



Local Economic Development Program at the
London School of Economics and Political Science

LSE - New Academic Building - London March 7, 2015

A case of bias for hope: institutional and economic development in Sicily¹

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*....continuing to fight, to think and to act as if in Sicily
there is still hope and redemption,
hoping against any logic hope (Ludovico Corrao)*

I may like to express my sincere thanks to the *Local Economic Development Program* of the *London School of Economics and Political sciences*, for invitation at the seminar of this morning, and, in particular to Prof. Tony Travers and Dr. Marco Salvalaggio

The title of this brief is linked at the famous work of an extraordinary reform-monger like A. O. Hirschman². His reflections on unbalanced growth, and his concepts of backward and forward linkages have become inevitable pillars of discussions on economic and institutional development, in particular in front of the failure of integration policies pursued over the last 50 years in the south of Italy³.

Institutions are relevant for the developments strategies and constitute an important and binding agent of societies. Institutions, in a peeped rive have been defined “*the humanly devised constraints that structure political, economic and social interaction. They (institutions) consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)*”⁴. They evolve incrementally, connecting the past with the present and the future; history in consequence is largely a story of institutional evolution in which the historical

¹ This paper is a tribute dedicated to the memory of Alessandro Argiroffi, professor of philosophy of law and human rights, dear colleague of the University of Palermo.

² A. O. Hirschman, *Bias for Hope: Essays on Development and Latin America*, Yale University Press, 1971

³ See C. Trigilia. *Why the Italian Mezzogiorno did not achieve a sustainable growth: social capital and political constraints*, in *Cambio*, 2012, 2.4, 137 ss.

⁴ D. C. North, *Institutions*, in *The Journal of Economic Perspectives*, Volume 5, Issue 1 Winter, 1991, 97 ss.



performance of economies can only be understood as a part of a sequential story.

In the perspective of development economics institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline⁵.

1. In Italy - as Bank of Italy's Governor pointed out in the last *Annual Report*⁶ - the long recession in progress since 2008 with only a brief interruption came to a halt at the end of last year, mainly thanks to foreign demand and to the reduced need for fiscal adjustment. A contribution came from the accelerated payment of general government commercial debts. A real recovery is struggling to get under way, however. The gradual improvement in expectations has been slow to translate into a solid upturn in economic activity.

The recession has left a burdensome legacy.

In the last five years the weaker performance of output in the South and Islands has widened the dramatic gap vis-à-vis the Centre and North in terms of per capita GDP; in the previous fifteen years the gap had narrowed slightly owing to the higher rate of population growth in the Centre and North, boosted by migration.

Many Italian companies have managed to safeguard their shares of foreign markets and some have increased them; the current account is back in surplus, even on a cyclically adjusted basis. But the contraction in domestic activity has been dramatic: industrial production has shrunk by 25 per cent overall. In the last quarter of 2013, while exports were almost back to the same level as at the end of 2007, household consumption was still down by about 8 per cent and investment by 26 per cent, with a capacity loss in manufacturing of approximately 15 per cent. Although there are signs that confidence is picking up, the need to compensate for the erosion of accumulated savings and uncertainty about prospective income in the medium to long term will continue to weigh on household consumption. Household spending can benefit from the recently approved tax cuts, but it will not become the driving force of the recovery without an enduring increase in employment.

Important progress has been made in adjusting the public finances.

The deficit is equal to 3 per cent of GDP, below the European average. With Germany, Italy has the highest primary surplus in Europe, and Italy is close to achieving structural budget balance. The reforms of the past years have reduced the pressure of demographic trends on public expenditure, pressure which instead remains strong in many other countries of the Union.

The lowering of the ratio of debt to GDP remains the ineluctable challenge for our country; its speed depends on a return to stable, rapid

⁵ J. Stiglitz, *Markets, Market Failures, and Development*, in *American Economic Review*, 1989, 79, 197-203.

⁶ Annual Report - Ordinary Meeting of Shareholders, may 20, 2014 https://www.bancaditalia.it/pubblicazioni/relazione-annuale/2013/en_rel_2013.pdf?language_id=1



growth. Economic growth and budgetary balance can only be pursued in tandem.

As the Bank of Italy pointed out in the '*Report on the Italian regions 2014*'⁷ the developments in the regions during the year has suffered the cyclical slackening that began in the summer months affected all parts of the country, although conditions remain better in the Centre and North, in particular some regions of the North-East, above all as regards industrial turnover and exports. The contraction of bank lending to the productive economy eased in all parts of the country, while the tightening of credit terms has practically ceased throughout Italy.

It's clear from the analysis that Regional divergences during the crisis (2007-2014) are growing up.

The steep fall in exports in 2008-09 affected the North-West and the North-East most severely. In 2010-11, while the Centre and North recovered thanks to an upturn in exports, output in the South continued to decline. In 2012-13, two years of slumping domestic demand, output declined most markedly in the South, and in 2013 output in that part of the country was 13.5 per cent lower than in 2017, whereas in the Centre and North the decrease came to 7.1 per cent.

The industrial system and firms - Industrial value added diminished less in the North than in the rest of Italy between 2007 and 2013. The dispersion of firms' performance increased in the course of the crisis. By comparison with those in the Centre and North, Southern firms depend more on bank credit and have traditionally faced stiffer terms for access to it. This divergence reflects differences in the sectoral and size distribution of firms as well as differing conditions in the business environment. During the crisis the increase in the number of credit-rationed firms was practically uniform throughout the country, but the interregional disparity in the cost of credit widened.

Difficulties are very deep for the employment sector. The decline in employment has accentuated local labour market divergences. More than a third of the overall increase in heterogeneity is accounted for by the more pronounced employment contraction in the South. In 2012 the number of

⁷ See the Report in https://www.bancaditalia.it/pubblicazioni/economie-regionali/2014/2014-0043/en-1443-economia-regioni-italiane.pdf.pdf?language_id=1

people moving from the South to the Centre and North began to rise, and the share of the well-educated among these migrants increased⁸.

The tax increases and expenditure cuts were both, simultaneously, stronger in the Italian Mezzogiorno than in the rest of the country, inducing a worse performance of this area in terms of GDP per capita and employment.

In the last 150 years, the regional inequality in Italy has followed different patterns: the North-South gap increased abnormally (1911- 1951) and today remains a major anomaly in the Italian context. But the long duration of the "*Southern question*" does not mean at all that nothing has ever changed, industrial productivity, sectoral composition of the economy, fertility, migration, play different roles in explaining per capita income levels and dynamics. National policies produce decisive effects even today on the geographical divides. The inadequate provision of public services in the South and its still lagging location factors for competitive firms are still the main causes of the gap⁹.

