Figure 8: Geographical distribution of net subsidy within soft loans extended, 1974-1993 (estimate based on the amount of new credit extended, bn 1980 lire)



Source: Estimations on BANCA D'ITALIA (1971-1983a); BANCA D'ITALIA (1984-1994b).

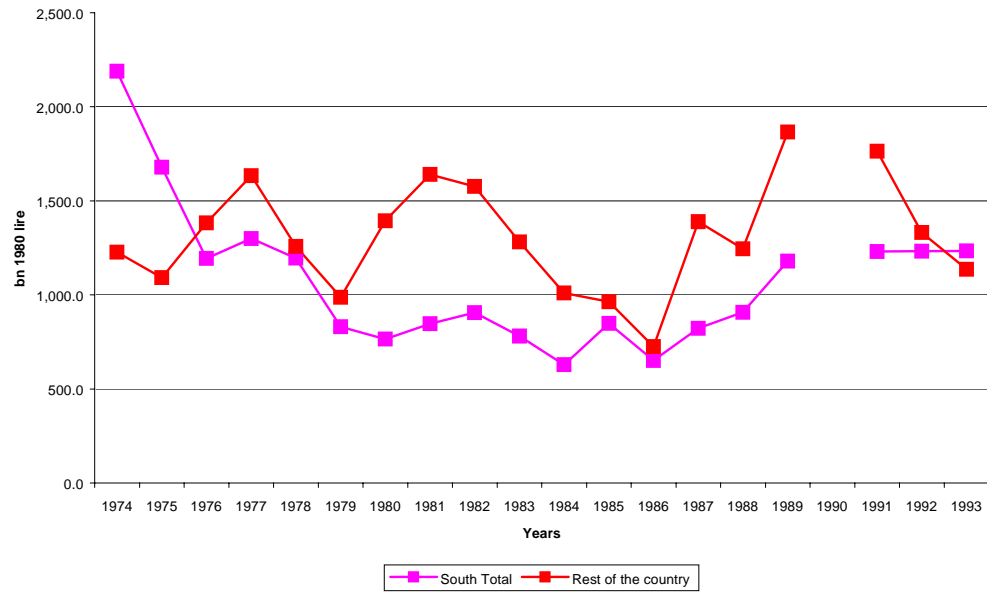
Figure 9: Geographical distribution of estimated total subsidy, 1974-1993 (bn 1980 lire)



Key: Tot South= estimated total subsidy to the South, calculated as annual net subsidy plus annual total value of grants approved by the Cassa.

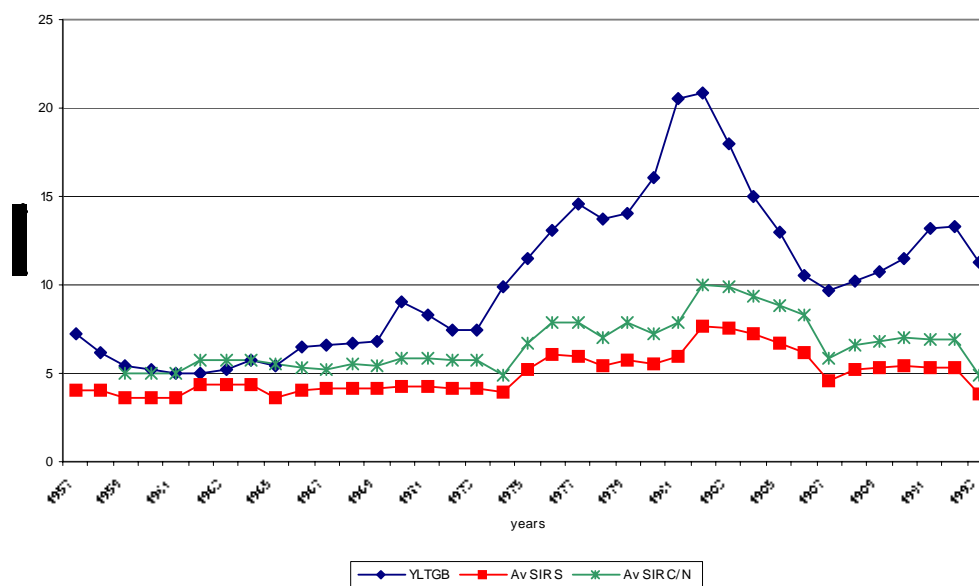
Source: Estimates based on data from BANCA D'ITALIA (1971-1983a); BANCA D'ITALIA (1984-1991b); datasets provided by the MINISTRY OF INDUSTRY.

Figure 10: Estimated total subsidies in the South as compared to the rest of the country, 1974-1993 (bn 1980 lire)



Source: as for figure 9.

