

**The London School of Economics and Political  
Science**

*The Impact of Regionalisation and Europeanization on  
regional development policies in Italy: Policy  
Innovation and Path Dependence*

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## *Abstract*

*Scholars have proposed and investigated a view of social relations as social networks and therefore the role of public policy in creating new networks and new social and economic relations.*

*Are different incumbent institutional settings a relevant variable to explain different regional policies responses to Regionalization and Europeanization? I will address this question with regard to the regional policy that was initiated in Italy in 1950 and that represented the country's attempt to improve its economic and geographic cohesion.*

*The hypothesis is that, within a devolution process, different adaptation to regionalization and Europeanization pressures are correlated to "path dependence" from incumbent institutional settings. Specific attention is dedicated to the role of "paradigms" in the processes analysed. This, in turn could generate different devolution outcomes, in terms of discrepancy between formal and effective outcomes.*

*Devolution is analysed in terms of institutional change and policy (regional policy) change. Institutional change is operationalized in terms of changes in polity and administrative variables, and policy change is investigated through variables representing formal (policy issues, i.e. design and responsibility) and effective (financial, i.e. uses and sources) dynamics under the two different pressures for change identified: regionalization and Europeanization of regional policies.*

*The research proposed is pertinent and important in the context of European integration where national policies have been restructured due to, on the one hand, regionalization—i.e., the transfer downward to the sub-national level—of policies formerly handled at the national level and, on the other, "Europeanization" or the transfer of policies upwards to the European level.*

*This thesis investigates the dynamics of the "paradigm and policy shift" that took place within Italian regional policy between 1950 when the policy began and 1992 when the policy was officially terminated due to a dual transfer of the policy upward to the European level with the co-financing of cohesion policy and the transfer downward to the role of the regions as management authorities for the operational programmes that were responsible for the bulk of Italian regional funds.*

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# 1. CENTRAL GOVERNMENT RESPONSES TO REGIONALISATION AND EUROPEANIZATION

## 1.1. The restructuring of national policies

In 2009 Peter Hall observed that public policies have a number of impacts on their target community. First of all, they redistribute resources; secondly, they create incentives for, or sanctions against, certain types of behaviour. Thirdly, public policies have an impact on the emotional or psychological health of the individual and the ability to undertake certain activities. Finally, public policies have a significant effect on socio-economic (encompassing social, economic and inter-governmental institutional) relations by creating “resources” for resolving problems. Hall goes on to cite Robert Putnam’s work (2000 and 1993) on social capital to propose a view of social relations as networks and therefore the role of public policy in creating new networks and new social and economic relations.

The research addresses these issues with regard to a policy that was initiated in Italy in 1950—the “extra ordinary interventions in Southern Italy”, commonly referred to in Italian as the Cassa per il Mezzogiorno or in English as the Fund for the South—that represented the country’s attempt to alleviate the depressed socio-economic conditions in Italy’s eight southern regions. In terms of policy making, the creation of the Fund for the South represented the initiation of a regional development policy based on an initiative taken at the national level. The Italian government’s centralized regional development policy incorporated a clear development paradigm; it created dedicated institutions; it brought into existence specific political dynamics to generate and access financial resources; it created certain social, economic and political expectations on the part of the beneficiaries of the policy; and it nurtured the development of a policy community and a particular system of governance linking various institutional levels engaged in the decision making and implementation procedures associated with the policy. After 1950, a number of reforms were introduced that directly or indirectly affected the policy in terms of institutional structures and policy responsibilities. Among the reforms that need to be considered in relation to the policy are: 1) introduction of political considerations in the management of the policy during the 1950s and 1960s; 2) the shift in the objectives of

the policies in the 1960s and 1970s; 3) the creation of a nation-wide regional government structure in the 1970s that was given responsibilities in the area of regional development by the Constitution and enabling governmental decrees; 4) the change during the 1980s of the development paradigm best suited to provide for regional growth based on the new paradigm emphasizing the role of small and medium enterprise as the motors for diffused forms of socio-economic development; 5) the introduction of a European regional policy through the initiation of the EU's cohesion policy in 1989; and 6) the abolition in 1992 of the national government's policy of extra-ordinary interventions in Southern Italy.

According to the logic described in Hall's 2009 article these changes should have affected the networks and socio-economic relations brought into existence at the beginning of the 1950s with the initiation of the centralized regional policy and generated changes in the interactions and governance of the policy. New actors—in this case, the regions and the EU— were incorporated into the incumbent national policy during the 1980s and then joined the national government in the 1990s as the important actors in the formulation and delivery of regional policy in Italy. As a consequence, one would expect the old networks and socio-economic relations to react to the paradigm shift and policy changes that took place during the decade by: 1) simply ceasing to exist, 2) mutating and adapting to the policy shift, or 3) finding a new policy vessel to maintain the existing networks and socio-economic relations.

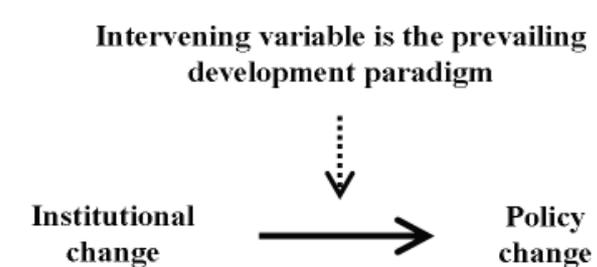
These are all issues that need to be addressed if we are to understand not only policy making but also its opposite—the un-making of policy-- and how existing policy networks, institutions and socio-political-economic relations respond to challenges posed by policy change. In this context, the thesis will look at the role that the political, economic and social logic of “path dependence” plays in keeping the policy networks and social relations alive. For this purpose it will look at different types of literature: from institutionalism to policy making, from regionalism to Europeanization and from path dependence to policy/institutional change.

The reasons why regionalization and Europeanization caused a shift in the direction and management of the policy have to be sought in the constitutional basis of regional policy making and implementation in Italy and in the declining role of national governments in unilaterally deciding economic policy. The thesis will argue that regional policy is a fundamental part of economic policy, and therefore any shift

in the manner in which economic policy is decided and implemented (e.g., Single Market programme) will have an impact on regional policy.

The context that is important for any analysis is the prevailing paradigm (i.e., model) of regional development that is dominant not only in the academic literature but also at the policy making level that then guides the choice of institutional structures selected to activate a particular policy. In the case of Italian regional policy the change took place between a “Fordist” approach (Perroux, 1954; Myrdal, 1957) emphasizing the role of industrialization based on the creation of vertical and capital intensive industries to an “industrial district” (Piore and Sable, 1984) approach that emphasized the role of diffused forms of small and medium sized enterprises in achieving economic development. The heart of this thesis is not to try to explain why the regional development paradigm shifted. That shift is taken as a given within the theoretical and political contexts during the last fifty years. What the thesis wants to concentrate on is the impact of the institutional change with the introduction of regional level institutions that was politically and constitutionally driven during the immediate post-war in the Italian political system on national regional policy and the emergence of new policy choices during the 1980s and 1990s. The hypothesis of the thesis is that this institutional change in the final analysis created the basis for transforming Italian regional policy; the institutional change also helped the political system to acknowledge the failure of the previous national regional policy and the need to change it. The change in the development paradigm during the 1980s also eased the shift from a centralized regional development policy to a decentralized one emphasizing the role of the regions rather than the nation state in achieving regional development. Figure 1 presents the logic behind the research and the important variables to be analyzed:

**Figure 1: Research approach and intervening variable**



As Figure 1 illustrates, the research is focused on the role of institutional change in promoting policy change, and the change in the prevailing development paradigm operates as an intervening variable in facilitating the change in policy.

The figure also illustrates the fact that, theoretically, in the presence of a paradigm shift there may or may not be a parallel change in institutions or policies. This model can also be used to analyze the shift in regional policies and modifications in institutional structures in other European Union member states that do not possess such a constitutional institutional imperative as existed in Italy.

**Figure 2: The paradigm shift in the prevailing regional development paradigm and the implications for institutional and policy changes**

		Policy change	
		YES	NO
Institutional Change	YES	Functional Balance	Mismatch/ incoherent
	NO	Block Break/ Ad hoc solutions	Stagnation

Figure 2 identifies four possible and different outcomes that may arise from the change in the prevailing development paradigm and its implications for institutions and policies. The first is both an institutional as well as a policy shift to maintain a functional balance among the institutional setting, policy requirements and development paradigm. The second possible response is that despite the paradigm shift there is no institutional or policy change. This combination leads to policy stagnation and profound incoherence in the management of the policy and an inability to learn how to adapt the regional policy to socio-economic needs. The third and fourth solutions provide two interesting possibilities. When policies change and institutions do not, the result is the adoption of temporary solutions to the problems of policy implementation but these solutions are not “permanent” and exist as long as the funding is available. Once the funding dries up, so do the institutions.<sup>1</sup> The second possible response of where the policy does not change but the institutions do is also

<sup>1</sup> An example of this case, can be identified in the solution found by the Irish government in creating planning regions for the remaining areas in Objective 1 when the rest of the country exited during the 2000-2006 planning cycle. See Nicholas Rees, Brid Quinn and Bernadette Connaughton, “Ireland’s Pragmatic Adaptation to Regionalization: The Mid-West Region”, *Regional and Federal Studies*, Autumn 2004, pp.379-404

inherently unstable due to the fact that the policy is out of alignment with the institutions. The most likely outcome is the shift in the policy brought about by the political pressure delivered by the institutions to decision-making bodies with the power to shift the locus of policy decisions and implementation responsibilities.

Even if initially the attention of the thesis is focused on institutional change, the issue of policy change is also fundamental to the research. As observed by Guy Peters (1997) change has not always been adequately dealt with by the literature on institutionalism. Instead, this thesis will also look at issues involving: if an important public policy is changed, this will not lead automatically to the transformation of the policy networks or socio-economic-political relations connected with the policy or even the cessation of the flow of resources to the social relations and networks responsible in the past for the delivery of the policy and currently no longer in the centre of the policy process. In essence, the thesis proposes that in some or even in all cases these networks and social relations will resist the policy change and strive to survive within a new policy context and maintain the existing social relations and policy networks.

The hypothesis is even more pertinent and important in the context of European integration where nation-states and national policies have been restructured due to, on the one hand, “Europeanization” or the transfer upwards to the European level and, on the other, regionalization—i.e., the transfer downward to the sub-national level—of policies formerly handled at the national level. In both cases, as part of the process of transferring policies upward or downward, the national policy d has been substantially reduced—in terms of the allocation of resources and support of policy networks and social relations.

This aspect of significant policy change has only minimally been treated in the Europeanization and regionalization literature. Little consideration is given to how the national level responds to the policy transfers in terms of path dependence or policy shifts. Keating (2003) has argued that: “Regionalism and European integration have posed twin challenges to the nation-state in Western Europe” and have significantly changed state behaviour. By developing simultaneously in the post-war era, both innovations have had a political and an economic dimension and challenged the role and functions of existing national institutional structures, specifically with respect to the policy roles of central governments. The challenge, and the inherent pressure for change, is twofold, and as Keating (2003) maintains, there should be “at first glance a

contradiction between the two trends”: European integration takes matters to a supranational level, while regionalism is concerned with strengthening the sub-national level. It will be argued that in relation to regional policy there are elements of consistency and mutual reinforcement in the two movements, and it is the combined impact of these two institutional changes on regional policy that is of importance to the dual nature of the regional policy shift.

### 1.1.1. Regionalisation and regionalism

With regard to regionalization the thesis makes an explicit distinction between that concept and regionalism. From the perspective of the thesis, regionalism is a broader political phenomenon that has clear policy implications, and it is put into motion by both economic and political impulses. Regionalism is characterized by the creation of regional institutional structures capable of undertaking policy making and implementation in a form that is autonomous from national political and administrative considerations. During the 1960s, 1970s and 1980s regionalism has taken two forms (1) 'top-down regionalism' in the formulation of national regional policies that set out to create regional administrative structures to carry out the policy and (2) 'bottom-up regionalism' that aimed at the creation of regional political institutions capable of undertaking both policy making and implementation.

In the 1960s, many European states adopted regional development policies as an extension of schemes of national and sectoral planning. Economically, these were justified in terms of the need to tap under-utilized resources in peripheral and declining regions and thereby increase national output. Politically, they served to enhance national solidarity and secure support from peripheral regions for the State or for the party in power. Such development policies were presented as positive-sum games in which all could win, the depressed regions could gain through the transfer of resources and the initiation of growth, the advanced regions could gain through larger demand for restricted resources, and the national economy was enhanced through the creation of additional output and an easing of inflationary pressures. Regional policies also helped national governments to economically and politically integrate their peripheral territories, strengthen national unity and legitimize the expanding role of the State.

Gradually, as national governments saw the need to institutionalize regional policies and involve regional political and economic leaders in their elaboration and implementation, regional development became more politicized. Tensions arose between the central, top-down perspective and pressures arising from within regions demanding a more direct participation in the decision-making process.<sup>2</sup> The tension between this indigenous regionalism and State regional policy became more acute in the 1970s as central governments, giving increased priority to national competitiveness in the global market, found it more difficult to plan their spatial economies in a global perspective and therefore began to reduce regional policy expenditures. At the same time, though, they became more open to the demand to create autonomous regional institutions in response to calls for greater political participation on the part of citizens and responding to the demand to bring “power closer to the people” and a gradual shift in the development paradigm. By the 1980s the efficacy of the old models of top-down territorial development through national planning and interventions was being placed into serious question.

Since the 1970s regions have also become increasingly important as a level of government, though the experience varies greatly. In France and Italy, national governments established regions slowly over a period of years, proceeding from mere consultative organs, to indirectly elected, then directly elected regional councils, and then conceding powers and functions to the new regional bodies. National governments have over the past three decades conceded more power to sub-national governments, but they have done so only reluctantly and as a result of significant pressure being applied on the national political and administrative elites.

In Italy although the creation of a national network of regional government was stipulated in the 1948 Italian Constitution, it was not until the beginning of the 1970s that the “ordinary-status” regions came into being adding fifteen regions to the already existing “extraordinary” regions created in the immediate post-war period to ease tensions with linguistic and ethnic minorities in the two islands (Sicily and Sardinia) and along Italy’s northern border (Val d’Aosta, Trentino-Alto Adige and Friuli-Venezia Giulia). In France, the process, started in 1982, and was brought to completion with the regional elections of 1986 through the creation of a homogenous national

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<sup>2</sup> In the conception of institutional change advanced in this thesis what is important is not only the creation of new institutions (in this case, regional governments) but the consolidation or institutionalization of this new institutions in certain policy areas. In Italy and Spain this institutionalization process was relatively quick. In France regions have had more difficulty in becoming the primary institutions involved in regional policy.

system of twenty-two regions. In Spain and Belgium the creation of regions and autonomous communities are more a response to demands from within the regions themselves. In Spain a regional structure was introduced into the 1978 Constitution and the seventeen regions came into existence upon the ratification of the Constitution but special conditions of autonomy were attributed to the Basque Country, and to the Catalanian and Galician nationalities. In Belgium the three regions took a longer time to develop into autonomous cultural communities through a series of constitutional reforms that in 1990 created a de facto federal system of government. The German Basic Law of 1949 provided for a federal system in response to both pre-Prussian German local government traditions and to the insistence that a centralized state structure be prevented from being created as part of the accord to lift the Allied occupation. In the United Kingdom, a revival of historical pressures from the periphery led the Labour Government of 1974-9 to propose elected assemblies in Scotland and Wales but opposition in Parliament and a defeat in the Scottish referendum brought that experiment to an end. The effort was renewed in 1997, and it led to the creation of the Scottish Parliament and the Welsh Assembly. Since then, efforts to create regional governments within England have been defeated. Denmark, Ireland, the Netherlands, Greece, and Portugal likewise remain centralized, though pressures for decentralization exist, reinforced by the process of European integration. Portugal did create a system of asymmetrical regionalism with the introduction of regional governments in the two island regions--Azores and Madeira—while the attempt to create a regional government system in continental Portugal was defeated in 1998. The other countries cited above have introduced regional administrative bodies for the purpose of administering European Structural Funds that finance the EU's regional development policy.

In centralized states, without regional political institutions, it is extremely difficult for regional interests to articulate their demands outside of the centralized political structure or to achieve some form of voice in European policy making. The exception to this rule has been provided by the creation of the Committee of Regions in 1993 as part of the implementation of the provisions of the Maastricht Treaty. In the ratification of the Maastricht Treaty it was established that representation in centralized nation-states would be reserved to directly elected local authorities while in countries with formal regional governments the region would be represented in the Committee.

Prior to the creation of the Committee of Regions national governments had insisted that participation in European affairs in Brussels represented an aspect of foreign policy and therefore remained the exclusive responsibility of central government. Prior to 1993 in both Spain and Italy there was a growing tension between the regions and the national government over the ability of the regions to be represented in Brussels given that they had direct responsibility since 1989 for managing the EU's regional policy created by the 1986 Single European Act. What emerged after 1989 was a struggle for the control of the regional policy instrument among the Commission, member states, and regions with the member states conducting a rearguard action to slow down the full implementation of the EU regional policy and salvage their own national regional policy prerogatives. As Goldsmith (2003) has suggested, the creation of the European Union, and the associated process of economic, political, and social integration that has accompanied it, has changed the nature of nation state and sub national politics as it had been known for at least two centuries, and Leonardi (2005) argues that the policy with the most impact on state-regional relations has been the EU's regional policy, officially referred to as the "cohesion" policy.

This thesis will address the processes of regionalization and Europeanization from the perspective of (public) policies "as the principal vehicle for a government's action". The thesis would accept Hall's (2009) contention that public policies do not simply redistribute resources or enforce specific modes of behaviour but that they also restructure social relations and administrative behaviour over time. Therefore, to change policy structures and rearrange resource distribution requires time and effort due to the need to create new institutions and policy processes and to dismantle the previous ones. Inevitably, the time necessary to put into place the new policy and to dismantle the old one may require that the two policies plus their networks and socio-economic relations co-exist over time even if their approach and interests are diametrically opposed to each other. It is also conceivable that the old policy may never be abandoned and will continue to survive under the new paradigm due to the unacceptable social and political costs associated with its termination, whereas from an economic perspective (i.e., in terms of cost and effectiveness) the termination of the previous policy and funding only the new policy are the only rational alternatives available for policy makers.

### 1.1.2. Europeanization

Following Redaelli (2003) the thesis will consider Europeanization as the emergence and development at the European level of distinct structures of governance—i.e., of political, legal, and social institutions associated with political problem-solving that formalize interactions among the actors—and of policy networks specializing in the creation of authoritative European rules. Ladrech (1994) argues that Europeanization is an “Incremental process re-orienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national politics and policy-making”. Ladrech refers to the processes of construction, diffusion, and institutionalization of formal and informal rules, procedures, policy paradigms, styles, and “ways of doing things”. This definition stresses the importance of change in the logic of political behaviour. Europeanization involves the domestic assimilation of EU policy and politics; hence the definition refers to processes of institutionalization (Stone Sweet et al. 2001).

Alongside with Redaelli (2003) the study of Europeanization can be approached by pursuing the answers to the questions “what”(i.e. the domains where the changes actually take place) and “to what extent”? (i.e. the extent and direction of change). In the case of Europeanization there are some policies that are “completely” Europeanized in terms of rule making, resource allocation, and management (e.g., Single Market, Single Currency, competition and foreign trade) while other policies are only “partially” Europeanized, such as transport, environmental protection, research and development). Finally, there are some policies that are only “minimally” Europeanized due to the fundamental intergovernmental nature of the rules, resources and management provisions. Here, we find policies dealing with immigration, justice, foreign policy and defence (Leonardi and Nanetti, 2007). The Europeanization of public policy can take different forms. In principle, it can affect all of the elements of public policy, such as actors, resources, and policy instruments, and theoretical policy analysis has produced a number of propositions and hypotheses on the more specific question of policy change. The problem is that casting the discussion of Europeanization exclusively in terms of its effects leads to a serious risk of prejudging the significance of the EU variables. The emphasis on effects, indeed, should be accompanied by a contextualisation of Europeanization and by an explicit treatment of causality. As Redaelli suggests the focus on Europeanization can produce serious fallacies when it leads the researcher to adopt a top-down logic in which the only aim

is to find out the domestic effects of independent variables defined at the EU level. In this top-down perspective, the problem of domestic policy-makers is all about putting into practice—or 'absorbing'—EU policy rather than looking at the other aspects of national reactions to the EU policy or how this reaction differs from one policy area to another or from one country to another.

The implication of this approach is that the researcher will trace only one line of events in domestic policy rather than looking at how national policy structures react and mutate their policies in response to the European stimulus. Drawing upon Elmore's (1981) suggestion for bottom-up research, the thesis will look at the individual and institutional choices 'that are the hub of the problem to which policy is addressed, to the rules, procedures, and structures that have the closest proximity to those choices, to the policy instruments available to affect those things' (Elmore 1981). It is in the context of domestic choices made 'at the hub of the problem' that one can see if and when processes of change play a role in the logic of economic policy making, and where the research is located in addressing the role of path dependence in guiding the reaction of central governments to pressures for change.

In terms of substantive change, the academic debate is still open on a number of critical issues, such as whether Europeanization is producing substantive convergence in institutional structures and behaviour. Current research points to a differential Europe response or clustered convergence: with some countries exhibiting similar outcomes, while others do not—hence the result of differentiated clusters as reported by Börzel and Risse (2000) and Börzel (2001).

Further research on European policies needs to make a clear distinction between policy outcomes and policy processes (Börzel and Risse 2000). In some countries and some policy areas, the Europeanization of policy has triggered processes of transformation of the state. This thesis will follow Redaelli's proposals, according to which there is the need "to intensify research at the policy level and to start thinking of Europeanization less in substantive terms (i.e. as an end-state) and more in process terms". This research will deal with disentangling the causal links that have produced in the institutional and policy settings in Italy's policy toward the Mezzogiorno as an outcome of these pressures.

## 1.2. Regional Policies at the National and European Level

The thesis will be focussing on regional policy as a case study of policy making and un-making because in the Italian experience; it covers a number of the important aspects of the more general problems associated with public policies and how these policies have changed or mutated in response to both Europeanization and regionalisation/regionalism.

Since the end of the Second World War nation states have been struggling with the problem of using public policies to guarantee a measure of equity in the distribution of economic development and opportunities, irrespective of social class and territorial location. From a territorial perspective, nation states have found it difficult to always guarantee an equitable distribution of socio-economic resources to the inhabitants of both “core” and “peripheral” areas (Krugman and Venables 1995; Puga 1999). The persistent differences between core and peripheral areas also bring into question the efficiency of national economic and social policies in resolving the problems of the socio-economic groups to be targeted by the policy. Core areas have been defined in the literature as those areas of the nation-state: where there is a high concentration of economic activity; where economies of scale predominate; where salaries are relatively high; where capital is abundant and available at lower interest rates; where the infrastructure grid guarantees swift and easy access to markets; and where the dominant political and cultural institutions are located. Peripheral areas are, instead, characterized by the opposite characteristics: low level of economic activity, absence of economies of scale, low salaries, scarcity of capital and higher interest rates, lack of adequate infrastructure, and absence of important political and cultural resources. In order to bridge the gap between core and peripheral areas nation-states have tried to engage in a number of development schemes, which have attempted to alleviate the conditions of the less developed areas. These types of policies have been commonly referred to as regional development policies.

The reason why the term “regional policy” has been used to characterize policies attempting to achieve a better socio-economic equilibrium within a country is due to the fact that these policies in Italy and elsewhere are focused on specific territorial entities—i.e., regions—and normally do not address the entire national territory (Meyer 1963; Omaha 1995; Armstrong and Taylor 2000). If the latter were the case,

then it is more common to refer to development policies as “sectoral”—i.e., covering various sectors of the national economy such as agriculture, industry or specific services—rather than regional in nature. Such sectoral policies are thus implemented on a nation-wide basis, irrespective of territorial specificity or in one region vis-à-vis another. This definitional distinction between regional and sectoral policies does not mean that regional development strategies are devoid of a sectoral component. On the contrary, it is common to find in regional development policies an emphasis on the development of particular sectors and in particular areas. Therefore, sectoral and regional development strategies are not, from a theoretical and practical perspective, diametrically opposed. Where they do differ is in the definition of territorial scope and concentration. Regional policies are oriented toward the development of specific regions or parts of the national territory. Sectoral policies, on the other hand, are usually applied on a blanket basis throughout the national territory and their objective is to develop specific sectors in the overall national economy.

An important aspect of regional development policies is associated with the institutions responsible for the formulation and implementation of these interventions. In this case the relevant institutions and actors are represented by national and sub-national political and administrative entities operating within elected governmental institutions. In the Italian case regional government institutions have been created during various phases of the nation’s post-war history, but according to the 1947 Constitution they were allocated a central role in the implementation of development policies (see Articles 117 and 118 of the Italian Constitution).

However in Italy as well as in other countries, the dictates of the Constitution have not always been implemented in an efficient and effective manner by the central state and national political leaders. In the immediate post-war period regional development policies in France, the UK and Italy were predominantly the responsibility of national authorities. To a certain extent national authorities assumed the task of balancing levels of territorial development as part of a national political responsibility to promote the development of the entire country and to achieve equitable results for all citizens. Such an approach was understandable in Italy (and also in the UK and France) because regional level institutions did not exist throughout the country: all three countries had highly centralized governmental structures and national governments were the predominant central actors in the pursuit of equitable social and economic outcomes. In Italy it was not possible to allocate the responsibility of

regional development policies to regional institutions because the latter simply did not exist.<sup>3</sup> During the immediate post-war period, regional development policies were formulated by the central state authorities for the regions rather than by the regions for themselves. The thesis will argue that the centralization of regional development policies did not take place only due to the fact that regional government institutions did not exist but rather to the fact that the dominant development paradigm emphasized the role of central institutions vis-à-vis that of the regions. This predominant post-war paradigm is defined as a “Fordist” one, but it could also have been referred to as the “TVA” paradigm based on the use of the Tennessee Valley Authority experience in the U.S. to combine and harness the federal government’s commitment to flood control as a mechanism to promote the economic development of a particular territory. The TVA example was particularly important in developing the Italian approach to regional development while the Fordist industrialization model was more generally accepted in Europe as providing the basic rationale for regional development policies.

The Italian case illustrates two important changes over time with regard to the development paradigms involved in the formulation and implementation of regional policies: the first involves the economic model used to influence the formulation of development strategies and the second deals with the institutional structure (centralized versus decentralized) used to formulate and implement the chosen policy.

After 1970, constitutional reforms in Belgium, France, and Spain changed the nature of the centralized nation-state. In Italy the introduction of a uniform system of regional government in 1970 finally brought to fruition the constitutional clauses that had remained dormant for over two decades. In the UK an asymmetrical form of devolution—i.e., introducing it in Scotland and Wales but not in other parts of the country—was carried out in the latter part of the 1990s.

A similar form of asymmetrical devolution took place in Portugal with regard to the ultra-peripheral regions of the Azores and Madeira following the ratification of the new Portuguese Constitution in 1976. Spain also introduced an asymmetrical form of decentralization with the creation of three super autonomous regions (Basque Country, Catalonia and Galicia) and “ordinary” regions. A decade later Greece introduced a

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<sup>3</sup> In Italy the twenty regions were created in phases. During the 1946-49 period, four of the “special regions” were created in Sicily, Sardinia, Val d’Aosta and Trentino-Alto Adige. In 1964 the other special region was created in Friuli-Venezia Giulia. The remaining fifteen “ordinary regions” had to wait until 1970 before they were constituted. See .Mossetto 1980, Morgan 1986, Leonardi 1993.

decentralization of its central administrative structure in order to accommodate a bottom-up regional development strategy financed through the EU Structural Funds. However, the Greeks transferred power to the fifty-five district or provincial level governments rather than to the thirteen regions administrative regions created to manage the Structural Funds. By the 1980s central governments may still have been hesitant to create directly elected and strong political institutions at the regional level, but the change in the regional development paradigm became a general phenomenon in Europe. The predominance of top-down national development policies had been substituted by a bottom-up, regional focus in regional development policies.

The original 1975 EC regional policy began with a faltering attempt to encourage a co-ordination between the national and European levels where the main focus of decision-making and implementation lay with the national level. Member states were required to supply the EC with annual information and statistical summaries of their own regional policies and of the use to which EC money was being put within the boundaries. The 1979 reforms provided a major boost to coordination by introducing programme assistance, which by its very nature required the parties involved, notably the EC and member-state governments, to act together in a carefully planned manner. The 1984 reforms continued to strengthen the programme approach. The 1988 reforms finally provided regions with the opportunity to play a role at the European level.

Prior to the initiation of the cohesion policy in 1989 the Community had shown a marked indifference towards the regions. Their involvement in the implementation of regional policies was minimal. The role of regions was treated as a wholly domestic matter. In Italy, for instance, given that central government prevented the regions from having direct relations with the Community, the result was that the regions had no clear perception of Community policies even though they were directly affected by them, and showed indifference to their goals and requirements. The existing EU regional policy owes many of its features to a major set of reforms introduced in 1989 as part of the single market process. The 1989 reforms marked the most significant set of changes to EU regional policy since its inception in 1975. More recent (1993, 1999 and 2005) revisions essentially represent a fine-tuning of the 1989 policy.

What was significant in the new approach to regional policy introduced by the Community during the last half of the 1980s was the radical departure from the existing structure of national regional policies. The first element of innovation was the change in development paradigm upon which the policy was based. The component

elements of the new paradigm used to base Community regional policies is presented in Table 1.1 on the basis of an original scheme developed by Bachtler (2001) to illustrate the different approaches to European regional policies with regard to conceptual basis and subsequently to the characteristics of the policy, the structures necessary to administer the policy, the organization of the interventions, and the evaluation of the results.<sup>4</sup>

The change begins with the shift from the abandonment of the industrial location theories where the key factors were represented by production costs, skills and quantity of workers, cost of land, and the availability of capital to the theories of the “learning region” where the essential elements are represented by the existence of an innovative milieu, production clusters and interactive networks linking producers, distributors and consumers. Once the theory is radically changed, it is obvious that the policy characteristics and structures have to be shifted from the emphasis of narrow sectoral objectives to broader multi-sectoral ones where the approach is based on a programme (i.e., not just projects but integrated, multi-sectoral plans) and the objectives are to improve the region’s overall competitiveness in national and world markets.

Crucial in this shift has been the creation of political and administrative institutions at the sub-national level capable of assuming the responsibility of activating the new decentralized paradigm. Once the institutions are present it is possible to engage in bottom-up planning, the mobilization of local government and socio-economic forces, and the formulation of multi-year programmes. Finally, the shift in paradigm has also made it possible to place emphasis on the measurement of both the outputs and outcomes of the policies being pursued and enhance the diffused “ownership” of the regional policy by the various components in the regional society.

In the following table, as well as throughout the text, the centralized paradigm will be referred to as the “Fordist” model of industrial development. Otherwise, the decentralized model is represented by the industrial districts.

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<sup>4</sup> The author has made some significant changes to the original Bachtler formulation of the table in order to more accurately reflect the essential characteristics of the shift in the Italian development paradigms.

**Table 1.1 The “paradigm shift” in European Regional Policies**

The Changing Paradigm of Regional Policy

<i>Criteria</i>	<b>Centralized</b>	<b>Decentralized</b>
<b>CONCEPTUAL BASIS</b>	Industrial location theories Key factors are regional attributes eg. production costs, availability of workers	Learning region theories Key factors are regional capabilities eg. innovative milieux, clusters, networks
<b>POLICY CHARACTERISTICS</b>		
<i>Aim(s)</i>	Equity <i>or</i> efficiency	Equity <i>and</i> efficiency
<i>Objectives</i>	Employment creation Increased investment	Increased competitiveness (eg. entrepreneurship, innovation, skills)
<i>Sphere of action</i>	Narrow (economic/industrial)	Broad (multi-sectoral)
<i>Mode of operation</i>	Reactive, project based	Pro-active, planned, strategic
<b>POLICY STRUCTURE</b>		
<i>Spatial focus</i>	Problem areas	All regions
<i>Analytical base</i>	Regional economic indicators	Regional SWOT analysis
<i>Key instrument</i>	Incentive scheme	Development programme
<i>Assistance</i>	Business aid Hard infrastructure	Business environment Soft infrastructure
<b>ORGANISATION</b>		
Policy development	Top down/centralised	Collective/negotiated
Lead organisation	Central government	Regional authorities
Partners	None	Local government Voluntary sector,
Administration	Simple/rational	Complex/bureaucratic
Project selection	Internalised	Participative
Timescale	Open-ended	Multi-annual planning periods
<b>EVALUATION</b>		
Stage(s)	Ex post	Ex ante, interim, ex post
Outcomes	Measurable	Difficult to measure

Source. Author's adaptation from Bachtler 2001, p.10

The immediate implications of this paradigm shift became evident when the Community launched the Integrated Mediterranean Programmes (IMPs) as part of the policy response to the entry into the Community of Portugal and Spain in 1986. What the Community produced as a policy in 1986 was a preview of the policy approach it was to introduce in 1989 as part of its new cohesion policy that would be applied throughout the Community.

For Italy the IMPs produced a revolution. Not only was there a significant increase in Community funds for development programmes but there was also a radical change in the role of the regions in the development process. The manner in which the regions adapted to the IMPs provides a clear indication of the difference in approach that existed between the regions in the south benefiting from the national regional policy and the rest that did not (i.e., the regions located in the centre and north of the country).

For the southern regions the IMPs represented the introduction of a parallel regional development policy to the one already financed by the national government. What was different with the IMPs was that the responsibility for implementation was transferred directly to the regions. The national government's role was reduced to a minimum and it was restricted to a light form of coordination. The results showed that the Italian regions demonstrated widely divergent administrative capacities and ability to adapt to the new policy originating at the European level. According to a report from the Italian Senate Committee on EC Affairs, by 31 December 1989 Italy had spent 40 per cent of the sums available vis-à-vis the 82 per cent for Greece and 73 per cent for France. The lowest levels of expenditure were registered in the southern regions, with the exception of Molise. The widest gap in expenditure levels was registered between the 97 per cent spent of the funds allocated so far by Emilia-Romagna in the north-central part of the country and the 7 per cent spent in the case of Campania where Naples is the regional capital. By 31 December 1990 a slight improvement had taken place, but the southern regions accomplished not much. Of the new funds made available 72.5 per cent had been allocated in Tuscany but only 4 per cent in Sicily. However, the Report of the Senate Committee on EC Affairs noted that southern regions had other ways of financing regional development policies aside from the IMP programmes. In addition, regional level authorities were not used to directly managing development policies because of the centralized nature of Italian regional policy. In other words, the southern regions did not have the properly trained staff or efficient offices to implement their individual programmes. They, instead, depended on the central state to undertake both the responsibilities of planning and implementation of development policies.

According to the model in Figure 1 there were different regional responses to the EU's IMP policy. In the centre-northern regions that did not have any previous experience with the national regional policy, the ability to accept and implement the EU policy went smoothly, thereby creating what is defined as a "functional balance" as referred to above in Figure 2 between policies and institutions. In contrast, in the southern regions the new policy was not followed by an adequate transformation of the institutional management structures. Therefore, the institutional response (or lack thereof) led to a blockage of the policy and the search for temporary ad hoc solutions.

The difficulties of implementing the Community's regional policies in the disadvantaged regions of the south were a further symptom of the role played in the

past by the national government and the difficulty in shifting policy making and especially implementation in a new decentralized direction where a centralised structure and procedure was already in place. In this case, the southern Italian regions that were benefiting from the national regional policy basically ignored a European policy providing substantial financial resources for regional development projects. In the case of the southern regions there was a basic differentiation between the requirements for implementation required by the European policy that could not be met by the existing norms and procedures at both the regional and national levels. Therefore, the response to the new policy was non-implementation and non-compliance with the new regulations.<sup>5</sup>

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<sup>5</sup> See Leonardi (2005) for a discussion of basic reactions to new policies originating at the European level. Resistance to the new policy may be much more rational from the national or regional perspective rather than compliance.

## 2. RESEARCH FRAMEWORK

### 2.1. Definitions and timeframe

#### 2.1.1. Definition of terms

The term “*decentralisation*” is used to refer to the overall goal of the diffusion of responsibility for policies among different levels of government. In the Italian case this goal is clearly spelled out in Article 14 of the Italian Constitution, and in the case of Italy this goal has required the fulfilment of numerous objectives of institutional change – political institutions, relationships among political forces, integration of economic actors, links with civil society and styles of management in the implementation of public policies. Decentralization, in turn, is achieved through processes of devolution. *Devolution* is defined as the transfer of decision making powers and responsibility for implementation from the national to sub-national institutions. In other words, devolution refers to the change in the distribution of administrative, political and financial decision making power in favour of the regions as defined by the national constitution.

The decentralization of power from central to regional government has been much discussed in recent years as part of the debate on institutional reform and the impact of the European Community on member states. The analysis carried out by Leonardi (1993) shows that decentralization of unitary states is not a “linear” process that develops over time in an even manner through a clear qualitative leap from one system of institutions to another. On the contrary, “the implementation of regional reform in Italy took place (and it is still taking place) in “cycles” characterized by periods of rapid change that are followed by moments of retrenchment and stagnation” (Leonardi 1993). For the purposes of this research it is useful to distinguish two concepts, related to the process of decentralization: *devolution of authority* from the central government to sub-national units, and the *devolution of effective entitlement for utilizing that authority* by the newly independent units. Such a distinction acquires relevance in the Italian context where “uniformly delegated powers might be utilized with widely varying degrees of success in different regions” (Leonardi 1993). Accordingly the thesis identifies two autonomous processes: *formal and effective* devolution in the specific case of regional development policies.

*Formal devolution* is defined as the complex of administrative and juridical acts and Laws that have been promulgated in order to devolve the responsibility of designing and implementing regional development policies to regional governments. *Effective devolution*, instead, is defined as the process of administrative acts and public finance settings that progressively entitle regional governments to implement the policies it has designed, with a high level of autonomy in the management of the necessary financial resources.

*Regional development policies* are defined as the different types of public interventions in various sectors (productive activities, infrastructures, professional education, aid to industry, etc) that have been implemented in the pursuit of improving the living conditions and economic performance in a particular geographic area of the national territory (Mossetto 1980)<sup>6</sup>.

The research will investigate the evolution of *regional development policies* in *Southern Italy* with specific attention to the *institutions* involved in designing and implementing the policies. The changes in the *relations between central and regional governments* will be investigated in order to identify what has been the impact of the *devolution* of power between institutional levels in the economic performance.

The research will address the process of *institutional change*, in terms of changes in the *relation between central and regional governments* and the economic convergence path in the Italian Mezzogiorno. With respect of this research, *central government* is the centralized administration of the State; *regional government* is the *regional administrative unit*. The *regional governments* considered in the research are the eight *regional administrative units* present in Southern Italy by 1970: Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sicily, and Sardinia.

*Regional development policies* are intended to represent the different types of public intervention in various sectors (productive activities, infrastructures, etc) that have been implemented in pursue of improving living conditions and economic performance at regional level.

The *decentralization* of power from central to regional government has been much discussed in recent years as part of the debate on institutional reform and the impact of the European Community on member states. The analysis carried out by Leonardi (1993) shows that decentralization of unitary states is not a “linear” process that

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<sup>6</sup> Mossetto G. 1980, provides a relevant conceptual framework for the Italian case (p.11-27)

develops over time in an even manner through a clean qualitative leap from one system of institutions to another. On the contrary, “the implementation of regional reform in Italy took place (and it is still taking place) in “cycles” characterized by periods of rapid change that are followed by moments of retrenchment and stagnation” (Leonardi 1993).

The term “*decentralisation*” is used to mean the overall ideal or goal to be pursued in the restructuring of the state apparatus, the concept of the Article 14 of the Italian Constitution, which states ‘the Republic is divided in regions, provinces, and communes’. The implementation of the goal of decentralization requires the fulfilment of numerous objectives of institutional change – political institutions, relations among political forces, integration of economic actors. Instead, *devolution* is defined as the transfer of constitutional, exclusive powers to the regional level of government as one of the specific objectives which is central to the process of decentralization. *Devolution* refers to the change in the distribution of administrative, political and financial decision making power in favour of the regions as defined by the national constitution.