But Fiscal consolidation policies have been harsher in less developed regions, so increasing internal disparities among regions (and citizens), tax increases and expenditure cuts were both, simultaneously, stronger in the Italian Mezzogiorno than in the rest of the country, inducing a worse performance of this area in terms of GDP per capita and employment.

For all these reasons, in Italy the total tax/income rate is very similar among different regions, notwithstanding very large income differentials; the progressivity of tax policies disappeared. Moreover, public expenditures decreased more in the *Mezzogiorno* than in the other areas of Italy¹⁰.

⁸ The gap between rich Italian North and poor South is widening. The southern regions of Italy recorded a 60% job loss, one family out of four was in poverty living conditions, between 2008 and 2012, factors of weakness are: unclear government plans, slow bureaucracy in the management of public resources, scarcely competitive infrastructures, a limited opening to foreign markets and a strong credit rationing. 26% of families in the South are poor compared to the 15,7% of the national average

Most worrying, in particular, is the phenomenon of young people 15-24 years old who are not engaged in any work activity or included in educational/training pathway (NEET), estimated at about 1.27 million (including 181 thousand foreign citizens), 21% of the population of this age group. This percentage exceeds 30% in some of the most relevant regions in the South of Italy (Campania, Calabria and Sicily).

Italian Youth Guarantee Implementation Plan, <http://www.garanziagiovani.gov.it/Documentazione/Documents/Italian-Youth-Guarantee-Implementation-Plan.pdf>

⁹ G. Viesti G. Pellegrini and G. Iuzzolino, *Convergence among Italian Regions 1861-2011*, in Banca d'Italia, Quaderni di Storia Economica (Economic History Working Papers, Paper presented at the Conference "*Italy and the World Economy, 1861-2011*" Rome, Banca d'Italia 12-15 October 2011 - Nr 22 – October 2011.

As they point out in the South history and geography of industry were influenced by policies; the convergence with respect to social variables was very slow in the first 100 years, and it is a success mostly due to post-WW II policies aimed at: education, health, infrastructure, poverty alleviation. Policies have played an important role in the turning points: the birth of the fascist regime created very negative conditions for the South; post WW II convergence was also due to "Cassa del Mezzogiorno"; after the oil shock Italian economic policies created unfavorable conditions for the development of the South.

¹⁰ F. Prota, G. Viesti, *The regional effects of the economic crisis in Europe*, in www.nelmerito.com, 20 aprile 2015. This reduction has been the results of two elements. First, it is a matter of composition of public expenditures: public investments declined substantially more than average public expenditure and their role is larger in less developed regions; on the contrary, public pension expenditures were cut much less and their share of total expenditures is smaller in less developed regions, due to lower level of employment in the past. Second, it is a matter of policy choices: health and education expenditures decreased significantly in the whole country, but much more in the Southern regions, due to changes in the rules governing the organization of public services



Under the perspective of the Government intervention every year the activity of government generates substantial financial flows to the South from the rest of Italy, principally producing income redistribution at the interpersonal level. The net flow to the South (public spending in the area net of the tax revenue raised there) - and this is important for our analysis - was larger in 2009 and 2010 than in the pre-crisis years and began to come back down in 2011-12. This pattern is due only in part to changes in the resources allocated to the South under policies for cohesion.

2. The component of domestic demand contracted sharply throughout Italy in 2013. The sole positive contribution to GDP growth came from net exports, notwithstanding the slowdown in world trade compared with the previous two years.

The pace of export growth differed across the macro-regions; it was faster in the Centre and in the South and Islands. In the latter case, a decisive contribution came from petroleum products, as Italy's oil refining industry is located almost entirely in the island regions of Sicily and Sardinia. Excluding this sector, the exports of the South and Islands stagnated (influenced from the oil sector).

For all the components of domestic demand, the decline was steeper in the South and Islands: consumption was depressed by the deterioration in employment and earnings, while the largest drop in investment reflected the low plant capacity utilization rate, the less favorable financial conditions and the more uncertain outlook for demand as well as the greater structural difficulties of southern industry¹¹.

Nothing to compare with German process of reunification, where after the rapid expansion of the early years, former East Germany entered a phase of slow growth that made it impossible to bridge the gap with West Germany.

¹¹ It's common opinion that there has been a "Southern Question" ever since the deposing of the Bourbons and the unification of Italy in 1860. Although Garibaldi's "thousand" were greeted by many Southerners, to many others the northern regime of Victor Emanuel II seemed like a hostile invasion which looted the treasury of the Kingdom of the Two Sicilies, devastated the heavily protected local industries, and reduced Naples from the fourth largest city in Europe and the capital of a kingdom to a provincial town. As the historian teach the South was poor, largely agricultural, with a semi-feudal society, and infested with crime and corruption, but the immediate effects of unification did little to improve the situation for the average citizen. It is not surprising that the mass emigration from southern Italy started after unification and lasted until the 1920s.

The socio-economic situation in the South did not change in a major way under Fascism. Mussolini's regime did make some progress in combating the Mafia in Sicily, but American forces strengthened it again during World War II. After World War II, however, and the return of democracy, the Italian government and intellectuals began for the first time looking at the "Southern Question" in a systematic way. In accordance with economic development theory at the time, it was felt that endogenous factors were insufficient to get self-sustaining economic development underway in southern Italy. Only through the introduction of exogenous resources, through government spending and infrastructure projects could economic development get underway.

Since its settlement, the country had to face with two serious issues: the general backwardness of Italy, especially in the field of agriculture (Italian territories urgently needed a substantial land reclamation) and the so called "Questione Meridionale", intended as the cultural, economic and social gap between the North and the South of Italy.

See for all H. James, K O'Rourke, *Italy and the First Age of Globalization, 1861-1940*, Banca d'Italia, Economic History Working Papers, Paper presented at the Conference "Italy and the World Economy, 1861-2011" Rome, Banca d'Italia 12-15 October 2011, N. 16 – October 2011; C. Duggan, C. (1999), "Sicily and the Unification of Italy: Liberal Policy and Local Power, 1859-1866", by L. Riall (book review)", *English Historical Review*, 114 (459), 1346-1347.



Unemployment remains high, low growth rates appear ingrained, and persistent regional unbalances affect the social and economic prospects of the area. The long-term outlook is threatened by adverse demographic trends and by the need for fiscal consolidation. A comparison between eastern Germany and the Italian Mezzogiorno shows that both rely heavily on government intervention¹².

This dependency is perpetuated by the evident difficulty of setting an autonomous growth process in motion. By contrast, unlike the Mezzogiorno, the eastern German regions enjoy a high level of infrastructural endowment, a legal system that is both efficient and effective, and excellent human capital, partly inherited from the former DDR.