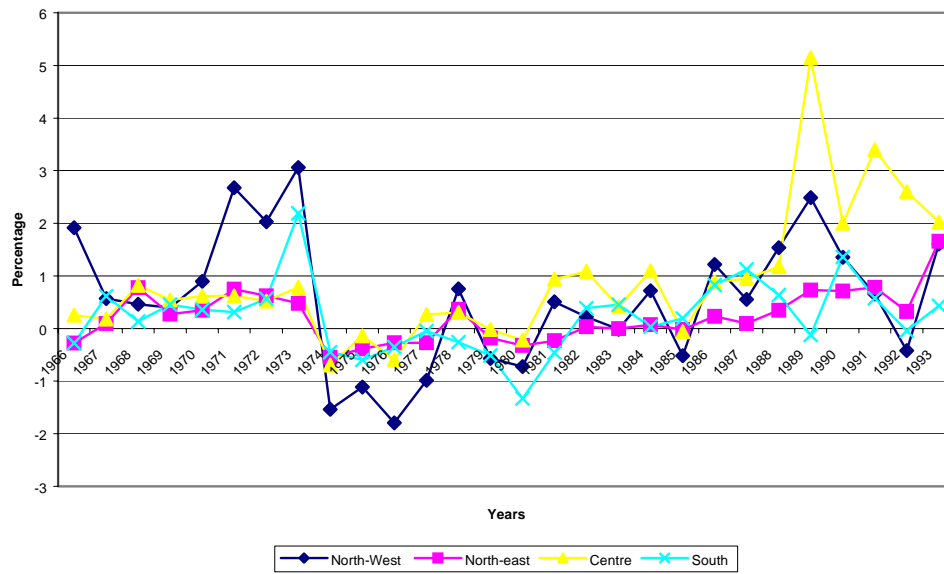
Figure 11: Average subsidised interest rates and yields on long-term government bonds, 1957-1993 (nominal figures)



Keys: YLTGB= yields on long-term government bonds; Av SIRS= estimated average subsidised interest rate in Southern Italy; Av SIRC/N= estimated average subsidised interest rate in the Centre and North.

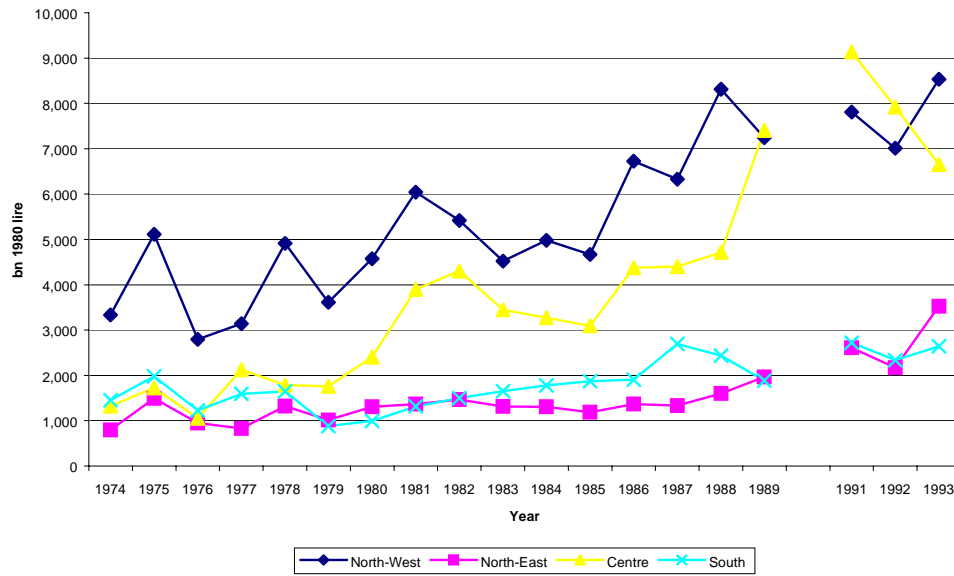
Sources: CASSA PER IL MEZZOGIORNO (1951-1986); BANCA D'ITALIA (1966-1994c); MEDIOCREDITO CENTRALE (1962-1970); GAROFALO and COLONNA (1998), pp. 702-703; OECD (1970-1979a); OECD (1981b); IMF (1995).

Figure 12: Regional distribution of ordinary MTC, 1966-1991, net balance of credit transactions (000 bn lire)



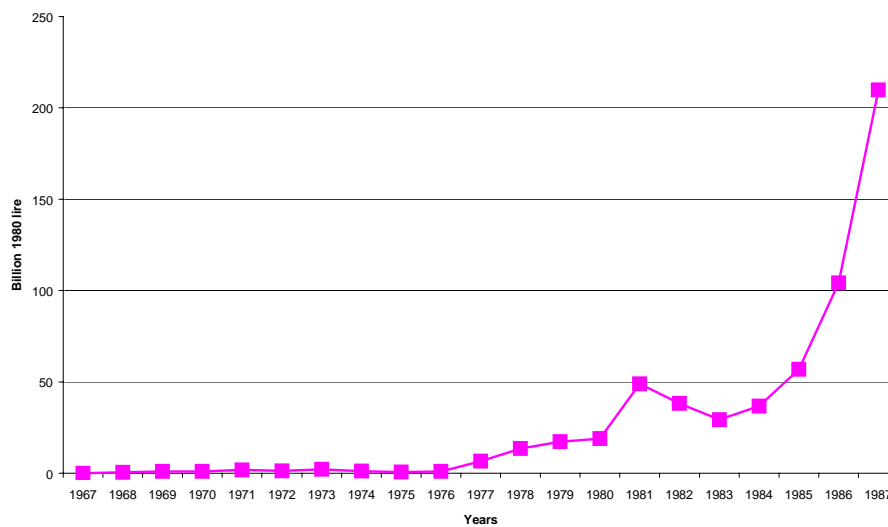
Sources: BANCA D'ITALIA (1966-1971c); BANCA D'ITALIA (1971-1983a);
BANCA D'ITALIA (1984-1995b).

Figure 13: Regional distribution of ordinary MTC, 1974-1993 (new credit extended, bn 1980 lire)



Source: BANCA D'ITALIA (1971-1983a); BANCA D'ITALIA (1984-1994b).

Figure 14: Sabbatini scheme (1329/65), subsidised credit extended, 1967-1987 (bn 1980 lire)



Source: CERS-IRS (1989), p. 240.