For the purposes of this research it is useful to distinguish two concepts, related to the process of decentralization: *devolution of authority* from the centre to sub-national units, and the *effective utilization of that authority* by the newly independent units. Such a distinction acquires relevance in the Italian context where “uniformly delegated powers might be utilized with widely varying degrees of success in different regions” (Leonardi 1993).

### 2.1.2. Hypotheses and timeframe

Devolution is analysed in terms of institutional change and policy (regional policy) change. Institutional change is operationalized in terms of changes in polity and administrative variables, and policy change is investigated through variables representing formal (policy issues, i.e. design and responsibility) and effective (financial, i.e. uses and sources) dynamics under the two different pressures for change identified: regionalization and Europeanization of regional policies.

The hypothesis to be tested by the thesis is that, within a devolution process, different adaptation to regionalization and Europeanization pressures are correlated to and affected by a process of “path dependence” that is derived from pre-existing

institutional settings and procedures. This, in turn can generate different devolution outcomes, in terms of discrepancy between formal and effective outcomes (as described in Figure 2 in previous Chapter).

The period covered by this study is from 1950 to 2000. Three sub-periods have been identified and are illustrated in following table. The milestones have been identified concerning Institutional changes and Regional Development Policies:

**Table 2.1 Time framework for decentralization process in Italy**

	<b>Institutional milestones</b>	<b>Regional Development Policies milestones</b>
<i>First Phase (1950-65)</i>	<ul style="list-style-type: none"> <li>▪ 1948 Italian Constitution sets out five “special statute regions (two in the Mezzogiorno)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Law 646/1950 Institution of the Cassa per il Mezzogiorno (Casmex)</li> </ul>
<i>Second Phase (1965-86)</i>	<ul style="list-style-type: none"> <li>▪ Law 281/70 and Law 775/70 reformed the relations between Central and Regional governments.</li> <li>▪ Creation of the first 15 “ordinary regions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Law 717/65 Political control over Casmex</li> </ul>
<i>Third Phase (1986-2000)</i>	<ul style="list-style-type: none"> <li>▪ Law 59/97 devolved to the Regions large part of administrative competences</li> </ul>	<ul style="list-style-type: none"> <li>▪ Law 64/86 End of the Cassa per il Mezzogiorno and creation of Agensud.</li> </ul>

What is meant by paradigm shift is illustrated in Table 2.2. As suggested, this research is interested in looking at three components of the paradigm shift affecting Italian regional policies during the period when the Cassa per il Mezzogiorno had a monopoly on the formulation of regional policies for Italy’s less developed areas and in the period (i.e., 1992) subsequent to the demise of the Cassa and the Ministry for Extraordinary Interventions in the South. The following table summarizes the main aspects of this process.

**Table 2.2 Paradigm shift in Regional Italian regional policies**

	<b>Economic model</b>	<b>Institutional model</b>	<b>Management model</b>
<i>Cassa per il Mezzogiorno (until 1992)</i>	<ul style="list-style-type: none"> <li>▪ Top down approach</li> <li>▪ Induced growth and growth poles</li> <li>▪ Industrialization</li> <li>▪ Large industries</li> </ul>	<ul style="list-style-type: none"> <li>▪ Centralized planning and implementation;</li> <li>▪ No interaction with regions and social partners;</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mono-level</li> <li>▪ All interactions at national level</li> </ul>
<i>“European policies” (after 1992)</i>	<ul style="list-style-type: none"> <li>▪ Bottom up approach</li> <li>▪ Networking</li> <li>▪ Industrial districts</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decentralized planning and implementation;</li> <li>▪ Regions main development actors;</li> <li>▪ Involvement of sub-regional institutional actors and social partners</li> </ul>	<ul style="list-style-type: none"> <li>▪ Multi-level</li> <li>▪ Interaction at various levels (EU, national, regional)</li> </ul>

*Source: Developed by the author*

The first is the change in economic model used to justify the theoretical basis of the policy. In the Italian case this change went from the emphasis on a top-down approach to industrialization concentrated in growth poles to a diffused model of industrialization based on the network patterns one finds in industrial districts. Industrial firms operating under the latter scenario are small and medium enterprises where the economies of scale are external to the firm and internal to the industrial district.

The second change is characterized by the institutional structure employed to make and implement regional policies. In the period when the Cassa was dominant the institutional structure was highly concentrated at the national level and there were no provisions for the participation of regions or social partners in any of the phases of decision making and policy making relating to regional policies. After 1992 the predominance of the national level was substituted by the central role played by the regions as promoters and managers of development policies.

The final shift that is of relevance to my study is the shift from a mono to a multi-level model used to manage regional policies. During the days of the Cassa, only one level—that Cassa and elements of the national government—were given relevant roles in the determination of regional policies, and the creation of sub-national offices or interactions with the regions were not considered relevant for the conduct of regional policies. After 1992 there was a formal as well as practical acceptance of a multi-level model of governance for regional policy involving the European, national and regional levels. After 2000 emphasis was also given to the involvement of sub-regional institutional actors, such as cities (comuni) and provinces.

The thesis will argue that the differentiation in degrees of decentralization in specific aspects of governance is strongly related to interaction of the relevant actors in the process of decentralization itself. More specifically, the design and implementation of an effective decentralized form of government is subject to specific conditions related to the process itself (coherence among administrative and financial aspects of decentralization) and the entry and evolution of incumbent and new actors in the process of political and institutional bargaining related to institutional change.

## 2.2. Rationale for the research and Research Question

### 2.2.1. Rationale for Research

The core issue addressed by this research is the institutional determinants of differentiated regional economic performances in the Italian Mezzogiorno. For a large part of the period examined (1950-2000), Italian regional development policy was central government-led; and the differences between the expected results and the observable outcomes do not seem to be related to different policy approaches or capacity to implement a policy once it has been decided. One of the possible determinants is the structure of relations between the Centre (i.e., the national level) and the Periphery (i.e., the regional level). The aim of the research is to identify to what extent institutional changes (i.e. the evolution in Central and regional government relations in the period before the implementation of Structural Funds) have affected the implementation of recent regional development policies and the economic performance of the regions.

Recent research results highlight two key facts that underlie the “scepticism” (Rodriguez Pose- Fratesi, 2002) on the *effectiveness* of European development policies. The first is the generalized failure in Italy of Objective 1 regions to rise above the threshold of assistance.<sup>7</sup> Although vested interests in remaining below the threshold may have played a part in the lack of convergence, only Abruzzo and Molise among the original eight 1989 Objective 1 regions have managed to come out of the Objective in Italy before 2000. The second is a lack of convergence vis-a-vis the North since the reform of the Structural Funds. (See also Cheshire and Magrini 2000). Other European countries have faced different growth paths in absolute as well as in relative terms.

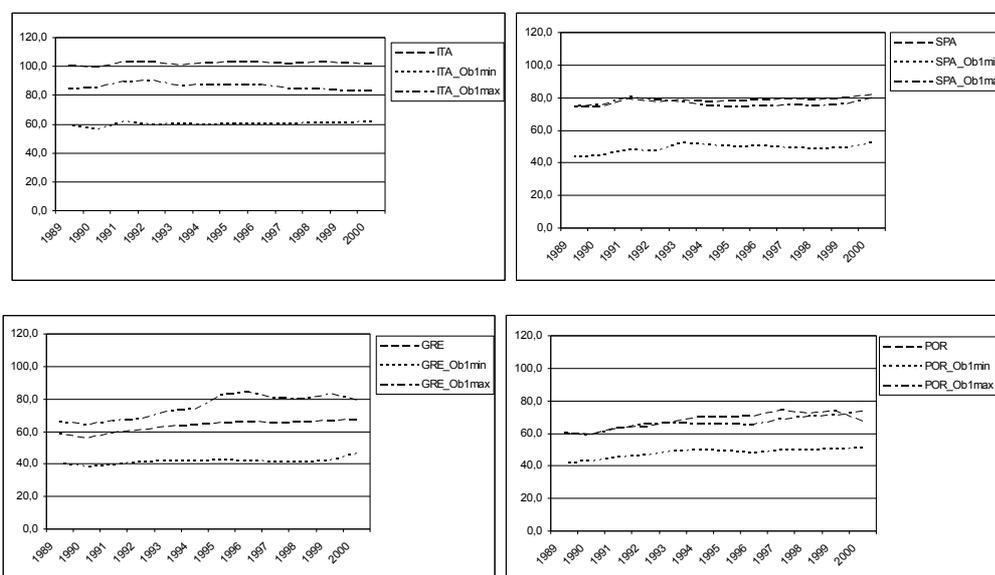
The analysis of the evolution of European regional disparities since 1989 highlights the existence of convergence at the European level but the absence of convergence within countries. In order to assess the scope and relevance of the present research, the following paragraphs briefly present the results of the preliminary inter-country analysis. This preliminary analysis has the aim of highlights the specificities of the Italian case, and making the case for a more in depth analysis of the Italian Mezzogiorno’s economics and institutions.

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<sup>7</sup> Of the original eight Objective 1 regions in 2007 that figure was reduced by half. In the rest of the EU the number of formerly Objective 1 regions was reduced by even larger margins.

The general trend of the four countries of the European Union with the largest number of Objective 1 regions (Greece, Italy, Portugal, and Spain) is toward a greater divergence or a steady state of convergence/divergence levels. The greatest increase in disparities takes place in Spain, where the standard deviation in GDP per capita grows by 15,7% between 1988 and 1999, followed by Greece and Italy with an increase of 11,7% and 1,8% respectively (Rodriguez-Pose 2002).<sup>8</sup>

The following graphs show how the ratio between GDP per capita in the country and regions and the GDP per capita at UE15 level varies steady across time and countries. The graphs highlights the ratio between: the member country (Country) and the EU average, the less developed region within Objective 1 of each country (Country\_Ob1min); and the most developed region within Objective 1 of each country (Country\_Ob1max).



Source: Author's elaborations on Eurostat data

Italy does not show an upward trend, as the other countries which are slowly reducing the gap at the European level in terms of GDP per capita. Conversely the 2000 value of regional GDP per capita over European average is very close to the figure estimated in 1989.

Recent studies, based on sigma and beta convergence, have shown that the overall convergence process in the years 1988-1999 is the result of two different dynamics. Sigma convergence is a reduction in the dispersion of per capita incomes over time,

<sup>8</sup> The objective of the cohesion policy was never to reduce disparities within countries but within the EU as a whole. Based on this parameter the amount of convergence within European regions has been substantial (Leonardi, 2005).

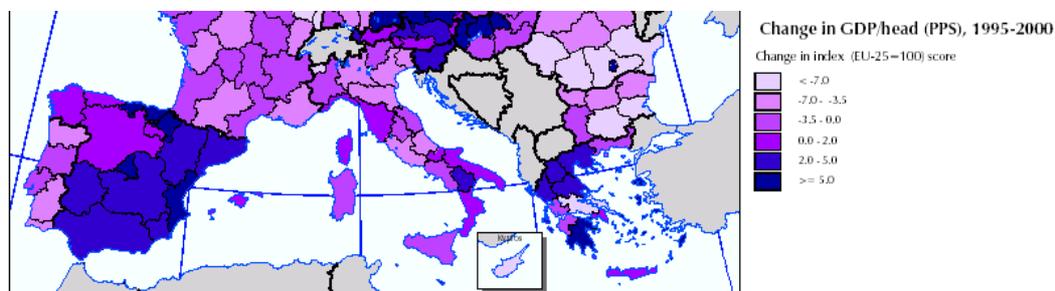
Beta-convergence, estimated in relation with regions initial conditions and rate of growth of GDP per capita, is present when less developed economies are growing faster than developed ones.

On the one hand, Objective 1 regions are showing a strong convergence path; on the other, Non Objective 1 regions are moving extremely slowly towards EU average. This trend seems to be not homogeneously present in Italy as it appears in the other four countries.

Specifically, the hypothesis is that the experience with previous national regional policies affects the choices made in decision making and implementation strategies developed to take advantage of Structural Funds, in terms of co-ordination between Central Government and Regional development policies. Supporting this interpretation, the institutional setting of three of the four countries cited above have been investigated. Spain is based on the unitary system of regional autonomy based on 17 constituent regions. The tensions between central government and regional powers are mainly concentrated around the definition of central-regional powers, reform of the central administration, distribution of financial resources and lack of coordination (Leonardi 1993). After the 1989 reforms of the structural funds, the Spanish regions began to participate in policy formulation. Greece has no previous tradition of devolution of powers or responsibilities to regional authorities. The institutional structure is hierarchical and the centralized governmental structure has been managing the regional development policies process through the administrative regions created initially in 1986 to implement the IMP programmes. The political administrative units (communes and villages) were too small to contribute to the regional planning process, but the creation of the *nomoi* (similar to provinces in other European countries) in 1993 has begun to provide an intermediate level of governmental power capable of participation in the structuring of regional priorities and aiding in the implementation of the programmes (Leonardi 1993). From the perspective of the Structural Funds, the Greek system is predominantly controlled by a regional administrative structure that basically reflects a top-down process which has de facto remained a Central Government responsibility.

Italy and Spain are considered as the most comparable cases in terms of an early devolution of policy-making powers to regions concerning regional development. According to this perspective, a comparison in terms of economic performance of the regions has been conducted between Italy and Spain. The latter appears to perform

consistently better than the former, as higher growth rates are spread over the entire national territory. This trend emerges from the graphs presented above, as well as in the following map (Second Social and Economic Cohesion Report, EC 2002) that describes this dynamic in the period between 1995 and 2000.



Source: *Second Social and Economic Cohesion Report, 2002*

The Spanish devolution process has produced overall unambiguous outcomes, providing elements of validation for “new growth theories” hypotheses that consider regional administration autonomy as one of the determinants of regional growth potential. Southern Italy’s economic performance, although has been subject to a similar devolution process, has not provided uniform regional economic performance. Moreover, regions with enhanced regional government autonomy have not shown homogeneous convergence paths.

Given that the institutional settings have been similar before (regionalized countries) and after 1989 (EU regulation), the implementation of such institutional changes in Italy (i.e. the difference between formal and effective devolution) may be a determinant of the different regional outcomes, not only between the two countries, but among Southern Italy regions.

### 2.2.2. Preliminary findings

The starting point of the research relies in the empirical evidence of a lack of homogeneous convergence among regions within the same State, and of regions within Southern Italy in the specific. The interest for this topic has been recently renewed, linked to the appearance of new contributions on economic growth (endogenous growth) in contrast to the more conventional neoclassic models. The debate has been centred not only on the capacity of both approaches to clarify the forces and the factors explaining economic growth, but also on the trends toward convergence or divergence.

In the European case, the results, obtained in different researches, varies significantly. On the one hand most of the neo-classical analyses tend to show a certain global predominance of economic convergence (Barro and Sala-i-Martin; Sala-i-Martin among others) on the other this trend is widely debated (Armstrong; Dunford; Rodriguez-Pose; Cuadrado-Roura; Magrini and others). Some caveats have to be raised in considering different interpretations. Factors that affect the analysis are both empirical (different initial conditions, number of regions, period of the analysis) and methodological (choice of the relevant variables-GDP per capita or PPS). According to Cuadrado-Roura (2001) it is possible to identify three periods that have shown specific characteristics in the European convergence path: from 1960 to mid-1970 the prevailing process is convergence; from mid- seventies the economic convergence process slow down up to the mid-eighties, from the end of eighties the convergence process shows different paths and different speeds between regions.

The difference in convergence path has moved the academic research focus toward the impact of regional development policies and public spending on economic growth. Scepticism has been raised with respect to European regional development policies, as they failed to achieve relevant results in reducing regional disparities. Regional policies are affected by countervailing effects due to dynamics explained by “new growth theories” and industrial localisation theories. Moreover, regional policies have been leading to an unbalanced and inefficient allocation of public spending that, in turn, has affected the regional growth potential.

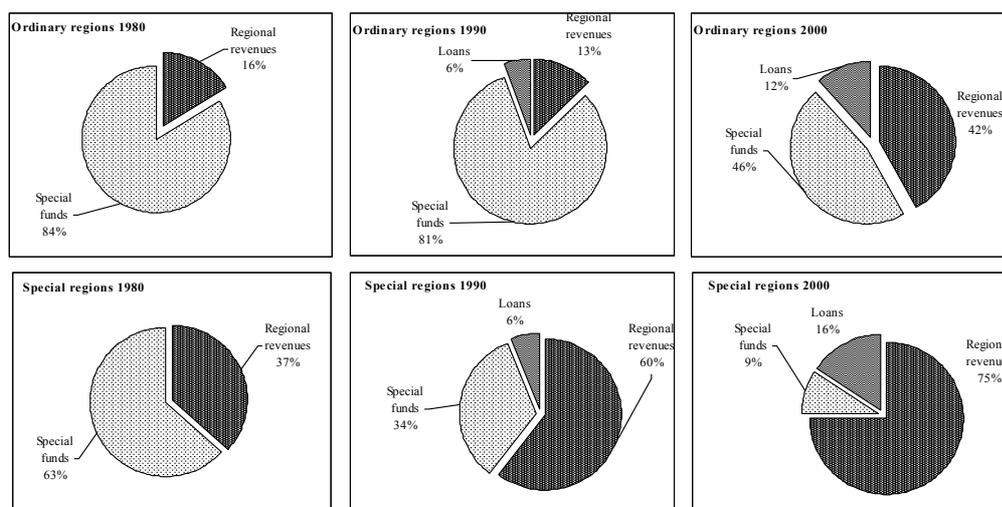
Within this framework, the results presented by Leonardi (1995, 2003), show that there is some evidence for arguing that regional development may be strongly promoted by regional government activity. The strongest regions in Europe have the most developed regional institutions, and, conversely, the weakest regions have the regional governments with formal power only. Analyses, carried out on behalf of the European Commission, suggest that central government policies have been less successful in mobilizing resources in the pursuit of economic and social development, than more decentralized states. These results seem to confirm the relevance of “endogenous” growth factors. Under such approach, the role of an effectively autonomous regional government is central as regional governments are in the best position to foster the creation and the diffusion of regional growth factors.

The evolution of Italian institutional change, i.e. devolution process, may be described, following Cassese (Sharpe 1993) “as a process of growing interdependence

between the centre and the periphery". The 1948 constitution referred to the principle of separation between state and regional administration, each level of government was to have a separate, independent responsibility. This separation was intended to ensure regional autonomy and to prevent interference and conditioning by the centre. The regions were assigned only policy sectors and matters considered at the time to be of minor importance. However, the law enforcing the regional clause of the constitution have followed different principles, and have established the division of responsibilities in such a way as to abandon the separation principle completely (Sharpe 1993). The initial transfer of responsibilities to the regions in early 1970s was restricted in two different ways. First, functions were assigned only partly to the regions and partly to the state, so that each task required the joint intervention of the two bodies. Secondly, financial responsibilities had been centralized by the means of a tax reform (Cassese 1993). Regional financing was therefore derived from state allocations and transfers, the regions thus became partly responsible for spending but not for levying taxes.

The process of devolution of decision-making power means the effective use of formal powers to increase decision-making autonomy (i.e. special status regions) from national government. In formal terms, central and regional government relations are affected by such factors as constitutional, administrative and financial frameworks. The use of the different set of resources made available by devolution is at the core of the bargaining between central and regional government, as it is one of the determinants in regional development policy making. During the second half of the '70 the responsibilities transferred to the regions were considerably expanded to the extent that their autonomy increased in functional terms. Increasingly, stricter limits were imposed in financial terms (Cassese 1987). The special funds were added to the transfers generally allocated to regions. Such a contradictory process is a "typical example of the continuous tension between political and administrative system's centrifugal tendencies and recurrent attempt to reconstruct the cohesion and uniformity of the system itself" (Sharpe 1993).

*Main composition of Italian regional revenues 1980-2000*

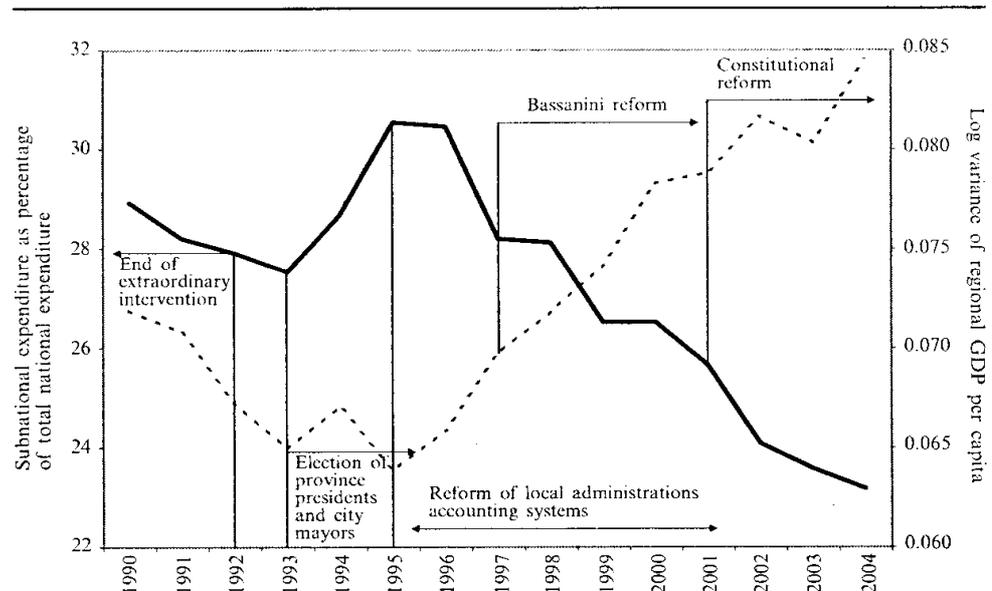


Source: Author's elaboration on Sharpe 1993 and LIUC 2002 data.

The hypothesis is that the role of central government and its “ancillary institutions” (Hall 1986) –Cassa per il Mezzogiorno and Agensud- have had a detrimental role on the process of convergence in that it has limited the capacity of regional governments to effectively manage development policies. Italian regional development policies have substantially failed to reduce disparities among regions, although a large amount of financial resources have been spent in pursuing this aim. Italian regional results show significant differences in convergence paths, producing counterfactual empirical evidence to neo-classical growth theories, and to the Keynesian approach to regional development pursued by the European Union through the Structural Funds. Conversely, “new growth theories” seem to have more explanatory power for recent regional evolutions. On the other side, the process of institutional change in Southern Italy have not produced unambiguous impacts on the economic performance of the regions, despite the hypotheses deriving from the institutional economics theory and “new growth theories”, that consider devolution as positive for economic growth.

Despite relatively huge literature on the economic impact of devolution, no consensus has yet been achieved regarding its effects on regional disparities. Calamai (2009) addresses this issue providing some empirical evidence concerning the Italian case. Following Calamai 2009, the figure shows a comparative analysis of the simultaneous evolution of regional disparities, measured by the log variance of regional GDP per capita and the process of devolution, measured by subnational

government expenditure as a percentage of total government expenditure during 1994-2004. The pattern illustrated reveals a clear historical coincidence between the increase in devolution, and more specifically the onset of the so-called "fiscal federalism", and the decrease in regional inequalities. The upsurge in devolutionary trend clearly precedes the reduction of regional disparities with a one-year time lag.



Source: extracted from Calamai 2009

However, this research, as described in following paragraphs, does not address the economic development issues, and the determinants of correlation between institutional change and economic development. It aims at investigating the internal dynamics of institutional change and policy change, in the context of regional policies.

### 2.2.3. Research questions

The research will investigate the relations between institutional changes and regional development policies considering two different aspects, which lead to the formulation of the research questions: Institutional change and Policy Change.

The hypothesis is that, within a devolution process, different adaptation to regionalization and Europeanization pressures are correlated to “path dependence” from incumbent institutional settings. This, in turn could generate different devolution outcomes, in terms of discrepancy between formal and effective outcomes.

The research framework set up as above has the objective of creating an adequate research framework as well as a consistent database for answering the following question, *are different incumbent institutional settings a relevant variable to explain different regional policies responses to Regionalization and Europeanization?*

In order to answer the question above, some sub-questions will be addressed:

- What has been the effect of institutional change on Italian Regional Development Policies? (i.e. What was the role of the “peripheral” institutions: regions and regional governments in the policy making and implementation process?)
- What contribution did the special status regions (i.e., Sicily and Sardinia) make and what contribution was made with the progressive devolution of decision power from the Central Government to the Regions, with regard to regional development policies design and implementation?
- How the devolution process (from central government led Cassa per il Mezzogiorno to Structural Funds) has modified the government interventions? and how is this process reflected by regional economic performance?

The research examines the interaction between institutional settings and economic variables in the policy design and implementation process. The approach followed puts particular stress on the critical role played by institutions in the determination of regional development policies.

Accordingly, the research will contribute to the construction of an institutionalist analysis of politics and policies related to regional development and will help in explaining differences among different regional institutional settings and different development strategies.

The concept of institution is used here to refer to formal rules, compliance procedures, and standard operating practices that structure the relationship between actors and institutions involved in regional policy design and implementation. In this model, the organization of policy making affects the degree of power that any set of actors has over the policy outcomes. The organizational structure of policy making affects as well the degree of pressure an actor can bring to bear in the policy making process. The method, through which such approach is implemented, is presented in the following paragraphs.

The understanding of decentralization and its core meanings comes from the terms and concepts to be used. Some of the most successful conceptualization and categorizations in the literature have concentrated on decentralization in terms of *decentralization to*. Accordingly they focus on “decentralization in terms of who receives the power and resources that are being decentralized” (Schneider 2003). This conceptualization is coherent with the aim of investigating the effects of *decentralizing something to someone*.

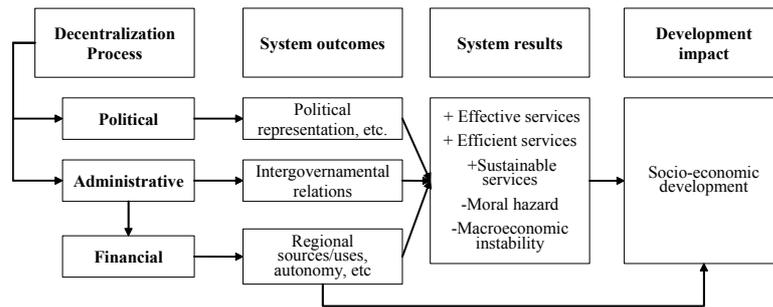
This thesis concentrates mainly on the decentralisation of public expenditures and revenues, with specific respect to the design and implementation of regional development policies, as well as the management of regional development policies.

The process of analysis will be operationalized throughout the investigation of four main issues regarding regional policies in Southern Italy:

- The evolution in economic theories that led to the adoption of different strategies in different time periods;
- The institutional implications of these change in the definition of the instruments for promoting regional development from a top-down versus a bottom-up perspective;
- The introduction of a third level, the European one, after 1989 in the management of regional development policies; and

More specifically, this research investigate how the “paradigm shift” between different economic theories, institutional approaches and levels governance have informed the process of devolution itself, the evolution of regional development policies in the Italian Mezzogiorno, and the actual effectiveness of the latter with respect to its economic objectives. One of the explanatory dynamics of the differences between expected and actual economic outcomes relies on the specificities of the implementation of the decentralization process: i.e. the dichotomy between formal and effective devolution, namely the different degree of administrative, political and financial power devolved from central government (to regional governments). Figure 2.1 presents what I conceive as the decentralization process with regard to the Italian case.

**Figure 2.1 The devolution process**



Source: Author's elaboration, adapted from Parker A. 1995.

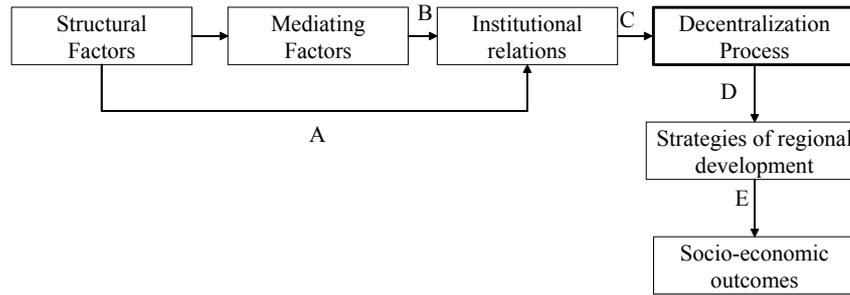
## 2.3. Methodological framework for the discussion of regional policies

### 2.3.1. Analytical framework

The thesis considers the political and administrative aspects of the inter-institutional arrangements and then moves to consider the policy and financial aspects of decentralization. As a first step in the analysis, the thesis considers the decentralization process as a dependent variable that then has an impact on the structure of regional policies and socio-economic outcomes. The focus is be on the analysis of the dependent variable and its interaction with structural and mediating factors; accordingly the main purpose of this part of the analysis (see Figure 2.2) is to concentrate on the interconnections between arrows A, B, C, D and E. In the figure below, a model of explanatory factors connected to decentralization (with modifications) based on the model presented by Bukoski in 1997 is presented to account for the causal factors in the redistribution of political authority. The purpose of the model is to account for both devolution and the structure assumed by regional policies.

The present research does not address socioeconomic outcomes (E) and is focused on the first part of the process.

**Figure 2.2 Model of interaction in decentralization process**



*Source: Author's elaboration, adapted from Bukoski. 1997*

The definition of the component elements of the structure and mediating factors and institutional relation is the following:

- *Structural factors* encompass political, economic, and social factors, constitutional provision operation within the political system.
- *Mediating factors* include development paradigms, administrative path dependence, political opportunity costs, and interest group preferences.
- *Institutional relations* are the way in which different levels of government have interacted among themselves before decentralization take place.

Most of the studies that have dealt with explanatory factors in the devolution process have introduced various structural factors as explanatory variables without taking into account whether these factors per se prompt or do not prompt the introduction of institutional change. Instead, they remain as potential factors of change until political actors use the conditions created by them to make a political decision to change the distribution of power. In my case, this refers to the decentralization of powers to local levels of government (a relationship that is represented in arrows A, B and C in the above figure).

The costs of decentralization for national policy-makers have never been seriously considered. However, it involves the loss of considerable power and potentially financial resources to affect the behaviour of sub-national actors. Thus, there is the tendency on the part of national institutions to reduce the pace of power transfer and to divide the transfer of power from the transfer of resources. In the final analysis, if financial resources are not transferred the decentralisation of power becomes moot.

As far as local governments are concerned, their calculations in making demands for decentralization will follow the same rationale as the logic followed by national

decision-makers: benefits of fiscal decentralization must be higher than its costs. The cost of devolution for local governments is related to accountability. Once they are endowed with autonomy over policies and expenditures voters may hold them responsible for the quality of services in addition to the level of taxes.

The process of decentralization of decision-making power means that there is a transfer of political and administrative powers that increases decision-making autonomy from the national level. The use of the different set of resources made available by devolution has been at the core of bargaining between central and regional government, and the main determinant of differences between political, administrative and financial devolution.

Since the late 1980s there has been a qualitative change in the debate on decentralisation in Italy with some regions demanding a greater voice in the decision-making process regarding the levels and conditions for the transfer of funds from the state level and the autonomy of the regions in developing their own sources of finance. The key feature of this programme demanding further political and financial autonomy has been in the transformation of the Italian regional system into a federal one —i.e., where powers are not shared between the central and regional government, and where they are constitutionally separated. The same would hold true for financial resources: the two levels of government will have separate rather than concurrent sources of financing.

Following Donahue's (1997) approach, the present analytical framework will examine administrative and political variables in order to investigate the process of political and administrative devolution, and policy making and financial variables (revenues and expenditures) to represent the financial and devolution aspects.

With specific reference to regional development policies, Italy represents an interesting case given that in the post-war period a progressive and gradual decentralization process (both administrative and financial) has been implemented, especially starting in 1970; the design and implementation remained highly centralized until the late Eighties; Italian regional development policies in the Italian Mezzogiorno underwent an evolutionary process that has redefined their objectives, instruments, and procedures; and since then the demand for further powers has been mounted and subsequent governments has undertaken significant constitutional and legislative initiatives to move Italy down the federalist path.

### 2.3.2. Approach and research methods

The research examines the interaction between institutional settings and regional economic policies in the policy design and implementation process. The approach followed puts particular stress on the critical role played by institutions in the determination of regional development policies.

Accordingly, the research will contribute to the construction of an institutionalist analysis of politics and policies related to regional development and will help in explaining differences among different regional development strategies and economic growth paths. The concept of institution is used here to refer to formal rules, compliance procedures, and standard operating practices that structure the relationship between actors and institutions involved in regional policy design and implementation. In this model, the organization of policy making affects the degree of power that any set of actors has over the policy outcomes. The organizational structure of policy making affects as well the degree of pressure an actor can bring to bear in the policy making process. The method, through which such approach is implemented, is presented in the following paragraph. The analysis of the decentralization process in Italian regional development policies will be carried out, on one hand, on the basis of the evolution and change over time of the policy making models and, on the other, on policy outputs and outcomes, not including impacts (i.e. socio economic development).

The research is articulated through three methodological steps: definition, analysis, evaluation: *Definition*, is to identify the appropriate set of variables that are necessary for the analysis. Specifically, this phase encompasses the definition of actors (central and regional governments), the different type of relations between them. This phase will define the theoretical underpinnings and expected outcomes to be tested against Italian actual regional economic performance. *Analysis*, is to test the hypotheses set up in the previous phase. The activities of this phase encompass the analysis of the institutions and actors involved, the mapping of the procedures set up for policy design and implementation, under the different administrative settings. This phase includes as well the construction of specific databases with time series data for the relevant variables.

The analyses have been carried out through:

- Collection of primary sources (mainly, newspapers, primary data from National Archives, face to face interviews);
- Secondary data elaboration (statistics, studies, etc)

*Evaluation, finally, is to bring together the threads of the analyses which have been completed in the previous phase. In this phase the results deriving from the analysis of economic performances and institutional developments in Southern Italy's regions, are confronted in order to investigate difference between expected (theory) and actual outcomes (empirics).*

With respect to the analytical framework to be set up for this research, reference is made to the work of Donahue (1997). Donahue characterizes the process of devolution as being made up of three separate factors: decentralization of authority (administrative), legitimacy (political), and the decentralization of resources (financial). Accordingly, the answers to the research question will be based on the analysis of the three main dimensions of decentralization: administrative and political powers, regional policies, and the decentralization of resources). More in detail, the variables encompassed in the research are presented in Table 2.3.

The evaluation will focus on the relations between different regional economic outcomes and different devolution process, i.e. different central and regional government relations. Specifically, the evaluation will lead to the definition of different type of central-regional relations, according to the assessment of the following main dimensions of interaction, and of the relative variables:

*Political Dimension*

- Passage of constitutional and legal reforms to transfer power (i.e., regional governments have legal status and specific powers and responsibilities);
- Level of authority to accept, reject, or modify central government plans for urban infrastructure constructed by central agencies;

*Administrative Dimension*

- Responsibilities specifically reserved to regional government (as opposed to central government);

- Scope of responsibilities for each level;
- Degree of assignment of functional responsibilities from central government to regional government.

*Financial Dimension*

- Trends in regional own-source revenues;
- Degree of independence in use of central government financial transfers;
- Existence of regional economic development strategies and incentives.

With respect to the main research questions, the framework set up by the evaluation of the issues of above should help in reaching an exhaustive answer. The first two dimensions (administrative and political) will contribute in addressing the first two questions (institutional change and special status). The third dimension will help in investigating the difference in the financial management of the funds, from special national funds, to European Union Structural Funds.

In order to identify the type of relation between central and regional government in the different regions, the level of “devolution” will be formalized on a region-specific scale (i.e. from highly centralized to high devolution) for each of the dimensions of above.

**Table 2.3 Dimensions and variables for research**

<b>Dimensions</b>	<b>Variables / Aspects</b>
<i>Political</i>	<ul style="list-style-type: none"> <li>▪ Passage of constitutional and legal reforms to transfer power (i.e., regional governments have legal status and specific powers and responsibilities);</li> <li>▪ Level of authority to accept, reject, or modify central government plans for urban infrastructure constructed by central agencies;</li> <li>▪</li> </ul>
<i>Administrative</i>	<ul style="list-style-type: none"> <li>▪ Responsibilities specifically reserved to regional government (as opposed to central government);</li> <li>▪ Scope of responsibilities for each level;</li> <li>▪ Degree of assignment of functional responsibilities from central government to regional government.</li> </ul>
<i>Policies (Regional Policies)</i>	<ul style="list-style-type: none"> <li>▪ Objectives</li> <li>▪ Priorities (sectors, areas, etc)</li> <li>▪ Instruments</li> <li>▪ Procedures</li> </ul>

Dimensions	Variables / Aspects
<i>Financial</i>	<ul style="list-style-type: none"> <li>▪ Trends in central government public spending;</li> <li>▪ Trends in regional public spending;</li> <li>▪ Trends in regional own-source revenues;</li> <li>▪ Degree of independence in use of central government financial transfers;</li> <li>▪ Existence of regional economic development strategies and incentives.</li> </ul>

The first two dimensions (administrative and political) will contribute to defining the process of institutional change (decentralization) in its formal aspects. This research presents the results related to this analysis in Chapter 4.

The third and fourth dimensions address how regional policies were modified by the changes in the institutional setting over time. The fourth dimension will help to investigate both the financial devolution process and public spending implemented during the same period. In order to identify the type of relations between central and regional government in the different regions, the level of “devolution” will be formalized on a region-specific scale (i.e. from highly centralized to high devolution) for each of the dimensions listed above. This research presents the results related to this analysis in Chapter 5 and 6.

More in detail, I will look at the financial aspects of devolution. With respect to the financial aspects of regional development policy implementation, decentralization will be analysed through the actual implementation of regional policies, i.e. the actual transfer of the financial instruments to implement them, both in terms of collecting revenues and allocating funds. In order to address this issue the following measures will be estimated:

- Sub-national expenditures (% of total expenditures);
- Sub-national revenues (% of total revenues);
- Composition of sub-national revenues and grants;
- Composition of sub-national expenditures (expenditures in infrastructures as % of total sub-national expenditures).

The analysis will assume a *coeteris paribus* framework with respect to other variables that affect regional economy. This hypothesis seems to be consistent in order to achieve relevant results for the following reasons. Concerning the financial variables that could affect regional economic performance, interest rate is equally set

up at national level; accordingly its impact on different regional economic performances is to be considered as marginal. The inflation rate is a variable that is measured at national level, and Italian context has shown throughout the years a limited variance across regions.

External shock, such as rising energy prices, global recession or expansion, are considered of limited impact as the effects are equally spread over the different regions, and their contribution to regional growth would not help in identifying the determinants of the different growth paths among the Mezzogiorno's regions.

### 2.3.3. Data Sources

Large part of the quantitative economic data has been available in the ESOC –Lab database on economic conditions of Southern Europe Regions. Data on GDP per capita and PPS The research has expanded the data set backwards to 1950.

Data on political-cycle have been gathered through research on primary sources (newspapers and interviews). As well, data on Central Government intervention have been collected in terms of fund allocated in the different regions and sectors through *on-field* research in National Archives.

Qualitative data have been gathered mainly through targeted interviews with the key players in Italian economic policy making that acted during the period addressed<sup>9</sup>. This allowed setting up the political and administrative framework which acted as a bias in the evolution of regional economic policy. Acts and proceedings from the Italian institutions present in National Archives and minutes of speeches in Italian Parliament have been analysed, as well as laws and economic planning documents.

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<sup>9</sup> Interviews have been carried out with former MPs, Directors of Cassa per il Mezzogiorno, former Ministers, and Journalists. Interviews (in a number of 15) have not been carried out using a structured questionnaire, given the profile and age of interviewees, instead a more informal approach has been adopted, which resulted extremely fruitful in order to answer the research questions. Among the most relevant interviewees it worths to cite Andrea Manzella (State Counselor); Giacomo Schettini (Comitato delle Regioni Meridionali); Giuseppe Alvaro (Professor of Statistics), Michele Cascino (Vice President of Southern Regions), Andrea Saba (former president of IASM), Sandro Petriccione (former Vice-President of Cassa per il Mezzogiorno); Nino Novacco (director of SVIMEZ); Ercole Incalza (former expert of Cassa per il Mezzogiorno); V Deluca and C Casavola (Dipartimento Politiche di Sviluppo).

#### 2.3.4. Case studies: Ordinary and Special Statute Regions in Southern Italy

The research encompasses the horizontal (geographical) analysis, considering how different devolution paths has changed the role and characteristics of Central Government intervention in regions that have, or not, experienced specific institutional setting in terms of autonomy in policy making. In order to test the hypotheses and expected results of the research, some relevant case studies have been identified.