However, this human capital is in danger of deteriorating irreversibly owing to the steady migration to the West of young and highly qualified workers from the area.

The decline in value added was larger in the South and Islands, and in particular in Sicily, than in the Centre and North both in industry and in services, where the contraction was twice as great. The fall in employment was also larger in the South and Islands, mainly due to the absence of a positive contribution from services: the loss of jobs in public employment, which accounts for a larger share of employment in the South and Islands, played a part in this. The gap widened between the unemployment rate in the Centre and South and that in the South and Islands, where persons without a job sought work more actively than before.

For Italy as a whole, the results of the Bank of Italy survey of firms with 20 or more workers show a decline in the turnover of firms in industry excluding construction; the decline was more pronounced for businesses in traditional branches of industry and in metalworking and for smaller firms.

Some firms reacted to the weakness of domestic demand by expanding their internationalization, with a diversification of outlet markets, an increase in direct investment abroad and a shift towards foreign sourcing of productive factors.

The turnover of these firms was more resilient, especially in the South and Islands. The aggregate foreign trade data also show a strengthening, compared with 2011, of the tendency of the composition of exports to shift from markets within the European Union to non-EU markets, where demand has been significantly more dynamic in the last three years.

The weakening of bank lending was most pronounced in the South and Islands and in the North-West. In all the macro-regions it was the result of the contraction in loans to firms and the basically flat performance of lending to households, which declined – slightly – only in the South and Islands.

¹² J. C. Martinez Oliva, *Riunificazione intertedesca e politiche per la convergenza*, Banca d'Italia, *Questioni di Economia e Finanza* (Occasional papers), N. 51 – Luglio 2009; see also A. Boltho, W. Carlin and P. Scaramozzino (1999), *Will East Germany become a new Mezzogiorno?*, in: J. Adams and F. Pigliaru, *Economic growth and change*, Cheltenham: Edward Elgar



Lending was affected by a broadly based worsening of loan quality, more marked in the South and Islands and for loans to firms, notably construction businesses. In the South and Islands, the weakening of lending was concentrated among the five largest banking groups. In the first quarter of 2013 the contraction in lending to the non-financial private sector continued to be sharper in the South and Islands.

The regional bank lending survey conducted by the Bank of Italy found that the performance of loans throughout the country reflected both the further weakening of credit demand on the part of firms and households and the persistence of tight supply conditions. The banks ascribe this trend to the general economic situation and to the high risk of specific sectors and firms.

Banks' retail funding from households grew more rapidly in the Centre and North than in the South and Islands.

Further initiatives were taken in 2013 to boost the effectiveness of regional policies with the implementation of the Action and Cohesion Plan. Regarding European policies, methodological innovations introduced in implementing programs and the reduction in the share of national co-financing to be raised gave impetus to expenditure and made it possible to reassign resources from co-financing to a number of priority objectives. This was done without altering the original territorial destination of these resources, by revising the allocation of the resources of the Development and Cohesion Fund¹³.

3. The structure of the Sicilian economy is characterized by a disproportionate presence of such activities.

In particular, the economy of Sicily appears characterized by:

- (i) a large dimension of traditional sectors, such as the Construction sector, which also has a strong territorial specificity;
- (ii) a large presence of small firms;
- (iii) a low level of technology;
- (iv) a large public sector.

The economic analysis of organized crime also suggests that some economic activities are particularly vulnerable to penetration by criminal organizations.

¹³ For F. Barca, *An Agenda for A Reformed Cohesion Policy: A Place-Based Approach to Meeting European Union Challenges and Expectations*, Independent Report Prepared at the Request of the European Commissioner for Regional Policy, Brussels, 2009, the EU regional policy is an investment policy with the two strategically different options: place-neutral versus place-based policies for economic development.. It supports job creation, competitiveness, economic growth, improved quality of life and sustainable development. These investments support the delivery of the Europe 2020 strategy.

A definite meaning of strategic policy place-based is on Report Barca, the report pointed out “*the policy model is the starting point of any change. Indeed, as the Report argues, without such an initial discussion to establish a mutual understanding of the rationale of a place-based development policy, there can be no meaningful debate on reform. A place-based policy is a long-term strategy aimed at tackling persistent underutilization of potential and reducing persistent social exclusion in specific places through external interventions and multilevel governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes*” (8).

The joint presence of these features creates fertile soil for the typical activities of organized crime, such as extortion and cartel enforcement. Hence, we propose an alternative explanation of the persistence of organized crime with respect to explanations based on cultural and social factors.

A strong and popular movement against the mafia changed many things in social life in Sicily despite the beliefs and some international journalism.

In agrarian Sicily around 11% of the population works in agriculture (11% construction, 9% industry and 69% service). The majority of the land still belongs to large landowners or estates from the time of the ancient Punic wars. Due to their extensive farming methods they produce only 10% of the wheat yield on 30% of the cultivated area in Sy.

Sicilian viticulture together with Sicilian agrifood system, now faces a phase of profound evolution linked, on the one hand, to the internal trends sector and, secondly, to the increasingly persistent process of globalization that affects the entire economy world.

Many factors of success of Sicilian wine-growing and wine-producing firms market-oriented in order to improve the position on the green wine market and to achieve sustainable development.

Many Sicilian highly market-oriented wine firms expand their influence in the world wine market, in particular in American and Far East areas, despite international and national financial and economic crisis¹⁴.

In Italy, as we see, there are large gaps between the richest areas of the country and the South. But marginal region like Sicily, a leader in organic production in Italy, confirms the need to look at regional and local development in a different way. Natural resources as exploitation of organic farming and the creation of parks can contribute to the economic development of marginal areas such as Sicily¹⁵.

4. The North-South Divide: from cohesion to disaggregation.

Italy is the country with the most relevant failed integration at the national level in Western Europe with a failure of integration policies pursued

¹⁴ 4. Apart from agriculture, fishing plays a large role in Sicily. About 20% of the fish yield in Italy is caught in the waters around Sicily. In addition to tuna and sardines, swordfish are among the most caught species.

Besides some oil, gas and salt, Sicily is relatively poor in terms of raw materials. Therefore, next to agriculture, industry is playing an ever more important role. The industries are focused mainly around the cities of Palermo, Catania, Milazzo, Syracuse and Gela. The focus is on shipbuilding and mechanical engineering as well as the petrochemical industry.

Emerging tourism is undoubtedly the industry of the future, still not comparable, with the dimension of Malta (450.000 inhabitants, 2 million of touristic presences).

