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# The macroeconomics of Italy: a regional perspective

Luciano Mauro*

*Faculty of Economics, University of Trieste, Pz.le Europa 1, 34127 Trieste, Italy*

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**Abstract**

In this contribution we show that the dualistic nature of the Italian economy has been, and still is, crucial for the design of short- and long-run macroeconomic policies, concerning unemployment, income growth and public finance.

We establish the seriousness of the dualistic process of Italian regional development using several approaches. We then considered the regional nature of the Italian unemployment and show that it has profound implications for short- and long-run policies. In particular, we find that an aggregate price–unemployment relationship must be rejected. Different values of equilibrium unemployment rates for the main macro-regions of Italy are found and short-run policy implications discussed. We then consider how this heterogeneity relates to the design of growth-promoting policies.

Lastly, we present evidence in favor of the importance of the missing growth of the Italian southern regions for the evolution of the Italian public finance.


*Keywords:* Macroeconomic policies; Italian public finance; Regional convergence

## 1. Introduction

The dualistic nature of the Italian economy, where a prosperous north coexists with a less developed south, is a well-known and deeply analyzed case study.

* Tel.: +39 040 5587037.
*E-mail address*: maurolu@univ.trieste.it.

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Nevertheless, with some important exceptions,[1] its implications with respect to the design of fiscal and monetary policies have not been very much emphasized. This fact might be due to the traditional dichotomy between long-run and short-run policy analysis that only very recently has been questioned (Topel, 1999; Aricó Fabio, 2003), or to the optimistic view about the Italian regional development (Barro & Xavier Sala-I-Martin, 1991).[2]

Nevertheless, as far as this last issue is concerned, the styled facts emerging in the recent literature have been quite less reassuring. All contributions[3] conclude that the per capita income of the Italian regions stopped converging at the beginning of the 1970s and start diverging again from the 1980s onward. There is, however, a general consensus in the literature that per worker regional productivity has been converging during the same period, perhaps a fact that might partially explain why convergence is not at the top of the policy agenda.

In the proceeding we first consider the Italian convergence process to evaluate the seriousness of the "dualism" of the Italian economy and questioned the alleged stylized fact of per worker productivity convergence.

Still the question is: does the dualistic regional growth process matter when considering the short-run, as well as long-run, policy design concerning unemployment, long-run growth and public finance?

In trying to find an answer to this question, we analyze the Italian unemployment and show the importance of considering its regional dimension and how this approach influences long- and short-run policy design. Finally we explore the issue of the Italian public finance from a regional perspective to show that the dualistic regional development is central to explain its dynamics. In detail, Section 2 presents the stylized facts on the Italian dualism and regional convergence. Section 3 analyzes the issue of regional unemployment and its relationship with inflation and regional growth. Section 4 examines the public finance problems of Italy from a regional perspective. Section 5 summarizes and concludes.

## 2. The stylized facts of Italian regional development

The very first measure of convergence proposed in the literature is the standard deviation of the per capita incomes: the so-called Sigma convergence. Fig. 1 reports the path of the standard deviation of the log of per capita GDP (lyp)[4] across Italian

[1] See Bodo and Sestito (1991) for an ample survey and more recently on this issue Brunello, Lupi and Ordine (2001).

[2] This view was shared by Barro and Xavier Sala-I-Martin (1991) according to whom, although at a low pace, the southern regions were converging to the income levels of the more developed center-northern regions.

[3] Mauro and Podrecca (1994), Paci and Pigliaru (1995), Paci and Saba (1998), Carmeci and Mauro (2002), among others.

[4] In order to limit the influence of business cycle on the relative position of the regional economies, all data are de-cycled by using the Hodrick and Prescott (1997) filter.