Previous paragraph have identified Italy as an important case study for the analysis of institutional change and regional policies. Italy, and Italian Mezzogiorno in particular, have constantly been part of the academic debate. Since early '50s Italian approach to regional development has been object for studies and academic analyses. Throughout the period considered, evolution in institutions and policies came to present a very interesting case for the purpose of this research.

The presence from early stages of formally different institutional settings (ordinary and special statute regions) among regions of the same geographic region, sharing similar socioeconomic conditions is extremely interesting. Moreover, the evolution of regional policies had addressed horizontally all the Southern regions, allowing a comparative analysis of local responses.

Two regions have experienced a devolution path that established a special status in terms of administrative, political and financial matters, within Southern Italy. However, the "special status" has not been leading to an unambiguous positive impact on the regional path toward convergence for both regions. Moreover, a unitary path has not been shown by ordinary regions, although having similar initial conditions.

The case studies have been chosen according to formal Central-regional government relations (i.e. Special or ordinary regions), to be tested with effective devolution of powers; and similar initial socio-economic conditions. In order to explain the role of central-regional government relations, the regions have to be similar both in socio-economic and administrative terms.

The case studies identified are<sup>10</sup>:

- Special regions. Sicily and Sardinia
- Ordinary regions. Calabria and Puglia

Although this complicates significantly the analysis, the choice of four case studies, representing different outcomes under similar institutional evolutionary paths, helps in understanding not only the effects of institutional change on policies, but contributes to identify other conditions that affect design and implementation of regional development policies.

Within each regional framework, the research has been carried out with a vertical (sector) approach. Specific in depth analysis will be done concerning public spending. Specific attention has been given to the infrastructure, This sector has been chosen because it is the sector where the largest amount of resources has been invested both during the central government led regional policies, and during the EU Structural Funds.

Moreover, recent academic debate is seriously questioning the economic efficiency of public spending in infrastructures, as return are not evident, and, according to “new economic geography” theories, that type of investment have negative impacts on poorer regions, generating negative effects in term of equity as well. Both the reasons concur to make infrastructure investment an interesting case study for the purpose of this research.

## 2.4. Outline of the thesis

The subsequent chapters will focus on the causes of the policy changes; more specifically they address the processes of regionalization and Europeanization, and what this change meant for policy making and implementation in Italy but also in the broader context of regional policies in a variety of other EU member states.

Besides Chapter 3, aiming at providing an analysis of the academic debate on the relevant theoretical aspects of this research, the following Chapters follow the methodological structure described in previous paragraphs of this Chapter. Referring

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<sup>10</sup> With specific reference to Ordinary regions, case studies have been selected identifying the two regions that presented the higher degree of similarity based on a set of socioeconomic variables calculated in the base year, assumed to be year 1951. The set of variables was composed by: regional GDP, population, GDP per capita, geographic extension, population per square km, amount of Central Government funds allocated.

to Donahue classification, analyses have addressed institutional changes through investigation of political and administrative variables (Chapter 4), helping in setting up the framework within which regional policies have evolved. Chapter 5 and 6 present the results of the study carried out on regional policy design and implementation (operationalized according to Table 2.3). The structure of the present document can be summarized as follows.

*Chapter 3. The debate on the dynamics of change in institutions and policies.* This chapter presents a description of the academic debate on the main issues addressed by the thesis. The literature review, accordingly, focuses on four aspects of the relevant literature for this thesis: devolution, Regionalization and Europeanization, paradigm shift and path dependence. Within each aspect, I have tried to identify where this research locates in terms of contribution to the academic debate. Further elements on these aspects are developed in the last Chapter.

*Chapter 4 . Political and Administrative responses to regional and European adaptational pressures.* This chapter presents the analysis of the Italian government's response to the first adaptational pressure from below, i.e. the impact of rationalization. First the chapter presents a "framing" of the process, identifying the actors (subjects), the instruments (objects) and the rules governing the central-regional government relations. The chapter presents an in depth analysis of the process in terms of policy making, and what role can be attributed to "path dependence", as a mediating factor. This chapter mainly deals with Political and Administrative variables, as described in previous paragraphs.

*Chapter 5 . The regionalization process: policy and Financial aspects.* This chapter describes the overall context within the "Fordist" paradigm and the institutional and policy choices made in achieving the objectives of regional socio-economic development. This Chapter and the next deal with the "Policy" and Financial dimensions of the period characterized by a Centralized Regional policy in a progressively regionalized institutional framework.

*Chapter 6 The Europeanization process: policy and Financial aspects.* This chapter presents the results of the analysis of the response of the Italian central government to the second adaptational pressure from above, i.e. the Europeanization process. The chapter presents an in depth analysis of the process in terms of policy making, and what role is to be attributed also to "path dependence", as a mediating factor.

*Chapter 7 Conclusions.* This chapter will attempt to draw together the various conclusions produced by the previous chapters, identify main results of the research and propose some further developments for research and analyses.

### 3. THE DEBATE ON THE DYNAMICS OF CHANGE IN INSTITUTIONS AND POLICIES

This chapter will provide an overview of the relevant literature to which the present research is aiming to contribute. The mainstream the research is addressing to is the one of Political Economy, with specific attention to regional development.

#### 3.1. The regionalization and devolution processes

The literature that is relevant to the thesis covers a broad area of Political Science and Economics in that it deals with the topics of institutional change and policy change. As discussed in Chapter 1, the definition used of institutions deals with structured behaviour based on rules. The assumption is that the content of policy changes is strictly related to the specific configuration of institutions, interests and ideas inherent in a given policy sector, and that within this context, the features of the articulation of normative and cognitive elements can determine the mechanisms of resistance, adaptation and/or transformation that constitute the reaction to such external pressures.

However, as Howlett and Ramesh (1998) maintain, paradigmatic change can be slow while incremental change can be rapid, depending on the presence/ absence of new interests in the policy arena. In keeping with this line of reasoning, an incremental change in policy instruments can be extremely meaningful in a specific context, substantially improving performance and establishing the basis for a subsequent paradigmatic change. Therefore, as has been suggested in public policy analysis (Howlett and Ramesh 2002) and in organization theory (Wollin 1999), the real explanatory problem is not that of establishing whether one kind of change is more important than another, but that of trying to explain a whole spectrum of results when change takes place.

One way to resolve this problem is to focus on the concept of policy paradigm. The assumption that is made is made here is that change will be increasingly 'more' revolutionary, the more difficult it proves for the old paradigm to overcome the anomalies present within the given socio-economic context. More specifically, I will

address how the two processes of Regionalization and Europeanization have had a role in framing institutions and policies. The following chapter presents a review of the mainstream academic debate on these issues.

### 3.1.1. Approaches and academic mainstreams

“Regionalization” is perhaps the most significant institutional change that Western Europe has witnessed during the last three decades in that there has been a substantial shift towards regionalisation and power devolution from the central to the meso level of government in many of the Western European states (Sharpe 1993). Aside from the cases of Germany, Austria and Switzerland, which already constituted federal states in the immediate post-war period—during the 1970s, 1980s, and early 1990s I have seen the development and, in some cases, the completion of the regional devolution processes in Italy, Belgium, Spain, and France. This radical and almost concurrent shift from centralised to decentralised models of government has attracted many to the field of regionalisation. Zimmermann (1990) points out that the specific role of public institutions and public finance has hardly been directly dealt with regional economic performance, and only indirectly included via the analysis of publicly provided goods, such as infrastructure. Conversely, Mény (1982) acknowledges that, specifically in Italy, the regionalisation processes were conceived as a means to foster economic growth in advanced regions, and to fight underdevelopment in lagging ones in addition to promoting democratisation at the sub-national level. The task here is to evaluate the literature on decentralisation in the above terms.

There are many kinds of reforms, which fall under the banner of decentralisation. It is therefore useful to follow Rondinelli (1990) and distinguish between different modes of decentralization along the following lines:

- deconcentration - spatial relocation of decision making - i.e. the transfer of some administrative responsibility or authority to lower levels within central government ministries or agencies as, for example, in the British “quangos”;
- delegation - assignment of specific decision making authority - i.e. the transfer of managerial responsibility for specifically defined functions to public organisations (e.g. local governments) outside the normal bureaucratic structure of central government; and

- devolution - transfer of responsibility for governing, understood more broadly - i.e. the creation or strengthening, financially or legally, of sub-national units of governments, whose activities are substantially outside the direct control of central government.

This study will focus upon the first and third modes of decentralization that I will look at from a regionalist point of view—i.e., the process of decentralizing powers to a regional level given its relevance for the Italian case over the last fifty years.

The study of regional government has been dominated by two concerns, both of which have received a major impetus from practical policy concerns (Page and Goldsmith 1987). The first is the question of reorganization expressed in terms of the “best” way to organize regional government units to provide efficient and effective public services. In the 1960s and 1970s national governments brought forward proposals to create regional governments, change the size of governmental units, and assign different roles to sub-national institutions. In 1970 the first two countries to embark on such a radical operation were Belgium and Italy. In 1977 they were followed by Spain and in 1985 France undertook a much more watered down approach to the reorganization of sub-national units. Other countries—e.g., Portugal and the UK—undertook more limited experiments with the creation of asymmetrical regional units in parts of the national territory where national separatism in peripheral areas was on the increase. However, in both of these countries reforms of some of the core units of the central government--respectively continental Portugal and England—were strongly resisted.

The second major concern of policy makers with regard to decentralization was “what should be the powers and capabilities of regional government in modern states?” i.e. “how much decentralization is good and how should that regionalization be organized?”

With respect of the operationalization issues, there has been a concern with establishing the precise nature and significance of any change in central-regional relations; how far have the reforms introduced changed the nature of centre-periphery relations (Wright and Mény, 1985; Sharpe, 1993)? For Italy, Spain and France specifically, there is a body of literature that looks at the importance of regionalization as a factor in altering traditional patterns of central-regional relations (Mény 1982).

Regional devolution is a complex and heterogeneous process. From the high level of decentralization of certain federal states, such as Germany, and of some Spanish and Italian regions, to the more limited influence of regions in France, Italy stands out in providing data on the differentiated nature of the allocation and use of decentralised powers. In my scheme I need to distinguish between powers formally devolved and powers actually used. Consequently, conceptualising devolution and its consequences for policy making-implementation is far from a simple matter.

Looking for a minimum common denominator, Donahue (1997) characterizes the process of devolution as being made up of three separate factors: decentralization of authority (administrative), legitimacy (political), and the decentralization of resources (financial). Any form of devolution implies some degree of sub national legitimacy and some form of decentralization of authority and resources; consequently, any analysis of devolution should take these three factors into consideration.

There is, however, a need for caution in examining evidence, because a simple list-based approach may overlook the interaction between the elements. The complexity of the devolution process derives from the interest-conflicts of the various actors involved, and the differences in legitimacy that they share. Most importantly, the interests of central and regional governments tend to be at odds across the component factors of devolution. While central governments would, *ceteris paribus*, devolve responsibilities (authority) to regional governments, with as few accompanying resources as possible, the regional governments would prefer the opposite case. The balance between these two extremes will depend upon “the relative strength, or, in political terms, legitimacy, of the two tiers of government” (Rodriguez-Pose 1996). The legitimacy of central and regional governments is determined for the most part by processes of history and respective political support. Allmendinger and Tewdwr-Jones (2000) identify the determinant factors of history, culture, language, religion and economic development.

Poor political support for the regional cause would translate into a relatively weak regional legitimacy and therefore tend to promote a devolutionary process in which the central government favours progressive decentralization of responsibilities and often forcing regional and regional governments “to undertake increasing expenditure responsibilities on a static, and often narrowing, financial base” (Bennett, 1997). In contrast, a strong regional legitimacy, underpinned by high political support for the regional lobby, would favour a more rapid decentralisation of resources from the

centre, since there would be strong demand for transfers to sub national tiers of government. In general, the combination of historical and political factors in democratic countries shapes the legitimacy of governmental tiers, the relative strength of their respective lobbies, and hence the forms which devolution initiatives are likely to assume.

In general, an understanding of the interaction between legitimacy and the transfer of resources and authority is imperative to the examination of devolutionary trends (Donahue, 1997). A case that depicts strong decentralization of resources displays no more evidence for devolution than one showing strong decentralization of responsibilities. It merely indicates a different type of devolution, driven by different levels of government and deriving, ultimately, from a different allocation of legitimacy across governmental tiers.

Moreover, following from this, one should not necessarily expect cases to depict high levels of devolution of both resource and responsibility since forces are often operative to promote their mutual exclusivity. This interpretation seems to be in line with the explanation of the Italian experience, given by Leonardi (1993), and the analysis carried out by Cassese (in Sharpe 1993).

### 3.1.2. Determinants of regionalization and devolution

The demands for the redistribution of power from the core to the periphery were supported by a variety of motivations. The first and most obvious demand originates from the existence of significant cultural, linguistic, ethnic and religious differences between various parts of the nation-state. Rousseau and Zariski (1987) observe that the historic forces affecting centralization have had a dialectical impact, as “every factor promoting centralization seems to have produced its own antithesis”. Thus, as the central state expanded its military, fiscal, and bureaucratic control it provoked resistance.

The historical development of the welfare state carries with it its own paradox with respect to regionalization. On the one hand the emergence of the welfare state had been one of the determinants of centralization in the post-war period. On the other hand, it has helped to develop a local system of lobbying to encourage a greater distribution of resources. The growth of central functions and central spending has stimulated the development of local lobbies (Beer 1977, Tarrow 1977). “The growth

of functional specialization and technocracy at the national level has been increasingly offset by the recruitment of skilled technocratic professionals” at the regional level (Rousseau and Zariski 1987, p.15). As a result, a growing confrontation between central and regional elites emerged (Tarrow 1977).

The conflict between core and peripheral interests has tended to increase the importance of the linkages functions between core and periphery carried out by administrative and political elites. This has tended to overburden the linkage system as well as central state functions. As argued by Leonardi (1995) one of the important determinants of decentralisation in the Italian system was the overburdening of the centre by the accumulation of functions that were promoted by a widening welfare state system (pensions, education, housing and health) that in the end ground the decision making system to a halt. The consequences were that central responses to local demands kept getting longer and longer to the point that the linkage system became dysfunctional and was in no position to respond to local demands.

The uneven rate of economic growth and development in modern democracies has become an increasingly evident factor in differentiating regions within a national territory. This factor has been partly responsible for the mobilisation of demands posed by two sets of regions: those that have lagged behind in economic terms (e.g., Galicia in Spain and Sicily in Italy) as well as on the part of those that are most developed (e.g., Catalonia in Spain and Lombardy in Italy). In both cases the regions have demanded more power in determining their own development paths. Smith (1985) argues that the establishment of regions in Italy and France represented “an attempt by the embattled central governments to assuage the economic grievances of the depressed periphery” (Rousseau and Zariski 1987).

However, in both cases a uniform regional structure was introduced for both developed as well as underdeveloped areas. Central responses to regional economic grievances would be more logical if regionalisation were pursued in an asymmetrical fashion, as was the case with Scotland where economic grievances against the centre represented an important element in mobilising a demand for devolution during the 1990s. The same argument can be made in relation to the two ultra peripheral regions of Portugal: in 1976 regional autonomy had to be provided in order to maintain them within the national context of Portugal.

Regionalization has not only resulted from challenges emanating from below. According to Duchacek (1970) recent decentralizing trends have come about because

of initiatives from above. Central authorities have tried to develop, in specific contexts, greater initiative and flexibility at local level, specifically with respect to the implementation of national programmes, in the attempt to off-load functions previously centralised to the periphery (Beer 1977).

A final determinant of regionalization, in its decentralization-related aspects, is associated with the democratic definition of a nation-state. This is what I had in the case of Spain and Italy. In Spain a return to democracy necessitated a return to the regionalist state structure that existed prior to the Francoist regime and in Italy decentralisation was written into the Republican Constitution in 1947 as a response to the authoritarian centralisation experienced during the Fascist regime. Thus in both cases regionalisation was considered by the body politic as a more democratic solution to the building of new state structures to govern public policies. In the Italian case, the slogan that characterised the decentralisation drive was: “Bringing power closer to the people” (Putnam, Leonardi and Nanetti, 1986). In this context, decentralisation contributes to political participation and makes possible the increase of citizen participation in public affairs through organised groups and referenda. Decentralisation makes it possible for a more meaningful control over policy decisions by “unpacking” governmental policies into specific areas associated with local economic and social demands (Dahl and Tufte 1973).

Ylvisaker (1959) states that regionalization provides the individual citizen and the local group with more points of access, pressure and control in their dealing with the political and administrative system. Another normative consideration raised by the advocates of regionalization is the need to restrain abuses of power by the central government (Huntington 1959), with specific respect to minorities.

Central to the regionalization drive is the argument that local governments are closer to the people and hence better equipped to extract information on local preferences and needs at lower costs (Oates 1999). By corollary, regionalization is expected to boost public- sector efficiency in service delivery, such that scarce public resources can be channelled into more productive, externality-generating uses at the nationwide level (Inman and Rubinfeld 1997).

Moreover, accountability and transparency in policy making can be enhanced by bringing expenditure assignments closer to revenue sources and hence to the citizenry. Disenchantment with the ability of large central governments to provide goods and services efficiently, as well as the aggravation of fiscal imbalances and debt-overhang

problems, has also added fuel to the decentralization drive in a number of countries (Tanzi 1995).

The focus of a growing literature on regionalization has been on the macroeconomic and public finance aspects of decentralization (Prud'homme 1995; Oates 1999). I briefly quote the main issues addressed by this academic mainstream for sake of completeness, as my research do not cover the macroeconomic and public finance aspects of the regionalization process, but some specific contribution related to devolution are extremely relevant in the present case.

Recent research on fiscal federalism has expanded the scope of the analysis and shown that the vertical structure of government may have important implications for political participation (Oates 1999) and governance (de Mello and Barenstein 2001). The ultimate argument for decentralization, however, relies in the view of decentralization as ensuring greater efficiency and more satisfactory economic performance. There is a more compelling reason why decentralization may be regarded as essential to improving efficiency and performance: the necessity of a centralised system of communication leads to a high risk of overload and congestion of the administrative machinery (Dahl 1982).

In addition to the number of historical and social factors that have contributed to decentralization, I need to consider another factor associated with the debate during the 1970s and 1980s—i.e., the efficiency argument. Rousseau and Zariski (1987) observe that “decentralization has acquired a halo of efficiency” and has been presented as an instrument to foster economic growth.

Decentralisation can be defined as a two-dimensional policy institution that involves either decentralisation of a tax instrument, when local governments have the power to raise taxes, or decentralisation of expenditures when local governments bear the responsibility for implementing expenditure functions. This research will focus on the origins of funds in terms of transfers among levels of government, and not as pure fiscal revenues, as well as the expenditures of central and local governments.

The huge amount of theoretical and empirical literature that studies the relation between decentralisation and government efficiency can be divided into two large areas the classical theory, and the second generation theory. Chronologically, it is possible to start with Tiebout's model of local public good provision (Tiebout, 1956), where decentralisation coupled with mobile households solves the problem of the

efficient provision of public goods. Essentially local governments compete in offering a mix of tax and public goods, and citizens "choose by their feet", deciding where to live according to their preferences about tax and public goods. The second and maybe most influential contributions is Oates (1972) Decentralisation Theorem that solves the trade-off between centralised and decentralised provision of public goods in favour of the former (centralisation) if average preferences across citizens of different region are equal, and the consumption of the public goods generates spill-over effects; whereas a decentralised provision maximises social welfare when preferences differ across regions and spill-over effects are absent. Finally the most important contribution in the public-choice perspective of fiscal federalism is Brennan and Buchanan (1980) Leviathan hypothesis, according to which fiscal decentralisation is a mechanism for constraining the expansionary tendencies of governments.

Oates (1972) and Tiebout (1956) offer a theoretical framework in which fiscal decentralisation can guarantee an efficient provision of public goods simply because local preferences are better satisfied than in the case of centralisation. Both previous approaches assume a benevolent government, but the Leviathan hypothesis is based on the opposite assumption whereby decentralisation is a means to reduce government size in order to stem its inefficient behaviour.

Most of the early empirical works about the effects of decentralisation are aimed at assessing the relation between the size of government, measured in terms of general government revenues or expenditures, and some indicators of local governments' degree of power, trying to provide a test for the Leviathan hypothesis. One of the last studies in this field is that of Rodden (2003), whose main argument is that fiscal decentralisation might lead to a smaller or larger public sector depending on how it is funded: when decentralisation is provided by grants from general to local governments the Leviathan hypothesis may not hold and the expected outcome should be a larger public sector; instead, when the general government decentralises fiscal revenues the effect on total public sector might be negative. The hypothesis that expenditure decentralisation without local tax power can hinder the tax competition predicted by the Leviathan model was successfully tested.

These aspects are particularly relevant for our research as we investigate different institutional settings and autonomy in the light of evolution in regional policies' related expenditures.

Although not central to this thesis, and it is necessary to stress that limitation of this approach is that in these models, however, public expenditure is used as a dependent variable and it is implicitly considered as the output of government activity. The problem is that even if we assume that smaller is better according to the Leviathan hypothesis, it would be very difficult to assess the effect of the decentralisation on the efficiency of the government in these models.

In the last twenty years the classical approach evolved together with the theory of fiscal federalism in what is sometimes called the second-generation theory of fiscal federalism (Oates, 2005). In this new (or second generation) literature the effect of fiscal decentralisation has been modelled to embody the political process and the possibility of asymmetric information across political agents. Differently from the classical approach governments are assumed to maximise their own objective function that does not imply the maximisation of social welfare.

In this new framework the basic issue of whether to centralise or decentralise provision and/or funding of some public activities appears in a somewhat, but not completely, different light. The first stream of this new literature reconsiders the decentralisation theorem in a political economy contest. Here the main argument in favour of decentralisation hinges on the inefficient outcome of the centralised decision-making process rather than on the trade-off between preference matching and externalities typical of the original version of the Oates' theorem. The second stream studies the trade-off between centralised and decentralised provision in principal agent models of electoral accountability. Essentially the electorate are the principals and the politicians are the agents and the presence of asymmetric information between them can be seen as the main reason why the government performance is inefficient.

Lockwood (2002) and Besley and Coate (2003) explicitly depart from both main assumptions of the Decentralization Theorem, studying the trade-off between centralisation and decentralisation in a political economy setting. They consider a more realistic environment where provision of public goods can be set at a different level across regions in the case of centralization also.

These two important contributions offer new arguments in favour of decentralised provision of public goods since they show that centralised provision can be welfare-dominated even if the assumptions of the Decentralization Theorem fail. Thus, either under the classic approach or under the political economy perspective fiscal

decentralisation is largely seen as a powerful policy institution to boost efficiency in the public sector.

In more recent literature the effect of decentralisation is estimated in models that adopt, as a dependent variable, some measures of general government efficiency like, for example, the perceived corruption or indicators of the output (or quality of the service) in particular sectors like health care and education in order to provide more direct evidence for the accountability and preference-matching argument.

Recently Adam et al. (2008) identified the effect of fiscal decentralisation using a "two-stage approach". In the first stage, data envelopment analysis of a panel of 21 OECD countries over the period 1970 to 2000 is used to compute country-specific efficiency indexes, assuming an underlying production process where public spending is considered as input and two composite measures of performance are assumed as outputs of the public sector. In the second stage, country-specific efficiency indexes have been regressed on an extensive set of alternative revenues and expenditures in fiscal decentralisation measures and some control variables. Their results strongly support the evidence of a positive and significant effect of decentralisation on government efficiency.

In the presence of Soft Budget Constraint, local governments have the incentive to expand their programmes beyond their means, which builds perverse fiscal behaviour into the system and undermines the positive effect of decentralisation on efficiency. As summarised by Oates (2005), the main solution of this problem requires the implementation of an effective and reliable local system of taxation and intergovernmental grants in order to provide the revenues needed to finance local programmes.

## 3.2. The Europeanization process: institution building and policy transfer

### 3.2.1. Approaches and academic mainstreams

The concept of Europeanization has gained prominence over the 1990s as a growing academic community has endeavoured to shed light on the EU's institutional dynamics and its impact on national policies, politics and polities. Conceptualisations have varied widely in both their approach and application, leading some authors to

warn against the perils of conceptual “stretching”, and calling for a greater emphasis on theoretical clarity and analytical rigour (Redaelli 2000; Olsen 2002). This requires a clear definition of Europeanization, which will in turn allow trends to be evaluated and the extent of Europeanization to be gauged. As the domain of Europeanization is specified, attention is paid to clarifying the mechanisms of change.

According to Yuill, et al (1997), a key question in the academic debate is whether the research focus should be bottom-up or top-down. I will borrow this distinction to go through the academic debate on Europeanization.

Most studies on Europeanization tend to adopt a top-down conceptualisation, focussing on the domestic impact of external pressures emanating from the EU. A starting point was provided by Ladrech (1994) in his well-known definition of Europeanization as an “incremental process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national politics and policy-making”. Borzel’s (1999) definition draws more explicit attention to the “penetrative” nature of Europeanization as “a process through which domestic arenas become increasingly subject to European policymaking”. The vast majority of academic studies have tended to favour this top-down perspective, examining the domestic impact of the EU across a variety of domains, such as political structures (Bulmer and Burch 2001), policy areas (Jordan 2002; Knill and Lenschow 2001), interest representation (Kohler-Koch 1996), political institutions and policymaking styles and regional governance (Kohler-Koch 1999; Boerzel 1999).

As noted above, an important task for the study of Europeanization is to specify the mechanisms of change. Knill and Lehmkuhl (1999) identify three such mechanisms. The first mechanism involves the imposition or prescription of an EU model with limited discretion at the national level. The second mechanism concerns changing domestic opportunity structures and a corresponding redistribution of resources and power. This mechanism does not impose an EU model and allows more discretion at the domestic level. The third mechanism is the weakest and relates to altering beliefs and expectations of domestic actors, following a cognitive logic. These three mechanisms are not mutually exclusive and it is possible that they all play a role in the adaptation process to varying degrees, depending on the domain/phenomenon under study. For the purposes of area designation, it is the first mechanism that has the most significance, given that the Member States are compelled to bring domestic

arrangements into line with specific conditions and criteria that have been set at the European level. This can also be referred to as “coercion”, following the institutional isomorphism (Di Maggio and Powell 1991) and policy transfer literature (Dolowitz and Marsh 1996).

The key research task for the top-down approach is to account for variation in the domestic impact of EU pressures. Thus, Europeanization is taken as the independent variable and the adaptation of domestic institutions as the dependent variable. The literature highlights a number of potential responses in terms of domestic adaptation, ranging from absorption to accommodation or transformation (Boerzel and Risse2000). Broadly speaking, three key factors can be discerned when turning to the explanation of differential domestic adaptation.

The first factor is the “goodness of fit”. As Risse et al (2001) put it: “the degree of adaptational pressure generated by Europeanization depends on the “fit” or “misfit” between European institutions and domestic structures”. The goodness of fit applies to both institutions and, as in the context of this study, policies i.e. policy goals, instruments/techniques used to achieve policy goals, problem solving approaches etc.

According to Boerzel and Risse 2000, when the fit between European institutions and national institutions is low, adaptational pressure will be high leading to transformation, as States are forced to alter domestic policy to satisfy EU requirements. On the other hand, when the policy fit is high, adaptational pressure will be low and absorption can be expected as Member States incorporate EU policies/ideas without substantially changing existing practices. Finally, when the fit is of medium intensity, adaptational pressure will also be of medium intensity and accommodation can be expected as Member States mediate EU requirements, by adapting existing policy without fundamental change to core existing features and collective understandings.

The second factor concerns domestic institutional structures. Unitary or federal territorial designs, the mix of public and private actors in the economy, political or organizational cultures, patterns of party competition etc. are variables that mediate the effects of Europeanization. Political obstacles or “veto points” (Tsebelis 1995) have received particular attention in the Europeanization literature (Haverland 2000) as “the more power is dispersed across the political system and the more actors have a say in political decision making, the more difficult it is to foster the domestic consensus or “winning coalition” necessary to introduce institutional changes in

response to Europeanization pressures” (Risse et al 2001). This research will not address political factors, as in a regional context political system is not different among case studies.

The third factor relates to actors’ preferences and strategies. These preferences can be exogenously defined, following “logic of consequentialism” (March and Olsen 1998) from a rational choice institutionalist perspective (i.e. treating actors as utility maximising agents). Alternatively, preferences may be endogenously defined, following logic of “appropriateness” (March and Olsen 1989) through sociological factors such as collective learning and socialisation processes. As an actor-centred process, learning can take the form of “single loop learning” (Agyris and Schön 1978) whereby actors acquire new information, alter strategies but pursue given interests. Alternatively, learning may be of a more fundamental nature involving a radical change of objectives associated with paradigm shifts. This second type of learning is known as “third order change” in the terminology of Hall (1993).

The above conceptualisation is not without its shortcomings. First, the notion of adaptational pressure remains underspecified in the literature. Knill and Lehmkuhl (1999) argue that the power of the “goodness of fit” in explaining outcomes is not universal but depends on the Europeanization mechanism in question. In instances of “negative integration”, for example, it has limited explanatory power (see also Haverland 2000). Second, the approach is rather static since it holds domestic institutions constant (Knill and Lenschow 2001). In reality, Europeanization is characterised by dynamic processes in which domestic and/or EU institutions evolve over time and in different directions. This aspect is particularly relevant in the historical component of the case studies. Third, Europeanization is an interactive process between the various levels and actors involved. Member States are not merely passive recipients of EU legislation, but also try to influence or shape EU policy to suit their own interests in order to minimise the policy misfit and subsequent adaptation costs. Indeed, in the context of area designation, the methodologies for allocating population quotas to the Member States were developed through a series of iterations, which took account of Member State views (and associated lobbying). Domestic actors, therefore, could influence the resulting match or mismatch. This draws attention to the importance of exploring the “feedback loops” and “uploading” of domestic preferences.

Furthermore, as new forms of policymaking emerge in the EU, the traditional vertical relationship between the Member States and the Commission is evolving. With the growth of softer forms of integration such as the open method of coordination (Hodson and Mayer 2001) more attention is being directed towards the horizontal relationships between Member States (a theme that is prevalent in the policy transfer and policy learning literature).

Finally, this approach assumes the existence of a domestic policy comparable to the EU policy and does not therefore take account of policy or institutional voids. This is particularly relevant to countries such as Greece, Portugal and Spain (or the new Member States) where EU membership has been associated with institutionalisation rather than institutional change per se and where domestic policies (such as the cohesion policy) did not pre-exist entry into the EU. In these cases it has been easier to make the shift to adoption of the EU due to the lack of existing policy path dependency, culture or institutional structures (SOCCOH, 2009)

For the same reason this approach seems to be relevant in this analysis as Italian case was strongly characterized by an incumbent institutional setting as well as a regional policy. The bottom-up approach is captured well by the definition of Europeanization used by Risse et al (2001) as: “the emergence and development at the European level of distinct structures of governance”. On the same academic mainstream, one of the conceptualisations offered by Olsen (2002) defines Europeanization as: “the development of governance at the European level. This signifies centre building with a collective action capacity, providing some degree of political coordination and coherence. Formal legal institutions and a normative order based on some overarching constitutive principles, structures and practices both facilitate and constrain the ability to make and enforce binding decisions and to sanction non-compliance.”

Lawton (1999), on the other hand, distinguishes between “Europeanization” “Europeification”. The former describes the transfer of power from national governments to the EU level, whereas, the latter relates to the sharing of power between the two levels. Some authors question whether the bottom-up conceptualisation depicted above is Europeanization, or merely a new label for European integration (Schmidt et al. 2002). For Featherstone and Kazamias (2001) it is the uncertain and unpredictable nature of Europeanization that sets it apart from

neofunctionalism (Haas 1992). Indeed, given that the effects of Europeanization are “not necessarily permanent or irreversible” (Featherstone 2003) there is room for a more realistic account of European integration than can be offered under the teleological assumption base of the neo-functionalist lens. Whereas, for Howlett and Ramesh (2002), it is the “uploading” or “vertical policy transfer” element in the “development of EU institutions” that constitutes the key difference between this conceptualisation of Europeanization and European integration.

As Olsen (2002) has argued, it is not important to know what “Europeanization really is” but whether and how the term can be useful for understanding the dynamics of the evolving European polity. That is, how eventually it may help us give a better account of the emergence, development and impact of a European, institutionally ordered system of governance”. As already noted, understanding the “emergence” and “development” (bottom-up) can prove to be useful, and indeed necessary, for understanding the “impact” (top-down).

Moreover, Europeanization can be both institution building at the EU level as well as influencing the domestic level. The relationship between these two processes is an interactive one (Bulmer and Burch 2001). The EU does not exist independently out there over and above the Member States. The EU is also the product of Member State actions. Indeed, Europeanization cannot be translated neatly into the positivist language of dependent and independent variables and clearly identifiable unidirectional chains of causation. Instead, “Europeanization denotes an interactive, iterative process between actors, domestic and European or both, and the EU level is occupied by varied and competitive actors” (Featherstone and Kazamias 2001). In other words, in order to use the concept of Europeanization to explain policy outcomes it is necessary to explain what causes Europeanization in the first place.

A clear implication of the bottom-up conceptualisation is the need to investigate power relations. As Olsen (2002) argues, “the research challenge is to identify the relevant actors and the motivations and forces that determine their choices” Likewise, the first question that is raised as the basis for the Dolowitz and Marsh (1996) policy transfer framework is “who is involved in the policy transfer process?” For Olsen (2002) agency is ascribed a particularly powerful role: “Policy transfer is “action-oriented intentional learning – which takes place consciously and results in policy action” and that a “necessary, but insufficient criterion for identifying policy transfer

is therefore to identify the agent(s) of transfer, to specify the role played by the agents(s) and the nature of the transfer that the agents(s) are seeking to make”.

In this context it is important to examine the “uploading” (Boerzel 1999) or “projection” (Bulmer and Burch 2001) of preferences and policies. However, as Héritier (1996) has argued, the EU regulatory framework can be best described as a “patchwork”, given that no one state can consistently have its preferred model adopted at the EU level.

Moreover, for analytical clarity it is important to specify what is being transferred or uploaded and to what degree. The policy transfer literature provides some useful organising concepts. First, to clarify the object of transfer, it is useful to distinguish between policy goals, content and instruments (Dolowitz and Marsh 1996).

Similarly, Hall (1993) differentiates between goals (the overarching objective of the policy), instruments/techniques (policies to achieve these goals) and levels (the precise settings of the instruments). Second, in terms of degree, four gradations of transfer have been identified (Dolowitz and Marsh 1996): copying (direct and complete transfer); emulation (transfer of ideas behind the policy or programme); combinations (mixtures of several different policies); and inspiration (where policy in another jurisdiction may inspire a policy change, but where the final outcome does not actually draw upon the original).

Finally, it is also essential to understand the respective policy sectors under empirical investigation. Indeed, “comparison of the different dynamics of institutional spheres and policy sectors is particularly required when institution building is seen to involve changes in action capabilities...” (Olsen 2002). Or as Lowi (1964) has put it, “a political relationship is determined by the type of policy at stake, so that for every type of policy there is likely to be a distinctive type of relationship”. In other words, policy determines politics.

According to all the considerations of above this research follows a top-down approach in order to investigate political, administrative and policy (design and financial) aspects of Europeanization process and its effects on regional policies.

### 3.2.2. Convergence and “goodness of fit” in national policies and institutions

Most of the literature on the domestic impact of Europeanization tends to analyse the outcome of domestic change in terms of the likelihood of convergence of policies and institutions among the member states. But measuring convergence and divergence is extremely tricky. Answers vary according to the level at which one looks for convergence (Knill and Lenschow (2001) and the issue supposedly subject to convergence.

Thus, the thesis needs to specify what is meant by “policy convergence”: *i.e.* convergence in outcomes (which equals compliance with EU law and, thus, is not particularly interesting to observe) or convergence in policy processes and instruments. This is often confused in the literature, as a result of which I know surprisingly little about the degree of policy convergence not related to policy outcomes.

As to the degree of institutional convergence, resource dependency and sociological institutionalist approaches generally lean towards convergence. Resource dependency predicts a redistribution of resources strengthening one group of actors over the others or reinforcing their mutual dependence. Arguments about institutional isomorphism (see above) suggest that institutions, which frequently interact, are exposed to each other, or are located in a similar environment, become more similar over time (DiMaggio and Powell 1991; Meyer and Rowen 1991). However, there is empirical evidence that the outcome of the domestic effects of Europeanization is much more diverse than either resource dependency or sociological institutionalist approaches would expect.

The most comprehensive empirical studies on the domestic institutional effects of Europeanization so far showed that most empirical instances of domestic institutional change fall in the 'mixed' category whereby some countries converged toward similar policy or system-wide structures, while others retained their specific institutional arrangements, state-society relations, or cultural understandings (Kohler-Koch 1999; Héritier et al. 2001). There is not a single empirical case in which convergence meant the complete homogenization of domestic structures across member states. There is no evidence that domestic institutional change meant the comprehensive rejection of

national administrative styles, legal cultures, societal relationships, and/or collective identities.

The multi-level governance approach developed, in particular, by Marks/Hooghe (Marks 1996, Hooghe 1996) analyses an empowerment of the regions and the establishment of a third level in European policies as the result of European as well as regional political initiatives. Regions become a fully-fledged actor by support of the European level in a multi-level arena. Proponents of the multi-level governance approach point to two different developments in European policies, an “upward stream” in policy formulation and a “downward stream” in policy implementation (Benz 2000). Firstly, regional actors organised at the European level, in particular by the 'Committee of the regions' to represent their own interest bypassing to some extent their respective national governments. This strategy is welcomed and supported by the Commission. Secondly, they were introduced by the Commission in the negotiations of the structural fund programmes, which encompass not less than one third of all spending at the European level. The empowerment of the regions is dependent on their strength in the national institutional framework and the degree of regional mobilisation (Marks 1996, Jeffery 2002).

The coherency and validity of these arguments has been called into doubt on two grounds. Regional policy has always been a compensation for increased market competition brought about by the European Single Act and the European Monetary Union. In addition, the Commission tried to link state aid control to structural fund programmes in a way that would reinforce the efficacy of the latter. The two processes of mobilisation from below and from above turned out to be contradictory rather than reinforcing: on the one hand, regions that benefit from structural fund programmes mostly lack the institutional capacity to make full use of them and the political clout to be empowered by them. On the other hand, regions that actively promote their interests at the European level are among the most developed regions in Europe. They benefit less from European regional policies, but have to bear a significant part of the national contributions and are also constrained by state aid control. Therefore, such regions may even become outspoken against European regional policy (Baden-Wuerttemberg and Bavaria in Germany are cases in point). In this regard, proponents of a multi-level governance approach often neglect later developments in European policy that have extended the partnership principle to include economic and social

partners; these developments effected regional governments since they were aimed at changing the rules of sub national governance.

The research contained in the thesis aims at addressing some of the aspects that remain open in the theoretical debate. First, as argued above, the “goodness of fit” between Europeanization, on the one hand, and the domestic policies, politics, and institutional arrangements, on the other, varies enormously among the member states, and within the same member state’s regions. Only those EU countries, which exhibit similar domestic arrangements, also face similar adaptational pressures as the necessary condition for domestic change. Second, and quite irrespective of the pressures for adaptation, each member state has a different set of institutions and actors facilitating or inhibiting change in response to these pressures.

Central to this research is whether institutions (either central or regional) facing similar pressures for adaptation are likely to converge around similar outcomes, because similar actors are empowered and are likely to learn from each other in searching for ways to respond to adaptational pressure (Börzel 1999). Thus regions with similar settings are expected to converge toward similar outcomes/responses.

The facilitating factors identified by two logics of domestic change can explain the absence of full convergence and should lead us to expect only partial, or some “clustered convergence”(Featherstone and Radaelli 2003), where convergence is intended as a process of change toward similar policies or institutions. Here my research finds its main field of application and, possibly, contribution to the academic debate.