The socioeconomic context of the Sicily, as others southern regions of Italy, has been continuously influenced and infiltrated by organized crime, basically since the countries unification in 1861. Economic development has consequently been inevitably interconnected with the development of criminal organizations.

¹⁵ V. Provenzano, (2012), *Marginality and local development in Sicily. Paper presented at Geographies of Marginality: The Realities of Physically Marginalized Areas, Dubrovnik, Croatia*, <http://portale.unipa.it/persona/docenti/p/vincenzo.provenzano/?pagina=pubblicazione&idPubblicazione=97982>



over the last 50 years¹⁶. The “*Mezzogiorno d’Italia*” is a macro region with economic and cultural connotations that are very different from the rest of the Italian State and corresponds, to a large extent, if not fully, with today’s “South”¹⁷.

That dichotomy is one of the main causes of Italy’s low growth, together with social and economic imbalances that are unparalleled in other euro zone countries. Also, due to the fleeing toward the north (not only of Italy) of highly qualified human resources, the south keeps getting weaker. The gap between North and South is evident and persistent despite substantial financial transfers designed to boost the socio-economic development of this part of Italy. The funds are provided by the national budget and by the European structural funds.

Territorial disparities constitute a serious matter, with ugly consequences for the competitiveness of the country, prejudicing the way Italy is seen in the European Union. The national image is harnessed in descriptions which emphasise traits of persisting socio-economic dualism. Several reforms brought about by the spirit of modernisation over the last 2 decades have been designed to facilitate the economic and political system to adapt to global competition and market pressures, to strengthen the State’s capacity in programming, budgeting and monitoring and to elaborate new governmental strategies¹⁸.

But, unfortunately, the dichotomy is growing up, like SVIMEZ (Association for Industrial Development in the South a think tank for development in Italy’s south) pointed out in the last report.

Regional GDP in Italy’s impoverished the South, dropped by 3.5% in 2013, the drop follows on a 3.2% decrease the previous year, more than double the figure for Italy’s central and northern regions whose total GDP dropped by 1.4% in 2012, according to SVIMEZ. The contraction was driven by a drop in internal demand (-2.4%), investments (-5.2%), and exports (-0.6%). Unemployment also rose last year, with 3.8% fewer jobs, according to the report. Overall income has dropped by 15% between 2008 and 2013, and 800,000 jobs were lost in those years.

From this point of view Italy is a “divided country” and its south is facing possible human and industrial desertification, according to an industry and employment report. Svimez called the area “*a land at risk of human industrial desertification where people continue to relocate, don’t have*

¹⁶ Again C. Trigilia. *Why the Italian Mezzogiorno did not achieve a sustainable growth: social capital and political constraints*, 137

¹⁷ The regions to which the area corresponds are: Sicily, Sardinia, Abruzzo, Basilicata, Campania, Calabria, Puglia and Molise.

¹⁸ See F.Gelli, A. Grasse, *A country on a knife-edge: Italy and its territorial differences*, *Politische Italian-forschung, Occasional Papers*, n. 11/2011, 1-55.



children and become poor". It added that, without assistance, this could lead to permanent underdevelopment¹⁹.

This cultural and economic divide find his roots in elements of historical, geographical, economic and anthropological nature, which contributed to the markedly distinctive character of the South of Italy. The solution, like D.C. North pointed out, is a societal and institutional change.

Factories and other businesses are closing throughout Italy as part of a serious economic crisis which began at least five years before the current "credit crunch" suffered since 2008. Italian politicians like to say that Italy's banks were less involved in the events leading to the current recession than those of Britain, Germany and the United States. This is true, strictly speaking, but the aftershocks in Italy's economy have been catastrophic - particularly in tourism and in industries such as fashion and furniture-making. Italy's exports are at their lowest level since 1969.

If the current recession seems less evident in Sicily than elsewhere in Italy it is only because the local economy was already a disaster, with chronically high, long-term unemployment hovering around an astounding, frightening 25% (if not more), accompanied by a terrible rate of underemployment - people working at jobs which don't pay nearly enough to live on, for example a call centre position paying around 600 euros per month. Accurate figures are scarce in a place where tax evasion is a way of life, but officially the average Italian has an annual income of around 26,000 euros while the average in Sicily is around 16,000. About fifty percent of Italians declare earnings of less than 15,000 euros per year, while fewer than one percent declare 100,000 or more²⁰.

The State's measures to contrast this tendency are irrelevant, in particular in the infrastructure sector. The investments in this field decrease each year²¹.

While the Italian government, understates the national unemployment rate, it admits that unemployment benefit claims are at their highest level in decades. Some things are not easy to conceal. The political nepotism remains a

¹⁹ See SVIMEZ, Report Mezzogiorno 2014, http://www.svimez.info/index.php?option=com_content&view=article&id=300&lang=it

²⁰ In Sicily are some facts based on recent developments. The FIAT established in Termini Imerese in 1970, which has always been propped up with tax breaks, numerous incentives and barrels of public money, is scheduled to close definitely. More immediately, Palermo's ship yard, which nowadays constructs oil rigs and other platforms more than ships, fills its last contract, with no more scheduled. This will bring layoffs. Italtel's electronics assembly plant outside Carini is planning cutbacks. This phenomenon is certainly related to the recession, but its causes cannot be said to be rooted directly in the credit crunch.
See.....

²¹ V. Di Giacinto, G. Micucci and P. Montanaro, *Network effects of public transport infrastructure: evidence on Italian regions*, Banca d'Italia, Temi di discussione (Working papers), Number 869 - July 2012.
They observe that decentralized institutional systems need effective coordination channels across local authorities or government levels in order to fully exploit potential positive network externalities "concentration of expenditure decisions at the Central Government level may have implicitly provided such coordination mechanism in Italy in the past. As the national institutional set up evolves towards a growing decentralization of public expenditure decisions, alternative coordination mechanisms safeguarding the overall network efficiency will have to be devised".



reality in the Sicilian workplace, and so does corruption; huge number of poor people suffers most during any economic crisis.

In brief, after nine years of crisis (-16% regional GDP) - as the above mentioned report of Bank of Italy pointed out - certain sectors of the economy are showing signs of life. Tourism is improving slightly, and for the curious traveller Sicily is just as inviting as ever. Agriculture is stable, though underdeveloped - the olive oil and wine taste just as good now as they did before the recession. Unfortunately, the economy of a region populated by over five million can't survive on a single industry²².

In any case, it is in the south, and in particular in Sicily, in recent years, that there has been an uprising of broad sections of society against the dominance of the criminal organizations, and which is laying the groundwork for the creation of a more just and cohesive community.

5. Sicilian economic and financial situation suggests to pay more attention, considering also that fiscal federalism procedures²³ are still at the beginning and they might change structure due to the intersection between financial crisis and its containment measures, sometimes really hard, that the same system put in place to face up this difficult situation²⁴.

If inside political debate prevails tactical and alliance reasonings, often causing the fragmentation of political parties, it seem necessary to determine solutions able to offer economic crisis way out, budget balancing, financial autonomy fulfillment and also to front up the increasing reduction of economic and infrastructural standardization from the state government.

The difficult economic juncture, the weakness of the enterprise's system, the industry desertification, the continuous exclusion of young generations from the work environment and the big economic cuts by the state policy, also determining the drastic reduction of state contributions, make a contest extremely worrisome on economics term for southern Italy and moreover for Sicily, where the situation is becoming really dramatic.

²² Banca d'Italia, *L'economia della Sicilia*, November 2014, https://www.bancaditalia.it/pubblicazioni/economie-regionali/2014/2014-0041/1441_sicilia.pdf

²³ The fiscal federalism theory assumes that the lower tier is more efficient in producing local public goods because of information asymmetry, while on the finance side Central Government might be more efficient in raising resources that can be redistributed through grants-in-aid. In this way the term "*federalism*" is used in an economic sense, different from its standard use in political science, where it refers to a political system with a constitution that guarantees some range of autonomy and power to both central and decentralized levels of government, with consequences of distribution of taxation powers among different levels of government, regional equalization schemes, authority over natural resource revenues, and the impact of federal systems of government on pension, welfare, and income assistance programs.

As devolution has proceeded over the years in Italy, a mismatch has emerged as sub-central governments acquired independence in administration and organization at a faster rate than they did the authority to raise the financial resources to finance these.

See L. Antonini, A. Pin, *The Italian Road to Fiscal Federalism*, in www.ijpl.eu, 2009/1, 94 e ss. and

²⁴ See e.g. T. Groppi, I. Spigno, N. Vizioli, *The constitutional consequences of the financial crisis in Italy*, in X. Contiades (ed.), *Constitutions in the global financial crisis. A Comparative analysis*, Ashgate, 2013, 97 ss.; S. Fabbrini, *Intergovernmentalism and Its Limits Assessing the European Union's Answer to the Euro Crisis*, *Comparative political studies*, 2013.



Considering the string crisis of Italian economy, the southern part of the country has already paid a high price in terms of reduction of available resources for investments, furtherly taking distance from the rest of the country also for not being able to make the necessary infrastructural modernization. And that even though this difference is not due only to the decreasing of financial resources, but also due to strong difficulties of spending efficiency and to the timeliness of planning decisions that determines a strong imbalance on the quality of services offered to citizens and to companies operating in the southern part compared to the rest of the country²⁵.

In a contest where the fiscal federalism is still under development and seems to be losing the essential elements of standardization risking to remain incomplete and far from the principles of the 2009 reform²⁶ - a response to the problem of “*federalism without a federal state*” does not seem likely in the short run due to the political stakes underpinning the issue - the State seems to essentially give up infrastructural standardization actions while has already been determined the impossibility of Sicilian government to sustain investments from 2014.

The overall economic picture is becoming really grim. It is already since 2011 that the economy is going slow, foreseeing an economic fall and an uncertain contest for the enterprises and businesses. The weakness of investment's and consumption request has a bad reflection on economic conditions, due also to budgetary maneuvering on the available income and due to the weak trust from families and businesses.

Sicily therefore is forced to feel the deterioration because of the national contest, experiencing negative influences on the main economic sectors, although fortunately all that does not nullify the positive effects of certain innovative businesses ventures.

It is necessary to point out that even if the principle of budget balancing is a shareable goal, it is out of doubts that in a slow transition the European Union, considering only the good going economies as Germany or other countries today in good standing, did not adequately consider times and priorities and internal problems of those countries with heavy public deficit and financial difficulties. Therefore the growth was left behind and it will be achieved only after consumptions and Investments restarting, being those on free fall without adequate support to the internal situation.

To pursue the current fiscal policy it is necessary to push the fiscal pressure more over the 55 % of PIL, with strong negative influence on the spending capacity for families and investment capacity for companies.

²⁵ L. Benfratello, *Attracting Foreign Direct Investments in Europe: are Italian Regions Doomed?* (with Roberto Basile e Davide Castellani), *Rivista di Politica Economica*, 2005, XCV(I-II), 319 ss.

²⁶ “*Delegation to the Government on the matter of fiscal federalism, in accordance with article 119 of the Constitution*” – a relevant step in the process to adapt the Italian law system to the deep reform of Title V, second part of the Constitution of 2001 which has been decidedly fragmented. The only organic legislative intervention to implement this significant constitutional reform, which redesigned the relationships between State, Regions and Local Authorities, founding a federalist process in Italy, dates back to the “La Loggia” law of 2003, which allowed a partial and defective implementation of the new Title V, second part of the Constitution.



European Union might be an extraordinary opportunity for its Southern countries, including Sicily, but the necessary recovery policy must consider the fragile state of economies and most importantly the failure of the European policy on development and cohesiveness, determining only a little increase on GDP and employments, notwithstanding heavy investments made on this sector.

Without adequate and immediate actions to sustain the economic growth of many areas of the Mediterranean part of Europe, they will be swallowed by strong recession processes, with grave risk of youth unemployment, stabilization measures not being able to guarantee better conditions.

The only solution might be a correct relationship between sustainable economic measures and increasing employment support connected to increasing income, with also a liberalization of enterprises that are burdened by excessive rules and bureaucracy.

Sicily as is known lived for over a decade over its possibilities in terms of budget, pushing in 2008 its balance to over 20 billions euros, from the 15 billions of the 2001 budget that was returned to this amount since 2012. Since 2009 it started a series of actions to contain regional spending, decreasing it to the level of the year 2000 after the 2008 peak.

It is necessary to remember that the Court of Auditors (Corte dei Conti) made equal the general annual report of the Sicilian government for 2011²⁷, after deeming respected the budget balances and recognizing to the regional government the achievement of stability pact parameters, which is the most burdensome compared to all other Italian regions²⁸.

Without the starting of this recovery action, recognized by the state control, the Sicilian government could not achieve the agreement on the stability pact which allowed since 2012 the use of substantial financial resources to avoid the payment's suspension, reopening also the confrontation with the State, after trying for over 40 years, on the accomplishment of the financial statutory provisions (art. 36, 37 e 38), through the settlement of a dedicated committee on the Sicily financial autonomy at the State Ministry of Economy, which presented its conclusions to the State Ministry for Regions.