### 3.3. Mediating factors in institutional change: the role of paradigms, paradigm shifts, and path dependence

#### 3.3.1. Paradigms in policies and institutions

In recent years, public policy analysis has experienced a fundamental shift in theoretical and analytical focus towards the question of just how ideas, principles, values and beliefs influence and constrain both the behaviour of policy-makers and the dynamics of the policy-making process (see Surel 2000). In an attempt to grasp the

cognitive and normative dimensions of policy-making, a range of concepts have been developed: frames (Schon and Rein 1994); belief systems (Sabatier and Jenkins-Smith 1993); and paradigms (Hall 1993). All these notions aim to define a coherent set of normative and cognitive elements, which, within specific policy sectors, establish the identity, worldview, and practices of all those players accepting the same paradigm (frame, belief system). This approach is both interesting and fruitful, especially when policy change is under analysis and the analyst is dissatisfied with the traditional structuralist approach whereby changes are considered to be the direct effect of exogenous pressures.

Boerzel and Risse (2003) believe that the content of policy changes is strictly related to the specific configuration of institutions, interests and ideas inherent to a given policy sector, and that within this context, the features of the articulation of normative and cognitive elements can determine the mechanisms of resistance, adaptation and/or transformation that constitute the reaction to such external pressures. The social sciences have adopted the concept of paradigm from epistemology (Kuhn 1970). A public policy paradigm is the series of beliefs and ideas of policy-makers (those who materially formulate and implement policy) with regard to: (a) those normative and ontological tenets, those fundamental values, which are based on a specific worldview, and which underlie the individual and collective identities that, in turn, distinguish and govern the definition of the meaningful problems and the objectives to be pursued in a given public policy sector; (b) the causal theories underlying the construction of sectoral strategies for action; and (c) the individual public policy instruments that are used daily within a given public policy sector (Jenson 1989; Hall 1993; Sabatier and Jenkins-Smith 1993; Sabatier 1999). In other words, “policy paradigms are cultural frameworks that govern the policy process” (O’Sullivan 1999).

An interpretative approach based on the above-defined concept leads to the hypothesis that each public policy sector contains a coherent series of beliefs about the “things to be done”, and about “how” they should be done, which is shared by the principal players within that sector. The “things to be done” constitute the hard core of the paradigm or system of public policy beliefs. This core includes the basic, inexorable values that are to dictate policy strategy; values that cannot be negotiated, that represent the affective component of the system of beliefs, the one that brings together all those who adhere to a given paradigm. “How” things are to be done

constitutes the cognitive component of a policy paradigm; that is, the series of cause-and effect relationships by means of which the participants formulate their general strategy of intervention and choose individual public-policy instruments. The cognitive component constitutes what Capano (2003) defines as the protective belt of the paradigm's hard core composed of those beliefs underlying the choice of those policy strategies and instruments, which can best preserve the basic values of the paradigm itself.

Clearly, the nearer you get to the hard core, the greater resistance to change you are going to encounter, provided that, rather than believing in established values, you consider the means and ways of pursuing such values to be negotiable (albeit with a different likelihood of success). That is, in certain circumstances those players sharing a given paradigm may be encouraged to modify the cognitive components of their own system of policy beliefs, provided such changes do not affect the hard core, the affective component, and the fundamental values of the paradigm itself.

According to Boerzel and Risse 2003, this hypothetical interpretation is more useful when analysing the processes of change, including those of administrative reform. Paradigmatic change can be conceived of in terms of the deep transformation of all the constitutive elements of a public policy (policy goals, policy strategies and programmes as well as policy tools) (Capano 2003). Normal or incremental change refers to adaptive modifications to the setting or institutional arrangements of public policies (policy instruments, policy programmes and policy strategies) without any conscious modifications being made to policy goals or values. It is usual for these two kinds of change to be normatively conceptualized: paradigmatic change is conceived of as a radical, real, pure mutation, while incremental change is seen as marginal adaptation. While paradigmatic change is defined as a sudden, discontinuous and fast mutation, incremental change is slow and gradual.

These assertions are arguable however. In fact, as Howlett and Ramesh (1998) maintain, paradigmatic change can be slow while incremental change can be rapid, depending on the presence/ absence of new interests in the policy arena. In keeping with this line of reasoning, an incremental change in policy instruments can be extremely meaningful in a specific context, substantially improving performance and establishing the basis for a subsequent paradigmatic change. Therefore, as has been suggested in public policy analysis (Howlett and Ramesh 2002) and in organization theory (Wollin 1999), the real explanatory problem is not that of establishing whether

one kind of change is more important than another, but that of trying to explain a whole spectrum of results of change, together with why a specific systemic or policy context tends more towards revolutionary/evolutionary dynamics than other contexts do.

Following Capano's (2003) approach, one way to address this issue is to focus on the concept of policy paradigm. In this research I assume that change will be increasingly "more" revolutionary, the more difficult it proves for the old paradigm to overcome the anomalies present within the given context. Accordingly, one of the most important factors here is the presence or absence of an alternative paradigm.

In fact, the crises caused by these anomalies do not necessarily lead to the replacement of the old paradigm by a new one – as Hall asserts – unless such an alternative paradigm (shared by a cohesive network of policy-makers), is already present. The lack of an alternative paradigm, in fact, gives the institutionalized paradigm the chance to eliminate the anomalies by adapting to external inputs, and re-laborating some of its more marginal features. The presence of just one paradigm, unchallenged by any alternative model, occurs when the public-policy sector is characterized by the presence of that type of closed network known as a policy community. In such a case, the institutionalized paradigm may be defined as being "hegemonic" (Howlett and Ramesh 1998).

As Capano (2003) maintains, ambitious administrative reform projects as ones addressed in this research may therefore be seen as an attempt to replace the prevailing paradigm within public administration, in the case where collective, systemic dissatisfaction has arisen over the efficacy of policy measures taken by the said administration. This is not a question of dealing with small anomalies or partial problems, but rather of restructuring the entire organizational and processual framework: these structural anomalies de-legitimize the existing paradigm, and thus call for a new solution. The resolution of the crisis of the institutionalised paradigm will depend on the presence or otherwise of an alternative paradigm. *Ceteris paribus*, if the latter exists, then the "reform" may (although not necessarily) lead to a "revolutionary" modification of the way administration is conducted; however, should there be no such alternative paradigm, then it may well be that the old paradigm proves capable of overcoming the crisis by means of an "evolutionary" process of adjustment of its instrumental components.

As it emerges from the academic debate, the “ideational variable” (Capano 2003) is essential to any comparative understanding of the different trajectories of administrative modernization and reform. It is within such a framework that I now attempt an interpretation of the evolution of Italian institutional and administrative aspects of regional policies’ reforms.

### 3.3.2. Paradigm shifts

Regional policy has been in existence in Western Europe for over sixty years. Over the years, regional policy has become a prominent part of the widening economic and social policy intervention undertaken by all Western European governments. From the mid-1970s, regional policy began to change, in the wake of slower economic growth and a new political orthodoxy. The redistribution of economic activity was superseded by a focus on endogenous development. Economic development became “multi-level”, first with the formation of regional development agencies and then a widening range of special-purpose or directly elected regional and local bodies. In recent years, it is possible to identify a significant shift in the “paradigm” of regional development policies, structures and level of interaction. This shift in the economic and structural aspects of the paradigm adopted for the conceptualisation and implementation of regional policy has already been noted by Bachtler (2001)<sup>11</sup> and others (Capellin R., Garofoli G and others 1988, and Amin 1999), but these previous studies have not clearly illustrated the impact of the change in terms of the mechanisms used to managed regional policy nor in the evaluation of the outputs of the policy (e.g., expenditures and private resources mobilized) or of its outcomes (rate and level of growth, jobs created, and changes in institutional interactions). Aim of this research is to do this with regard to the Italian experience with regional policy in the period starting in 1950.

In establishing a framework for this research I will proceed with the identification of the main features of the shift in the regional policy “paradigm” during the last five to six decades. It will be argued that there has been a fundamental change in all

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<sup>11</sup> Bachtler has described this shift in the development approach as one in which previously the emphasis was on the role of central governments in using the levers of subsidies to firms, infrastructure and the location of public sector activity to one focusing on the decentralized approach, “characterised by decentralised intervention based on integrated regional development plans and strategies” (Bachtler 2001), designed and delivered by partnerships of regional and local actors.

aspects of how regional development is conceptualised and how regional policies are conceived and delivered. This is clearly evident in the adaptation of the scheme by Bachtler (2001) presented in Chapter 1 to illustrate the different approaches to centralized and decentralized European regional policies with regard to: conceptual basis, policy characteristics, policy structure, organization of intervention, and the evaluation of results.

Crucial in this shift has been the creation of political and administrative institutions at the sub-national level capable of assuming the responsibility of activating the new decentralized paradigm. Once the institutions are present it is possible to engage in bottom-up planning, the mobilization of local government and socio-economic forces, and the formulation of multi-year programmes. Finally, the shift in paradigm has also made it possible to place emphasis on the measurement of both the outputs and outcomes of the policies being pursued and enhance the diffused “ownership” of the regional policy by the various components in the regional society.

After 1945, following the period of emergency reconstruction of physical infrastructure and production capital, regional concerns gradually moved onto the Italian policy agenda. During this period there was an increasing emphasis across Europe on equality issues and questions of distribution. At the same time, the severity of regional disequilibria increased in many countries given the general movement of workers out of agriculture and into the cities seeking industrial employment. The result was an increase in both unemployment and significant migratory flows. The gap between core and peripheral areas began to become noticeable and decision makers had to begin formulating policies to meet these needs. As a result, serious concerns arose about congestion levels and infrastructure provision in many of the major agglomerations, with attendant inflationary pressures. The economic case for regional policy was that it would enhance national development by taking up the employment slack in the problem regions whilst relieving inflationary and other pressures in more prosperous, congested areas. At the time, there was a general confidence in government intervention, a conviction that the problems facing the economy could be solved if only the appropriate planning were undertaken and the correct policies adopted (Myrdal 1957, Yuill and Nicol 1982).

The central focus of regional policymakers was on the prospects of regional convergence – reducing economic disparities between regions, especially differences

between core and periphery<sup>12</sup>. Conceptually, regional policies were based on traditional theories of regional development – models of land prices (von Thünen, in Hall 1968), industrial location (Marshall 1964) and settlements (Christaller 1966, Lösch 1954). The common characteristic of these theories was that they were concerned with explaining variations in the location of economic activity with reference to the attributes of regions or urban areas, such as the cost of land, transportation costs, market size and the availability of workers. Policies to reduce disparities were, therefore, generally developed to influence these factors of production (e.g., by reducing investment or employment costs, subsidising transport costs, providing cheap land and premises in the problem areas, while, in some cases, increasing the costs of development in the core or congested areas.

Bachtler (2001) has observed, “Although there were significant differences in policy emphasis among Western European countries, the approach to regional policy was broadly similar”. The major issues of concern to regional policymakers across Western Europe were primarily underdevelopment and depopulation in rural areas. In addition, regional policy also attempted to address problems of geographically concentrated unemployment. The main policy objective was equity (equalising variations in standards of living and employment across the national territory) and the efficiency of national policies in achieving these broad socio-economic objectives. Problem areas were defined as those generally suffering from slow economic growth, low incomes and high unemployment.

Despite the broad range of policy instruments, the focus of policy was essentially a narrow one, concerned with influencing economic activity through industrial location. Assistance was generally provided in the form of business aid and hard infrastructure. The mode of organisation was essentially top-down: the design of policy, the delimitation of assisted areas and the delivery of instruments were undertaken by central government (with the exception of some federal countries). Particularly in the case of regional financial incentives, the policy was essentially demand-driven and reactive, responding to individual project applications from companies in the problem areas, or to specific political demands for an equalization of economic opportunities and socio-economic well-being.

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<sup>12</sup> See Mény Y. and V. Wright 1985 for a critical discussion of the centre-periphery relationships, and Cassese 1986 for a specific analysis of these dynamics in the Italian case.

After the oil shocks of the early 1970s, the importance of regional policy diminished. Economic conditions in Western Europe were characterised by a long-term slowdown in growth and with sluggish increases in productivity, inflationary pressures, restricted investment, persistent widespread unemployment and pressures on state budgets. The scope for government intervention was constrained, and the potential for compensating migration flows - of particular importance for relieving labour market pressures in the poorer countries – was curtailed.

In the course of the late 1970s, and particularly during the 1980s, the political agenda across Western Europe moved against active government economic intervention, especially through subsidies to firms,<sup>13</sup> and toward the consolidation of a competitive European market perspective. This shift from a national to a European market perspective made it possible to overcome a number of the characteristics that had predominated in the previous period, such as, the emphasis on national champions, active state intervention in the economy, subsidization of loss-making firms, placing parts of the national economy off-limits from competition (e.g., banks and other financial institutions, basic industry, large public and private monopolies, etc.). During the 1980s the policy focus shifted towards privatisation, deregulation and the liberalisation of markets, growing competition across and within national borders, and the move away from state subsidies.

In a number of countries, the effectiveness of regional policy was questioned and criticised. Regional policy moved progressively down the national policy agenda, downgrading the policy goals of reducing disparities and promoting regional convergence. New industrialization paradigms focussing on the role of small and medium enterprises have found support from policy makers and economists (Piore and Sabel 1984; Garofoli 1991).

As argued by several scholars (Sharpe 1993 and Leonardi 1995), the “retreat” (Bachtler 2001) of central government from active regional and industrial policies was accompanied by the rise of a new regional and local dimension in economic development. This was partly attributable to regional institution-building which accompanied the increasing delegation of authority for certain economic development activities with a view to enhancing local identification with policies and increasing local responsibility for economic development. The trend was also due to a growth in

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“bottom up” initiatives, as local authorities and other groups began to develop and implement their own measures to deal with growing economic and social problems. At the same time, regional policy thinking was shifting towards the promotion of endogenous development – by definition regional or local - with a rediscovery of the importance of entrepreneurship and small and medium enterprises (Capellin R., Garofoli G and others 1988; Fuà and Zacchia 1982; Cappellin 1990). The reduced dimension of enterprises was no longer viewed as a transition stage in the development of the firm but rather as a positive characteristic of firms in making them capable of quickly shifting their production according to the demands of national and international markets.

From the mid-1980s onwards, new concepts of regional development began to be discussed. The competitiveness of economies was increasingly attributed to the ability to innovate, move into new markets, and shorten the time between the production and distribution of manufactured products (i.e., the “just-in-time” approach aimed at the reduction of the warehousing of goods and time to bring them to market). In this context, new theories of regional development came to the fore, especially those concerned with industrial milieu and the role of clusters and networks. The challenge for regional development was to respond to an increasingly complex mix of regional and local problems and the need to develop a more sophisticated approach to improving both regional capabilities and attributes with measures that had important social as well as economic components. In order to achieve these objectives a new regional policy was necessary. Regions could no longer remain as mere spectators of development policies initiated from the top; the new economic logic required them to become active partners in the planning and mobilization of resources in the pursuit of local and regional development.

Parallel to the shift taking place in the policy paradigm and the drop in the importance of regional policy in national policy making, there was a growing interest at the European level on the socio-economic consequences of the creation of a reinforced European market. Concerns began to be expressed (Delors, 1986; EC Periodic Reports) that the creation of an integrated market at the European level would give rise to increased regional disparities: i.e., the rich would get richer and the poor would get poorer. This concern reached its apex with the formulation of the Single European Act (ratified in 1986 by the twelve member states, including Spain and Portugal) and the initiation of a pro-active European regional policy. It was the 1988

reform of the Structural Funds that marked a new era in regional strategic planning promoted by the European level.

Before, regional policy had been firm-centred, standardized, incentive-based and state-driven. This was certainly true in the case of the Keynesian legacy that dominated regional policy in the majority of advanced economies after the 1960s. It relied on income redistribution and welfare policies to stimulate demand in the lagging regions and the offer of state incentives (from state aid to infrastructural improvements) to individual firms to locate in such regions.

The achievements of such an “imperative” approach (Amin, 1999) had been modest in terms of stimulating sustained improvements in the economic competitiveness and developmental potential of the lagging regions. Keynesian regional policies, without doubt, helped to increase employment and income in the lagging regions, but they failed to secure increases in productivity comparable to those in the more prosperous regions and, more importantly, they did not succeed in encouraging self-sustaining growth based on the mobilization of local resources and interdependencies (by privileging non-indigenous sectors and externally-owned firms).

Partly in response to these failings, more innovative policy alternatives began to be explored, informed by the experience of prosperous regions characterized by strong local economic interdependencies (e.g. Italian industrial districts, Baden Wurttemberg, and the emerging centres of development in Spain—e.g. Barcelona—and southern France—Lyon and Grenoble). It was a policy alternative centred on mobilizing the endogenous potential of the lagging regions through efforts to upgrade a broadly defined local supply-base (Camagni 1991; Garofoli 1991, 1992). Amin observed in 1999 that “This is not an approach with a coherent economic theory behind it, nor is there a consensus on the necessary policy actions” (Amin 1999), but despite these shortcomings the compelling features of the new approach were undeniable. The axioms of the new approach contrasted sharply with those of the previous policy in favouring a bottom-up, region-specific, longer-term and plural-actor based approach. Conceptually, Amin (1999) has described the new approach as “against the individualism of the orthodoxy, it recognizes the collective or social foundations of economic behaviour, for which reason it can be described as an institutionalist perspective on regional development.”

### 3.3.3. Path dependence

As stated in Crouch and Farrell 2002, the concept of path dependence is being used in highly deterministic ways in neo-institutionalist analysis, so that studies using this framework have difficulty in accounting for, or predicting, change. However, the original model from which path dependence theory draws predicts that alternative paths will be possible. It can be argued that actors will be able to use these when they perceive a need to change.

The theory of path dependence builds upon mathematical modelling techniques – so-called Polya urn processes – in which early events in a series have a substantial effect on later ones. Path dependence thus seeks to capture the frequently observed phenomenon that performance of an action can in itself make more likely its subsequent performance (Arthur 1994). This is very different from the more familiar case in probability theory, where if one tosses a fair coin repeatedly, or if a blind agent repeatedly draws one of two balls, one red one white, from an urn and simply replaces them after each draw, there is an equal probability of either outcome. In both cases, the aggregated outcomes will tend towards a 50:50 ratio of heads to tails, or red balls to white balls, over repeated iterations. While one of the two possible alternatives might have a temporary dominance in the first few tosses or draws, this dominance will disappear over time.

Path dependence, in contrast, seeks explicitly to model circumstances in which early events increase the possibility of later events of the same sort occurring. Douglass North (1990) argues that institutions too are subject to the forces of increasing returns. In what is perhaps the most influential application of path dependence theory, he seeks to explain a near-inexplicable puzzle for efficiency based approaches to economics; why it is that countries in the developing world have not converged on the more efficient set of institutions offered by the developed world. He argues that the divergences in the economic histories of North and South America may in large part be explained by the differing initial institutional matrices they inherited from Spain and Britain respectively. Most recently, Paul Pierson (2000a, 2000b) has sought to build upon this by offering a more general set of insights into institution building as a path dependent process. In Pierson's argument, initial institutional steps may have a strong conditioning effect on later ones. Insofar as institutions generate learning effects, coordination effects and adaptive expectations, they may substantially affect trajectories of institutional development, so that later institutions reflect these

earlier steps. Positive feedback may in turn lead to a single equilibrium that is likely to be resistant to change. As Pierson further points out (see especially Pierson 2000b), this provides an alternative to functionalist variants of rational choice institutionalism. Thus, path dependence gains much of its explanatory interest from its demonstration that persistently inefficient equilibria may result from initial choices.

Even in situations where paths of institutional development are clearly inappropriate to the current environment, they may persist; the costs of moving from one path to another may be extremely high, and much too high for any individual actor to take on his own. However, major change does occasionally occur, and path dependence theory offers little guidance as to how changes of path may be modelled. While Arthur (1994) offers some preliminary contentions about the likely costs of changes, these do not serve (nor are intended to serve) as a theory. Two responses to this may be seen in the literature. Sophisticated applications of the theory (North, 1990a; Pierson 2000a) acknowledge the difficulty. They seek to avoid determinism, arguing that short periods of wide-ranging change are likely to be succeeded by much longer periods in which change continues, but is relatively closely bounded (Pierson 2000a); but they fail to advance arguments about what such wide-ranging change involves, and how actors will respond to it. Less sophisticated versions misunderstand path dependence, arguing that paths are set at a given point in time, so that actors are ineluctably condemned to follow out a specific trajectory without possibility of change or exit.

An application can be found in the account of Italian regional development in Putnam (1993). While Putnam suggests in his conclusions that change is possible, he does not seek to integrate this suggestion with the main body of his argument, which emphasises how the dead hand of path dependence weighs on current political outcomes.

The principle of path dependency states that “history matters” in that initial and existing conditions shape present and future socio-economic behaviour. Even in purely economic terms, product development can be “locked-in” to paths of increasing or decreasing returns to scale (Arthur, 1989). Within dissenting institutionalism, path dependency is conceived more broadly to capture the reinforcing interactive effects of social, political and economic factors in locking in the trajectories of processes of change.

In this regard, Myrdal's (1957) concept of circular interdependence and cumulative causation is a significant intellectual antecedent. As Kapp (1976) records, Myrdal formally elaborated on the principle of circular interdependence and cumulative causation to confront prevailing (neoclassical) beliefs in equilibrium tendencies. In Myrdal's (1957) words, "In the normal case a change does not call forth countervailing changes but, instead, supporting changes, which move the system in the same direction as the first change but much further. Because of such circular causation a social process tends to become cumulative and often to gather speed at an accelerating rate". In this view, socioeconomic structures and problems are created by a complex range of economic and social (or institutional) factors that are intrinsically interlocked and "it is useless to look for one predominant factor, such as the "economic factor"" (Myrdal 1957).

Myrdal's principle is an hypothesis about the dynamics of embeddedness, in which "initial conditions", in the form of prevailing attitudes, policies and established structures, are influential in shaping the momentum of a wide variety of economic and non-economic interlocking forces. Myrdal's pioneering conception of cumulative causation is clearly linked to path dependency, and "locked-in" behaviour through emphasis on sequential, related and cumulating processes. If path dependency is not tied solely to cases dominated by disequilibrium and inequality, this approach implies that cumulative causation is at least an extremely significant expression of path dependent behaviour<sup>14</sup>.

Within economic geography, path dependency often implies pejorative (corporate, regional and industrial) behaviour equated with lock-in to outdated modes of thinking by vested interests of (disproportionately) powerful corporations, unions and governments (Clark, 1986). Yet path dependency is a fundamental basis for socially progressive developments.

For Hodgson (2001), the problem of historical specificity is complemented by recognition that geographic differences are to some extent "essential" or fundamental. This respect (within dissenting institutional economics) for geographic difference is

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<sup>14</sup> Path-dependent and cumulative causation processes may be socially virtuous or vicious, and both of these forms of trajectories are widespread. Myrdal (1957) was especially concerned with understanding the complex, engrained social problems of racism and poverty, initially in the USA and then Asia that were trapped by socially vicious processes of cumulative causation.

founded on the embeddedness of economies in which economic processes are socialized (and politicized), rationality is multi-faceted and that in different places people behave and think differently.

Similarly, Barnes (1996) and Storper (1997) respectively claim that the global economy is replete with “local models” or “regional worlds of production” which are significantly different even as they are connected to one another. As Johnston (1984) observes, the uniqueness of regions is not based on their “singularity” or pure “localness”, but on the interplay between local (endogenous) and global (exogenous) dynamics. Moreover, global–local dynamics that shape social economies are not abstract, independent forces but instituted and interactive, in which global institutions are controlled outside the local, however the local is geographically defined (e.g. state, county, metropolitan area, community or the generic “region”).

“In a dissenting institutional landscape, regions are themselves institutions, albeit complex ones” (Hayter 2004). The idea of regions as institutions is captured by Holmén’s (1995) metaphor of regions as “meeting places for both endogenous (local) and exogenous (global) processes”. As “meeting places”, regions are where institutional habits, routines, values and conventions are shared and debated. Regions are complex institutions or meeting places because they organize or feature the interactions of “multiple voices” among multiple institutions that may be complementary or in conflict (Martin 2000).

Economic geographers have recognized this tradition but its continuity and compass is not fully appreciated. To provide such an appreciation, this argues that the paradigmatic distinctiveness of dissenting institutionalism rests especially on its recognition that real world economies are embedded, have histories or evolve, and are different. The discussion is based around the region as an institution, albeit a complex one.

### 3.4. Adaptation in institution and policies: alternative outcomes in academic debate

As Kassim suggests (2003) we need to use the compliance to Europeanization by member states in its broadest sense given that European integration subjects national governments to unique and exacting pressures and imposes strict requirements on their participation in the processes of EU decision-making. The expectation of convergence

arises from two different perspectives: from rational choice institutionalism (Hall and Taylor 1996) and from the new institutionalism in organizational analysis (DiMaggio and Powell 1991).

According to the former, institutions in a shared institutional environment are likely to grow increasingly similar, as they converge around the most efficient organizational form. 'Optimization' (Harmsen 1999) takes place as member states copy from their counterparts the structures or procedures that have proved to be the most successful. The result is 'a gradual convergence of national practices around the most effective solutions to.' common problems'(Harmsen 1999). According to the latter, organizations in a common institutional environment are likely to become increasingly similar as a result of two additional factors: coercion -in an EU context, the obligations and pressures that flow from hard and 'soft' rules (DiMaggio and Powell 1991); and mimicry—the copying by some organizations of the mechanisms or features of other organizations.

An opposite thesis—the “continuing divergence” hypothesis—emerges from sociological institutionalism. March and Olsen (1984, 1989), its main exponents, contest the view that institutions are always efficient and argue that organizations are likely to respond to external pressures by interpreting them in terms of pre-existing structures and values. From this perspective, existing differences between organizations are likely to be reproduced, even when they are placed in the same environment, since their adaptation to outside conditions is likely to be mediated by internally generated “logics of appropriateness”. Applying this view to national coordination systems, Harmsen (1999) argues that a logic of divergence that is more likely to prevail.

Several similarities emerge from the study of twelve member states (Kassim et al. 2001). All have put in place specific arrangements for coordinating EU policy making; the responsibilities of existing actors have been adjusted and new ones created, coordination mechanisms have been introduced or developed, and special processes and procedures established. Although not insignificant, the similarities between the coordination systems created by the member states are overshadowed by the differences that emerge from detailed inspection. These differences are apparent even with respect to the seven features identified above.

In comprehensive decentralized systems, found in Austria, Belgium, Germany, Greece, Italy, and the Netherlands, issue coverage is extensive, but no single actor,

even the head of government, has the power routinely to impose solutions on the other players in technical policy fields. Coordination is led by the relevant technical ministry, which effectively decides the national standpoint, and tends to be minimal, compared to the positive, directive ambition that informs centralized systems. Although venues exist at the centre in all states that fall under this category—in Austria, Belgium, Germany, Italy, and the Netherlands—or at the interstices between sectors, as in Belgium, the function of these arenas is to allow participants to exchange views and information, and not usually to resolve conflict between departments.

Whether studying policies, politics, or polities, there are two conditions for expecting domestic changes in response to Europeanization. First, Europeanization must be 'inconvenient', that is, there must be some degree of 'misfit' or incompatibility between European-level processes, policies, and institutions, on the one hand, and domestic-level processes, policies, and institutions, on the other. This degree of fit or misfit leads to adaptational pressures, which constitute a necessary but not sufficient condition for expecting domestic change. The second condition is that various facilitating factors—be it actors, be it institutions—respond to the adaptational pressures, thus inducing the change.

One can conceptualize the adaptational processes in response to Europeanization in two ways, which in turn lead to different emphases concerning these facilitating factors. Here, I refer to two variants of the 'new institutionalism' in political science, rational choice institutionalism, on the one hand, and sociological (or constructivist) institutionalism, on the other (see March and Olsen 1989, 1998; Hall and Taylor 1996; Risse 2002).

From a rationalist perspective following the 'logic of consequentialism', the misfit between European and domestic processes, policies, and institutions provides societal and/or political actors with new opportunities and constraints to pursue their interests. Whether such changes in the political opportunity structure lead to a domestic redistribution of power, depends on the capacity of actors to exploit these opportunities and avoid the constraints. This strand of the literature identifies two mediating factors with opposite effects influence these capacities: Multiple veto points in a country's institutional structure can effectively empower actors with diverse interests to resist adaptational pressures emanating from Europeanization. Formal institutions might exist providing actors with material and ideational resources to exploit new opportunities, leading to an increased likelihood of change. The logic of

rationalist institutionalism suggests that Europeanization leads to domestic change through a differential empowerment of actors resulting from a redistribution of resources at the domestic level.

In contrast, a sociological or constructivist perspective emphasizes a 'logic of appropriateness' (March and Olsen 1989) and processes of persuasion. European policies, norms, and the collective understandings attached to them exert adaptational pressures on domestic-level processes, because they do not resonate well with domestic norms and collective understandings. Two mediating factors influence the degree to which such misfit results in the internalization of new norms and the development of new identities: 'Change agents' mobilize in the domestic context and persuade others to redefine their interests and identities. A political culture and other informal institutions exist which are conducive to consensus building and cost-sharing. Sociological institutionalism suggests that Europeanization leads to domestic change through a socialization and collective learning process, resulting in norm internalization and the development of new identities.

The two logics of change are not mutually exclusive. They often occur simultaneously or characterize different phases in a process, of adaptational change. My research aims at providing an interpretation of how to link the two mechanisms and to specify conditions under which each logic is dominant.

Whether focusing on policies, politics, or polity, the general proposition that Europeanization affects the member states is no longer controversial. As well, it can be identified an emerging consensus that Europeanization has a differential impact on domestic policies, politics, or polities (see Kohler-Koch1999; Kohler-Koch and Eising1999; Cowles et al.2001; Héritier et al.2001).

The issue is no longer whether Europe matters but how it matters, to what degree, in what direction, at what pace, and at what point of time. In other words, the literature on the domestic impact of Europe has focused on identifying the causal mechanisms through which Europeanization can affect the member states. Most studies draw on several mechanisms to explain the domestic change they observe (see e.g. Héritier et al. 1996; Hooghe 1996; Haverland 1999; Knill and Lehnkuhl 1999; Börzel 2002; Héritier et al. 2001).

We argue below that the different causal mechanisms can be collapsed into two logics of domestic change. While focusing on different causal mechanisms, most studies share the proposition that Europeanization is only likely to result in domestic

change if it is 'inconvenient'. There must be some 'misfit' (Duina 1999) or 'mismatch' (Héritier et al. 1996) between European and domestic policies, processes, and institutions. The 'goodness of fit' (Risse et al. 2001) between the European and the domestic level determines the degree of pressure for adaptation generated by Europeanization on the member states: The lower the compatibility between European and domestic processes, policies, and institutions, the higher the adaptational pressure.

In brief, misfit and resulting adaptational pressures constitute the starting point for any causal mechanism discussed in the literature. Ultimately, adaptational pressures are generated by the fact that the emerging European polity encompasses structures of authoritative decision making which might clash with national structures of policy making, and that the EU member states have no exit option given that EU law constitutes the law of the land. This is a major difference to other international institutions, which are simply based on voluntary intergovernmental arrangements. I distinguish two types of misfits by which Europeanization exerts adaptational pressure on the member states.

First, European policies might lead to a policy misfit between European rules and regulations, on the one hand, and domestic policies, on the other. Policy misfits essentially equal compliance problems. European policies can challenge national policy goals, regulatory standards, the instruments or techniques used to achieve policy goals, and/or the underlying problem-solving approach (Héritier et al. 1996; Börzel 2000). Such policy misfit can also exert adaptational pressure on underlying institutions (Caporaso and Jupille 2001; Sbragia 2001; Schneider 2001). As a result, all member states—including the 'big three', Great Britain, France, and Germany—face significant, albeit different degrees of adaptational pressures when they have to download European policies (Börzel 2002; Cowles et al. 2001).

Liberal intergovernmentalism, for example, implies that bargains are struck among the powerful member states at the level of lowest common denominator (Moravcsik 1993, 1998). It follows that Britain, France, and Germany are unlikely to face significant adaptational pressures from Europeanization. This proposition is thoroughly refuted by the available evidence on Europeanization effects (e.g. Duina 1999; Knill and Lenschow 2000; Cowles et al. 2001; Héritier et al. 2001). From a different theoretical angle, sociological institutionalism would expect that the more institutional structures at the European and domestic levels look alike (structural

isomorphism), the less adaptational pressures member states should face (DiMaggio and Powell 1991; Olsen 1995).

This latter argument points to a second type of misfit and adaptational pressure, which I need to distinguish from policy misfit. Europeanization can cause institutional misfit, challenging domestic rules and procedures and the collective understandings attached to them. European rules and procedures, for example, which give national governments privileged decision powers vis-à-vis other domestic actors, challenge the territorial institutions of highly decentralized member states which grant their regions autonomous decision powers (Börzel 2002).

Policy or institutional misfit, however, is only the necessary condition for domestic change. Whether misfits produce a substantial effect at the domestic level depends on the presence of various factors facilitating adaptation and serving as catalysts for domestic change. Only if and when these intervening factors are present can I expect a transformation of policies, politics, or polities in the member states.

The domestic effect of Europeanization can be conceptualized as a process of change at the domestic level in which the member states adapt their processes, policies, and institutions to new practices, norms, rules, and procedures that emanate from the emerging European system of governance (Olsen 1996). Rationalist and sociological institutionalisms identify different mechanisms of institutional change, which can be equally applied to the change of policies and politics. The two logics of change stress different factors facilitating domestic adaptation in response to Europeanization.

Rationalist institutionalism embodies a 'logic of consequentialism' (March and Olsen, 1998), which treats actors as rational, goal-oriented, and purposeful. Actors engage in strategic interactions using their resources to maximize their utilities on the basis of given, fixed, and ordered preferences. They follow an instrumental rationality by weighing the costs and benefits of different strategy options taking into account the (anticipated) behaviour of other actors. From this perspective, Europeanization is largely conceived as an emerging political opportunity structure, which offers some actors additional resources to exert influence, while severely constraining the ability of others to pursue their goals. Liberal intergovernmentalists have suggested that European opportunities and constraints strengthen the action capacities of national executives enhancing their autonomy vis-à-vis other domestic actors (Moravcsik 1994).

The two logics generate different propositions about the degree and direction of domestic change. Both take misfit as the necessary condition of domestic change and converge around the expectation that the lower the misfit, the smaller the pressure for adaptation and thus the lower the degree of expected domestic change. But the two logics depart on the effect of high adaptational pressure.

The rationalist institutionalist perspective suggests that the more Europeanization provides new opportunities and constraints (high adaptational pressure), the more likely a redistribution of resources is, which may alter the domestic balance of power and which may empower domestic actors to effectively mobilize for policy change by overriding domestic veto points. Medium adaptational pressure is also likely to result in domestic transformation if there are supporting formal institutions. In the presence of multiple veto points, however, medium adaptational pressure will be at best accommodated, if not absorbed, even if this means non-compliance in case of policy misfit. Finally, the mere absorption of low pressure of adaptation may be prevented by formal institutions, which support domestic actors in exploiting modest new opportunities.

Sociological institutionalism, by contrast, argues that high adaptational pressure is likely to meet strong institutional inertia preventing any domestic change. New norms, rules, and practices do not simply replace or harmonize existing ones. Profound and abrupt changes should only be expected under conditions of crisis or external coercion (Olsen 1996). Actors are more open to learning and persuasion, if new norms and ideas, albeit 'inconvenient', are compatible with collectively shared understandings and meaning structures. Therefore, medium pressure for adaptation is most likely to result in domestic transformation, at least in the long run. Processes of adaptation evolve along institutional paths. In sum, the two logics predict opposite outcomes under conditions of high adaptational pressure. Moreover, sociological institutionalism would expect domestic change beyond absorption only as the result of a long-term process of incremental adaptation.

Unfortunately, the available empirical evidence does not allow us yet to evaluate these propositions. Further systematic research is necessary to link the various causal mechanisms. This research contributes investigating how paradigm shift and path dependence acted as mediating factors within the dynamic described above.

The next chapter will address political and administrative (Chapter 4) responses to regionalization and Europeanization. Chapter 5 and 6 are focused on regionalization and Europeanization (respectively) with an in depth analysis of evolution dynamics in regional policy design and implementation. Case study analysis helps in providing additional elements and understanding.

## 4. POLITICAL AND ADMINISTRATIVE RESPONSES TO REGIONAL AND EUROPEAN ADAPTATIONAL PRESSURES

This Chapter investigates the evolution of political and institutional variables as defined in Chapter 2, informing the framework for regional policies in Italy.

### 4.1. Framing the process: subjects, objects, and rules

#### 4.1.1. The framework: the Italian Constitution

Under its 1948 Constitution Italy is a unitary State with four levels of government: central State, regions, provinces and communes. Apart from the introduction of new electoral rules enhancing political stability, which have affected all these levels, the past four decades has brought particularly rapid change for Italian sub-national government. The powers of regional and local authorities have been strengthened, notably by measures enacted in last Nineties, and their administrative powers have been increased<sup>15</sup>.

The Italian constitution of 1946 had foreseen the creation of the regions from the beginning, but it was not until 1972 that the fifteen regions with “ordinary statute” were really created as functioning sub-national planning and policy entities. At the beginning of the 1990s a strong tendency towards federalism could be observed in Italy within the context of a broader institutional reform process.

*The power earmarked for the Regions were encompassed in the Article 117 of the Constitution (1948), which empowered the regions to decide matters dealing with city and provincial government, local police, fairs and markets, public works projects and aqueducts, ports, mineral waters, quarries, hunting and fishing, agriculture, and craftsmanship. In subsequent articles (118-133) the Constitution provided the basic framework for regional governments' structures, their components (art121), defined their financial sources (art 119) and relation with*

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<sup>15</sup> Legge Costituzionale 22 novembre 1999 n.1 “Disposizioni concernenti l’elezione diretta del Presidente della Giunta regionale e l’autonomia statutaria delle Regioni”, published on the Italian official Bulletin n.299 December 22<sup>nd</sup> 1999.

*local governments (Art 118,130, 133) and stipulated the nature of the central government authority over the regions (Art 123-127).)*

The Constitution also made the distinction between five regions, of which two in the Mezzogiorno (Sicily, Sardinia, Val d'Aosta, Trentino Alto Adige, and Friuli Venezia Giulia) that were allocated "particular conditions of autonomy" and whose special statutes were adopted separately through specific pieces of legislation. Sicily and Sardinia special statutes have been drafted in 1949. The statutes of the other regions were to be implemented according to uniform criteria. There was no differentiation of powers among "ordinary regions".

The Constitution left many gaps to be filled by subsequent legislation, through transitional norms<sup>16</sup>. One of these, the VIII encompassed the creation of regional governments within one year. The regional election bill was finally introduced in Parliament on March 10<sup>th</sup> 1967. The bill became Law (n.104) only on February 17<sup>th</sup> 1968: the Law provided for the election of regional councils based on universal suffrage, and the holding of regional elections at the end of 1969, which was later, moved by legislation to 1970. The Law n.249 February 18<sup>th</sup> 1968 was encompassing an overall reform of Central Government institutions in preparation for the implementation of regional devolution.

In the subsequent years, the process of devolution has been characterized by two different approaches. The first approach (1970-72) was dominated by national governmental and administrative groups. The second approach (1973-77) was controlled by the Parliament.

At the beginning of 1970 the government set out to introduce two bills that would implement the regional reform. The first, Law 281 May 16<sup>th</sup> 1970, identified the financial resources to be provided to the regions, set out that the Parliament would pass "framework" legislation establishing the parameters for regional legislative activities, and allocated to the Government the responsibility for preparing the decrees transferring the regions' their constitutional administrative responsibilities. The second Law, n.775 October 28<sup>th</sup> 1970, obliged the Government to formulate decrees for the purpose of reforming the central government institutions. The regional elections took place on June 7<sup>th</sup> 1970, and the Regions started to operate in the changed institutional framework starting 1971.

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<sup>16</sup> "Disposizioni transitorie" in the original text.

After the first two years, the specification of administrative functions to be devolved was left up to the national bureaucracy to decide, since each ministry had to draw up its own devolution decrees. The financial arrangements made the regions still strictly dependent upon the Central Government. The decrees promulgated in 1972 created an institutional framework where the regions have been subordinated to nationally determined policies.

During 1972-73 the Central Government undertook a change in the structure of local government finances. The Government centralized all taxing powers and made regional governments largely dependent on “transfers” from the Central Government.

The second period has begun in 1973. In September 1973, the Inter-parliamentary Commission, with Lombardia, Emilia Romagna and Toscana as the most active players,<sup>17</sup> started to act in order to prepare a new bill on devolution and regional autonomy. The pressure towards a new law on regional autonomy has been increasing during 1974. The First Commission on Constitutional Norms and Local Government was assigned the task of redrafting the administrative and institutional framework for regional governments. This process led to the approval of the Law 382/1975. Law 382 delegated to the government the responsibility of completing the devolution of power in accordance to specific criteria: all the powers attributed by the constitution to the regions had to be transferred to the regions from the Ministries of Central Government bodies presently acting in that areas; the remaining administrative functions that had not been passed in 1972 reform had to be decentralized; all the state expenditures that directly or indirectly were attributable to the regions had to be eliminated, all agencies in areas of regional responsibility that bridged more than one region had to be transferred; the regions had to have full administrative and legislative powers within the limitations of national and European Community directives<sup>18</sup>. In 1977, the regions rejected the draft decrees presented concerning the procedures of devolution “either in qualitative and quantitative terms.”<sup>19</sup>

The Decree of the President of the Republic (DPR) n.616/1978 encompassed relevant changes in the definition of the regional competences, but it had affected only partially the structure of Central Government, neither in the bureaucratic aspects, nor

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<sup>17</sup> See also Leonardi 1993, p.228.

<sup>18</sup> See also Camera dei Deputati L'attuazione della “382”, Rome 1977.

<sup>19</sup> Leonardi 1993, pag230

in terms of legislative procedures. In the period between the end of 1970s and the beginning of the 1980s, the regions faced with the problem of the economic crisis, and with recurring budget reductions by the Central Government (1978 and 1979).

In 1980 the Inter-parliamentary Commission suggested the creation of a State-Regions conference. The members of the conference, called for the first time on October 12<sup>th</sup> 1983, were: the president of the Regions, the Prime Minister, and the Ministers of Treasury, Regions and Budget. The joint Conference between regions and National Government (Conferenza Stato-Regioni) was to discuss all the matters related to EU affairs, to serve as forum for the information exchange and to prepare common positions of the Italian Regions.

The evolution in the nature of the State-Regions Conference is the result of national institutional dynamics that informed the institutional change in the recent decades. The Conference has been an instrument of information, from the Central State, for the Regions. The Law n.59 March 15<sup>th</sup> 1997 changed its role dramatically. According to Law n.59/1997 the Conference became the main instrument of coordination between the Central Government and the Regions. With the Decree Law n.281 August 28<sup>th</sup> 1997 it became mandatory for the Central Government to consult the Conference with respect of any legislative act concerning the aspect encompassed in Regional competencies. This model was “qualitatively different”<sup>20</sup> from the one implemented in the first years of the process of devolution. The first ten years’ approach was focused on the separation of sector responsibilities between Central and Local Government; the new one was based on the inter-relation between the two levels of government, approaching the principles of “partnership,” also encompassed in the European Union institutional framework.

#### 4.1.2. The actors: Structures of government

The following paragraphs describe the different administrative actors relevant for the present analysis. The description encompasses the political and administrative settings in each level of administrative “space”. The present research will consider the Italian Mezzogiorno, and, more specifically four Regions (and their provinces, and

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<sup>20</sup> Leonardi 1993, p.233.

communes), considered as Case Studies: two ordinary regions (Calabria and Puglia) and two Special statute regions (Sicily and Sardinia). Accordingly, hereafter I present a brief description of the administrative features of each level of government encompassed in the area examined:

- 2 “special statute” Regions, Sicily and Sardinia, created with the 1947 Constitution. The President of the Region is elected by universal direct suffrage, and represents the Region, promulgates laws and regional regulations. The *Giunta regionale* (Regional government) is appointed and may be dismissed by the President of the Region, who may appoint members outside of the Regional Council
- 2 “ordinary” Regions: Calabria and Puglia. Within the *Consiglio regionale* (Regional council), 80% of its members are elected by universal direct suffrage under the proportional system from provincial lists, and the 20% is elected by direct universal suffrage under the majority electoral system from regional lists (Art.1 Law 43/1995). Under the new Art.122 of the Constitution, the Regions may draw-up their own electoral system. Legislative and supervisory powers are delegated to the President of the Council, which is elected by the Council and steers its work.
- 23 *Province* (provinces), located respectively in Calabria (5), Puglia (5), Sicily (9) and Sardinia (4). President of the province is elected by Universal direct suffrage; *Consiglio provinciale* (Provincial council) is elected by universal direct suffrage: it only provides general policy guidance; decision-making body, approves budget estimates and disbursement; the *Giunta* (executive committee) has wide-ranging powers to implement guidelines set by the Council
- 1.434 *Comuni* (local authorities), located respectively in Calabria (409), Puglia (258), Sicily (390), Sardinia (377). Municipal council elected by universal direct suffrage, majority system for areas with a population of less than 15,000 otherwise proportional system; has general powers and approves budgets; decision-making body; *Giunta* (executive committee) appointed by the mayor, who delegates some powers to it, acts in accordance with the Council's guidelines. *Sindaco* (Mayor) in municipalities with populations of 15,000 or under is elected under the majority system by universal direct suffrage. In the event of a tie, a second round is held between the two candidates with the highest number of votes (Art.5 Law 81/1993). With populations of over 15.000, elected by universal direct suffrage

with an absolute majority of valid votes. If no candidate gains this majority, a second round is held (Art.6 Law 81/1993).

## 4.2. The Regionalization in institutions: administrative and political aspects

The power earmarked for the Regions were encompassed in the Article 117 of the Constitution (1948), which empowered the regions to decide matters dealing with city and provincial government, local police, fairs and markets, public works projects and aqueducts, ports, mineral waters, quarries, hunting and fishing, agriculture, and Handcraft. In subsequent articles (art.118-133) the Constitution provided the basic framework for regional governments' structures, their components (art.121), defined their financial sources (art.119) and relation with local governments (Art. 118,130, 133) and stipulated the nature of the central government authority over the regions (Art. 123-127).

The Constitution also made the distinction between five regions, of which two in the Mezzogiorno (Sicily, Sardinia, Val d'Aosta, Trentino Alto Adige, and Friuli Venezia Giulia) that were allocated "particular conditions of autonomy" and whose special statutes were adopted separately through specific pieces of legislation. Sicily and Sardinia special statutes have been drafted in 1949. The statutes of the other regions were to be implemented according to uniform criteria. There was no differentiation of powers among "ordinary regions".

The Constitution left many gaps to be filled by subsequent legislation, through transitional norms<sup>21</sup>. One of these, the VIII encompassed the creation of regional governments within one year. Accordingly, as noted in Leonardi 1993<sup>22</sup> "the founding fathers of the Italian Republic expected a quick and thorough transfer of powers the regional level." During the subsequent years the Governments avoided the devolution of powers and acted in order to ensure that, whenever it would happen, the regions would be under the control of the Central Government (Law 62/1953). The ruling political party (Christian Democrats) was strongly reluctant to allow the creation of the regional governments, while the left parties (Socialist Party and the Communist Party) were backing the passing of the regional election bill.

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<sup>21</sup> "Disposizioni transitorie" in the original text.

<sup>22</sup> Leonardi R. *The Regions and the European Community*, London 1993, page 222.

The regional election bill was finally introduced in Parliament on March 10<sup>th</sup> 1967. The bill became Law (n.104) only on February 17<sup>th</sup> 1968: the Law provided for the election of regional councils based on universal suffrage, and the holding of regional elections at the end of 1969, which was later, moved to 1970. The Law n.249 February 18<sup>th</sup> 1968 was encompassing an overall reform of Central Government institutions in preparation for the implementation of regional devolution.

In the subsequent years, the process of devolution has been characterized by two different approaches. The first approach (1970-72) was dominated by national governmental and administrative groups. The second approach (1973-77) was controlled by the Parliament.

At the beginning of 1970 the government set out to introduce two bills that would implement the regional reform. The first, Law 281 May 16<sup>th</sup> 1970, identified the financial resources to be provided to the regions, set out that the Parliament would pass “framework” legislation establishing the parameters for regional legislative activities, and allocated to the Government the responsibility for preparing the decrees transferring the regions’ their constitutional administrative responsibilities. The second Law, n.775 October 28<sup>th</sup> 1970, obliged the Government to formulate decrees for the purpose of reforming the central government institutions. The regional elections took place on June 7<sup>th</sup> 1970, and the Regions started to operate in the changed institutional framework starting 1971.

After the first two years, the specification of administrative functions to be devolved was left up to the national bureaucracy to decide, since each ministry had to draw up its own devolution decrees. The financial arrangements made the regions still strictly dependant from the Central Government. The decrees promulgated in 1972 created an institutional framework where the regions have been subordinated to nationally determined policies.

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The second period has begun in 1973. In September 1973, the Inter-parliamentary Commission, with Lombardia, Emilia Romagna and Toscana as the most active players,<sup>23</sup> started to act in order to prepare a new bill on devolution and regional

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<sup>23</sup> See also Leonardi 1993

autonomy. The pressure towards a new law on regional autonomy has been increasing during 1974. The First Commission on Constitutional Norms and Local Government was assigned the task of redrafting the administrative and institutional framework for regional governments. This process led to the approval of the Law 382/1975. Law 382 delegated to the government the responsibility of completing the devolution of power in accordance to specific criteria: all the powers attributed by the constitution to the regions had to be transferred to the regions from the Ministries of Central Government bodies presently acting in that areas; the remaining administrative functions that had not been passed in 1972 reform had to be decentralized; all the state expenditures that directly or indirectly were attributable to the regions had to be eliminated, all agencies in areas of regional responsibility that bridged more than one region had to be transferred; the regions had to have full administrative and legislative powers within the limitations of national and European Community directives<sup>24</sup>. In 1977, the regions rejected the draft decrees presented concerning the procedures of devolution “either in qualitative and quantitative terms.”<sup>25</sup>

The Decree of the President of the Republic (DPR) n.616/1978 encompassed relevant changes in the definition of the regional competences, but it had affected only partially the structure of Central Government, neither in the bureaucratic aspects, nor in terms of legislative procedures. In the period between the end of 1970s and the beginning of the 1980s, the regions faced with the problem of the economic crisis, and with recurring budget reductions by the Central Government (1978 and 1979).

In 1980 the Inter-parliamentary Commission suggested the creation of a State-Regions conference. The members of the conference, called for the first time on October 12<sup>th</sup> 1983, were: the president of the Regions, the Prime Minister, and the Ministers of Treasury, Regions and Budget. The joint Conference between regions and National Government (Conferenza Stato-Regioni) was to discuss all the matters related to EU affairs, to serve as forum for the information exchange and to prepare common positions of the Italian Regions.

The evolution in the nature of the State-Regions Conference is the result of national institutional dynamics that informed the institutional change in the recent decades. The Conference has been an instrument of information, from the Central State, for the Regions. The Law n.59 March 15<sup>th</sup> 1997 changed its role dramatically.

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<sup>24</sup> See also Camera dei Deputati L'attuazione della “382”, Rome 1977.

<sup>25</sup> Leonardi 1993, pag230

According to Law n.59/1997 the Conference became the main instrument of co-ordination between the Central Government and the Regions. With the Decree Law n.281 August 28<sup>th</sup> 1997 it became mandatory for the Central Government to consult the Conference with respect of any legislative act concerning the aspect encompassed in Regional competencies.

This model was “qualitatively different”<sup>26</sup> from the one implemented in the first years of the process of devolution. The first ten years’ approach was focused on the separation of sector responsibilities between Central and Local Government; the new one was based on the inter-relation between the two levels of government, approaching the principles of “partnership,” also encompassed in the European Union institutional framework.

### 4.3. Europeanization in the institutional framework

The Italian response to the adaptational pressures created by the introduction of cohesion policy through the reform of the Structural Funds regulations in 1988 has been difficult indeed, especially with regard to the southern regions. At best, the adaptation has been slow and partial in nature. At the worst, it has been characterised by active resistance. The reasons for these difficulties can be attributed to two factors: 1) the impact of path dependence—i.e., up to 1992 the country had a national regional policy that persisted for a period of forty-two years and it left a legacy that was difficult to overcome in terms of national administrative practices; 2) the main beneficiaries of the cohesion policy—i.e., the southern regions—suffered from a significant lack of administrative capacity that rendered them incapable of fully exploiting the opportunities afforded by the cohesion policy in creating a different and less dependent relationship vis-à-vis the centre. This latter characteristic was particularly acute in the larger southern regions—i.e., Campania, Calabria, Puglia and Sicily—vis-à-vis the smaller southern regions—i.e., Abruzzo, Molise, Basilicata and Sardinia—that managed to eventually exit from the policy. I will analyse the stages of this difficult transition in this chapter.

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<sup>26</sup> Leonardi 1993, p.233.

#### 4.3.1. Changes at the national level

What is interesting to note with regard to the introduction of the European level cohesion policy in Italy is that it had a minimal impact in reorganizing the structure for the management of national regional policy. In fact, the new European policy was not allocated for its administration to the Ministry for Extraordinary Interventions for the South. Instead, a new Ministry without portfolio was created, Ministry for European Community (EC) Affairs, to manage the policy while the financial allocations from Brussels were given to the Ministry of the Budget to allocate. The lack of any integration between the national and European regional policies inevitably led to significant delays in implementing the EC policy while it allowed the national regional policy to operate in a complete vacuum vis-à-vis the regional or EC levels.

In the 1980s several government structures were in charge for the administration of the European Regional Policies: the Ministry of Agriculture, Industry, Budget, etc. During that period, a process of internalization within the Ministry of Budget took place: from the creation of the Ministry for the coordination with the Regions (1980), to the institution of the Department for European Policies within the Presidency of the Council (1987). The Department was in charge of only the promotion, the formulation of guidelines and of the verification of the activities linked to the implementation of EU-led Regional Development Policies. The management of the financial resources was delegated to the Ministry of Finance, which was responsible, as well for the drafting of the Italian Community Support Framework (i.e., the Italian plan for less developed areas).

Since 1975, Italy's institutions have had to interact with the European Commission on issues involving development as well as the need to coordinate national policies in relation to the growing body of European regulations and directives. During the first ten years, Italian institutions were unable to interact effectively within the European framework. One of the possible causes was attributed to the fragmentation of interventions allocated to different ministries and managing authorities at the central level. The need for coordination with respect to relations with the European Commission was finally resolved with the creation of a special unit located within the Prime Minister's Office—i.e., the *Ministry Without Portfolio for the Coordination of the Community's Policies* in 1980 (Ministero per le Politiche Comunitarie). In 1987, the Presidency of the Council of Ministers created, within its competences, the *Department for EU Policies*. The Department was in charge only for the promotion

and verification of the activities linked to the implementation of Commission-led development policies. The management of the financial resources was, instead, allocated to the Ministry of Finance, which was responsible, as well of drafting the Italian programme for cohesion policy. Thus, from the beginning there was a separation of the “political” side of cohesion policy that was maintained in the Prime Minister’s office and implemented through the Ministry of Foreign Affairs and the Office of Italy’s Permanent Representative Office in Brussels and the technical side managed by the Ministry of Finance and Programming, as was the case with the management of the Fund for the South.

The Decree-Law n.96 of 3 April 1993 provided for the creation of the *Observatory for Regional Policies*. It was the first instrument or attempt at the central level to monitoring the dismantling of the Agensud that had taken over in 1985 from the Fund for the South and the implementation of a national regional policy for southern Italy to be coordinated with the EU Structural Funds. The Observatory was constituted by five technical members (see art.4 D.L.96/1993), appointed by the national government. However, the Observatory last a short period of time and was eventually abolished in 1995. During the same year, the Cabin for National Management (Cabina di Regia Nazionale)<sup>27</sup>, was set up by Law n.341 of August 8th 1995. The Cabina took over the role previously played by the Observatory. It was placed in charge of co-ordinating the different authorities at the national and regional levels in charge of planning and implementation of EU cohesion and national funds.

At time, the National Cabin for the Management of development funds was dramatically modified: with the Decree Law n.430 December 5th 1998 that created the *Department for Development and Cohesion Policies*<sup>28</sup>, The new Department for Cohesion Policies was placed in charge of all of the responsibilities previously delegated to the Cabin but it was physically allocated in the new Ministry of the Economy which brought together the previous Ministry of the Treasury and the Ministry of Finance and Planning. The role of the Department has been extended through the years: in 1999 the Presidential Decree (n. 38) of February 20th allocated to the Department all responsibilities for initiatives concerning the use of Structural Funds. Thereby, the role previously carried out by the Interministerial Committee for

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<sup>27</sup> “Cabina di Regia Nazionale” in the original definition.

<sup>28</sup> “Dipartimento Politiche di Sviluppo e Coesione” in the original definition.

Economic Programming (CIPE) in authorizing the allocation and use of Structural Funds was placed squarely in the hands of the Department.

By 1998 the new institutional infrastructure had been created to oversee and finally bring together national regional policies and EU cohesion policies. The Department for Development and Cohesion Policies assumed control over the country's entire effort in the field of regional development policies of the national or European variety. One of the essential characteristics of the new Department was that it re-emphasized the technocratic control over the formulation and implementation of regional policies in Italy and it was able to keep political input or control over the Department to a bare minimum. This was possible, in part, because the management of the EU cohesion policy required the state to follow EU regulations and specifications of how the policy was to be structured. Therefore, it was easy for the technocratic elements within the Department to refer to the EU regulations as a means of keeping political interference at a distance. In the past "political interference" in many cases resulted in a slow-down in the efficient management of the policy and in constant efforts to re-programme measures and projects in order to satisfy the demands of political elites. Given the fact that the political elites responsible for the policy rotated frequently, political interference in the programming of interventions would have required a constant redefinition of the programmes and a drastic slowing down of the implementation process and expenditure of the funds. Italy continued to demonstrate a significant difficulty in using the funds according to the predetermined timetable and continued to be a significant under-performer in the expenditure of Structural Funds and using them to mobilize a sustainable model of economic development.

#### 4.3.2. Changes at the regional level

The gradual process of devolution that has characterised the transfer of policy responsibility from the national to regional levels that has been underway since the regional reform of 1970 and the passage of the national decrees in 1976/77 have produced some dramatic changes in the institutional settings regarding regional development policies in Italy. Further reforms were to follow in 1997 and 2001 with the reform of the Constitution.

The rounds of institutional reform that were relevant to the regional development policies have taken place in 1972 (first minimal devolution of powers), 1977 (more

substantial devolution of powers according to articles 117 and 118 of the Constitution) and 1997 (creation of regime of co-management or exclusive management of development policies by the regions). With Law n.59 1997 the full devolution of powers —i.e., article 5 of the Constitution—placed the regions in a central position in the management of development policies. .

The new art.118 of the Constitution introduces the principle of “subsidiarity”, in regulating the relationship between centre and periphery. The Article underlines the necessity for each regional administration to act as an independent administrative body, pursuing economic and social development, also in competition with other regions. On the other hand, it has deleted the objective of “enhancing the value of the Mezzogiorno” previously found in art 119. The ultimate consequence of this change has been the cancellation of the “*constitutionalization*”<sup>29</sup> of the effort to pursue a higher economic and social cohesion at the national level.

Where the Italian regions were able to capitalise on the new institutional configuration offered by the EU’s cohesion policy was in being able to create direct ties with the Commission through the opportunity presented by: 1) the creation of the Committee of Regions and the establishment of regional offices in Brussels and 2) establishing a dialogue with the Commission in improving the management of regional operational programmes. Both of these factors significantly strengthened the regional-EU portion of multi-level governance and provided the regions with an alternative channel and the ability to side-step the national level in establishing an exchange of information and experiences with the Commission, thereby leading to a greater level of Europeanization of regional policies and management practices.

#### 4.4. The Europeanization of institutions

The challenge facing state institutions in this second stage of Europeanization (i.e., post-2000) is the building of an institutional discourse, capable of directing the reframing centre-periphery relations involved in the alignment of Italian regional policy with regard to the country’s Community framework setting out its overall multi-year development programme.

In fact, what was characteristic of the first stage of Europeanization (1988-1999) has been the substantial absence of a strategic policy. The challenge facing state

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<sup>29</sup> SVIMEZ: “Riforme Federaliste e politiche di sviluppo del Mezzogiorno, Il Mulino 2002, pag.31.

institutions in this second stage of Europeanization is the building of an institutional discourse, capable of directing the reframing centre-periphery relationships involved in the realignment of Italian regional policy in relation to its overall European strategy. What characterised the first stage of Europeanization was the substantial absence of a strategic policy discourse, capable of merging the aims of 'local development' and of 'regional governance' - emerging from intergovernmental dialogue, social practices, and scholarly debates- and of linking them in view of the achievement of higher levels of institutional performance' in dealing with requirements of subsidiary, partnership, and additionality in implementing EU regional policies.

Rather, it may be stated that what characterized this first stage in the Europeanization of regional policy is the result of a process of functional adjustment to the persistence of structural inconsistencies between what was required by the regulations and what took place at the national and regional levels in the administration of the operational programmes.

The stage following the realignment of the national regime of regional aids - coincident with the initial phase of implementation of the CSF 1994-1999 – represented the beginning of a change in the Europeanization of Italian regional policy precisely as it witnessed the outset of a new strategic attitude on the part of state actors.

The crucial features that characterized this change in perspective were:

- the development of a more proactive negotiating capacity on the part of the Italian government towards the Commission, resulting in framework agreements on measures in bringing the management of Structural Funds in Italy up to the European norm;
- the ongoing restructuring of political-administrative competencies in EU regional programming, the consolidation of a key 'gate keeping' role within the framework of reform of state executive and ministerial structures;
- the development of an embryonic intergovernmental strategy linking supranational and sub-national negotiations within a unitary policy discourse.

Since the end of 1980s, significant initiatives had been taken in overcoming gaps in responsibility and competencies between state and regional administrations, with

reference in particular to the implementation of Community policies: the establishment of a Department for Community Policies in the Presidency of the Council of Ministries (1987), the enactment of a framework legislation defining procedures for applying Community Law (1989), and the creation of a standing State-Regions Conference providing a stable institutional arena for consultation on intergovernmental policy matters (1988) represented crucial steps in this direction. However, such improvements did not significantly affect the reality of a rather formal than substantial decentralization of power and responsibilities, which is widely recognized in analyses of the period (Leonardi, 1993).

The response on the part of the regions to the new exigencies required by the reform of the Structural Funds was structurally inhibited by the lack of an adequate reform of the state's system of public administration and the lack of a coherent design of regional decentralization in the area of regional development. Altogether, these factors contributed to the fact that during the first phases of Structural Funds programming, 1989-93, did not lead to a significant restructuring of intergovernmental relations. Structural Funds Programming in the aftermath of the 1988 reform hardly affected the specific approach adopted in Italy in relation to the regional governance dimension of development policies.

A significant shift in attitudes, however, began to manifest itself around the mid 1990s. Not by chance, the introduction of new state strategy became aligned with the adoption of the new CSF for 1994-1999, following the reform of Structural Funds regulations introduced in 1993 and then reconfigured in 1996. While it is widely recognized that the 1993 reform represented the occasion for a nation-state governments to regain some control of the Structural Funds programming process, for Italian state actors the beginning of a new programming period constituted the first occasion for introducing a new approach to the evaluation of programmes and establishing a new relationship between the national and regional levels.

Two aspects that were of particular significance for the Italian political-administrative structure was the extension of integrated programming to the whole of the country through the formulation of the Community Support Frameworks for Objective 1 and 2 regions, and the establishment of an initial subsidiary principle which recognised the central role played by the regions in the implementation of operational programmes.

As had already become evident with the implementation of, first, the IMPs after 1986 and then the first cycle of the cohesion policy between 1989 and 1993 the quality of the programmes and their implementation proved to be highly differentiated, reflecting the differences in economic structures and political and administrative capacities found in each single region.

In the phase of implementation, problems loomed large. Difficulties in implementation were related to inconsistencies and duplication in the central administrative apparatus, as well as in the regions' difficulties in fully accepting their new role. Factors related to differentials in administrative capacity, furthermore, played a major role. While a good performance was achieved in northern regions in the administration of Objective 2 programmes, there were major problems with Objective 1 programmes, especially in the larger regions of the Mezzogiorno (Puglia, Sicilia, Calabria, and Campania) where an almost complete implementation deadlock occurred.

One of the major reasons for the difficulties in implementing community programmes was related to the consequences of this change in governmental attitude: the demise of the relative "lean" style of operation of Agensud and the dispersion of competencies among the regions, the lack of central control over the planning of interventions and the disbursement of funds, and the need to coordinate national and regional operational programmes represented a completely new challenge compared to the simple centralist rationale that governed the Intervento Straordinario. Most of the ministries had inherited competencies almost overnight and had to completely update their internal substantial and organizational expertise. In this, the legacy of the Intervento Straordinario exerted a considerable constraint to changing the attitudes of involved actors.

The reform of the Italian regional policy framework was postponed until 1992 in that the national government differed to the Agensud on matters dealing with regional development. It did not at all encourage the regions to fully take up the task of decision maker and implementing body offered by the cohesion policy. The start in the new programming era was difficult but nevertheless clearly in continuity with the experience gained by some of the regions with the IMPs. In the first phase of programming of the reformed Structural Funds, an attempt was made by the Italian state administration to reduce the provision of co-funding for the Intervento Straordinario, in favour of the more innovative regional operational programmes.

The response of the Commission created the basis of a new dialect between the state and the European level. It proposed the establishment of six priority areas around which to structure development measures (such as SMEs) and away from traditional transport infrastructure (roads) interventions.

Again, major problems arose in the implementation phase. The Commission took a more active role where problems were likely to arise, for instance by admonishing national administration in case of delays in providing co-funding and trying to prevent a constant rethinking of the contents of the operational programmes. However, the delays accumulated between 1989 and 1992, forced the country to revise all of its national and regional operational programmes in light of the extension of the implementation period to 1996.

The programming process favoured an improvement in state-regional relationships. In other words, the national level had to reluctantly acknowledge that the regions had been given a central role in the management of the EU cohesion policy and that it was no longer possible for the central state to monopolise the process. In Italy the coordination of programming was attributed to the Ministry for the Mezzogiorno, as the managing authority of the ERDF, but the multi-fund character of the new programming rationale and the need for integration with ESF and EAGGF, required a significant amount of coordination with the Ministries of Agriculture (EAGGF) and Labour for the ESF.

A few years later there was a change in state programming competencies. In 1993 and 1994, three decrees related to the termination of the Intervento Straordinario transferred all matters concerning programming of the Structural Funds to the Ministry of Finance and Budgeting and assisted by a Central Service for Cohesion (Servizio Centrale per la Coesione) which was later to become the Department of Regional Policy and Cohesion with the unification of the Ministries of Budgeting and of the Treasury.

The Department for Community Affairs had since 1988 acted as the de facto leading authority for Community Initiatives (the programmes directly managed by the Commission, such as Interreg), taking responsibilities that had never been formally assigned through legislative decrees but through an informal division of labour that was soon to be contested by other bodies at the national level.. In 1997, the Ministry of Public Works was appointed as the leading body responsible for both Community Initiatives (e.g., Interreg and Urban) and for activity concerning the development of

the ESDP (European Spatial Development Perspective) was in fact assigned to it. All these processes represented for the Department of Community Affairs a net loss in direct influence in these areas of European policy.

Following the abolition of the Cassa per il Mezzogiorno, a structural reform of state competencies had become indispensable and inevitable. According to the general redistribution of programming competencies to ordinary regions and local administrations and to the related redefinition of the central authority of state administrations, the Ministry of Finance and Budgeting had been in first place reconfirmed in its responsibility for the coordination and supervision of economic programming. In the course of the following years, the ministry progressively assumed the overlapping responsibility in all areas of programming related to territorial development policies.

This trend towards a re-concentration of competencies in the Ministry of Finance and Budgeting was enhanced by the demise of the Intervento Straordinario and by the need to align several programming activities to the logic of the reformed Structural Funds: besides taking responsibility as the national heading authority of the ERDF, the ministry was entrusted with the coordination and supervision of all territorial programming tasks related to the Structural Funds and to the application of other Community regulations, like the mapping of areas for regional state aids.

The new role of the Ministry of Finance and Budgeting obviously implied a take-over of Community-related tasks previously performed by the Department for Community Affairs. This shift in competencies, albeit realized in a rather sudden manner, was clearly in line with the traditional role of the Ministry in matters of economic programming, and was certainly justifiable in light of the administrative and technical complexity of the tasks involved, for which the structure of the Department for Community Affairs was not equipped to carry out in an adequate fashion. Nevertheless, the concentration of responsibility in the Ministry of Finance and Budgeting or responsibility for the management of Structural Funds presents a striking example of how a significant reform, that was to prove crucial for the Europeanization of Italian regional policy, was in fact the outcome of an 'autocratic' decision taken in manner that potentially could have raised a considerable inter-institutional conflict. In other words, the shift in responsibility was not based on a considerable internal debate or on an understanding of its ramifications on horizontal interaction among the core ministries or vertical relations with the European level of policy making.

The reform of ministerial competencies in Community matters was basically completed in 1997 and was aligned according to spending capacities. According to the rationale of the reform of the Presidency of the Council of Ministries, the Department for Community Affairs given its lack of spending capacity had to shift the responsibilities for Community policies to other ministries with portfolios even if these ministries had little competencies or sensitivities for Community matters. The most important change is the fact that this process marked a further step towards the assumption of a strategic leadership in Community issues by a ‘super-ministry’ of the Economy. As a matter of fact, the transfer of competencies to the Ministry of Finance and Budgeting carried out in 1994 established the Ministry as a major strategic actor in the area of inter-governmental relationships and in the management of Structural Funds.

Considering the first programming periods after the 1988 reform, Italian performance implementing the Structural Funds was dramatically low. At the time of expiration of the CSF 1989-1993, such concerns became the subject of negotiations between the Italian Ministry of Budgeting and DG XVI, formalized in a protocol in 1995. What became known as the ‘Masera-Wulf-Mathies agreements’ entailed significant concessions to Italy – particularly by granting delays in implementing programs included in the CSF 1989-1993 – but also introducing the definition of general criteria for Structural Funds implementation. The new measures introduced were applied in particular to the implementation of the CSF 1994-1999: given the first intermediate evaluations of Objective 1 regions; negotiations with the Commission were in fact taken as an opportunity to undertake last minute changes in the operational programmes.

The new programming criteria introduced by the agreement introduced the possibility of changing the allocation of expenditures from regional to national programmes on the basis of the “lack of performance” in regional programmes and the possibility of the state to allocate to itself the remaining funds. The basic principle on which this procedure was based was the fixing of objectives of spending to be reached at the end of each year, as requested by fund regulations. A similar approach was adopted for Objective 2 regions.

As a matter of fact, the Commission’s concessions to the Italian government provided by the Masera-Wulf-Mathies agreements were granted under the condition of a clear commitment to the rationalization of Italian administrative structures and

procedures involved in EU regional programming. The new CSF for Objective 1, approved by the Commission in June 1994, stressed the need for reversing criteria for the selection of projects, the improvement of surveillance, the introduction of an effective monitoring system, and for the provision of technical assistance for regional administrations in the management of the funds. This required a series of measures:

- A clear identification of responsibilities on programme initiatives, within the involved administrations;
- A qualitative and quantitative improvement of personnel and structures responsible for implementation and monitoring;
- An improvement of the administrative capacity of structures responsible for the cohesion policy.

This concept was based on the creation of a national Cabina di Regia and of its reactions with the regional Cabina di Regia. The Cabina di Regia was basically entrusted with supervising the financial aspects associated with the implementation of Community Programmes, in guaranteeing the smooth functioning of the new budgeting instrument of the “rotating fund” (Fondo di Rotazione per l’attuazione delle Politiche Comunitarie) that served to co-finance Structural Funds expenditures. Formally, the role of the national Cabina was to supervise the functioning of the structure of the decentralized network of regional steering groups as a means of improving the operation and the monitoring of programmes.

The Cabina di Regia was, actually, instrumental to a governmental strategy for strengthening the management capacity of state administrations in Structural Funds programming. Managing the Cabina di Regia Nazionale thus became a formal component of the broader role attributed to the Servizio Centrale per la Coesione, later to become the founding nucleus of the Department for Development and Cohesion Policies, created in 1997 in occasion of the reform that brought together the Ministry of Finance and Budgeting and the Ministry of the Treasury into one Ministry of the Economy. The sort of institutional redundancy expressed by the coincidence of the activity of the two bodies was probably the reason that eventually led to the expiration of the Cabina di Regia Nazionale, as provided for in the National Financial Act for 1999.

An early expression of the emergent Europeanization strategy in Italy was the so-called “re-entry strategy” (percorso di rientro), a strategy defined within the Ministry of the Treasury in 1997 in relationship with the intermediate performance evaluations

of the CFS 1994-1999 for Objective 1 regions and with the first application of reprogramming rules. In essence, the strategy of the re-entry strategy consisted of a self commitment on the part of the Italian government to a set of scheduled benchmarks for regaining speed and effectiveness in the implementation of Structural Funds programmes and expenditures, in view of reaching a “normal” average by 2001, in coincidence with the start of the new 2000-2006 programming period.

The most significant innovation, in term of linking organizational restructuring with new policy orientations, was clearly represented by the creation of a department devoted to the coordination of Community programmes with national measures, tools and initiatives of regional policy at the state, regional, and local level: the Department for Development and Cohesion Policies (Dipartimento per le Politiche di Sviluppo e Coesione, DPS).

The main areas of activity of the DPS consisted in the programming of public investment and in the “entrepreneurial promotion” of territorial development. The former task was to be carried out without direct responsibilities in spending, mainly through the definition of a “gatekeeping” role in decision-making and ensuring a clear set of criteria for defining competitive as well as distributive priorities according to a strategic view of development. The main tools for this purpose were defined as:

- The coordination of the implementation of EU Structural Funds programmes at the national and regional levels;
- The management of “institutional programmatic agreements” (intese istituzionali di programma), with the regions concerning large infrastructural investments; and
- State-regional concerted agreements on investment initiatives involving joint responsibilities and actions from central and peripheral administration introduced by legislation on “negotiated programming”.

An important improvement introduced after the constitution of DPS was related to the monitoring and evaluation activities. Responsibility for monitoring (financial, procedural and physical) was unitarily assumed by the IGRUE (Ispettorato Generale Rapporti con l’Unione Europea), a body situated in the Department of State Accounting. Later legislation (law 144/1999) provided for a system of technical support units assigned the tasks of monitoring and evaluating public investments

(Nucleo Tecnico di Valutazione) that was established in each central and regional administration and coordinated through a linkage with the Ministry of Treasury.

The new Ministry of the Treasury also became the main actor in the constitution of the new state development agency Sviluppo Italia, meant to provide a rational framework for managing state intervention in support of large territorial development initiatives involving private capital from within the country and abroad that had a particular focus on investments in the Mezzogiorno and the country's other "depressed areas".

The new agency incorporated all previous existing agencies entrusted with sectoral competencies that had been developed in the course of the Intervento Straordinario as well as introduced in the aftermath of its demise, unifying their management structure<sup>30</sup>. Despite its previous association with the country's regional policy; Sviluppo Italia was not allocated a specific role in relation to the Structural Funds. Rather it operated as a separate agency on its own and in relation to an independent stream of public financing provided by the central government. As a result, its selection of projects was completely separated from the institutions and programmatic contents of the cohesion policy at either the national or regional levels. In summary, at the end of the 1990s the country found itself with four separate agencies at the national level involved with the management of regional policy: 1) the DPS given the overall coordination of the EU cohesion policy, 2) the individual ministries that managed the national operational programmes; 3) Sviluppo Italia assigned the task of attracting large foreign and domestic investment projects; and 4) CIPE that handled the national regional policy. In addition to these four groups of actors, I had the regions responsible for their separate operational programmes.

Though the DPS was given formal responsibility for keeping together the national and regional operational programmes it did not have the administrative personnel or political power to carry out this task in an effective or efficient manner. All that it had at its disposal was the Evaluation Unit who provided technical assistance in evaluating programmes, but the Unit could not in any way interfere with the management of operational programmes unless called in by the management authorities of the programmes. The result was that each managing authority was responsible for its own

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<sup>30</sup> According to Legislative Decree 1/99 (Restructuring of promoting bodies and companies and institution of Sviluppo Italia) the following companies were incorporated in Sviluppo Italia: SPI, Itainvest, IG-Societa' per l'imprenditorialità giovanile, Insud, Ribs, Enisud, Finagra, IPI.

programme and very little could be done by the DPS other than for it to encourage the individual managing authorities to follow its guidance.

**Box 1. Milestones in Devolution Process in Italy**

1944	Single text on local authorities
1946 – 1963	Establishment of five "special statute" regions
1953	Law 62/1953: limited statutory self-governance for "ordinary" regions
1968	Law 108/1968 establishes the system for electing regional councils in "ordinary" regions
1970	Regional councils are elected for the first time in 15 "ordinary" regions
1971	Law 1102/1971 establishes upland communities
1972 and 1977	Transfer of administrative powers to the "ordinary" regions and local authorities
1990	Law 142/1990 confirms the principle of the statutory self-governance of local authorities; new distribution of powers; creation of "metropolitan areas"; a priori control of local authority activity is abolished
1990	Law 241/1990 on reform of public administration
1993	Law 81/1993 introduces the direct election of Mayors and provincial Presidents
1995	Law 43/1995 amends law no. 108/1968 on Regional Councils
1997	Law 127/1997 curtails supervision of local authority activity
1997	Law 59/1997 transfers administrative powers and tasks to the Regions, municipalities and provinces and lists State-held administrative responsibilities
1998	Legislative decree 112/1998 implements administrative devolution
1999	Constitutional law 1/1999 provides for the direct election of Presidents of the "ordinary" Regions and statutory self-governance of the Regions
2000	Legislative decree 267/2000 Single law on local authorities
2001	Constitutional law 3/2001 - Reform of title 5 of the Constitution; grants the Regions residual legislative powers grants and provides for their involvement in the EU decision-making process; it represented the end of Central government supervision of the administrative activities of local and
2001	Constitutional law 2/2001 governing local authorities extends direct election of Presidents of the Region to universal direct suffrage in Regions with special status and extends statutory self-governance•
2003	Law 131/2003 on implementing reform of Title 5 of the Constitution regional authorities

## 5. THE REGIONALIZATION PROCESS: POLICY AND FINANCIAL ASPECTS

This Chapter presents the results of the analyses carried out on policy and financial variables in the Regions selected as Case Studies, in order to investigate the aspects related to change in regional policies in terms of design and financing of policies. These aspects are considered as relevant to assess the level of effective devolution with respect of Regional Policies.

### 5.1. The centralized paradigm: origins and consequences

#### 5.1.1. Origins

Since the end of the Second World War nation states have been struggling with the problem of using public policies to guarantee a measure of equity in the distribution of economic development and opportunities, irrespective of social class and territorial location. From a territorial perspective, nation states have found it difficult to always guarantee an equitable distribution of socio-economic resources to the inhabitants of both “core” and “peripheral” areas (Krugman and Venables 1995; Puga 1999). The persistent differences between core and peripheral areas also bring into question the efficiency of national economic and social policies in resolving the problems of the socio-economic groups to be targeted by the policy. Core areas have been defined in the literature as those areas of the nation-state: where there is a high concentration of economic activity; where economies of scale predominate; where salaries are relatively high; where capital is abundant and available at lower interest rates; where the infrastructure grid guarantees swift and easy access to markets; and where the dominant political and cultural institutions are located. Peripheral areas are, instead, characterised by the opposite characteristics: low level of economic activity, absence of economies of scale, low salaries, scarcity of capital and higher interest rates, lack of adequate infrastructure, and absence of important political and cultural resources. In order to bridge the gap between core and peripheral areas nation-states have engaged in a number of development schemes, which have attempted to alleviate the conditions

of the less developed areas. These types of policies have been commonly referred to as regional development policies.

The reason why the term “regional policies” has been used to characterize policies attempting to achieve a better socio-economic equilibrium within the country is due to the fact that these policies are focussed on specific territorial entities—i.e., regions—and normally do not address the entire national territory (Armstrong and Taylor 2000). If the latter were the case, then it is more common to refer to development policies as “sectoral”—i.e., covering various sectors of the national economy such as agriculture, industry or specific services. Such policies are thus implemented on a nation-wide basis, irrespective of territorial specificity or in one region vis-à-vis another. This definitional distinction between regional and sectoral policies does not mean that regional development strategies are devoid of a sectoral component. On the contrary, it is common to find in regional development policies an emphasis on the development of particular sectors in particular areas. Therefore, sectoral and regional development strategies are not -from a theoretical and practical perspective- diametrically opposed. Where they do differ is in the definition of territorial scope and concentration. Regional policies are oriented toward the development of specific regions or parts of the national territory. Sectoral policies, on the other hand, are usually applied on a blanket basis throughout the national territory and their objective is to develop the overall national economy.