As already said, over the last years (especially 2010/2012) the regional government started a strong budget reduction policy and reforms in order to contain administrative costs through a better organization and reduction of regional bureaucracy, also connecting those actions in the health²⁹, education, waste management and public works sectors and to all regional companies

²⁷ See http://www.corteconti.it/export/sites/portalecdc/_documenti/controllo/sezioni_riunite/sezioni_riunite_regione_sicilia/sede_controllo/2012/giudizio_parifazione_rendiconto_generale_regione_siciliana_anno_2011_considerazioni_generali.pdf

²⁸ F. Balassone, D. Franco, *Fiscal federalism and the Stability and Growth Pact: A difficult union*, *Journal of Public Finance and Public Choice*, XVII, 1999, 137

²⁹ About the complicated relationship between health and fiscal federalism see R. Levaggi, e F. Menoncin, *Fiscal federalism, patients' mobility and the soft budget constraint: a theoretical approach*, *Politica Economica*, 2008, 26(3), 367-380



(reduced from 34 to 14), pursuing the settlement of regional economic entities and the divestment of regional real estate properties³⁰.

Other important measures concern the valorization of real estate properties, even the one deems non strategic, the active management of the properties seized to the mafia organization, the acquiring of a big part of the state properties, the starting of a partnership between the public and the private sectors.

Unfortunately, the negotiation with the State to improve the federal financial prerogatives, was stopped in 2013 and is still without a clear solution, meantime the State cut other 8 billions of financial resources for Sicily.

On the matter of regional indebtedness, estimated in 5.3 billion euros, but still sustainable from the regional budget of about 26 billion euros, it is good to remember that this debts were accumulated by previous governments and managements. On the entire debt, the legislature just closed had an impact for only 1,5 billion euros.

It is important to underline that the major part of the debt is now institutionalized, being for over the 90 % in front of the State Ministry of economy.

For the budgetary active residual, they are estimated for the decade between 15 and 18 billion euros. Already in 2003 they were already 15 billion euros, but non of the controlling authority had nothing to say about it, aside from today when they suddenly awakened to launch a late alarm.

Nothing will be as before in Sicily after the spending review, because the system in the last several years based its growth on the uncontrolled increasing of the public spending.

Now the point is not to think at the region as a lesser economic partner, but the key is to reorganize it though a real reform process legislative and administrative ones, to reform the public spending³¹.

The reform must guarantee the possibility of a quick and efficient response of bureaucracy, slandering procedures and and making our special autonomy as an advantage to achieve great results.

It is actually in place the worst mix between high taxation and low service quality that most time slow down the reform of spending: only innovation might allow the containment of public spending without impact on the citizen's services.

Therefore it is necessary that reform policies go together with sectorial structural reforms, increasing public sector productivity.

³⁰ It also important to remember some important actions already taken: the proposal for Sicily's adhesion (as the only region) in the procedures of harmonization for accounting systems; regulation and application of spending review rules; application of spending containment for all regional entities and organizations; introducing a monitoring system for the budget needs and renegotiation of derived contracts and more Others, but most importantly Information System for Secure Access on the regional offices (SICUR) and the adoption of Digital Administration Code connected to the Technology Innovation Regional Plan (PITRE) and Open data System. Apart mention for the important Antimafia Code and anti corruption rules for the public regional administration.

³¹ The reform process that has began in Italy in the past decade, at both the institutional and administrative level see e.g. G. Della Cananea, *The reforms of finance and administration in Italy: contrasting achievements*, in *West European Politics*, 1997, 20 (1), 194-209



Certain bad effects of an arithmetic application of the stability pacts need to be spoken of, for a region with differentiated autonomy and strong structural and economic problems.

This does not blur the validity of the stability pact as an essential key to strengthen public finances for both national and regional budgets.

The problem is the way the stability pact is enforced in Sicily, there is only an arithmetic way of application. Therefore with the balances coming from the State cuts in 2015, with a budget of 26 billions euros, netting the co-payments to the health system (49,11 %) and other limited spending categories, it will be possible only an expenditure of 4,6 billions euros. And in further consideration of wages, pensions and the debts restitutions, the resources available for everything else will be only a little over 1,8 billions euros, including investments and European funds co-payments. As for the current spending it will be increasingly difficult to guarantee the main tasks assigned to the regional government, because of the compression effects caused by the stability pact.

The previous described difficulties are destined to increase over the 2015, with a substantial heaviness for the stability pact limits which will be forced to consider investments expenditures and European funds co-financing and further the state development funds. It is clear that under these conditions Sicilian economy is destined to failure. And if we consider the financial compression dynamics determined by the provision of constitutional law 1/2012³², the scenery for Sicily becomes unsustainable.

All this leaves no space even to imagine the chance to make new economic policies, essential to restart Sicilian economy, not even the practice of indebtedness to try to co-finance European and state funds. Without adequate progressive forms, the risk is to introduce in the southern regions and especially in Sicily some sort of "citizenship cages", relegating the Sicilian people to a services deficit and to economic differences that will become insuperable and those arguments, even if already portrayed to the state government committee for financial autonomy and fiscal federalism, need to be sustained with determination and the help of all political parties.

It is necessary to reaffirm that an expense containment perspective without corrective measures and a global change of the legislative ties already described will bring Sicily to a financial collapse.

It's also necessary to combine recovery policies already started with actions allowing development and growth through measures allowing in the mid term to make recovery process compatible with the need not to worsen the

³² The constitutional amendments introduce the "balanced budget" principle into the text of the Constitution itself, modifying art. 81 and other three provisions of the Italian basic law: articles 97, 117 and 119. About this reform see I. Ciolli, *The balanced budget rule in the Italian Constitution: it ain't necessarily so....useful?*, Rivista AIC, 4/2014, 1-21, (<http://www.rivistaaic.it/download/ogrOPXBmSNG61gyu-YNn8PrAtM4xFAYO9ghcJqHaEBk/4-2014-ciolli.pdf>) and A. Gagliano, *The Introduction of the "Balanced Budget" Principle into the Italian Constitution: What Perspectives for the Financial Autonomy of Regional and Local Governments?*, *Perspectives on Federalism*, Vol. 5, issue 1, 2013, 80-96 (http://www.on-federalism.eu/attachments/155_download.pdf).

Art. 81(6) points out that the contents and the criteria for ensuring balance between revenue and expenditure shall be established by a 'reinforced law' approved, in a special procedure, by an absolute majority in Parliament (in both chambers) to implement the principle established by the constitutional law 1/2012 (law 243/2012).



recessive dynamic going on and for Sicily have seen the start of some positive experiences³³.