Another important aspect of regional development policies is associated with the institutions responsible for the formulation and implementation of the interventions. In my case, the relevant institutions and actors are represented by national and sub-national political and administrative entities operating within governmental institutions. In the Italian case regional government institutions have been created during various phases of the nation’s post-war history, and according to the 1947 Constitution they were allocated a central role in the implementation of development policies (see Articles 117 and 118).

However in Italy as well as in other countries, the dictates of the Constitution have not always been implemented in an efficient and effective manner. In the immediate post-war period regional development policies in France, the UK and Italy were predominantly the responsibility of national authorities. To a certain extent national authorities assumed the task of balancing levels of territorial development as part of a national political responsibility to promote the development of the entire country and

to achieve equitable results for all citizens. On the other hand, such an approach was understandable in Italy (and also in the UK and France) because regional level institutions did not exist: all three countries had highly centralized governmental structures and national governments were the predominant central actors in the pursuit of equitable social and economic outcomes. In Italy it was not possible to allocate the responsibility of regional development policies to regional institutions because the latter simply did not exist throughout the country.<sup>31</sup>, and where they did exist, such as in the four special regions, their powers were not exercised in deference to the activities undertaken by the national government. Instead, regional development policies were formulated by the central state authorities for the regions rather than by the regions for themselves. I will argue that the centralisation of regional development policies did not take place not only due to the fact that regional government institutions did not exist but rather to the fact that the dominant development paradigm emphasised the role of central institutions vis-à-vis that of the regions.<sup>32</sup>

### 5.1.2. Consequences: the Italian implementation

The Italian case, thus, illustrates two important changes over time with regard to the development paradigms involved in the formulation and implementation of regional policies: the first involves the economic model used to influence the formulation of development strategies and the second deals with the institutional structure (centralised versus decentralised) used to formulate and implement the chosen policy.

Between 1950 and 2000 there was a parallel shift in the development paradigm in both instances. Not until the late 1970s and early 1980s did the development paradigm change to emphasize the role played by decentralised institutions (i.e., regions) in the formulation and carrying out of regional development policies. According to my analysis, this change was not exclusively linked to the fact that regional institutions began to exist on a uniform basis but rather to a broader shift in the economic thinking

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<sup>31</sup> In Italy the twenty regions were created in phases. During the 1946-49 period, the “special regions” were created in Sicily, Sardinia, Val d’Aosta and Trentino-Alto Adige. In 1964 another special region was created in Friuli-Venezia Giulia. The remaining fifteen “ordinary regions” had to wait until 1970 before they were constituted (See Mossetto 1980, Morgan 1986, Leonardi 1993).

<sup>32</sup> In fact, the development policy for the South could have been “regionalised” in the cases of Sardinia and Sicily, but the national authorities chose not to for the reasons that will be elaborated in this chapter.

that underpinned the development paradigm: the emphasis on the positive role played by sub-national institutions in the tailoring of development strategies to local needs and opportunities.

By the beginning of the 1950s the country found itself already characterized by a dual economy. In the North economic growth and expansion were well underway as the country's traditional industrial heartland (the northwest triangle connecting the cities of Turin, Milan and Genoa) saw significant public and private investment in basic infrastructure and industrial plants. The objectives of the investment programme were to expand industrial production in the manufacturing of steel, ships and expanding the country's stock of trains, trucks and automobiles. (See Clough 1956; Chenery 1956, 1962; Cohen 2001; Fanfani 1996; Saraceno 1969, 1982; Cafiero 2000). These investment programmes were not conceived as regional development policies for the northwest of the country. Instead, they were defined as policies to develop the country's overall industrial base. The fact that this base was concentrated in only one portion of the country was not seen as a fundamental problem because the emphasis was on the rapidity and effectiveness of the industrialization programme rather than its territorial balance or diffusion.

One of the central components of the country's economic strategy was the repair and extension of the national infrastructure grid in relation to vital road, railroad and port facilities that were damaged during the Second World War. However, this national thrust in repairing the country's infrastructure and productive facilities under-emphasised the position of the South, which had been, relatively unscathed by the ravages of the war.

Historically, the South had not witnessed the creation and growth of significant industrial enterprises prior to the Second World War. Instead, the emphasis in the South was focussed on the development of the agricultural sector. Attempts at industrialisation had taken place (for example, the Bagnoli steel plant in Naples), but they were sporadic and did not constitute a critical mass in transforming the economic base of the various areas in the South.

One of the reasons for the lack of emphasis on the repair and development of the infrastructure and industrial base in the southern regions was due to the fact that the South had been less affected by the destruction of the country's economic base. Two months after the overthrow of Mussolini's regime (July 1943) the Germans shifted their forces to the North in response to the Allied landing in Anzio (southern Lazio)

and the abandonment of Rome by Italy's king, Victor Emanuel, in September 1943. Those two events led to a concentration of German forces in the centre and north of the country, and during the following two years a protracted struggle to liberate the rest of Italy ensued. Between September 1943 and June 1945 the Germans retreated northward in what proved to be a long and protracted struggle. During this same period the activities of Italian partisan forces against the Germans were largely concentrated in the centre and north of the country. Between the allied bombing of strategic positions and the partisan's sabotage of infrastructure, the country's economic base emerged shattered from the Second World War.

The other reason why the South was not the initial beneficiary of national industrial reconstruction efforts was tied to the predominantly agricultural nature of the southern economy. As is illustrated in Table 5.1 in 1951 while agriculture accounted for 36.8 per cent of the Italian working force, in the South it represented 56.3 per cent of all workers employed. The level of industrial employment also favoured the other parts of Italy: 25.9% versus only 13.1% in the South.

**Table 5.1 Italy and Southern Italy in 1951**

<b>Gross Domestic Product (1951)</b>		
	<b>Southern Italy</b>	<b>Rest of Italy</b>
Agriculture	33,1	19,1
Industry	18,4	34,2
Building and constructions	6,6	4,8
Services	41,9	41,9
<b>Total</b>	<b>100</b>	<b>100</b>

<b>Employment (1951)</b>		
	<b>Southern Italy</b>	<b>Rest of Italy</b>
Agriculture	56,3	36,8
Industry	13,1	25,9
Building and constructions	6,0	5,8
Services	24,6	31,5
<b>Total</b>	<b>100</b>	<b>100</b>

*Source: Cassa per il Mezzogiorno 1983*

In 1950 Italy embarked on a major restructuring of the South's agricultural sector by: 1) the distribution of the South's large landholdings to landless peasants and 2) the rationalisation of agricultural production—i.e., shifts from subsistence to market oriented agricultural products. Thus, during the 1950s the duality of the Italian economy became more acute as the North reinforced its industrial base and the South underwent a reform of agricultural holdings and production, thereby producing a

substantial transfer of population from the South to the North. Under these socio-economic conditions it became imperative for the national government to come up with a solution to the growing territorial disequilibria. The response was the creation of an ad hoc regional development policy for the South.

## 5.2. Policy choices: sector priorities and policy management

Italy has always been an important case study and reference point for students of regional development and regional policy. But developments in the country were particularly important during the 50's, when Italy started to experience a spectacular process of development (the so called economic miracle) in the North, and undertook to actively tackle the problems associated with its less developed areas in the South. Chenery (1955, 1962), Eckaus (1961), and others contributed many important studies on southern Italy and presented the problem in the international literature. Williamson, in his seminal article on regional inequality and the process of national development, wrote about Italy as follows: "The evidence on Italian regional dualism suggests optimistic projections regarding the future size of the North-South problem as Italy passes into mature stages of growth and rapidly ascends into high-income classes" (Williamson, 1965).

In fact, 30 years after Williamson's analysis it can be agreed that Italy has passed into a "more mature stages of growth" but the regional dualism still persists. Actually, Carello (1989) identified three economic systems within one Italian economy. Carello suggests that the origin of the "dualism" or "pluralism" of economic systems comes from the organization of the newly unified Kingdom of Italy beginning in 1861. In the conception of the Governors of the Kingdom of Sardinia Carello argues, the Northwest was the centre, the Northeast the semi-centre and the Kingdom of two Sicilies was considered the periphery.

### 5.2.1. Policy and Political priorities

The literature on development policies in the Italian South or "Mezzogiorno" is extensive, but there is no agreement on its overall socio-economic impact or implications for politics and institutional development. It has been argued that the

combination of politics, the creation of centralised institutional mechanisms, and the formulation of regional economic policies has either had no significant effect on economic growth trends in the South or, in certain cases, has even rendered more difficult the prospects of economic growth in southern regions. Numerous authors studying lagging regions in Europe have reached the conclusion that the origins of the persistence of backwardness in southern regions should not be sought in the analysis of economic barriers but rather in the institutions and political conditions created in the pursuit of centralised development policies for the southern regions (Trigilia 1992).

From this point of view, political conditions and the long tradition of political intervention in the areas of the Italian Mezzogiorno have not only been incapable of encouraging the development of economic activity but have also had pernicious effects on local entrepreneurship and investment and market strategies (Cafiero 2000). Whenever the terms “economic growth” and “Italian Mezzogiorno” come together, they generally describe what has been considered an exceptional situation. Several decades of robust institutional intervention, by means of the implementation of an active development policy, have not succeeded in laying the foundations for an autonomous economic development strategy and for the development of a robust civil society. In contrast to what was experienced in the new growth areas in the centre-north (e.g., Veneto, Tuscany, Emilia-Romagna), political and institutional intervention in the Mezzogiorno has been accompanied by the development of a strong legacy of socio-economic and political dependency of southern regions on the public sector and the national political process (Trigilia 1992).

In developed countries, regional policies started to be implemented in the first half of last century, allowing Chenery (1962) to write that “only a handful of countries have followed a fairly consistent (regional) policy for a period as long as ten years”. Chenery, again, notes “Southern Italy is of considerable interest because the Italian government attempted to carry out the theoretically attractive procedure of developing external economies by massive doses of public works while leaving the direct investment (...) to private individuals” (Chenery 1962).

The development of the South has been one of the main goals in Italy since reunification. The permanence of strong territorial disequilibria within the country has had a negative influence on the Italian economy as a whole, and in several periods threatened social and political stability. The new policies for the Italian Mezzogiorno

were initiated in a moment of deep crisis for southern society: the economic crisis of the Thirties, the Fascist dictatorship, and the Second World War and its aftermath deepened the problems from which the South had always suffered.

The core idea behind the Italian government's approach to the development of the South was based on the notion that the post-war reconstruction presented a unique opportunity for fostering the industrialization of the South. The main supporter of this approach was Rodolfo Morandi (Ministry of Industry). In January 1947 he announced the creation of the SVIMEZ programme<sup>33</sup>. The programme was backed by the banks (Bank of Italy, National Bank for Labour, Commercial Bank, Credito Italiano, Bank of Rome) and by the major industrial enterprises (FIAT, Pirelli). As Morandi clearly stated, the reconstruction would undertake a "basic structural reorganization" of the southern economy and the creation of a more integrated Italian market. In order to implement the economic unification of Italy, Morandi aimed at inserting "into the economic system of the South (what is) a 'booster' capable of bringing quick results. And this can only be done by industry" (Morandi 1947, quoted in Saraceno 1969). Thus, the path traced by Morandi was based on the building of the physical infrastructure that was lacking in the South and creating incentives for the relocation of (large) industry into southern regions.

The choice of centralized government structures to implement regional policies can be described as subject to "historical path dependence" and "contingent" political determinants. Historical "path dependence" was mainly related to the heritage of the post-fascist structure of the State, which had been characterized by a relevant predominance of centralized structures and an intrusive presence of the central government throughout the territory and the economy. During Fascism local authorities and mayors were directly appointed by the central government while the "contingent" determinants were related less to strong theoretical convictions rather than to an "imitative" reaction to what happened elsewhere. Much of the initial literature on the industrialisation of the South was posited on the role of the state in spurring development through public investment or the encouragement of private investment through public grants. There was a basic distrust in civil society and endogenous factors and, instead, a strong reliance on external (foreign) entrepreneurs

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<sup>33</sup> The conceptual framework was developed on the basis of interviews (during 2005-2006) with SVIMEZ (former study centre for the Cassa) officials, and the SVIMEZ president M. Annesi. SVIMEZ still functions as a study centre for the Mezzogiorno that is financed by public and private grants.

and state direction of the economy.

An analysis of the Parliamentary debate that preceded the creation of the Cassa per il Mezzogiorno in 1950 shows that the reference model for the centralized paradigm to regional policy and government intervention in the economy of Southern Italy was provided by the example and success of the Tennessee Valley Authority (TVA) in the U.S. (see the speech by Giorgio Amendola, on 20 June 1950, p. 19796-19826)<sup>34</sup>. The TVA was a centrally organized agency whose mission it was to harness the Tennessee River and economically develop the surrounding territory (among others, Kenneth Hare 1947; Mason 1936, Ackerman 1953). The experience of the TVA served to re-emphasize a deep seated distrust of locally driven strategies. In retrospect, it seemed to present the ideal example of a top-down, centrally driven economic development initiative that had wide success and consequences.

As a result, when Italy embarked on a strategy for developing the South it chose to create an autonomous central agency, the Cassa per il Mezzogiorno or Casmez, as a technocratic body whose mission it was to develop not only a river valley but also almost one-half of the Italian territory or eight regions. The theoretical underpinnings for the Casmez were twofold: on the one hand, the concept of regional imbalances (developed a few years later by Myrdal and Perroux)<sup>35</sup> suggested that government intervention through special, ad hoc agencies could be in a position to balance the forces of the market. In 1957 Myrdal suggested, “The play of forces in the market normally tends to increase rather than decrease inequality between regions”. Moreover, Myrdal considered the regional growth process as a “cumulative process”, leading to virtuous and vicious circles for rich and poor regions’ growth paths. The argument went that the free flow of production factors favoured the rich areas and reduced the economic potential of the poorer areas. Accordingly, the reduction of regional imbalances could only be achieved through the intervention of the government in the economy with specifically oriented regional policies. For Perroux (1958, quoted in Stuart Holland 1976) this central form of intervention had to be focused on the creation of “new industrial growth poles” to serve as magnets for

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<sup>34</sup> See also others comments and abstracts form the Parliamentary Debate in Bini P. 1976, *Il Mezzogiorno nel Parlamento Repubblicano 1948-1972*. The experience of the Tennessee Valley Authority had been explicitly quoted in the proposal by Raffaele Mattioli (December 26th 1946) concerning the use of the UNRRA. The idea had been to create “an agency with no constraints or ties, through a directive inspired by the planning criteria of the T.V.A. (Cafiero 2000) .

<sup>35</sup> For a more comprehensive analysis see Stuart Holland (1976).

industrial development, in order to activate Myrdal's positive cumulative effects. According to the approach advocated by Perroux, growth poles needed to be located in large metropolitan areas capable of attracting capital and skilled labour from the surrounding areas and serve as motors for accelerated economic growth that would eventually spill over to less developed rural areas. The "growth pole theories" introduced into the "development equation projected a significant role for national economic planning and political decision-making" (Leonardi 1994). The theory basically states that growth can be planned and concentrated by geographic area in development poles through central decision-making bodies.

In Italy, the idea of creating a development agency as an autonomous body responsible for implementing public policies at regional level had already emerged in the late 1940s inside of the International Bank for Reconstruction and Development (later World Bank). Domenico Menichella, the Director of the Italy's Central Bank, backed the proposal and when the national government made the proposal to launch a series of "extraordinary" projects to develop southern Italy the idea of a special national development agency had already been widely accepted. The Cassa's role as an autonomous technocratic agency was defined as the "implementing body" of policies identified by the Government and the Parliament for purpose of developing southern Italy. In this manner, the technocratic character of the Cassa could be kept distinct and separate from the political considerations represented by the Government and Parliament.

The objectives of the Cassa were the general promotion of the "economic and social progress of Southern Italy"; although no further programming documents were prepared in order to define territorially and in quantitative terms the policy guidelines. The main operating principles, as reflected in Perroux's later theories concerning spatial polarization, were addressed toward the creation of development poles. The instruments identified for the implementation of the regional policies were, initially, financial (loans and grants) and then direct state intervention through the creation of public firms to participate in the production of steel, the building of ships, the manufacturing of cars, the refining of oil and the manufacturing of chemicals. As theorized by Perroux, these activities supported by public and private capital were designed to have a spill over effect on the local economy and thereby promote the overall development of the regions in southern Italy.

One of the essential elements to the policy initiated in the 1950s to develop the South was the distinction made between “ordinary” and “extraordinary” interventions. In the case of the Cassa its investments were not conceived as a substitute for ordinary national economic investments. If anything, they were considered “additional” investments that represented an effort to promote economic development above and beyond what the national government did throughout the country. The “ordinary” interventions (national investment programmes) were to be carried out by the national public administrative structure while the “extraordinary” interventions (special investment programmes earmarked for the southern regions) were to be carried out by a special agency. For the latter, the Cassa, had at its disposal significant economic resources and its objectives were to establish the bases for autonomous development in the South. “Indicative planning” or the setting of broad general objectives was the main strategy used for the implementation of specific projects in support of the development of the Mezzogiorno (Cafiero 2000).

The first development objectives for the Cassa were designed within a ten-year temporal context—that is, the objectives of the programme were to be achieved within a ten-year period even though the selection of the projects and allocation of financial resources to the national budget were carried out on a year-to-year basis. The purpose of the ten-year programme timeframe was to establish the basic framework for, first, the restructuring of agriculture and the birth of new industries. But before those two objectives could be reached, an enormous effort had to be dedicated to the building of the South’s basic infrastructure grid. That effort was designed to be carried out during the 1950s and 1960s (Cafiero 2000); but it soon became evident that ten years were not enough to reduce the infrastructure gap, which existed between North and South.

By the end of the 50’s it was clear that the overall development of the Mezzogiorno would require a much longer effort and greater investment in both capital and human resources, otherwise much of the financial allocations which had already been spent would have been wasted (Clough 1956, and Chenery 1962). Based on these considerations, the life of the Cassa was extended into the 1970s and 1980s, and as the Cassa extended and expanded its activities its initial technocratic nature began to give way to more political considerations in both its strategy as well as in its decision making structure.

In the 1960s a new approach was emphasized. Agricultural ceased being a primary priority and it was substituted by industry as the main objective of the Cassa’s

activities. A larger percentage of the extraordinary funding began to be devoted to the establishment of large industrial complexes in Sicily and in other areas in the South. Private industries benefited from substantial incentives and subsidies if they established plants in southern Italy, and leading public and private groups rushed towards the Mezzogiorno. Nevertheless, according to Giannola (1982), this process was two-edged: while large industrial consortia were settling in the South, local industrial sectors were unable to cope with competition from small and medium-sized firms located in the North and Centre of the country or the large public firms being created in the South. However, a decade later the ten-year plan procedure and the ambitious industrialization programme was affected by the economic crisis of 1973, and in the second half of the 1970s public intervention began to slowly decline on the heels of a series of plant closures and financial scandals.

By the beginning of the 1980s it became clear that the significant level of public investments directed towards infrastructure and the attraction of large industrial plants had not created the preconditions for accelerated economic growth. Indeed, as Trigilia (1992) points out, those areas of the Mezzogiorno, which had performed best, are those which have been capable of reducing their dependency on public intervention and where the Cassa had not operated. Unemployment rates and employment in the tertiary unskilled sector continued to increase, and criminal organizations and the underground economy continued to spread (Zamagni, 1993). D'Antonio (1991) suggests that the insufficient level of economic growth had rendered the South economically dependent on the rest of the North and on central handouts. According to D'Antonio, "the policy for the South became very dependent on a role of the State as a *deus ex machina* providing necessary finance".

As the internal documents indicate<sup>36</sup>, the guiding concepts of the Casmez did not undergo a significant revision during the first thirty years of its existence. They remained anchored to the Myrdalian development postulates. The policy became rooted in the past and depended upon an increasingly strong political base to keep it alive. D'Antonio (1991) has argued that "The philosophy behind the extraordinary intervention was not altered for more than three decades, while the local economy and society in general, underwent significant changes which radically modified the socio-economic conditions under which regional intervention was conceived".

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<sup>36</sup> Source: Annual report of the Cassa per il Mezzogiorno, various years (1950-1980)

What emerges from this analysis of the Cassa's development approach was that though the regions were created throughout Italy in 1970 their emergence had no "effective" impact on the restructuring of regional development policies undertaken by the central authorities. In other words, the regional institutional framework changed due to a progressive shift from a centralized to a decentralized form of government, but there was no parallel shift in the regional policy "paradigm" implemented by the national government through the Cassa. It was as if regional institutions and regional development policies operated in a complete vacuum within the Italian policy making context during the 1970s and 1980s. Thus, the southern regions were consistently cut out from having any input in the formulation and implementation of either the ordinary or the extraordinary state interventions in the pursuit of economic development policies.

### 5.2.2. Regional Policy management in Italy

Italian regional development policies have had to address the problem of territorial disparities in economic conditions from the unification of the State. A large body of literature has analysed both the economic and normative aspects of the evolution of Italian Regional Policies. However, relatively few studies have focused on the aspects relevant for the analysis of public policies.

Public policies have been undergone a long and complex process of devolution for the central government to the regional authorities, encompassing different aspects of the management of the territory.<sup>37</sup>

Regional development policies in Italian Mezzogiorno can be analysed focusing on three main periods: 1950-65; 1965-86; and 1986-2000 coincident with the two past programming periods of the Structural Funds. Each phase will be examined through its main normative milestones, and in terms of institutional settings with respect to objectives, principles and programming procedures.

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<sup>37</sup> Regional and local governments have been characterized by a tendency towards devolution of Regional and Structural Policy. The formulation and implementation of Regional and Structural policy have become major competency of the regions. Accordingly, the programming and planning responsibilities are at Regional Level. In the specific, the Provinces have the responsibility over the support to local development and urban planning, while the responsibility over local economic development are devolved to the lower government levels (Municipalities). The basic planning instrument for the whole country is administered at central level. , Central Government is in charge of developing the general concepts concerning spatial planning. Regional authorities have been involved in spatial planning on the basis of Central Government national guidelines. Regions have been in charge of the formulation and implementation of regional plans and guideline for local activities in spatial planning. Specific and detailed territorial master planning have been devolved to Municipalities.

### **The First Phase 1950-1965**

In the First Phase (1950-65), the Regional Development Policies has been characterized by a specific institutional framework; different from the other public policies. Its policy has been decided by the Central Government and the Parliament and implemented by a dedicated agency, the Cassa per il Mezzogiorno.

The main objective of the Government was to create a public body in charge of financing and implementing the programmes of extraordinary intervention in different sectors in Southern Italy. Originally, the Draft Law had foreseen a large financial and managing independence to the Cassa; the final text encompassed the institution of a Committee of Ministers, nominated by the Council of Ministers. Along the administrative process of the Cassa, it had been changed also its character of “public body”, making it an entity in charge of the implementation of the plan established by the Council of Ministers (Law 646/1950).

During this phase, the main policy features of Italian Regional Development interventions have been the ones described in the following paragraphs. With respect to the objectives, the interventions, have been addressing the “economic and social progress of Southern Italy<sup>38</sup>” (see art.1 Law 646, August 10th 1950). However, it must be noted that it has not been possible to identify further accompanying legislative acts which could narrow and specify this general definition as well as in territorial (where) as in quantitative terms (how much money).

The basic principle has been the territorial concentration; the main instruments identified for the implementation of the policy have been reduced interest loans and grants. The procedures for the selection of projects have been characterized by a well-developed system of standardized technical evaluation criteria. The framework was encompassing an ex post annual monitoring and evaluation system, linked to the drafting of the annual Balance Sheet of the Cassa.

The Annual Balance Sheet had to be approved by the Auditors, and submitted at the end of every Fiscal Year to National Court of Accountants<sup>39</sup>. The relevant difference between the Cassa and the other central government institutions is that only the Cassa had no ex ante approval by the Court. Accordingly, the system was only

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<sup>38</sup> “*rafforzamento economico e sociale del Mezzogiorno e delle Isole*” in the original text.

<sup>39</sup> Corte dei Conti

partially lacking of a monitoring mechanism, but this was implicit in the “extraordinary” nature of the Cassa.

Concerning the evaluation of the interventions, the Cassa had been performing an annual evaluation of the economic and social impacts of its interventions internally. The annual evaluation has been presented in the Report in annex to each annual Budget. The analysis has allowed assessing that this practice has been carefully carried out until mid Seventies. After that year, the impact evaluation is progressively disappearing from Cassa’s official documents.

Concerning the programming phase, the Council of Ministers has been in charge of contributing in drafting the plan of interventions to be financed through the Cassa per il Mezzogiorno, according to the development strategy defined by the Cassa. The Parliament had a relevant function, as it has been responsible of the approval for the multi-annual financial endowments of the Cassa. The financial resources of the Cassa have been assigned through specific laws, which represented the direct link between the Parliament and the Regional Development Policies.

The institutional framework has been set up in such a manner that there have been no room at all for any authority except Central Government and its ancillary institutions. The Regions, at that time, were not a relevant body administrative, and the provinces had no power with respect to regional development. This remained unchanged about until the Seventies.

The main relevant point to be made concerning the first phase of regional development policies is that the institutional settings briefly described above allowed reducing significantly the political bargaining in this area of the public interventions. The institutional settings designed by Menichella<sup>40</sup> allowed the Cassa and its managers to be, at least in this first phase, relatively immune from political interferences.

Within the institutional framework of the first phase of Regional development policies, the Central Government has assigned a determinant role to Cassa. Its activities have been largely independent from the Central Government. The President of the Cassa and the Board of Directors have been appointed internally, and the members could not have any political post.

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<sup>40</sup> Donato Menichella (Biccari 1896-Roma 1984), has been the Governor of the Bank of Italy at the time of the creation of the Cassa per il Mezzogiorno, in which he had a relevant role.

The Cassa has been able to manage itself with relative high level of independence. The general approach has been particularly focused on the achievement of performance objectives through the actions of highly skilled bureaucrats. The approach described above, appears to be significantly close to the one pursued under the EU cohesion policies.

#### **The Second Phase: 1965-1986**

The Second Phase of “extraordinary intervention” is considered as starting from 1965 until 1986, and more extensively until 1989.

The period of activity of the Cassa has been extended from 10 to 12 years with the Law n.949 July 25<sup>th</sup> 1952. Its activity has been initially focused on external economies, taking the shape of a pre-industrialization programme. Later, two laws have widened the competences of the Cassa per il Mezzogiorno: law n.634 July 29<sup>th</sup> 1957 and law n.717 June 26<sup>th</sup> 1965. The Cassa has been moved towards a more integrated approach for the industrialization of the Mezzogiorno.

Year 1965 represents a milestone in the process of change in the role of Central Government with respect of Regional Development Policies. The Law 717/65 represented a strengthening of the link between the Cassa and the Central Government. The Law had foreseen to give to the Minister of the Extraordinary Interventions in the Mezzogiorno the presidency of the Committee of Ministers, overseeing the Cassa’s activities. As well, the Minister had been empowered of relevant monitoring responsibilities over the Cassa’s activities: the Minister has been responsible of approving the programmes, the annual Budgets, and the decisions concerning the human resources. As well the Minister has been in charge of proposing the appointment of the President and of the Board of Administrators of the Cassa.

With respect to the relevant aspects for the present research, the most significant amendment to the original institutional settings in Law 717/65, is linked to the introduction of the “coherence opinion” to be expressed by the Minister for Extraordinary Intervention in the Mezzogiorno. The expression was concerning the admission of the project to facilitated credit arrangements. This represented the first significant introduction of “third party” control on the activities of the Cassa. In principle, this would act as an external monitoring, but it had turned itself more in terms of a stronger political control over the activities of the Cassa, rather than an efficiency incentive.

During the Seventies, the Law n.183 May 2<sup>nd</sup> 1976 introduced a more pragmatic approach toward the extraordinary intervention, encompassing the periodical revision and programming. Every five years it has to draft a programme identifying the targets in terms of employment and GDP to be achieved, the initiatives for the industrialization, and the procedures of coordination between the ordinary and extraordinary interventions. The Law reformed the administrative framework of the “extraordinary intervention in the Mezzogiorno. On the one hand introduced the Permanent Commission for Mezzogiorno (made of 15 member of the Chamber of Deputies and 15 members of the Senate); on the other increased the role of the Committee of Southern Regions, giving it the competences of control over the programming and implementing of the ordinary and extraordinary interventions in the Mezzogiorno<sup>41</sup>. The Permanent Commission had the competences over the coordination between the regional development policies and the economic policies at national level.

According to Law n.183/76 the regions have had the necessity of identifying the criteria to those the Regions would have to comply concerning the implementation of Cassa’s special projects<sup>42</sup>. With the Law 183/1976 the institutional framework has been subject to an in depth change. The change led to an increase of the control of the Central Government over the activities of the Cassa through the Permanent Commission and the Inter-ministerial Committee for Economic Planning (CIPE) that had the power to revoke a financing. As well, the Law raised the capacity of the regions of influencing the regional development policies.

The Cassa was supposed to terminate its institutional life on December 1980. It has been subject to several Decrees of extension until 1986. The last years have been characterized by a long series of proposals and amendments to the incumbent settings. The most relevant amendments are encompassed in the Law 651/1983. The intervention was supposed to be divided in three main areas (interventions, incentives, technical assistance and vocational training); its implementation was divided in three-

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<sup>41</sup> See La Spina, A. “*La politica per il Mezzogiorno*” Il Mulino 2003

<sup>42</sup> The special projects (35) of the Cassa per il Mezzogiorno started in 1972 and continued until 1982. The project have been in different sectors: Agriculture development (PS.4 Zootechny, PS.11 Citrus fruits, PS23 Irrigation; PS.24 Forestry; PS.34 Commercialisation), Hydro schemes (PS.13, PS.14 Puglia and Basilicata, PS15, PS25 Sardinia; PS29 Lazio, Tronto, Abruzzo and Molise, Campania, PS30 Sicily); Industrial development (PS.1 Port of Cagliari; PS.2 South-Est Sicily, PS22 Reggio Calabria); Urban areas (PS31 Naples; PS32 Palermo); Environmental intervention in the Gulf of Naples (PS3); Development of inner areas (PS33); Research and Development (PS35).

year long programming periods, subject to the approval of the CIPE. In August 1984, one of the Decrees promulgated in order to extend the Cassa's life was not converted into Law, and the Cassa was put in liquidation.

Specific institutional and policy features have characterized the second phase in Regional Development Policies in the Mezzogiorno. With respect to public policy, the Italian regional development policies were drafted in the pursuing of the "economic and social progress of the southern regions" with no further specifications concerning neither quantitative objectives, nor the scheduled time to achieve such objectives. The Law 717/65 added the principle of *programming* to the one concerning the *territorial concentration* already present. The programming objective remained only a formal prescription, with no actual implementation.

The policy instruments have been the same of the previous phase: facilitated loans or grants dedicated to promote regional development. The procedures became significantly more discretionary compared to the previous phase, due to the requirement of the "opinion" by the Ministry.

With respect of the institutional framework, similarly to the previous period, the relationship between executive and legislative powers has remained substantially balanced: the *implementation* of the policies was among the responsibilities of the Government; the *juridical base* was a Law approved by the parliament; the *financing* was subject to budget instalments decided by the Parliament at central level.

Concerning the centre-periphery relationships, relevant has been the continuity with the previous phase. The prevalence of a strong centralization of powers with respect to regional development policies was present in the programming phase and in the implementation phase. Although the Law 183/76 encompassed the devolution of a large scope of specific responsibilities to the Regions, that has been a clear example of "formal devolution".

The second phase of the Regional Development policies is different from the first one with respect of the level of conflicts between Central Government and the Regions. In the first phase the competences and the role of the Cassa had not been subject to relevant political discussion. The second phase has been characterized by an increasing "demand for power" by the Regions.

**Box 2: Regional Development Policies in Italian Mezzogiorno: Chronology of the First and Second Phase**

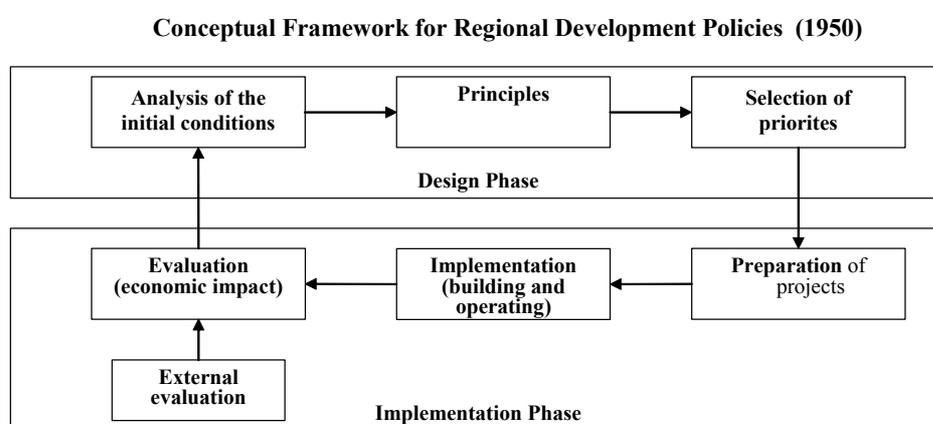
Law 646/1950:	Creation of the Cassa per il Mezzogiorno.
Law 298/1953:	Creation of ISVEIMER, CIS, IRFIS, and credit institutes operating respectively in continental Southern Italy, Sicily and Sardinia.
Law 634/1957:	Promotion of industrial development areas, prorogation of the life of the Cassa for further 5 years;
Law 555/1959 and Law 1462/1972:	Identification of the industrial poles.
Law 717/1965:	Prorogation of the life of the Cassa until 1980, enlargement of its responsibilities, increases the power of the <i>Ministry for extraordinary intervention in the Mezzogiorno</i> .
Law 853/1971:	Official recognition of the “negotiated programming” between Central Government and the entrepreneurs; abolition of the Committee of Ministers, and delegation to the CIPE concerning the responsibilities of coordination and review both of the programming of interventions submitted by the Ministry for Mezzogiorno, and of the actions for implementation by the Cassa.
Law 183/1976:	Five-years programming periods for all the investments in Mezzogiorno; parliament commission on Mezzogiorno; more financial endowments to the Cassa.
Law 675/1977:	Industrial restructuring
Law 651/1983:	Three-years programming periods for all the investments in Mezzogiorno defined by the CIPE.
D.p.r. August 6 <sup>th</sup> 1984:	Suppression and liquidation of the Cassa
Law 64/1984:	New rules for the extraordinary intervention in the Mezzogiorno; creation of Agensud.

During the first phase (1950-65), Italian regional development policies were characterized by a specific institutional framework that was separate from the other public policies carried out by the national administrative apparatus. The central decision making body was represented by the central government (Prime Minister’s Office and Cabinet) and Parliament (Commissions in House and Senate responsible for Development Policies) while the responsibility for implementation was allocated to the Cassa per il Mezzogiorno whose offices were located in Rome. The Cassa never established local offices in the southern regions. In practice, the Cassa was largely independent and autonomous from the central government given that the President of the Cassa and the Board of Directors were appointed internally, and the members of the board could not hold political office. In essence, the Cassa was conceived as a technical agency that was to a large extent self-sufficient and autonomous from day-to-day interference from the national political organs. Thus, the central organs represented by the government and Parliament were seen more in the role as general overseers of the process rather than day-to-day participants in the activities of the Cassa. The text of the law passed in 1950 that created the Cassa (Law 646/1950) provided for a political organ (i.e. a Committee of Ministers selected by the

Cabinet). This Committee was to provide political guarantees and accountability for the activities of the Cassa

Law 646/50 defined as the target of the Cassa’s activities the “economic and social strengthening of Southern Italy<sup>43</sup>” (see art.1). The basic principle was that the interventions of the Cassa had to be territorially concentrated and that the main instruments identified for the implementation of the policy was the provision of loans and grants at reduced rates of interest. Figure 5.1 presents the formalization of the decision-making and implementation process associated with the activities of the Cassa per il Mezzogiorno.

**Figure 5.1 Conceptual Framework for Regional Development Policies in Italy (1950)**



*Source: Developed by the author based on interviews in 2004-2008.*

The “project cycle” started with the analysis of the economic initial conditions carried out by the “Studies Department” of the Cassa. Then the process foresaw the phase of the selection of priorities, based on the principle underlying the activities of the Cassa: the extraordinary intervention projects were to be additional in nature to ordinary development policies carried out by the national government—i.e., ordinary transport policy, ordinary industrialization policy, ordinary agricultural development policy, etc. However, the projects to be undertaken by the Cassa were selected internally through the support of in-house experts or external academic experts.

Concerning the decision-making phase, the Council of Ministers was in charge of contributing inputs (ideas, objectives, specific foci, etc.) in drafting the plan of

<sup>43</sup> In Italian the title was: “*rafforzamento economico e sociale del Mezzogiorno e delle Isole*” .

interventions to be financed through the Cassa per il Mezzogiorno. Parliament had a relevant function, as it has been responsible of the approval for the multi-annual financial endowments of the Cassa that had to be allocated on a yearly basis. Therefore, it was theoretically possible for Parliament to discuss the operations of the Cassa during the budgetary debate or during hearings of the specialized parliamentary committees. A panel of engineers and sector-specific experts employed by the Cassa was in charge of the detailed preparation of projects, either for special or integrated projects. The procedures for the selection of projects were characterized by a well-developed system of standardized technical evaluation criteria. As well, the structures of the Cassa were in charge of “assigning” the tenders for the undertaking the investments on a competitive basis and in monitoring the construction phase.

The Cassa had an internal system of efficiency evaluation with respect to the financial resources utilized and the economic and employment impacts generated. These evaluations were encompassed in the Annual Report of the Casmez, and provided the basis for the choice of the projects for the next programming cycle. The Cassa, as other organs of the State, was subject to external financial audit by the national Court of Auditors on a yearly basis. However, the relevant difference between the Cassa and the other central government bodies was that the Cassa did not need an *ex ante* approval by the Court of Auditors in order to begin expenditures. In this sense, the general oversight system applied to the Cassa lacked a part of the monitoring mechanism: the *a priori* approval of the proposed budget to be spent. Thus, the oversight exercised over the Cassa was entirely *ex-post* (after the fact), but this was an explicit consequence of the “extraordinary” nature of the Cassa’s activities. With regard to the effectiveness evaluation (i.e. socio-economic impacts of the interventions), the Cassa performed this task internally as part of its annual evaluation of the economic and social results of its interventions. The annual evaluation was presented in a Report that formed an annex to each annual budget. This practice continued until the mid Seventies. After that, the impact evaluation progressively disappeared from the Cassa’s official reporting.

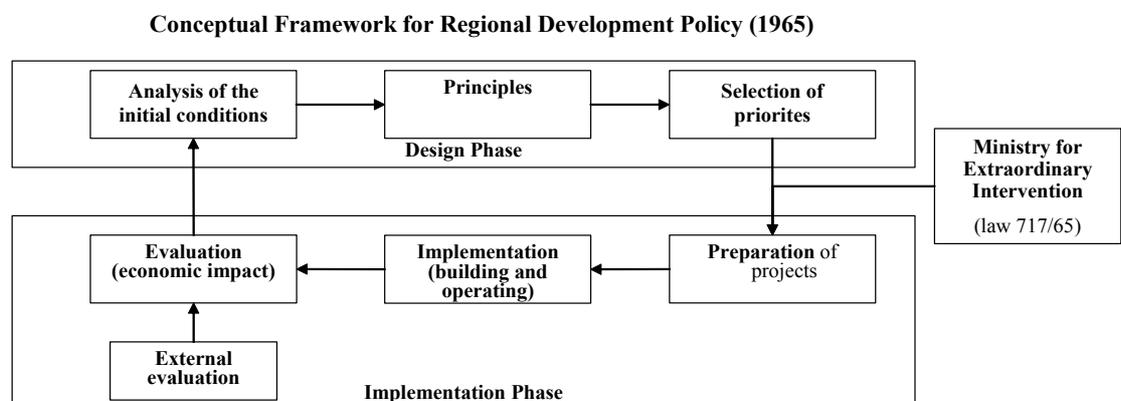
The institutional framework devised for the Cassa in 1950 provided no room for the participation of any other body, except for the Central Government and its ancillary institutions, and even in this case the direct interaction with the day-to-day activities of the Cassa were quite limited. Given that the Regions did not exist on a uniform basis throughout the South, the two that did exist (Sicily and Sardinia) were

not included in the deliberation or evaluation process. Even when the other six, ordinary southern regions (Abruzzo, Basilicata, Calabria, Campania, Molise and Puglia) did come into existence in 1970 they were also locked out of decision-making. Therefore, the Cassa's institutional structure provided no opportunity for consultation with the regions on the projects to be carried out by the Cassa within the territories governed by the regions. Provincial administrations did exist on a uniform basis, but they had no power or responsibilities with respect to regional development policies.

What was most surprising in this allocation of decision-making and implementation responsibilities was the continuous and systematic lack of any regional or local input into the process. The Cassa basically represented a classical top-down development policy for the regions but not by the regions. Two years after it came into existence the life of the Cassa was extended from 10 to 12 years with the Law n.949 July 25<sup>th</sup> 1952, but this legislation did not change the overall objectives or institutional structure associated with the Cassa. Its activities continued to be focused on creating those external economies that could promote the economic development of the area without any input from the regions. In 1957 the Ministry for Extraordinary Interventions in Mezzogiorno was created in order to provide more direct political direction to the activities of the Cassa, but it took time for this innovation to change the way the Cassa operated.

The Second Phase of the "extraordinary intervention" started in 1965 and continued until 1986 or more extensively until 1989, and its modified structure is presented in Figure 5.2. What changed after 1965 was the introduction of the presence of an executive body, the Ministry for Extraordinary Interventions, into the decision making structure of the Cassa.

**Figure 5.2 Conceptual Framework for Regional Development Policies in Italy (1965)**



*Source: Developed by the author based on interviews in 2004 -2008*

The second phase begins with the passage of law n.717 of June 26th 1965. This law served to widen the Cassa's scope in the field of economic development but it began to change the role assumed by the central Government (i.e., the Ministry for Extraordinary Interventions in the Mezzogiorno) in relation to regional development policies as is illustrated in Figure 5.2. The law foresaw the allocation of the presidency of the Committee of Ministers to the Minister for Extraordinary Interventions in the Mezzogiorno. The Minister was also allocated the responsibility of monitoring the Cassa's activities through the approval the programmes for interventions, the annual Budgets, and decisions concerning personnel of the Cassa. The Minister was also given control over the appointment of the President and of the Board of Directors of the Cassa. With the allocation of a direct role in the affairs of the Cassa, the Ministry of Extraordinary Interventions began to encroach on the relative autonomy and independence of the Cassa from political considerations of the Minister in charge and of the entire Cabinet. During the second phase the Cassa witnessed a slow process of "politicisation" and an undermining of its purely technocratic role in the control and oversight of development policies. The overall expenditure of the Cassa per il Mezzogiorno in the period 1951-1980 has been of about 23 billion Euros, equal to an average of 758 Meuro per year, and 98 Meuro in each region (considering 8 regions) per year. At the time, the expenditure was equal to 0,7%of national GDP or 3,3% of the Mezzogiorno's GDP. With respect to the evolution of expenditures and its impacts, the analysis of the Cassa's budgets over the thirty year period shows an average growth rate of the annual expenditures of about 7%, compared to an average regional GDP growth rate of 4,5% as illustrated below.

In the four periods identified by the Law financing the Cassa (1951-1965; 1966-1970; 1971-1975; 1976-1980) the expenditures of the Cassa and its impacts on the regional economy have changed. The following table presents the relative figures.

**Table 5.2 The Activity of the Cassa and the national economy**

	1951-1965	1965-1970	1971-1975	1976-1980
Total expenditures	764	1.229	2.346	2.982
National GDP	132.250	222.659	273.273	315.266
Mezzogiorno GDP	31.505	53.218	65.045	74.395
<i>as % of National GDP</i>	<i>0,58%</i>	<i>0,55%</i>	<i>0,86%</i>	<i>0,95%</i>
<i>As % of Mezzogiorno GDP</i>	<i>2,43%</i>	<i>2,31%</i>	<i>3,61%</i>	<i>4,00%</i>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years

The expenditures in the period 1950-1965 increased at an average growth rate of the 5,1%, at 21,8% in the second period (1966-1970), at 20,6% in the third period (1971-1975). Conversely, in the last period (1976-80) it declined at a rate of 6,2% per year. A comparison between the increase in expenditures and national GDP growth in the 1950-1970 period shows that expenditures have been equal to 0,58% of GDP in the first period to, rise to 0,86% in 1971-75 and increase again to 0,95% in the 1976-80 period.

### 5.3. Policy implementation: interventions and instruments

The expenditures of the Cassa were addressing two main macro-sectors: construction of infrastructures of general interest and interventions in support of productive sectors. The latter saw the presence of public bodies, like Isveimer, Irfis, Cis, Insud, Finam, Fime, and others. Isveimer, Irfis and Cis were assigned the task of developing industrial credit market in the three main geographic areas of the South (southern continental Italy and the islands of Sicily and Sardinia), and were located in what was considered at the time the “capital” of southern Italy—i.e., Naples—and the regional capitals of the two southern islands—i.e., Palermo and Cagliari. The other institutions were active as shareholder through financial participations (Insud) in the industries set up in the South<sup>44</sup>. Finally, the Cassa per il Mezzogiorno was the majority shareholder in all of these firms associated with some aspect of public investments in southern Italy. The role of private actors was, as a result, completely excluded and considered to be superfluous to the policy. The breakdown of the financial resources that was distributed between these two main sectors of intervention by the Cassa over the four periods is presented below:

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<sup>44</sup> The other institutions--Finam and Fime-- were respectively the operative and financial instruments for the Cassa in agriculture and mechanical industry.

**Table 5.3 The Cassa's expenditures: breakdown (Meuro, current prices and percentages)**

	1951-1965	1965-1970	1971-1975	1976-1980
Total expenditures	764	1.229	2.346	2.982
<i>in infrastructure</i>	242	424	866	1.299
<i>in productive activities</i>	522	805	1,480	1,683
Total expenditures %	100%	100%	100%	100%
<i>in infrastructure</i>	32%	34%	37%	44%
<i>in productive activities</i>	68%	66%	63%	56%

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years, 1951-1980

Overall expenditures increased significantly in both sectors over the four periods. The overall increase in infrastructure investment was around 440%, while in manufacturing the increase was 230%. With respect to the total amount of investment: 37,5% was invested in infrastructure projects while 62,5% were invested in the productive sectors. During the first three periods (about 25 years) the balance between the two types of expenditure is constant with infrastructure investments rising progressively: from 31,7% in the first period, 34,5% and 36,9 during the subsequent two other periods to finally arrive at 44% during the last period. However, aid to productive investments continued to represent over half of all investments during all of the four periods. Disaggregating the investments in infrastructure, significant differences are present from one sector to another as is illustrated in Table 5.4. The data in the table demonstrated that the largest investments during the four periods took place in the provision of adequate water supplies and in waste management.

**Table 5.4 Interventions in the sector of infrastructures (Meuro, current prices)**

Infrastructures	1951-1965	1965-1970	1971-1975	1976-1980	Total
Water pipelines	108	184	351	658	1.301
Road works	76	114	213	228	631
Ports and Airports	1	30	46	45	122
Hospitals	1	29	21	62	113
Services in rural areas	-	5	148	172	325
Urban areas	-	-	2	74	76
Others	56	62	75	60	253
<b>Total general</b>	<b>242</b>	<b>424</b>	<b>856</b>	<b>1.299</b>	<b>2.821</b>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years

In Italy such investments not only refer to dams and aqueducts but also the treatment of waste water illustrative of the fact that in the South the public supply of water resources for civil uses as well as in agriculture and manufacturing was never

adequately provided by public sources. As a result, the largest part of the resources of the Cassa (about 45%) was dedicated to the regular supply of water to the inhabitants and producers in the South. The problem associated with the provision of adequate water supplies continued to plague the South well after the end of the national extraordinary intervention for the South. It was finally solved at the beginning of the new millennium with the investments made by the Structural Funds to provide the final connections to residences, farms and factories that had not been completed during previous decades.

The other main sector to receive public investments was the provision of road networks (24%). In this case, the roads built never represented major highways but rather the ordinary public roads that made it possible to link one town to another or to move up and down the peninsula. Road works presented another sector that was brought to completion through the intervention of the European Structural Funds. These two sectors of water supply and road works were initiated during the period between 1950 and 1992 but they were never brought to a satisfactory conclusion during that period to have a major impact on the economic prospects for the South. Cassa investments seemed to be deemed important if they began construction rather than in bringing construction to completion, thus feeding a general sense of inefficiency and mismanagement in the use of public funds.

Other public infrastructure such as ports and airports were marginal at first and only began to attract major investments during the latter period of the Cassa's activities. The project by project approach did not help in identifying the interactions between various types of investments—roads, ports, airports, and water supply—to formulate an overall development strategy for the South or to focus on one area or region in framing an integrated development scheme. That type of overall integrated planning had to wait until the arrival of the national operational programmes financed by the Structural Funds after 1989.

Analyzing the expenditures of the Cassa down even further as shown in Tables 5.5 and 5.6 that during the first period the investments of the Cassa predominated in the agricultural sector where the interventions in water supply and waste water management were concentrated along with the provision of road infrastructures in rural areas. During the second period, after 1963, the interventions were dedicated to the manufacturing with some attention being paid to port and airport facilities vital to the development of the tourist sector. The data also show that after 1959 the Cassa

started to invest in services in depressed areas and only after 1974 did it begin to concentrate on investments in urban areas.

**Table 5.5 Value of interventions in productive sectors (Meuro, current prices)**

Productive sectors	1951-1965	1965-1970	1971-1975	1976-1980	Total
Agriculture	437	265	387	428	1.517
Industry	41	454	999	1.171	2.665
Tourism	19	24	52	59	154
Craftsmanship and Fisheries	12	41	25	-	78
Participations etc	13	21	17	25	76
<b>Total</b>	<b>522</b>	<b>805</b>	<b>1.480</b>	<b>1.683</b>	<b>4.490</b>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years

**Table 5.6 Percentage of interventions in productive sectors (Meuro, current prices)**

Productive sectors	1951-1965	1965-1970	1971-1975	1976-1980
Agriculture	84%	33%	26%	25%
Industry	8%	56%	68%	70%
Tourism	4%	3%	3%	4
Craftsmanship and Fisheries	2%	5%	2%	0%
Participations etc	2%	3%	1%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years

The major role of the Cassa in the development of the productive sector in the Mezzogiorno in the period between 1950 and 1965 amounted to around 270 Meuro per year, equivalent to 68,3% of overall financial investments. From 1966 to the end of its activities the Cassa has invested up to 870 Meuro per year, equal to the 56,5% of overall investments. What is interesting is that despite these investments the gap between industry in the South and the North was not reduced. In fact, the type of industrial investments earmarked for the South—heavy industry and large industrial plants—served to increase the gap and prevented the South from participating in the major industrial transition that took place in the Centre-North of the country identified with the rise of industrial districts and the flowering of small and medium enterprises.

One of the surprising aspects of the development strategy developed by the Cassa in consideration of the geographic and climatic conditions present in the South was the utter lack of attention paid to the tourism sector. During the period when the Cassa was active it only invested 2.2% of overall financial resources in tourism. No specific attention seems to have been allocated to the development of resorts, the creation of yacht harbours, investments in archaeological discoveries, the building of museums or

the conservation of beaches, parks or wildlife preserves. Investments in tourism increased slightly from the insignificant amount of 10 Meuro per year of the first period to 12 Meuro per year in the second and 32 Meuro per year during the last period.

The financing of the craft industry and fishing also received little attention from the Cassa, amounting to an infinitesimal 1.1% of overall financing for two sectors that had traditionally represented important backbones of the southern economy. Average annual spending reached its highest during the period 1966-1970 with 22 Meuro per year, and in the last period the level was expenditure was close to zero.

When I turn to the regional breakdown over the four periods (Table 5.7) analysed, the largest percentage of resources were invested in Sicily (20%) and Campania (19%). The two regions receiving the lowest percentage of resources were Basilicata and Puglia. It has to be noted how the breakdown of financing does not show any strong correlation with the number of inhabitants in the recipient regions and reinforces the conclusion that interventions were more driven by political considerations rather than calculations of equity or efficiency. The low of expenditures in Puglia are particularly notable given the region's agricultural sector and some highly visible industrial plants in Brindisi and Taranto.

**Table 5.7 Expenditures of the Cassa del Mezzogiorno and resident population: regional breakdown 1951-1986**

Regions	Average breakdown (1951-1986)	Average population breakdown (1951-1986)
Abruzzo-Molise	13%	6%
Campania	19%	27%
Puglia	10%	20%
Basilicata	10%	3%
Calabria	13%	11%
Sicily	20%	25%
Sardinia	15%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years and ISTAT website 2004.

The nature of industrial investments in the South brought to the forefront the role of national industrial holding companies such as IRI (Institute for Industrial Reconstruction) but also the role played by ENI (The National Agency for Hydrocarbons) created in 1953 and the Agency for Industrial Participation in the Manufacturing Sector (EFIM) that was created in 1962. The enterprises controlled by

these managing authorities were present both in services and manufacturing and in all parts of the country. IRI had major manufacturing investments in the North as well as in the South as was the case with ENI and EFIM. What was important for the investment strategy of the public corporations was that a majority of their investment was supposed to take place in the South.

Looking at the only data that are available in relation to the level of gross investment per year (i.e., gross investments include new investments as well as major maintenance expenditures), during the period of the extraordinary intervention investments in the manufacturing sector in the Mezzogiorno were approximately 15 billion euro and presented the following evolution through time.

**Table 5.8 Cassa's activities in the state owned firms sector and the national economy**

Periods	Average expenditure per year	% on the investment in the rest of Italy
1951-55	61	18,9
1956-60	147	27,4
1961-65	1.069	100,6
1966-70	984	114,5
1971-75	2.295	180,6
1976-86	865	73,9
<b>Average 1951-1986</b>	<b>890</b>	<b>105,1</b>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years

Breaking the first period, 1951-1960, into two five year periods as presented in Table 5.8, the Cassa was not a significant player in the provision of financing for state-owned enterprises. That changed after 1961 when the Cassa's related investments in state owned firms accounted for an equivalent amount of investment on the part of state enterprises in the rest of the country. During the 1960s investments were stabilized at a level of approximately one thousand billion Euros. It reached its peak in the 1971-75 period when it made available 2295 billion Euros. The level of funding was reduced in soon therefore as the two oil shocks began to impact on large industry and accelerated the down-sizing of industry in Italy and in the rest of the western world. However, what is interesting is that the decline of public investments was greater in southern Italy than in the rest of the country as the regions came into existence and began to demand a greater accountability of the national funds that were invested in their surrounding territory.

The change in the intensity of the Cassa's activities through the instrument of publically owned firms is even more relevant when I consider the last column of the

table which compares the concentration of investments in the Mezzogiorno with those in the rest of Italy. The investments in the period 1971-80 are of particular interest in understanding the specific character of the system of public investments. During that period, the investments moved from the maximum of 1.700 billion euro in 1972 to the 295 billion Euros in 1974. Such a sharp reduction is attributable mainly to the reduction of net investments, due, in turn, to the completion of the programme of construction of large plants and to the beginning of the process of disinvestment in large industrial plants. The sectors that were particularly impacted were those related to steel manufacturing, mechanical, aluminium, oil refineries, textiles and nuclear activities (see Table 5.9).

**Table 5.9 Activities of state owned firms in productive sectors (Meuro, current prices)**

Sectors	1961-65	1966-70	1971-75	1976-80	Total
Steel making	3.078	2.014	5.820	1.185	<b>12.097</b>
Chemicals	558	767	2.006	885	<b>4.216</b>
Mechanical	326	778	1.292	520	<b>2.916</b>
Aluminium	-	260	663	95	<b>1.018</b>
Refineries	447	225	119	140	<b>931</b>
Concrete	106	91	297	37	<b>531</b>
Minerals	25	174	270	108	<b>577</b>
Nuclear	299	3	-	6	<b>308</b>
Electronics	-	59	167	126	<b>352</b>
Shipbuilding	41	66	106	53	<b>266</b>
Textile	44	58	122	39	<b>263</b>
Other	420	425	617	329	<b>1.791</b>
<b>Total</b>	<b>5.344</b>	<b>4.920</b>	<b>11.479</b>	<b>3.523</b>	<b>25.266</b>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years

Breaking down the investments by productive sector I find that the state firms were heavily engaged in “basic industry”, specifically in the steel-making sector, which absorbed 48% of the total investments. In the period 1961-65 the largest part of the investment went to the steel making sector (Taranto started in the 1961), while the chemical plants (10%) and refineries (8%) and mechanics (6%) were allocated a residual part of the resources.

In the following period, while the level of investment in steel making was reduced (from 58% to 40%), investments in chemical and petro-chemical activities were increased (15,6%), and the mechanical sector (car manufacturing - the Poligliano d'Arco Alfasud plant was inaugurated in 1968) received three times the amount of resources allocated during the previous period (15,8%). During the period between 1971 and 1975 there was a significant increase of investments in manufacturing,

focussing on steel making (51%) and chemical (23%) plants. However, five years later the level of investment was reduced by more than 70% due to the impact of de-industrialisation and the loss of competitiveness of large publically run firms.

**Table 5.10 Activities of the state owned firms in the productive sectors (Meuro, percentages)**

Sectors	1961-65	1966-70	1971-75	1976-80
Steel making	57,6%	40,9%	50,7%	33,6%
Chemical	10,4%	15,6%	17,5%	25,1%
Mechanics	6,1%	15,8%	11,3%	14,8%
Aluminium	0,0%	5,3%	5,8%	2,7%
Refinery	8,4%	4,6%	1,0%	4,0%
Concrete	2,0%	1,8%	2,6%	1,1%
Minerals	0,5%	3,5%	2,4%	3,1%
Nuclear	5,6%	0,1%	0,0%	0,2%
Electronics	0,0%	1,2%	1,5%	3,6%
Shipbuilding	0,8%	1,3%	0,9%	1,5%
Textile	0,8%	1,2%	1,1%	1,1%
Other	7,9%	8,6%	5,4%	9,3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Author's calculation on the basis of official Cassa per il Mezzogiorno annual budgetary data, various years

With respect to the regional breakdown of the activities related to publically owned firms, only Molise and Calabria were not awarded large plants (with more than 1.000 employees). In other three regions the interventions were focussed on specific sectors: steel making in Puglia, chemicals in Basilicata, chemical and aluminium in Sardinia. In the remaining three southern regions-- Sicily, Abruzzo and Campania –investments were concentrated on mechanical, textile, shipbuilding and electronics plants.

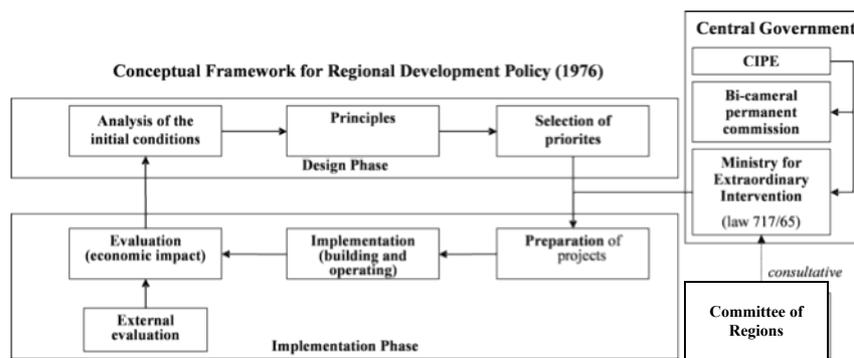
The evaluations of the activities of the Cassa per il Mezzogiorno have to take into account the “extraordinary” objectives that have been the starting point in the creation of the Cassa itself. The Cassa was considered to be an “extraordinary” instrument in the design of regional development policies. However, the analysis of the data presented here and the demise of the investment strategy associated with large industrial firms operating in the public sector illustrate all of the limitations of the strategy. By the end of the 1970s the Cassa had run its course and the relevance of the original TVA oriented strategy began to manifest all of its shortcomings. By 1985 the Cassa passed into history and was replaced by the Agency for the South, but it too was doomed by the impact of the new economic paradigm that had begun to take hold in Italy, emphasizing the role of small and medium firms and the role of sub-national

institutions (regions and communes) in the formulation of territorially specific economic development policies (Leonardi Nanetti, 2007).

With the creation of the ordinary regions in 1970 the implication was that a thorough restructuring of regional development policies and of the Cassa per il Mezzogiorno would take place. In fact, Law n.853/1971 prescribed that the regions should take over competences in several fields previously under the control of the Cassa (Annesi 1973). However, in the governmental decrees of 1972 that transferred powers, resources and personnel to the regions, the central government made no mention of the activities managed by the Cassa. Conversely, the central government re-emphasized its control of development policies in the South: it did not alter in the slightest the decision-making and implementation model previously illustrated. Instead, the regions were given mere “spectators” roles in the administration of national regional development policies in the South four years later.

In 1972, a decision of the Constitutional Court concerning the juridical status of the Cassa per il Mezzogiorno, on the one hand left ambiguous its relationship with the Regions, but on the other hand clearly ratified the role of the Cassa as it continued its policy of “pursuing the general interests of the State” instead of pursuing the general interests of the regions (Ammannati 1981)<sup>45</sup>.

**Figure 5.3 Conceptual Framework for Regional Development Policies in Italy (1976)**



Source: Developed by the author based on interviews(2004-2008).

With Law n.183 of May 2nd 1976, the regions were inserted on a “consultative” basis in the decision-making process with regard to national regional policies (see

<sup>45</sup> The decision of the Constitutional Court is the following: Constitutional Court 10-17 February n.28, in Giur. Cost 1972, 117.

Figure 4.1). In comparison to previous provisions, the 1976 law accepted the fact that the regions existed and that they had to be brought into the process in some manner. In this light, it is clear that the 1976 legislation attempted to introduce a more pragmatic approach toward the extraordinary intervention, encompassing the periodical revision of the projects through the introduction of a limited form of programming, and providing a role for the regions.<sup>46</sup>

However, the most important innovation introduced by the law was the reorganization of the administrative framework of the Cassa through a re-enforcement of the role of the central government. Law 183 created a “Permanent Commission” that had the responsibility of co-ordinating regional development policies and economic policies at the national level. Thus, through the activities of the Permanent Commission the “extraordinary” nature of regional policies began to give way to the “ordinary” need to link regional development policies with the formulation of national economic policies in order to maximize the impact on regional growth and development. Another innovation introduced by the law was the insertion of the CIPE (Inter-Ministerial Committee for Economic Planning) into the workings of the central government on decisions relating to the Cassa.

While the role of the central government was being reinforced, the law awarded the regions the role of identifying the criteria to be used in the identification of the projects to be undertaken by the Cassa<sup>47</sup>. The changes brought about by the 1976 legislation began to restrict the role of the Cassa to that of implementing body of the decisions taken by the central Government authorities. In effect, the Cassa’s previous role as decision-maker was transferred to the Permanent Commission and to the Inter-ministerial Committee for Economic Planning (CIPE). Within the reorganized decision-making process the CIPE was given the power to revoke financial allocations to the Cassa. Though the Law raised the capacity of the regions to begin influencing

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<sup>46</sup> See La Spina, A. “*La politica per il Mezzogiorno*” Il Mulino 2003. The Law introduced the Permanent Commission for Mezzogiorno (made of 15 member of the Chamber of Deputies and 15 members of the Senate); on the other increased the role of the Committee of Southern Regions, giving it the competences of control over the programming and implementing of the ordinary and extraordinary interventions in the Mezzogiorno.

<sup>47</sup> The special projects (35) of the Cassa per il Mezzogiorno started in 1972 and continued until 1982. The projects were organized for different sectors: Agriculture development (PS.4 Zootechny, PS.11 Citrus fruits, PS23 Irrigation; PS.24 Forestry; PS.34 Commercialisation), Water projects (PS.13, PS.14 Puglia and Basilicata, PS15, PS25 Sardinia; PS29 Lazio, Tronto, Abruzzo and Molise, Campania, PS30 Sicily); Industrial development (PS.1 Port of Cagliari; PS.2 South-Est Sicily, PS22 Reggio Calabria); Urban areas (PS31 Naples; PS32 Palermo); Environmental intervention in the Gulf of Naples (PS3); Development of inner areas (PS33); and Research and Development (PS35).

the central government's choice of regional development policies through the definition of the criteria by which projects were to be selected, they were not given a role in either the decision-making or the implementation process.

The last years of the second phase were characterized by a long series of proposals and amendments designed to change the existing structure. In fact, the most important amendments were contained in the subsequent Law 651/1983 that divided national regional policies into four main areas (interventions, incentives, technical assistance and vocational training); the time framework for implementation was organized into three-year long programming periods; and the decisions of the Cassa were subjected to the approval of the CIPE. In August 1984, one of the Decrees necessary for the promulgation of the Cassa's life was not converted into Law; this caused the Cassa to cease to exist. It was replaced in 1986 by the Agency for the Promotion of the Development of South (AGENSUD), which had been in charge of carrying out the necessary acts for the transition of the Cassa's human and financial resources to the Regions and to other structures set up to substitute the Cassa.

From the above discussion, it is evident that the second phase of Italy's regional development policies was different from the first with respect of the level of conflict between the central government and the regions. In the first phase the competences and the role of the Cassa were not subject to relevant political discussion given the hands-off position assumed by the central government during the 1950s. In addition, in the 1950s the regions practically did not exist, and if they did exist as in the case of the special regions, they never applied pressure on the government or the Cassa for a role in decision-making.<sup>48</sup> The second phase, instead, was characterized by an increasing "demand for power" by both the political organs of the central government and the regions. It was easy for the central government to enter the activities of the Cassa because it had the power to introduce new rules and procedures governing the Cassa as the creation and reinforcement of the Ministry for Extraordinary Interventions in the South or the creation of the CIPE bore witness. Instead, the regions had no such power, and they had to wait until the national government was ready to delegate to them a new role in regional policies. This possibility began to evolve during the 1970s as new legislation on regional governments (law 382/1975) undertook to transfer additional powers to the regions. In 1976 and 1977 a broad political front was created between the national government, the major political

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<sup>48</sup> This aspect is particularly relevant with regard to the southern regions of Sicily and Sardinia.

parties, the trade unions, and the regions to push for a significant and more sustained devolution of power to the regional level. The long-term impact of this front was evident in the proceedings of the “Conferenza del Mezzogiorno” (conference on the Mezzogiorno), held by the Cassa in March 1983<sup>49</sup>. Specifically, the position of the regions was expressed in the speech of Mr. Mascino, Vice-president of the Committee of the Regions of the Mezzogiorno<sup>50</sup>: He presented on behalf of the regions a clearly-stated request for a more direct involvement of the regions in the formulation and implementation of regional development policies, and within his presentation a biting criticism of the logic and practical consequences of the “extraordinary” intervention was offered. The position of the Central Government was clearly expressed by the Minister for the Regions, Fabio Fabbri, during the same conference<sup>51</sup>. The Minister took into consideration the problem of the “risk of conflict between the Cassa per il Mezzogiorno and the Regions”, and foresaw a possible solution only when the regions were in a position to become autonomous in the conduct of regional planning and capable of spending funds efficiently. In fact, the Minister welcomed the possibility that the regions could become more involved in national regional planning. Moreover, he proposed a further devolution of socio-economic competences to the ordinary regions and thereby reducing the gap between them and the special statute regions. However, these proposals never got off of the ground due to the fact that 1) the Cassa ceased to exist in 1983 and 2) the new Agency for the South was even more centralized than the Cassa.

The Third Phase (1986-2000) represents a period in which substantial change took place in the formulation and implementation of regional development policies in Italy: as the Cassa was abolished and the national government promised to give the regions a greater role in regional policies and a significant development was taking place at the European level. In 1986 with the implementation of the Single European Act the European Community began to put into place a European regional development policy (to become known as “cohesion policy”) that was radically different from the approach previously adopted by the Italian national government. In effect, the

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<sup>49</sup> See the proceedings of the “Conferenza del Mezzogiorno ... La Civiltà della Ragione”, Rome 22-23-24 March 1983, published by Cassa per il Mezzogiorno.

<sup>50</sup> Proceedings of the “Conferenza per il Mezzogiorno”, pagg.225-227

<sup>51</sup> Proceedings of the “Conferenza per il Mezzogiorno”, pagg.235-238

European version of regional policy began to move in the direction of transferring primary responsibility for the policy from the national to the regional level.

At the national level some timid steps were being taken to involve the regions more directly in the formulation of regional policies. One of the first steps in this direction was also taken in 1986. With the passage of Law n.64 March 1st 1986, a new relationship was defined between the central and regional governments. The Law provided for the formalization of different forms of interrelations between the two levels of Government in the form of: the so-called “negotiated programming”<sup>52</sup>. The first two instruments created to bring about negotiated programming were set into motion by the CIPE Decree of July 16<sup>th</sup> 1986, and institutionalised by the Law n.64/1986. They were the “Institutional Consultation for Programming” and “Framework Programming Agreement”<sup>53</sup>. Both provisions addressed the implementation and the financial aspects of regional policies rather than the programming or decision-making phases of the process, but they did not provide any direct input into the activities of the new Agency for the South.

Soon it became evident that the devolution features expressed by Law 64/86 were, by their very nature, merely formalistic changes; they did not undertake to effectively transfer powers in this policy area from the national to the regional governments. The regional programming exercise made possible by the 1986 legislation did not provide any interaction between the regions and the national Agency. The two worlds were kept separate. Thus, it is clear that the initiation of the EU cohesion policy in 1989 and its objective of directly involving the regions did represent a revolution in the way regional policy was to be conducted in Italy’s less-developed regions after 1989.

The Third Phase (1986-2000) represents a substantial change in the Regional Development Policies in Italy: the European Regional policy has had a wide spectrum of implications affecting all the aspects described in the previous paragraphs. The incoherence between the regional development policies, as they resulted throughout the several changes up during the previous phases, and the EU framework was evident, and included objectives, principles, instruments, and procedures. This period has been characterized by several attempts to improve the coherence between national institutions and regional policies within the European Union’s framework.

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<sup>52</sup> “programmazione negoziata”

<sup>53</sup> Intesa Istituzionale di Programma” and “Accordo di Programma” in the original language.

The introduction of Law 488/1992 can be considered the concluding phase of the “extraordinary intervention” in the Mezzogiorno. The Law provided for the suppression of all of the structures related to the implementation of the “centralized intervention”. In other words, the Ministry for Extraordinary Interventions was abolished along with the Agency for the South (AGENSUD). Another implication of the Law was the concept of “special needs” and “depressed areas” to all parts of the national territory.” The central government ceased to merely focus its development policies on the South (now there was a special EC policy to take care of the less developed regions as a whole) and now it expanded its activities to all depressed areas in the country. The identification of the areas eligible for support was allocated to the Inter-ministry Committee for Economic Programming (CIPE)<sup>54</sup>. The Law, in effect, “nationalized” the country’s previous policy toward the South in that regional development policies were no longer restricted to the southern areas of the country. Areas in the North were now also eligible. But what the law did not change was the fundamental approach to regional policies: they still remained in the eyes of the central government a responsibility of the national level. The national legislation never really changed the relationship between the centre and the regions with regard to the conceptualisation and execution of regional policies: they remained focussed on internal national administrative interactions rather than incorporating in a consistent manner the contribution by the regions. That task or opportunity was left to cohesion policy. In other words, it only became possible for the regions to become central actors in the formulation and implementation of regional policies when the policy originated at the European level. It was not possible to achieve this result when the policy was under the exclusive control of the national level.

One of the last acts in the dismantling of the centralized approach to national regional policy was the introduction of Decree-Law n.96 April 3rd 1993 that foresaw the creation of the *Observatory for Regional Policies*. It was the first instrument at the central level set up to monitor the dismantling of Agensud and the implementation of regional development policies in southern Italy. The lack of a national unit for the coordination of interventions in the south made it difficult for the national government to: 1) efficiently manage those programmes and 2) providing support and guidance to individual regions in their interactions with elements of the national bureaucracy and

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<sup>54</sup> Law 64/1986 art.4 “ aree del territorio nazionale individuate dal CIPE”.

the Commission in Brussels. Two years later, the Observatory was abolished and the National Control Centre or “Cabina di Regia”<sup>55</sup> was created on the basis of Law n.341 of August 8th 1995. The Control Centre took over the responsibilities of the Observatory, and it was allocated the co-ordination of the different sub-units of the national ministries in charge of the planning and management of EU funds in addition to coordinating national financial resources earmarked for the support of regional development policies. Shortly thereafter the “National Control Centre” was also dramatically modified: with the passage of Decree Law n.430 December 5th 1998 which set-up the *Department for Development and Cohesion Policies*<sup>56</sup>. The Department for Cohesion was given responsibility for all of the all functions that had been previously allocated to the Cabina di Regia.

#### 5.4. Preliminary evaluations on the regionalization process

The Italian Regional Development Policies have undergone a large number of institutional changes that have informed their objectives, instruments, and procedures. The most dramatic change has been related to the European dimension that the Regional Development Policies have assumed in the last years, and the role of the regions themselves.

In the First Phase (starting 1950), the overall development strategy was defined in the Law instituting the Cassa per il Mezzogiorno: “empower the Southern Italy and the Islands” and reduce the economic disparities between the Southern Italy and the rest of the territory. Until the 80s there had been only one instrument, the Cassa per il Mezzogiorno that was encompassing all the competences concerning the programming designing and implementation phased of all the extraordinary interventions, and it had been managed directly from central government.

The Ordinary Regions had not a relevant role in the First Phase of the Regional Development Policies, but their relevance had a significant increase in the second half of the Seventies. The Special Statute Regions (Sardinia and Sicily) did not appear to have had different responsibilities in the process of programming and implementation

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<sup>55</sup> “Cabina di Regia Nazionale” in the original definition.

<sup>56</sup> “Dipartimento Politiche di Sviluppo e Coesione” in the original definition.

due to their specific administrative competences. The reason why is that the Law creating the Cassa per il Mezzogiorno in 1950 was not giving a relevant role to the two Special Statute Regions, instituted three years earlier with the drafting of the Italian Constitution (1947). As well after 1970, the ordinary Regions have had a limited role in interacting with the Cassa and Central Government with respect to the “extraordinary intervention in the Mezzogiorno”. The Cassa had periodical consultations with the Committee of Regions of Mezzogiorno, but the latter had no active role in the definition of priorities and programming of interventions, until the entrance into force of Law 183/1976. The “philosophy” underlying the activities of the Cassa and its relations with the other government bodies was based on the idea that the Cassa had “extraordinary objectives” and, accordingly, was necessary to provide it with extraordinary resources and an extraordinary administrative and operating framework. The progressive empowerment of the regions, the devolution of Regional Development responsibilities has been the result of two convergent pressures towards institutional change: the European Union was focusing on a more active role of the local governments, as well national framework was moving steadily toward devolution.

The evaluation of the last years of the “extraordinary intervention” in the Mezzogiorno could help in analysing the general picture of the relations between Central and Local Governments in managing regional development policies in Italy. One of the major critics to the regional development policies in Italy has been linked to the generalized financing of a myriad of small interventions in the last years of activity of the Cassa.

The point to make here is that this is more related to the changed institutional framework rather than to specific mismanagement of the Cassa per il Mezzogiorno. The increasing fragmentation of the expenditures in interventions for regional development, that has, in turn, affected the strategic relevance of the interventions, has its determinants in the institutional change taking place in those years. The Law 64/1986 was devolving to the Regions a relevant role in the programming phase of the regional development policies, as well as in the evaluation and selection of projects. The lack of administrative capacity of the regions in these activities has led to a division of the expenditures in small investments with no evident development strategy behind. The investment in general interest infrastructures is one of the best examples of these problems: during the 80s all the interventions have had a local

relevance and no investments has been undergone for the development of national and interregional networks after the completion of the ones started under the Cassa.

This Chapter has presented the results of the analysis of the regionalization process with respect to regional policies. As the latter had been a totally centralized process until the later 70s, no specific evidence raised in terms of the Case Studies identified.

Accordingly it is possible to infer that the regionalization process had been far more effective in political and administrative terms rather than in terms of regional policies. A possible explanation could be found in the absence, so far, of an alternative paradigm, and moreover, in a significant bias generated by path dependence.

The next Chapter conversely is focused on Case Studies' analysis' results, as the Europeanization process.

## 6. THE EUROPEANIZATION PROCESS: POLICY AND FINANCIAL ASPECTS

This Chapter presents the results of the analyses carried out on policy and financial variables evolution as a response to the Europeanization adaptational pressure with respect of the four case studies identified.

### 6.1. The rediscovery of industrial districts in theory and practice

This chapter looks briefly at the overall trend toward a decentralized model of regional policy in Europe (that constitute possible exogenous factors in promoting the change in paradigm), and it also looks at the internal (endogenous) factors that have shaped the Italian decentralization of regional development policies. The thesis, by necessity, have to investigate at both exogenous and endogenous factors, but it emphasizes the shift in the latter as a means of providing an in-depth analysis of the paradigm shift and of its consequences on the structure of regional development policies in the country.

After 1970 constitutional reforms in Belgium, France, and Spain changed the nature of the centralised nation-state. In Italy the introduction of a uniform system of regional government in 1970 finally brought to fruition the constitutional clauses that had remained dormant for over two decades. In the UK an asymmetrical form of devolution—i.e., introducing it in Scotland and Wales but not in other parts of the country—was carried out in the latter part of the 1990s. A similar form of asymmetrical devolution took place in Portugal with regard to the ultra-peripheral regions of the Azores and Madeira following the ratification of the new Portuguese Constitution in 1976. A decade later Greece introduced a decentralisation of its central administrative structure in order to accommodate a bottom-up regional development strategy. By the 1990s the change in the regional development paradigm became a general phenomenon in Europe. The predominance of top-down national development policies had been substituted by a bottom-up, regional focus in regional development policies.

The shift in emphasis in development strategies is not only evident at the national level; it also characterises development policies being carried out at the European

level. This has not always been the case of policies financed at the European level by the Structural Funds: Regional Development Fund (ERDF), European Social Fund (ESF) and Agricultural Fund (EAGGF-Guidance). Before 1988 EU regional development policies were as centralised as were national regional policies because, to a great extent, the role of the European level was conceived as one in which the Structural Funds provided a back-up to national regional development programmes rather than formulating a completely independent approach to the problems of regional development. That perspective changed radically on the heels of the 1988 reformulation of the regulations of the ERDF, ESF, and EAGGF-Guidance section that permitted the launch of the EU's cohesion policy in 1989. With cohesion policy that emphasis was no longer on national development policies but rather on regional development policies undertaken with the participation and support of sub-national institutional and socio-economic forces.

The formulation of the role in regional development policies by the European level represented a third paradigm shift in that the primacy for some fundamental aspects of regional policy were transferred from the national to the European level, especially where significant number of Objective 1 regions<sup>57</sup> existed (which was the case in Italy with in 1989 eight Objective 1 regions out of the total of twenty regions in the entire country).

The EU's emphasis on the regional role is particularly evident in negotiations with the new large member states from central and Eastern Europe (Poland, Czech Republic, Hungary, and Slovakia) where a particular emphasis was placed on the creation and functioning of regional bodies as active partners in the implementation of cohesion policy. In the thesis it is argued that the shift in the emphasis of EU cohesion policy did not take place as a result of the existence of regions but rather as the result of the shift in the development paradigm that was not restricted to the Italian case. In other words, it represented a broader European phenomenon associated with the decline of the notion that central government intervention represented the most effective and efficient way of promoting regional development outcomes. Thus, during the last fifty years a significant *paradigm shift* can be seen in the approach to

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<sup>57</sup> Objective 1 regions refers to those regions with a GDP per capita below 75% of the EU average. In 2007 the name was changed to “convergence” regions. The Objective 1 regions or the Convergence regions represented those regions receiving the bulk of EU development funds.

the formulation and implementation of regional policies. This shift is primarily evident in aspects of the policy regarding:

- the policy rationale in the shift from a top-down to a bottom-up approach;
- small enterprises and service sector initiatives became important components in the economic development strategy;
- the role of sub-national institutions (regions) in the formulation and implementation of the policy;
- the need to promote the participation of socio-economic groups in the policy process;
- the promotion of integrated development programmes involving various economic sectors;
- the adoption of a programmatic approach to the definition of regional development policies;
- the leadership role allocated to programmes financed by EU cohesion policy.