It is evident that without a revision of the internal Stability Pact and of the European bonds on expenditures and investments, over the next years will be tough to make relevant Investments but it is certainly impossible the request to Sicily and to the other Southern regions of a commitment to increase co-financing for European investments³⁴.

In conclusion, the limits for the internal stability pact, arithmetically determined by the State and without the necessary gradual approach, highly penalize the regions:

- a) those that have extended competences and not restrainable costs;
- b) those who have more investments and co-payments to make with high costs for public transportation (notwithstanding the regions appeals, they were not excluded by the stability pact).

Those circumstances affect especially Sicily due to the high cost of public transportation and for the specific competences exercised.

It is mandatory already to introduce some exclusion provisions from the stability pact for certain expenditure categories (for example Investments and public transportation) in order to give oxygen to the economy avoiding the default of local businesses.

It's necessary to also consider three particularly trends going on:

³³Starting from tax credits for investments in 2011 followed by a strong requests from regional and national companies, arriving to micro credit for families and the creation of Micro Credit Committee.

Sicilian Region proceeded with those financial instruments available to support actions in favor of economy: beside the tax credit for Investments, the support to the trust cartel, the reorganization of Irfis-Finsicilia (the regional finance company), the certification of credits toward the regional and other entities, the moratorium on loan's transaction which was extended for Sicily through an Agreement with the Bankers Association and the assignment of all credits toward the public administration finally extended to the Island, consolidating measures for liabilities of small businesses, with the final goal to hinder credit reductions and the worsening the economic lending for families and companies that, in reality, is penalizing sicilian markets

It is Important to remember other measures as the following:

- exemption from IRAP tax for five years in favor of Youth and women enterprises,
- accessibility to European Jeremy funds for micro credit in favor of businesses and Jessica funds for infrastructural actions,
- the establishment of social housing fund for Sicily in cooperation with Cassa Depositi e Prestiti (State company) of about 50 million, till the recent approval by the State Cabinet after almost 60 years of new rules for savings and credits.

³⁴ See G. D'Alessio, *Convergenze e divergenze nell'evoluzione dei sistemi amministrativi europei*, in M. Di Benedetto (ed), *Istituzioni, politica e amministrazione. Otto paesi europei a confronto*, Torino, Giappichelli, 2005, pp. 176 ss.; P. Bilancia, *The Role and Power of the European and the National Parliaments in the Dynamics of Integration, 1 Perspective on Federalism*, 2009, 1 ss.; P. Bilancia, F. Palermo and O. Porchia, *The European fitness of Italian Regions, 2 Perspectives on Federalism*, 2010, 10 ss.; N. Scicluna, *EU Constitutionalism in Flux: Is the Eurozone Crisis Precipitating Centralization or Diffusion?*, in *European Law Journal*, 2012, 490 ss..



a) the progressive compression of the spending in the next two years, already underlined for 3 times from 2012 and the implementation of 'Fiscal compact'³⁵:

b) the enforcing of constitutional Law 1/2012 which prevents to make further indebtedness from 2014 and the full implementation of the principles of the National Accounting Discipline (Law n. 196/2009),³⁶;

c) the persistence of economic crisis: even if the recession's reduce its impact, the effects of those actions will be seen only in the next few years.

In this perspective the framework for the effective recognition from the State of the financial autonomy of Sicily changes with the establishment of the European Stabilization Mechanism (hereafter "Esm")³⁷.

The combined effects of those trends, linked with the cutting policy of the State (Sicily has lost 8 billion only in the last two years) just push Sicily toward a strong economic stress risking to compromise budgetary balancing.

As already said, without measures for spending recovery on the internal stability pact, not only the growth will be paralyzed, but also Sicily will be forced to consolidate a position of underdevelopment which by the way is good ground for mafia and its operations.

The regional government, after several requests and constitutional law suits, obtained the establishment of a Committee for financial autonomy and fiscal federalism, based on art. 27 of Law 42/2009, unfortunately currently inactive. It was started an interesting confrontation after over 40 years on the enforcing of statute's rules (artt. 36,37 e 38) on the topic of financial autonomy³⁸.

In this perspective it can be considered the negotiation opened in June 2012 directly with the State Ministry of Economy to consolidate the budget, considering that a big part for the heaviness of the sicilian debt was due at unrespected commitments from the State.

³⁵ The Fiscal compact as we know - is a international source of law, this is not new because European integration often had to make use of international Treaties, on the Treaty see P. Craig *The Stability, Coordination and Governance Treaty: Principle, Politics and Pragmatism*, 37 *European Law Review*, 2012, 231 ss.; see also F. Fabbrini, *The Fiscal Compact, the "golden rule," and the paradox of European federalism*, 36 *Boston College International and Comparative Law Review*, 2013, 1, ID, *Intergovernmentalism and Its Limits Assessing the European Union's Answer to the Euro Crisis*, *Comparative political studies*, 2013; L. F. M. Besselink, J. H. Reestman, *The Fiscal Compact and the European constitutions: 'Europe speaking German'*, 8 *European Constitutional Law Review*, 2012, 7, which considers the Fiscal Compact an instrument to combat the eurocrisis, but it asks to the States to keep the eurozone within the agreed budgetary parameters, and G. Boggero, P. Annichino, *Who Will Ever Kick Us Out?: Italy, the Balanced Budget Rule and the Implementation of the Fiscal Compact*, 2, *European Public Law*, 2014, 247 ss.

³⁶ See L. Mercati, *The 'European Semester' and Changes to the National Accounting Discipline*, Annual Report–2011–ITALY, in *Ius Publicum Network Review*, 3 ss. (http://www.ius-publicum.com/repository/uploads/21_07_2011_16_50_Mercati2UK.pdf).

³⁷ About the ESM see G.Napolitano, *The 'puzzle' of global governance after the financial crisis*, *Robert Schuman Centre for Advanced Studies-Global Governance Program*, RSCAS Policy Papers, 2012/04.

³⁸ See G. Woodcock, *Autonomy for the Region of Sicily 1946-1996*, in *Nuove autonomie*, 1997, 671 ss. In general about the Italian regional system see L. Cuocolo, *The Regions*, in G.F. Ferrari, *Introduction to Italian public law*, Giuffrè, Milan, 2008, 127-145.



The imminent definition of the rules - after two years of inactivity -, hopefully conducting to new rules for the application of sicilian statute on financial topics, will also consider the assignment of new financial resources for the region through the transfer of new competence. In this case, the fiscal federalism as multilevel system of government, and the new resources assignment for the region, it is strictly connected to the definition of new competences³⁹.