One of the crucial elements that have permitted the shift in development paradigm is the creation of political and administrative institutions at the sub-national level capable of assuming the responsibility of activating the new decentralized paradigm. Once the institutions are present it is possible to engage in bottom-up planning, the mobilization of local government and socio-economic forces, and the formulation of multi-year programmes.

In a number of countries, the effectiveness of regional policy was questioned and criticised. Regional policy moved progressively down the national policy agenda, downgrading the policy goals of reducing disparities and promoting regional convergence. New industrialization paradigms focussing on the role of small and medium enterprises eventually found support from policy makers and economists (Ross and Hasher 1981, Piore and Sabel 1984; Garofoli 1991).

As argued by several scholars (Sharpe 1993 and Leonardi 1995), the “retreat” (Bachtler 2001) of central government from active regional and industrial policies was accompanied by the rise of a new regional and local dimension to economic development. This was partly attributable to regional institution-building which accompanied the increasing delegation of authority for certain economic development activities with a view to enhancing local identification with policies and increasing local responsibility for economic development. The trend was also due to a growth in

“bottom up” initiatives, as local authorities and other groups began to develop and implement their own measures to deal with growing economic and social problems. At the same time, regional policy thinking was shifting towards the promotion of endogenous development – by definition regional or local - with the rediscovery of the importance of entrepreneurship and small and medium enterprises (Capellin R., Garofoli G and others 1988; Fuà and Zacchia 1982; Cappellin 1990). The reduced or small dimension of enterprises was no longer viewed as a hindrance or transitory stage in the development of the firm but rather as a positive characteristic of firms in making them capable of quickly shifting their production according to the demands of international markets. Smallness was therefore interpreted no longer as an initial phase in the transition of the firm but rather a final or stable phase in the life of the firm.

From the mid-1980s onwards, new concepts of regional development were being discussed within the context of a new regional economic development scheme. The competitiveness of economies was increasingly attributed to the ability to innovate, move into new markets, and shortens the time between the production and distribution of manufactured products (i.e., the “just-in-time” approach aimed at the reduction of the warehousing of goods and time to bring them to market). In this context, new theories of regional development came to the fore, especially those concerned with industrial milieu and the role of clusters and networks. The challenge for regional development was to respond to an increasingly complex mix of regional and local problems and the need to develop a more sophisticated approach to improving both regional capabilities and attributes with measures that had important social as well as economic components. In order to achieve these objectives a new policy response was necessary in relation to regional policy. Regions no longer needed to remain as mere spectators of development dynamics mobilized from the top; rather, the new economic logic required them to become active partners in the planning and mobilization of resources in the pursuit of local and regional development.

Parallel to the shift taking place in the policy paradigm and the drop in the importance of regional policy in national policy making, there was a growing interest at the European level on the socio-economic consequences of the creation of a reinforced European market. Concerns began to be expressed (Delors, 1986; EC Periodic Reports) that the creation of an integrated market at the European level would give rise to increased regional disparities: i.e., the rich would get richer and the poor would get poorer. This concern reached its apex with the formulation of the Single

European Act (ratified in 1986 by the twelve member states, including Spain and Portugal) and the initiation of a pro-active European regional policy. It was the 1988 reform of the Structural Funds, which marked a new era in regional strategic planning promoted by the European level.

Picking up on French experience with *contrats du plan* (State-region planning contracts) and the experimentation in regional planning efforts in the northern and central regions in Italy, a new approach to regional development planning began to emerge. An important step in the formulation of the new approach was the experience with the IMPs (Integrated Mediterranean Programmes) financed by the European Commission in three southern European member states (Greece, Italy and France)<sup>58</sup>. The IMP experiment began in 1986 (EC Regulation 2088/85) and it quickly gave rise to a new way of conceiving regional development policies in these three and potentially in other EU and not yet EU member states. The characteristics of the new approach were fourfold: the IMPs had a broad sphere of action, covering a range of policy sectors: physical and economic infrastructure, business development, human resources, tourism, environment etc; the national policy versions tended to encompass economic development in all regions, not just those designated for regional policy purposes (e.g. the regional strategies in England, regional growth agreements in Sweden); they tended to take a pro-active approach to development, with a multi-annual programme of measures targeted at the business environment and soft infrastructure; they had a distinctive approach to policy implementation, which was collective/negotiated, led by regional authorities and involving a wide range of partners from local government, the voluntary sector, business and social communities.

## 6.2. Policy design under European approach

The Europeanization of regional policy in Italy did not follow a clear political or administrative direction. It took place in fact as a de facto process when the EU cohesion policy effectively replaced in 1992 the national regional policy due to the latter's abolition. Prior to 1992 the introduction of an Europeanized regional policy

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<sup>58</sup> The IMPs were focused on "changing the 'industrial atmosphere' of regional economies". The approach has been coordinated at the local level through the production of "factors influencing the local economic environment" (Leonardi 1993).

(i.e. cohesion policy) represented not a major policy innovation for the country but rather a minor irritant that introduced a new philosophy and management approach to the task of spurring regional development. The first step in the Europeanization process was the introduction in 1986 of the Integrated Mediterranean Programmes for most of Italy's regions. At the beginning the IMPs were generally ignored by the southern regions that were the beneficiaries of the *Intervento Straordinario*. Three years later when the first cycle of the cohesion policy began most of the IMPs were, by necessity, integrated into the regional operational programmes for the 1989-1993 period. During the period between 1989 and 1992 no major restructuring of national decision-making and policy implementation structures were undertaken. In fact, it was the regions that were called upon to create a regional policy administration to manage the operational programmes that was not necessary for the implementation for benefitting from investments carried out by *Agensud* or the *Cassa*. Therefore, the introduction of the European regional policy through the Structural Funds had its most immediate impact on the regions by challenging them to manage autonomously, for the first time, substantial resources for integrated operational programmes. This process, however, took place in a rather incoherent manner and without any sort of central guidance. In essence, the regions were left to their own fate and had to manage by themselves to organise over time a learning processes that would lead to more efficient and effective management (Nanetti 1986). It is no wonder then that most of the regional operational programmes were accepted by the Commission two to three years after the start of the programming cycle and by the end of 1993 most of the regions had spent less than one half of their allocated budgets.

At the national level Europeanization of regional policy required a two-step process. First, the *Intervento Straordinario* had to be wound down involving the closing down of the administrative units and redistributing the existing personnel that had been allocated the task before 1992. That process was only brought to completion in 1994-1995 once the controversy on state aids was settled with the Commission. Thus, 1995 represented a radical break with an almost forty-year tradition of state policies for regional development in the *Mezzogiorno* and, even more dramatically, an end to an important cultural and political tradition of “*meridionalismo*”—that is, a tradition that had placed uppermost on the national political agenda the objective of developing the South economically and socially.

Secondly, new institutions had to be created, as I have discussed above, to manage the new policy at the national level and a new approach had to be introduced in the interaction between national and regional political structures and administration in the management of the policy.

The innovations introduced by Structural Funds programming and implementation had a major impact on domestic intergovernmental relationships. As a formally regionalized state with a traditionally highly state-centric style of policy-making, the Italian state government lost power in Structural Funds programming in favour of regional governments. However, the focus of political attention on regulatory alignments and the urgency of programming practices – within the context of the breakdown of the political system after 1992 - defined this early stage of Europeanization and forced the central government to play catch-up in trying to come to terms with the administrative implications of the policy and the need to become an active player in the multi-level system of governance required by the policy. The result was a substantial lack of innovation. As a matter of fact, many observers view this stage in Europeanization as characterized by a significant policy void. Authors like Giannola (2000a, 2000b) and Viesti (2001), for instance, have pointed to the fact that the end of the *Intervento Straordinario* led to a total absence of any policy for the Mezzogiorno until at least 1996 (Viesti 2001). Such observations stand in harsh contrast with views that the end of the *Intervento Straordinario* -- supported by what has been considered by some to be the subject of the "fancy analyses of the 1980s" (Giannola 2000a) -- as an opportunity to turn towards more region-specific modes of development (Nanetti, 1996) and for a resurgence of the Mezzogiorno (cf. D'Antonio 1985) after having escaped from the stifling clutches of the central bureaucracy. Taken altogether, these factors have determined the peculiar features of the policy-making environment that characterized the first stage of, on the one hand, the Europeanization and, on the other, the de-nationalization of Italian regional policy. This can be best described as a phase of "chaotic intergovernmental relationships" (Gualini 2004). Under these conditions, which resemble a situation of 'radical uncertainty', state actors were characterized by incapacity to act strategically. For both state and regional administrations, this appears to have been above all a phase of grouping towards a new pattern of centre-periphery relationships and the introduction of new procedures in a context where the regulatory inputs were external in nature where there was a relative absence of domestic normative inputs from the central government As a

consequence, the dominant 'nested' pattern of intergovernmental relationships was not yet significantly affected. Relationships remained formally defined by a basic hierarchical rationale of state-regional relationships. But in reality, the first steps were being taken by the regions to exploit the new role gained in the process of Structural Funds programming and in the new system of multi-level governance. However, given the lack of formal initiatives on the side of central administrations, the multi-level system of government introduced a latent form of competition between the regional and national level in interpreting the rules and regulations introduced by Brussels or at best a system of mutual vetoing of autonomous initiatives vis-à-vis the Commission undertaken by either level of national or regional government.

As suggested in Gualini (2004), "the first stage in the Europeanization of Italian regional policy was marked by the dominance of exogenous rationales". Institutional change was induced by the need of reacting to exogenous factor. The process of institutional change that developed "resembled the dominance of modes of intergovernmental interaction that Scharpf (2000) calls 'hierarchical direction'" (Gualini 2004). This is well expressed by the dominant role in affecting change played by the alignment of national legislation to the new orientation of EU competition policy - whereby competencies are centralized at the supranational level in form of the quasi-judicial, non-negotiated mode of enforcement pursued by the Commission's Directorate for competition policy. The intergovernmental interaction is thus defined by "the dominance of bilateral national-supranational relationships within a perceived 'nested' systems" (Gualini 2004), with a "leakage" outside of the system towards other levels of government.

As a matter of fact, this first stage of institutionalization was defined essentially in reactive and adaptive terms. This is apparent in the constraints to innovation in the intergovernmental practices related to EU cohesion policy and national regional policy and the rationale of reform which In Hall's terms, this initial stage in the Europeanization of Italian regional policy may be characterized as 'first order change', that is, as a stage "whereby instrument settings are changed in the light of experience and new knowledge, while the overall goals and instruments of policy remain the same" (Hall 1993). First order change, accordingly, "is likely to display the features of instrumentalism, satisfying, and routinized decision making that I normally associate with the policy process" (Hall 1993). This aspect highlights the relevance of aspects of path-dependency in defining resistance to change at the meso level. The seeds for the

transformation of Italian regional policy into a multilevel policy space resided in the evolution of intergovernmental practices that - particularly through the regionalization of competencies and the re-embedding of policy measures in ordinary administrative procedures - had progressively eroded the legitimacy of the state-centric rationale of the *Intervento Straordinario*. With the reforms aligning Italian policies to the EU cohesion policy framework in the 1990s, as analysed in Gualini (2004) “the ‘periphery’ of the ‘policy space’ represented by the progressive development of subnational responsibilities and abilities progressively delegitimized the original ‘core’ represented by the rationale of state-centric policy direction, taking over its role”. The “radical change emerged from a paradox: a clear break with the past was built on previous policy experiences” (Hooghe 1996). The process of institutionalization is a result of mismatch between the deconstruction of an old order and the development of a new order of relationships. Precisely this difficult process was to become the focus of a further stage of Europeanization of Italian regional policy.

A second stage in Europeanization began after the 1993 reform of the Structural Funds, along with the start of the second programming period. The so-called “Delors II” package introduced a revamping of central state and a step back from some of the most significant elements of 'multi-level' decentralization of the programming process pursued by the Commission (Hooghe 1996).<sup>59</sup> In Italy, this coincided with three important developments: the settling of controversies with the Commission on state aids schemes; the set up of a new regional support framework; the redefinition of state competencies on regional programming.

Altogether, these “three developments represented in particular important measures in a process of regaining a 'gatekeeping' role by the state administration” (Gualini 2004), through the restructuring of programming competencies, the building and consolidation of internal expertise, and the rise of new actors within the newly designated authority in European-regional programming, i.e. the Ministry of

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<sup>59</sup> The view that the member-states gained back some of their role in the 1993 reform of the Structural Funds regulation has to be taken with a big grain of salt given that in 1989-1993 the member states were not obliged to undertake an independent evaluation of their programme and the roles of reporting were never adequately enforced. As a consequence, the member-states were given more than ten years to finally document their programme expenditures. However, in the subsequent period, 1994-1999, ex-post evaluation was finally introduced and as a result of the 1996 redrafting of the regulations a tighter control over reporting of expenditures was introduced. See Leonardi 2005, Chapter 1.

Budgeting, could not overcome completely the process of policy learning and institutionalization in lower levels of government, namely the Europeanization process.

What was notable in this process was that the relationships between state and the regions - supported by an emergent performance-oriented discourse - tended to become more competitive, but within an overall programming environment geared towards a normalization of national performance scores and combining regional self-interest with a new acknowledgment of the virtues of the intergovernmental partnership. Accordingly, there was a progressive shift from an interconnected pattern of relationships in order to develop cooperative programming practices. As Gualini (2004) suggests it could be described as “a 'cooperative -competitive' climate of programming”. This emerging attitude can be considered the incipit of a new strategy, introduced from 1996 onwards under the centre-left coalition governments. With such a conflicted background the hypothesis of progressive reform in institutions emerges as an alternative to deadlock in constitutional reform.

The key feature of this stage of Europeanization is the increasing ability of state actors to introduce elements of “normative institutionalization” (DiMaggio and Powell 1991), i.e. to develop internally rule innovations within an existing space of governance. With respect of the present research, the endogenous factor of change in this phase could be identified in the ability of actors in responding to exogenous changes by acting on intergovernmental interactions in order to clarify and redefine policy rules and the role of actors.

“A significant example of this is given by the modes of interaction underlying the application of the bilateral agreements between the Ministry of Budgeting and the Commission's Directorate for regional and cohesion policy, the so-called ‘Masera-Wulf-Mathies agreements’” (Gualini 2004). In Hall's terms, the approach was therefore characteristic of ‘second order policy change’, whereby “the instruments of policy as well as their settings are altered in response to past experience even though the overall goals remain the same” (Hall 1993). The introduction of redistributive arguments related to aims of national efficiency testifies of the development of new strategic attitudes towards regional performance on the side of state actors. Supranational actors such as the Commission were allocated the role as partners in directing sub-national actors to assume a more efficient and accountable courses of action and defining strategy for multi-level institutional capacity building, within EU policy rationales. While the mode of interaction adopted presented “features of a form

of intergovernmental negotiation” (Scharpf 2000) it nevertheless contained potential for generating different intergovernmental relations.

This stage of policy change can be identified in a “predominantly dualistic pattern of relationships” (Gualini 2004), and its outcome was marginal as far as intuitional interactions are concerned. On the one hand, it marked the introduction of a new strategic approach to “local development” on the other hand; it introduced a significant recentralization of power and control. The bundling of competencies in matters of “negotiated programming” strengthened in fact the regulatory, monitoring and implementation actor of the Ministry of the Treasury as a “gatekeeper” in a multi-level governance system. The Ministry had the chance to use its administrative instruments to overrule or generate moral suasion on lower levels of governments, this happened in areas of local programming under regional competence as well. The result was an increased tension in intergovernmental relations. Accordingly, in subsequent stages of intergovernmental relations “building multi-level governance” became a preeminent goal.

From 1996 onwards, a new strategy informed the policy initiatives of the centre-left-cabinets that - between 1995 and 2001 – were in charge of national government. The new strategy, centred on the idea of a “negotiated” approach to programming, was extended throughout all levels of the partnership that contribute to both a ‘vertical’ (that is, intergovernmental) as well as “horizontal” (that is, state-society based) interpretation of subsidiarity. The new approach was emerging from the growing experience with cohesion and regional policy. In first place, new regulatory rationales progressively contributed to move away from a policy of mere reactions to exogenous factors. Practices of “negotiated programming” provided new means for enabling local initiatives and for promoting regionalization as a bottom-up dynamic, but also the operational conditions for linking development-oriented policies across multi-level jurisdictions within a framework of responsibilities respectful of principles of subsidiarity. In the second place, the emergence of multi-level politics and arenas was associated with important shifts in modes of governance: the development of a concerted and negotiated policy style, and the political rationalization of ‘local development’ discourse within a broader reframing of state-local relationships.

The institutional changes in view of a policy of “negotiated programming” within a multi-level framework, ranging from state-regional agreements to local initiatives, aimed at redefining the “gatekeeping” role of the state administration at “the centre of

a system of relationships capable of connecting EU policy with local realities by fostering more effective forms of partnership” (Gualini 2004). Implementing decentralized policy tools, e.g. “Patti territorial” (territorial pacts) and the “contratti d’area” (area contracts or agreements), subject to a more comprehensive redefinition of intergovernmental relationships resulted as a policy approach capable of offering an answer to Trigilia “paradox of the regions”, pointing to the need for understanding the territory as economic resource as well as promoting a proactive, territory-centred renewal of state-society relationships (Trigilia 1991).

This, on the one hand, has led state administrations to take initiatives those substantially by-passed disagreements over regional competencies (as in the case of the introduction of the first Patti territorial) and that, by and large, anticipated the resolution of important aspects of Italian ‘dilemma of regionalism’. On the other hand, however, it has allowed state actors to consolidate their strategy along a series of key moves:- the promotion of a cooperative climate and of a working consensus - particularly among the more dependent southern regions - on the need for innovative and effective aggregate programming approaches in order to exploit the upcoming 2000-2006 round of Structural Funds funding (the so-called ‘Delors III’, possibly representing the last important period of Community support for the Mezzogiorno regions); - a progressive “embeddedness of programming into a polyarchic multi-level design” (Gualini 2004);- the assumption of a multi-level design of cooperative relationships as a model for state-local relationships, within the approach of ‘administrative federalism’..

It is in this sense that, as has been argued (Giannola 2001a), ‘New Programming’ conferred a new legitimization of public intervention in the Mezzogiorno, favouring the merging between a policy discourse on local development and a policy discourse on state-led regional programming.

This stage introduced a major change in the pattern of Europeanization of Italian regional policy. “First and second order change can be seen as cases of ‘normal policymaking’, namely as a process that adjusts policy without challenging the overall terms of a given policy paradigm, much like ‘normal science’. Third order change, by contrast, is likely to reflect a very different process, marked by radical changes in the overarching terms of policy discourse associated with a ‘paradigm shift’”. (Hall 1999)

Third shift, accordingly, is, rather, a process of an endogenous nature, inherent to the dimension of policy-making as an activity in the social construction of meanings

(March and Olsen 1989). The third stage of the Europeanization of Italian regional policy started along with the reform of the Structural Funds and the start of a new programming period, and the institutional structure that emerged was informed by the lead taken by state actors, as they turned it into an occasion for redefining their role. The ability of state actors to move, subject to European policy making framework and progressive Europeanization of institutions, led to the consolidation of their role in a multi-level governance model. The success factor for state actors can be identified in the dominant position acquired by means of procedural and organizational skills, and to extend such skills towards. Two aspects were critical in the implementation of intergovernmental interactions and in developing effects of institutionalization: the assumption of social partnership as an expression of a “shift towards a multilateral, interconnected system of intergovernmental relationships” (Gualini 2004); and the importance attributed to a consensual style of policy-making attuned to the new system of relationships.

Preeminent importance can be given to the relevance assumed by reference to transnational policy as a source for legitimization of state action. This has been particularly relevant in the case of measures in which policy change and innovation has found a determinant support at European level. “Programmatic institutionalization” can be considered as a mature stage in institutional change. In the terms of state-local relationships interconnection established between “institutional capacity and institutional legitimacy” (Gualini 2004) consolidated the state's role within a concerted multi-level governance, as a guarantee of aggregate institutional performance. In the terms of state-society relationships the role it attributed to state mediation between supranational policies and territorial needs defined a perspective of multi-level governance locally oriented.

Accordingly, the programmatic institutionalization of “Europeanized” regional policy in Italy developed the potential of constituting a new political space, a “site of collective governance” (Stone Sweet et al. 2001).

### 6.3. Case studies’ analysis and evaluation

This paragraph addresses the analysis and evaluation of devolution in the financial dimension, as discussed in the methodological Chapter. Specifically, the analysis investigates the sources of funds, namely the proportion between Central and Local

Government resources allocated to regional policy as a variable to identify possible different outcomes in the devolution process in the four case studies.

### 6.3.1. Policy choices: sector priorities and policy implementation

This chapter presents the results of the analysis carried out on the regional policy interventions and the related expenditures in the period examined. In order to do that, the analysis is focused on the national and regional contribution to the regional policies financing. In the next pages no analysis is provided on the use and allocation of EU funds as, although extremely relevant for regional development, do not supporting to answer our question focused on national dynamics.

Though provided for in the 1948 Constitution, Italy's regions have become an effective tier of government only since the 1970s. Their key feature is the power to legislate. The extent of this power differs however between the two classes into which they are divided: 15 "ordinary statute" and 5 "special statute" authorities. With respect of this research, as indicated in Chapter 2, I will focus on two ordinary regions (Calabria and Puglia) and two Special Statute regions (Sicily and Sardinia) in presenting the data on how the national regional policy was translated into action at the regional level in four southern regions<sup>60</sup>.

*The Ordinary regions* were established in 1970. Initially their role was restricted, with little real devolution of tasks. During the 1970s and 1980s their functions were extended, especially in 1978 when they took on responsibility for the country's health service, the Servizio Sanitario Nazionale (SSN). For ordinary regions, the most important legislative powers still concern the health sector. Other areas for which they can legislate include social welfare; training and vocational education; town planning; public housing; economic development; tourism and cultural activities; agriculture, forestry and mining; regional public transport; public works and environment. During the 1990s new functions have been assigned to them notably including the implementation of European Union regulations and policies.

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<sup>60</sup> The data presented in this chapter are the average annual figures for the following periods: 1971-1975; 1976-80; 1981-1985; 1986-1990; 1991-1995, 1996-2000. The calculation has been made with the aim of allowing an immediate comparison with the figures presented for the analysis of the interventions of the Cassa per il Mezzogiorno in the previous chapter. Results presented are elaboration of primary data collected by the author.

Table 6.1 and Figure 6.1 presented below show how the “current expenditures” progressively increased over time, but at a slower pace during the last fifteen years. The breakdown between Capital and Current expenditures remained broadly constant, showing a slow trend toward a reduction of capital expenditures beginning in 1991. The data lend credence to the criticism of the use of Structural Funds in Italy: they do not represent “additional” expenditures in the field of capital expenditures but rather the substitute for capital expenditures by the regions and the national government. Thus the relationship between current and capital expenditures has not substantially changed from 1989 onward. Instead, it has declined in favour of current expenditures. In Puglia and Calabria capital expenditures after 1991 declined 6% from the previous level of 32% to 24%, illustrative of the “crowding out effect” that European capital funding has had in relation to national investments.

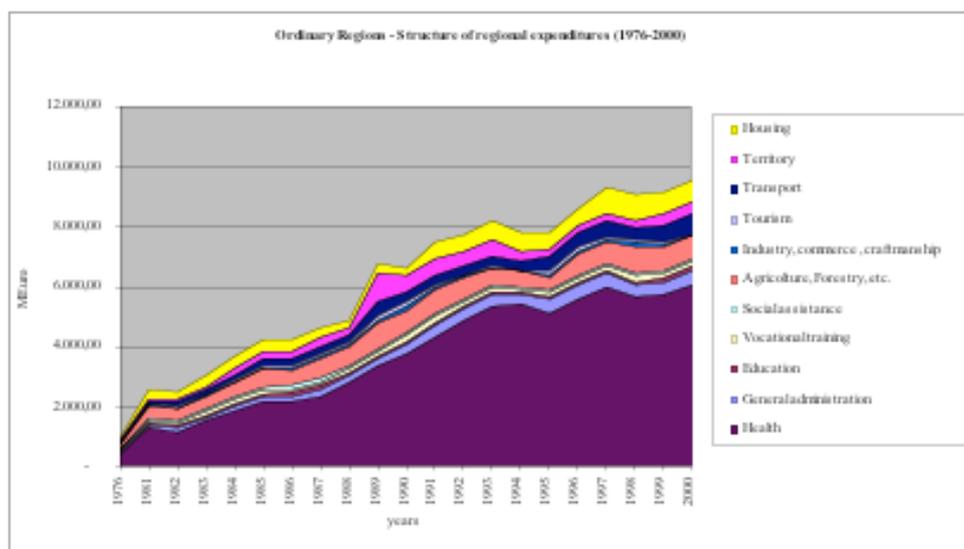
**Table 6.1 Current and capital expenditures in Calabria and Puglia 1971-2000 (figures in Meuro and percentages, current prices)**

	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
Current expenditures	786,84	1.639,31	2.316,90	3.762,94	6.180,11	6.938,50
Capital expenditures	391,36	920,51	1.047,34	1.741,33	1.971,21	2.340,17
<b>Total</b>	<b>1.178,20</b>	<b>2.559,81</b>	<b>3.364,24</b>	<b>5.504,27</b>	<b>8.151,32</b>	<b>9.278,66</b>

Structure of Uses	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
Current expenditures	67%	64%	69%	68%	76%	75%
Capital expenditures	33%	36%	31%	32%	24%	25%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Source: Author's calculation on Official Regional Budget data, various years*

**Figure 6.1 Ordinary regions: structure of expenditures (current prices)**



Source: Author's calculation on Official Regional Budget data, various years

The findings confirm the critical relevance of the expenditures in the health sector. Its relative size (Table 6.2) rises from 46% in 1976 to over than 60% in 2000. Other interesting outcomes of the analysis are in the sharp reduction of the expenditures for the economic sectors covered by the Structural Funds. Agriculture goes from 16% to 8% and vocational education from 6 to 2% while industry, tourism and transport do not change over the period.

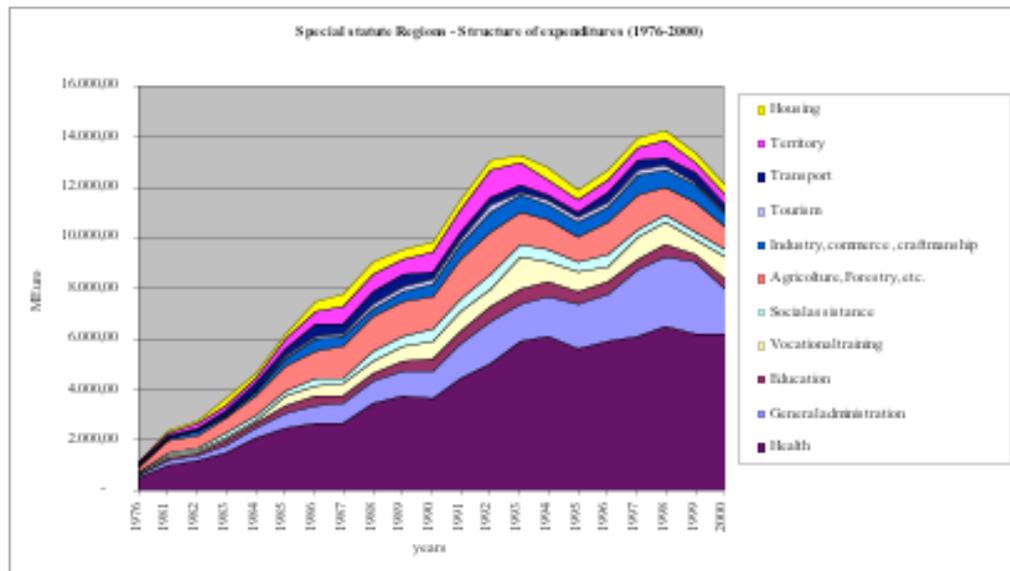
**Table 6.2 Structure of expenditures in Calabria and Puglia 1971-2000**

	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
General administration	4%	3%	4%	5%	5%	5%
Education	3%	4%	3%	2%	1%	1%
Vocational training	6%	3%	4%	3%	2%	2%
Social assistance	2%	3%	2%	2%	1%	1%
Health	46%	51%	50%	53%	65%	63%
Agriculture, Forestry, etc.	16%	16%	13%	13%	8%	8%
Industry, commerce, craftsmanship	1%	1%	1%	2%	1%	1%
Tourism	1%	1%	1%	2%	1%	1%
Transport	6%	2%	6%	6%	4%	6%
Territory	5%	5%	5%	8%	6%	4%
Housing	11%	10%	10%	5%	7%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Author's calculation on Official Regional Budget data, various years

The *Special Statute regions* have an even broader range of functions, enshrined in specific legislation with constitutional guarantees. Their financing arrangements are also distinctive. They draw on sources not available to ordinary regions - in particular, a share of central government's income tax and VAT. The two Special statute regions present initial conditions that are very similar to those described in the previous paragraph. However, the path followed in the subsequent years is dramatically different (see Figure 6.2 and Table 6.2).

**Figure 6.2 Special statute regions: structure of expenditures (current prices)**



*Source: Author's calculation on Official Regional Budget data, various years*

As shown in Table 6.3, the special statute regions have increased the current expenditures of about twenty times in the twenty-five years subject to analysis. The capital expenditures have increased little more than 100%. Accordingly, the structure of the expenditure breakdown has been subject to an inversion between the capital and the current part. The move from capital to current expenditures and the role that national and EU funding have played in the provision of regional capital expenditures represent a key issue to be examined below.

**Table 6.3 Financial expenditures in Sardinia and Sicily 1971-2000 (figures in Meuro and percentages, current prices)**

	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
Current expenditures	454,85	1.022,04	2.856,10	5.716,17	10.037,03	11.301,52
Capital expenditures	786,52	1.105,28	1.887,05	4.147,80	3.789,98	2.757,26
<b>Total</b>	<b>1.241,37</b>	<b>2.127,32</b>	<b>4.743,15</b>	<b>9.863,97</b>	<b>13.827,01</b>	<b>14.058,78</b>
Structure of Uses	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
Current expenditures	37%	48%	60%	58%	73%	80%
Capital expenditures	<b>63%</b>	<b>52%</b>	<b>40%</b>	<b>42%</b>	<b>27%</b>	<b>20%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Source: Author's calculation on Official Regional Budget data, various years*

The increase in current expenditures took place at the same time in the two “special regions”, and represented an increase of about 24 times the initial level of expenditures (end of period compared to the start of the data series). With respect to the sector of intervention (Table 6.4), the health sector is the most relevant, but its relative importance is not subject to the same sharp increase present in the ordinary regions. This is understandable, given that the special statute regions have had since the beginning a larger and more continuous responsibility in the sector. The data highlight a lower standard deviation in the breakdown of different regional interventions compared with the ordinary regions: the expenditures are more uniformly distributed among the other sectors, excluding health. It is noticeable the reduction in agricultural expenditure, due to a structural changes in the economy at the regional, as well as at national levels.

**Table 6.4 Structure of expenditures in Sicily and Sardinia 1971-2000**

Structure of expenditures	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
General administration	8%	8%	8%	10%	13%	18%
Education	3%	3%	4%	4%	4%	3%
Vocational training	5%	3%	5%	6%	7%	6%
Social assistance	3%	3%	4%	4%	4%	2%
Health	43%	43%	42%	37%	43%	47%
Agriculture, Forestry, etc.	17%	21%	17%	14%	11%	9%
Industry, commerce, craftsmanship	5%	3%	4%	5%	5%	5%
Tourism	2%	2%	1%	2%	2%	1%
Transport	4%	4%	5%	5%	2%	3%
Territory	7%	3%	5%	7%	6%	3%
Housing	3%	7%	4%	5%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Source: Author's calculation on Official Regional Budget data, various years*

Besides their legislative role, it is relevant to state that both typologies of regional authorities are responsible (as noted earlier) for regulating, planning, and monitoring the work of provinces and communes, and for helping to finance their activities. Expenditures for the activities of the sub-regional institutions fall under the heading of "territory". The Constitution lays down that the regional authority should act mainly through "indirect administration", in other words through an agency relationship with provinces and communes, rather than to try to duplicate what they do. Recent devolution measures have brought this approach into focus.

### 6.3.2. The sources of regional funding

The revenues of Italy's regional authorities, in parallel with their expenditure, have increased considerably over the decade in absolute terms but they have remained generally constant as a share of GDP. At just under 14% of GDP, their share was exactly the same in 1998 as in 1989. Figure 6.3 and 6.5 indicate how the structure of these sub-central revenues has evolved, in current-price terms, over years. Two broad trends may however be distinguished: firstly transfers from the central State to regional and local authorities seem to have dropped back sharply since the early 1990s, whilst secondly their income from taxation has soared. In particular, their reported tax revenues have been reduced by more than three-quarters between 1997 and 1998 when new fiscal powers came into effect.

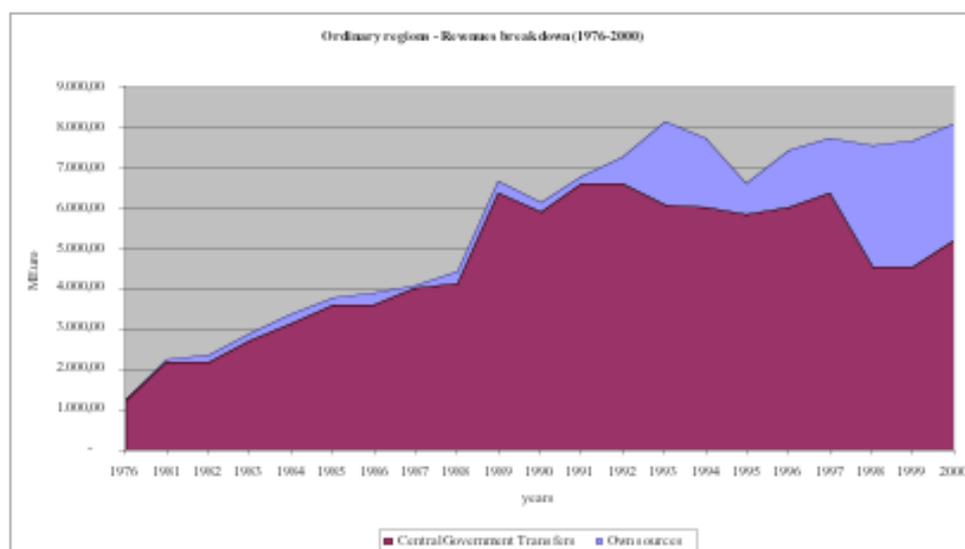
Until the late 1990s the fiscal capacity of Italy's regional authorities was limited. Indeed, ordinary regions had almost no taxation power before 1989, depending instead on a plethora of specific grants - dominated by the huge health service allocation - and two small general grants. Special regions were financed from the start by shares of national taxation. While shares could in some cases reach 100% of the relevant regional tax yield, this system of course did not offer fiscal autonomy.

From 1989 a series of reforms began to extend the range of tax sources available to regional authorities, adding for example a surcharge on national petrol tax, and later a share of it; a tax on vehicle circulation and ownership, with discretion over its rate; environmental taxes including a tax on acoustic pollution; and the personal health service levy or "contribution", formerly accruing to the central treasury. Apart from the latter health contribution, however, yields from the new regional taxes remained quite minor up to the late 1990s. For "ordinary" regions in 1996, for example, the

health levy made up three-quarters of total income from taxes, while the State's health service grant represented 88% of all transfers these regions received from it.

*Ordinary regions* present initial conditions characterized by a very limited financial autonomy (about 3% of the total resources). The dependence from Central Government transfers remains relevant up to 1996. In year 2000 the impacts of the fiscal devolution undergone in 1997 and 1999 are more evident as the revenues breakdown is close to 60%.

**Figure 6.3 Ordinary regions. Revenues breakdown 1976-2000 (current prices)**



Source: Author's calculation on Official Regional Budget data, various years

Table 6.5 presents the evolution of the financial autonomy of the two ordinary regions considered in the analysis, through the representative years considered.

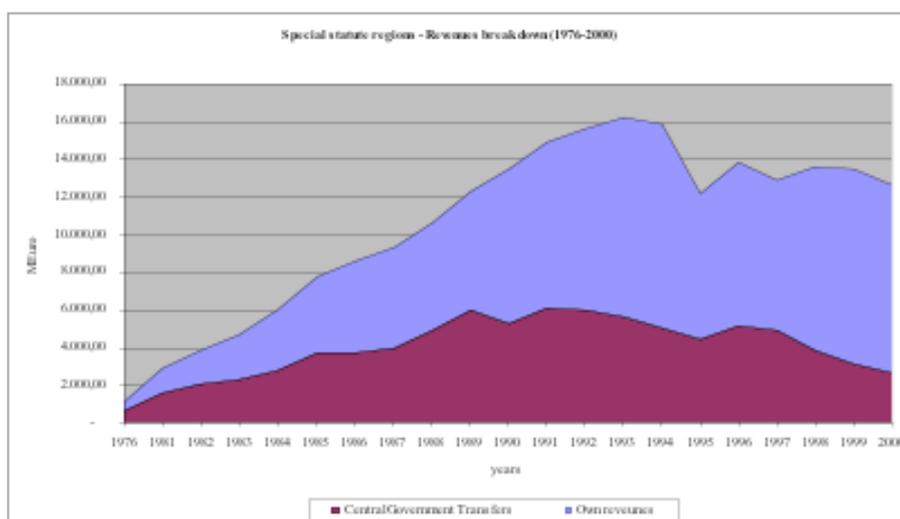
**Table 6.5 Structure of regional revenues in Calabria and Puglia 1971-2000 (figures in Meuro and percentages, current prices)**

	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
Own sources	39,75	51,16	196,72	237,28	1.070,33	2.339,65
Central Gov't Transfers	1.238,95	2.194,27	2.918,42	4.811,26	6.247,66	5.356,17
<b>Total</b>	<b>1.278,70</b>	<b>2.245,42</b>	<b>3.115,13</b>	<b>5.048,54</b>	<b>7.317,99</b>	<b>7.695,83</b>
<b>Structure of the Sources</b>						
Own sources	3%	2%	6%	5%	15%	30%
Central Gov't transfers	97%	98%	94%	95%	85%	70%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Author's calculation on Official Regional Budget data, various years

*Special statute regions* have had their responsibilities defined since the drafting of Italian constitution in 1947. However, their level of financial autonomy in 1976 was still below 50%. Only recently, with further constitutional amendments and administrative regulations the Own revenues of the two regions considered have been amounting more than 80% of the total regional revenues.

**Figure 6.4 Special statute regions. Revenues breakdown 1976-2000 (current prices)**



Source: Author's calculation on Official Regional Budget data, various years

Table 6.6 presents data confirming the dramatic change in the path of regional financial autonomy in the last four years examined. The same has been the case in ordinary regions.

**Table 6.6 Structure of regional revenues in Sicily and Sardinia 1971-2000 (figures in Meuro and percentages, current prices)**

	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
Own sources	477,03	1.236,13	2.866,05	6.059,26	9.520,23	9.333,93
Central Government Transfers	704,23	1.660,19	2.762,33	4.835,37	5.472,49	3.980,44
<b>Total</b>	<b>1.181,26</b>	<b>2.896,32</b>	<b>5.628,38</b>	<b>10.894,63</b>	<b>14.992,72</b>	<b>13.314,36</b>

Structure of the Sources	1971-75	1976-80	1981-1985	1986-90	1991-95	1996-2000
Own sources	40%	43%	51%	56%	63%	70%
Central Government Transfers	60%	57%	49%	44%	37%	30%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Author's calculation on Official Regional Budget data, various years

Looking at both types of regional authorities, regions have control of these various income sources. It has to be noticed that the stabilization of Italy's local government

financial regime in the late 1970s and early 1980s involved high levels of central grants, as I have seen, amounting to some 80% of the budgets of provinces and communes. At first this massive input of grants was distributed simply on the basis of their historic spending. Some equalization rules were introduced in the early 1980s but they were fairly simple and ad hoc, subject to annual change.

Major reform of the grant system in 1993, associated with the launch of a new communal property tax (ICI), set up three funds for central support of current spending on the part of the two tiers of local government: the ordinary, consolidated and fiscal equalization funds. The reform provided also for an ordinary and a special fund to support these authorities' capital investment, but little use has so far been made of them.