In this field, we need to point out the process of constitutional reform proposed by the Italian Government in 2014, focusing especially on the relationships between the State and the regions, with character of the statist imprint, which derives from a widespread opinion about the unsatisfactory performance of regional governments and the contribution of regional legislation to the overall innovation of the country⁴⁰.

But empowering local government is the key to economic prosperity in a globalizing world, where the role of the nation-state is increasingly marginalized⁴¹.

Sicily if the first italian region to put into action expenditure containment measures as provided by the state, even if most of the political parties at the regional parliament were against it. The bill passed by the

³⁹ For a recent analysis of the Italian regional system see S. Mangiameli, *The Regions and the Reforms: Issues Resolved and Problems Pending*, in ID (Ed), *Italian Regionalism: Between Unitary Traditions and Federal Processes*, Springer Verlag, Berlin Heidelberg, 2014, 2-32

⁴⁰ See V. Cerulli Irelli, *On the constitutional reform in the process of being approved in Italy*, in *Italian journal of pub. law*, vol. 6 - issue 1/2014 http://www.ijpl.eu/assets/files/pdf/2014_volume_1/IJPL_volume1_2014.pdf, 23 e ss.

This Author assume that the "reform text does not affect the different status of the five special regions (Sicily, Sardinia, Val d'Aosta, Trentino Alto Adige, Friuli Venezia Giulia) which retain their own statutes approved by Constitutional law. This safeguarding clause itself is among the norms whose application to the special regions is expressly excluded (which undoubtedly represents a vulnus to the unity of the Republic that ought to be eliminated!)"

For a brief analysis about the constitutional reform and the Italian Mezzogiorno and Sicily see G. Armao, *Il rilancio del Mezzogiorno nella riforma costituzionale*, Rome, 2014, in <http://www.unimercatorum.it/wp-content/uploads/2013/04/Contributo-Armao-def-per-Universitas-1.pdf>

⁴¹ In general about the Scottish devolution settlement C. Himsworth, C. O'Neill, *Scotland's Constitution: Law and Practice*, Bloomsbury Professional, London, 2015, chapter 4, and also T. Mullen, *The Scottish Independence Referendum 2014*, Vol 41 *Journal of Law and Society*, 2014, 627; N. McEwen: *The Problem of Interdependence in the New Devolution Agreement*, 12/2014, <http://www.scottishconstitutional-futures.org/OpinionandAnalysis/ViewBlogPost/tabid/1767/articleType/ArticleView/articleId/4803/Nicola-McEwen-The-Problem-of-Interdependence-in-the-New-Devolution-Agreement.aspx>.

On the devolution process in Wales see A.Trench, *Intergovernmental relations and better devolution*, 12/ 2014, <http://sites.cardiff.ac.uk/wgc/files/2014/12/INTERGOVERNMENTAL-RELATIONS-AND-BETTER-DEVOLUTION-FINAL-Dec-2014.pdf>.

But as P. Leyland, *The multifaceted constitutional dynamics of U.K. devolution*, *Int J Constitutional Law*, 9/2011, 251 ss. pointed out that if "will be apparent that federalism and devolution, almost inevitably, have shared characteristics since they are essentially addressing the same question, namely, how to define the political organization prevailing within separate polities while maintaining the union of the overarching political system U.K. devolution diverges from most forms of federalism in three crucial respects. These are: the start-ling asymmetry of its design, which leaves England without any equivalent layer of government; the fact that legal sovereignty is not divided but still ultimately retained by the Westminster Parliament; and the manner of its administration by soft-law concordats, which, in turn, have marginalized the role of the courts in resolving disputes between central and devolved governments. These are distinctive features and, in consequence, devolution should not be regarded as an intermediate step toward federalism"

As we know another important example of a devolution process is in Catalonia, J. Ruipérez Alamillo, *La nueva reivindicación de la secesión de Cataluña en el contexto normativo de la Constitución de 1978 y el Tratado de Lisboa*, in *Teoría y Realidad Constitucional*, núm. 31 (2013), 119 ss.



regional cabinet charged the regional ministry of economy for the treatment of single topics, in cooperation with other ministries, in order to adopt immediate actions to contain public expenditures, giving directive to all administration organisms, regional entities and regional companies.

It is evident that the financial crisis, connected to the structural limits of sicilian economy, caused the determination of a lower rating on the financial debts of the region.

The only wise course of action is the continuation of recovery process with no uncertainty and political mediations that in most cases slow down the actions in favor of development and citizen services.

And it is necessary to consider that the differentiated autonomy often criticized for some pathologies as the sicilian one that need to me supported with new significance and stronger objectives. In this perspective every region has an opportunity in accordance with the State to exercise some new functions to care the necessities coming from the territories in the reform process contest imposed by federalism and constitutional revision, other than the need for public finance stabilization.

It appears real urgent, beside the measure for the costs containment already taken, other measure that can be perceived as a proportional response to the matters on the table, in order to eliminate negative profiles and give back the relative trust to the region. The twisted use of public funding, in Sicily not only decreased service's quality but also generated fictitious employment transferring large portion of financing toward a needy part of the population.

It's necessary that the negotiation with the State, and for certain part with the EU Commission, maintains a mutual dialog that will consider the heavy effects of the economic crisis, but also must be conscious of the region prominent role.

Only with all actions taken and a conscious management Sicily will be able to afford the hard path toward the exit of the financial crisis and regain a protagonist role in the state recovery process, instead to slide toward further impoverishment and widen the gap.

In 2050 Sicily, according to recent studies , will have a population in working age diminished of 24%, a GDP reduced of 36% and Sicilians will have an average age over 55. An Island poorer, older and with less human energy.

But today, together with its future, Sicily is fighting to preserve its autonomy. And the only way to reaffirm this autonomy is we it will be changed and renewed, returning through the recovery of ethics and responsibilities, the impulse that allowed to conquer the Statute, our constitution

Sicily will remain part of a united Italy if things will change. If something cannot go on forever, probably it will stop. It is a region of promise as well as of problems, and it is not clear which will dominate in the years ahead. We hope that a new generation of Sicilians, educated both civically and spiritually, will lead their Island in the new Europe of the region and peoples



and reform the political and economic institution of the Region in an "inclusive"⁴² strategy.

⁴² See D. Acemoglu, J. A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown Business, New York, 2012. As is well know the authors sustain that nations with extractive political and economic institutions are likely to be poor, whereas those with inclusive institutions are likely to be rich, while a degree of economic growth may be possible under extractive institutions, such growth is not sustainable. Once a nation has started to move towards inclusive institutions a positive feedback loop may help to keep them in place, but extractive institutions are also sustained by path dependence, with those in power fearful of the “creative destruction” generated by change, producing a vicious circle.